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DEFINED BENEFIT PLANS ARE GOOD FOR OHIO

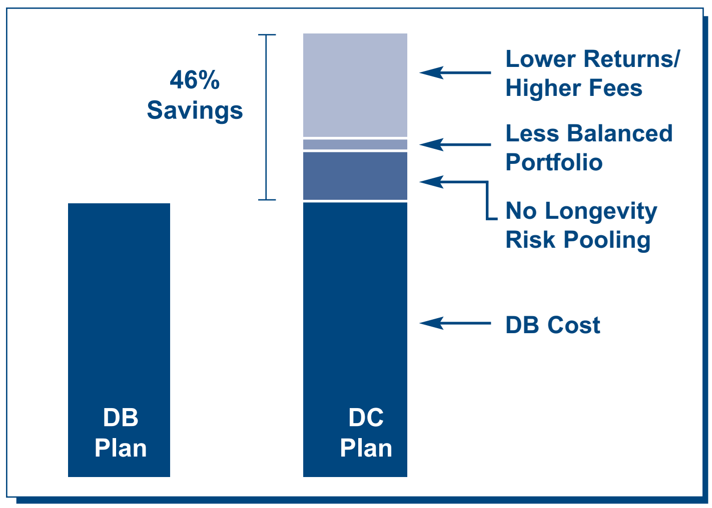
For 75 years, public employees of Ohio have been provided with dependable retirement income during economic ups and downs. For millions of these Ohioans retirement security has been provided largely through the investment returns made by Ohio's five public pension systems.

The balance is provided by contributions from the members and their employers. Ohio public employees do not pay into Social Security, and therefore, they rely on their pension benefits for retirement security. Going forward, OPERS can continue to provide that retirement security by making responsible, measured changes.

The defined benefit plans offered by OPERS and the other public pension systems have benefited Ohio's public employees, the state, and all taxpayers.

- **Defined benefit plans provide financial protection for both plan members and taxpayers.**
  - Members receive a lifetime benefit they will not outlive.
  - Taxpayers will not face the possibility of seniors, having depleted their savings, slipping into poverty and onto taxpayer funded public assistance programs like Medicaid or food stamps.
- **Defined benefit plans are efficient and economical.**
  - DB plans pool longevity risk, holding assets in a common trust, and achieve higher returns through professional management of investments with lower fees making them cheaper than DC plans.
- **Defined benefits plans have consistent economic impact on local communities.**
  - Annually OPERS pays over $5 billion in pension benefits and health coverage to retirees, nearly 90 percent of who remain in Ohio. This provides a stable foundation for the Ohio economy that is unaffected by ups-and-downs in the job market.
  - Recent studies suggest the spending by OPERS retirees in 2009 potentially impacted more than 50,000 jobs (both private and public) in Ohio.

Our defined benefit plan—and defined benefit plans in general—cost less in the long run, lessen dependence on public assistance, and can withstand short-term market volatility with a long-term time horizon and diversified investment strategy.



The National Institute on Retirement Security found that the cost to fund a target retirement benefit under a DB plan is over ten percent of payroll each year less than the cost to provide the same target retirement benefit under a DC plan. In other words, the DB plan can provide the same benefit at a cost that is 46% lower than the DC plan, as shown in Figure 1.

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

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*

PENSION MYTHBUSTERS

Public pension plans are not in crisis

Despite what some reports might lead you to think, Ohio's public employee retirement systems have substantial assets to weather the economic crisis. The Ohio Public Employees Retirement System is within its statutorily mandated 30-year amortization period and has proposed additional changes to ensure the system remains solvent for the long-term.

Consider that pensions are funded and paid out over decades. Nationally, there is currently $2.7 trillion already set aside in pension trusts for current and future retirees. Further, state and local government retirees do not draw down their pensions all at once. Employees must reach certain age and/or years of service before they are eligible for a pension; once retired, they must receive their pension in installments over their retirement years (as an annuity).

Long-term investment returns of public funds continue to exceed expectations

Since 1980 – a period that has included three economic recessions and four years of negative median public fund investment returns – actual public pension investment returns have exceeded assumptions. For the 30-year period ended Dec. 31, 2009, the median OPERS investment return was 8.85 percent.[1] Moreover, the OPERS fund achieved a 13.91 percent investment return for 2010. These actual returns exceed the 8 percent average public pension investment assumption, as well as the average assumed rate of return used by the largest corporate pension plans.[2]

Ohio system's investment portfolios are far more diverse than just bonds and other investment vehicles; to lower the assumed rate would exaggerate liabilities. Introducing this volatility into the annual funding report would result in equally volatile contribution rate needs rather than smoothing the results in order to reduce the year-to-year volatility; Measuring investment return over short time frames is inappropriate, as the investment horizon for pension funds is long-term. Rather than changing investment assumptions as a result of a down-market period, the assumption trends should be viewed over the same long-term period of 20-30+ years.

Retirement Systems Remain a Small Portion of State and Local Government Budgets

In Ohio, employer (taxpayer) contributions to pensions as a percentage of all state and local government spending in 2008 was equal to 2.92 percent.[3] Since 1995, employer contributions as a percentage of all state and local government spending have remained around three percent, providing most employers with a fairly predictable expenditure for attaining retirement security.

Public employees share in the financing of their pension, which is in lieu of Social Security

Ohio public employees are required to contribute a portion of their wages—at least ten percent—to their pension. Employee contributions along with investment returns comprise the majority of public pension fund revenues. The average retirement benefit for Ohio public employees is only $22,041. It is important to understand that Ohio's public employees do not pay into Social Security. State and local salaries on which these pensions are based are lower than those for private sector employees with comparable education and work experience, even when benefits are included.[4,5] Pensions are a trust that public retirees and their employers contributed to while they were working. They are sustainable, they are solvent, and they help provide a secure retirement for over 170,000 Ohioans.

1 OPERS Comprehensive Annual Financial Report 2009
2 Milliman 2010 Pension Funding Study
3 NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems
4 The Wage Penalty for State and Local Government Employees, Center for Economic and Policy Research
5 Out of Balance? Comparing Public and Private Sector Compensation Over 20 Years, Center for State and Local Government Excellence/National Institute on Retirement Security

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