



RETIREMENT SECURITY IS A SHARED RESPONSIBILITY

For 75 years, the Ohio Public Employees Retirement System has worked to provide retirement security for Ohio's public employees. In addition to being a prudent fiduciary for millions of Ohioans, OPERS is also engaging members to provide information and education on the importance of preparing for retirement. As we continue to talk with our members and lawmakers, OPERS has

emphasized the significance of shared responsibility for retirement security. Legislative changes proposed by OPERS reflect this core principle. It is an approach supported by the public. In fact, according to a NIRS survey, 85 percent of Americans view retirement as a shared responsibility between individuals, employers and government.**

THE COSTS AND BENEFITS OF OPERS PENSIONS ARE SHARED

- The largest source (79 percent of every dollar paid to OPERS retirees) comes from investment returns.
- Retirees, 90 percent of whom remain in Ohio, spend their pension dollars on local housing, goods and services supporting Ohio's economy.
- A defined benefit pension reduces reliance on taxpayer funded public assistance programs like Medicaid and food stamps by providing a steady monthly income, in both good times and bad, for a retiree's lifetime.*
- State and local economies in Ohio, as well as the financial markets, benefit from pension investments and benefit payments.

TAXPAYER CONTRIBUTIONS



Each \$1 in taxpayer contributions to Ohio's state and local pension plans supported the \$5.73 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement

TOTAL OUTPUT TO OHIO



benefits - investment earnings and employee contributions finance the lion's share.

RECOMMENDED PLAN DESIGN CHANGES

WHO: OPERS members and elected officials.

WHAT: Legislative changes to benefits designed to strengthen the pension system and maintain adequate funding for retiree health care coverage.

WHERE: The Ohio Statehouse. These substantial, yet incremental changes require passage by members of the General Assembly and support from the Ohio Retirement Study Council.

WHEN: OPERS and its members are hoping for the passage of a bill as soon as possible.

WHY:

- To eliminate inequity of unfair benefit subsidization and further foster the fact that retirement security is a shared responsibility.

- To ensure that benefit levels are appropriately funded by employee and employer contributions and investment earnings.

- To establish an adequate proportion between time worked and the accrual of pension benefits and health care coverage.

HOW: OPERS can achieve these goals by making service credit purchases and intersystem service credit transfers actuarially neutral as well as increasing the minimum earnable salary to \$1,000 per month from \$250, among other changes.

The legislative changes proposed by OPERS include two provisions intended to reduce the unfair subsidization of benefits and promote shared responsibility for retirement - first, increase the cost of service credit purchases and intersystem transfers to ensure that they are actuarially neutral to OPERS and, second, increase the minimum earnable salary required to obtain a full-time month of service credit to \$1,000 (up from \$250).

Service credit purchases/ Intersystem service transfers

A one-year study of service purchases and intersystem transfers in 2005 revealed that OPERS subsidizes, on average, 80 percent of the liabilities associated with these purchases and transfers. OPERS has the most types of credit available for purchase, as well as the largest number of members purchasing credit compared to the other Ohio systems, which further exacerbates the subsidization. According to the 2005 study, OPERS incurred \$217 million in pension and health care liabilities in a single year as a result of subsidizing purchases and transfers. Any unfunded pension and health care liabilities created by subsidized service purchases and transfers are paid for by all members of the system.

In addition to creating unfunded liabilities, service credit purchases and transfers enable members to retire earlier and therefore, draw a retirement allowance for a longer period of time.

This places an even greater strain on both the health care and pension funds.

OPERS' proposed legislative changes would make service credit purchases and transfers actuarially neutral, which is fair and equitable to all members of the system.

Minimum earnable salary

The current monthly salary required for OPERS members to earn full-time service credit is just \$250. This amount, unchanged since 1985, does not account for increases in cost-of-living or wage inflation for the past 25 years. Additionally, the current amount of \$250 per month doesn't fund the minimum retirement allowance or adequately support funding health care coverage available at retirement. Prorated credit is currently given if earnings are less than \$250 per month. Under the proposed plan, the amount of credit would be prorated for earnings less than \$1,000 per month.

A \$250 per month salary is typically earned by part-time workers. This low threshold allows access to full-time benefits and accelerates eligibility for both retirement benefits and health care coverage. Increasing the minimum

earnable salary would also address the concern with "spiking" – a practice whereby public employees artificially inflate compensation in order to receive a larger pension than they otherwise would be entitled to receive. By enacting this change, OPERS could mitigate spiking while creating a greater balance between compensation, benefits accrual and time worked.

REMINDER:

Most major provisions of the recommended pension design changes would be phased-in based on a transition plan recognizing that those closest to retirement are the least able to adjust their plans. To learn more about the specifics of the transition plan, visit our website, www.opers.org, then access the "Special Coverage" section and stay tuned for future issues of *OPERS*Source.

For more detailed information on the proposed benefit plan design changes, visit the "Special Coverage" section of the OPERS website at www.opers.org.

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The Ohio Public Employees Retirement System (OPERS) is the largest public pension fund in Ohio and the 12th largest public pension fund in the U.S.* In operation since 1935, OPERS serves nearly 954,000 members, including more than 171,500 retirees and beneficiaries.

*Source: *Pensions & Investments*

