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OPERS PLAN DESIGN CHANGES REFRESHER

HISTORY OF PROPOSED CHANGES

Nearly two years ago the OPERS Board recommended to the General Assembly a series of changes designed to strengthen the retirement system with the added goal of maintaining adequate funding for health care. These are significant benefit changes and to some, may be difficult to accept. However, the recommendations include a well thought out transition plan that recognizes those members on the verge of retirement are the least able to adjust their plans or adjust to substantive changes. As we have shared the proposed changes with members around the state and explained why they are necessary, the vast majority of our members support the changes and consider them reasonable taken in context with the overall economic situation. Although we have already outlined the proposed changes in previous *OPERSource* issues last year, it is important to remind members of the General Assembly about the major elements of the plan as we work through the upcoming review process to be conducted by the Ohio Retirement Study Council.

THE RATIONALE FOR CHANGE

Even in today's challenging economy, OPERS remains within the 30-year amortization period required by state law. However, we recognize that not only are retirees living longer, the number of new retirees is expected to increase dramatically as the baby-boomer generation ages. In light of changing demographics and economic challenges, if the pension bill does not move, OPERS may be forced to escalate its plan to continue to reduce contributions being made towards the retiree health care fund each year. Without action by the General Assembly, contributions to the health care fund will discontinue completely by 2014, if not sooner. It is essential that the legislature take action to avoid this scenario.

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MAJOR COMPONENTS

Age and Service Retirement Eligibility: The Board's recommended benefit changes add two years to current age and service requirements (32 years of service would be required for an unreduced retirement benefit) and establishes a minimum retirement age of 55.

Benefit Formula: The proposed changes maintain the current equation (2.2 percent multiplied by Final Average Salary) but increase the multiplier to 2.5 percent after 35 years of service, rather than the current 30 years of service.

COLA: The proposed changes replace the current three percent simple annual COLA with a simple annual COLA tied to the Consumer Price Index, up to three percent. As proposed, this change would not apply to current retirees. A five year transition plan has been proposed for the COLA provision which is explained in more detail on the back page.

Final Average Salary (FAS): The current FAS calculation uses the three highest years of earnings. The proposed change would use the five highest years.

Contribution Rates: The OPERS Board's recommendations do not include contribution rate increases for public employers or public employees.

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OTHER PROPOSED CHANGES

Several other changes proposed by the OPERS Board include provisions intended to reduce the unfair subsidization of benefits and promote shared responsibility for retirement.

Service Credit Purchases/Intersystem Service Transfers: A 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' proposal would make service credit purchases and transfers actuarially neutral, which is equitable to all members of the system.

Minimum Earnable Salary: OPERS's proposal would increase the *monthly* salary required to earn full-time service credit from $250 (unchanged since 1985) to $1,000. The current minimum amount doesn't fund the corresponding retirement benefit or adequately support funding health care. Under the proposed plan members would receive prorated credit for earnings less than $1,000 per month.

Reduced Retirement Benefit Calculation: OPERS' proposes that age and service reduction factors, applied when a member takes early retirement, one currently determined by an outdated table in statute will instead be determined by an actuary going forward.

THE TRANSITION PLAN

To ease the burden of change and allow members time to prepare, OPERS has developed a transition plan taking into account those closest to retirement. The proposed benefit changes place members into three groups based on their proximity to retirement eligibility.

GROUP A

Must be eligible to retire within five years after the effective date of the legislation. Group A will be grandfathered under current plan design for major components except for the COLA provision.

GROUP B

Must be eligible to retire within 10 years after the effective date of the legislation or have attained 20 years of service prior to the effective date. Group B will also be grandfathered under the current plan design for major components except for the COLA provision. However, those in Group B seeking early retirement will have their pension reduced based on the proposed actuarial formula rather than the current statutory table.

GROUP C

All others and new hires after the effective date of legislation. Group C will have all major components of the new plan design apply to them.

Additional elements of the benefit changes proposed by the OPERS Board contain their own transition plans. For example:

- Members seeking purchase of service credit at the current cost will have a six month window to initiate the purchase.
- The increase to minimum earnable salary will begin on January 1st following the effective date of the legislation.
- The COLA change tying it to the CPI index will take effect at the end of a five year period during which COLAs will be maintained at a flat 3 percent rate.

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

Bottom line . . . OPERS is solvent and will have secure retirement benefits for our members well into the future. OPERS is not asking for and does not need increased contributions from taxpayers. OPERS stands ready to work with the General Assembly to make the changes necessary to ensure OPERS continues to be able to provide a secure retirement for more than 176,000 (and growing) Ohioans and their families while also preserving the economic engine that infuses more than $5.5 billion annually into Ohio's economy.

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OPERS

The Ohio Public Employees Retirement System (OPERS) is the largest public pension fund in Ohio and the 11th largest public pension fund in the U.S. In operation since 1935, OPERS serves nearly 954,000 members, including more than 176,000 retirees and beneficiaries.