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LATEST PEW CENTER REPORT TRACKS PENSION LIABILITIES, PAINTS AN INCOMPLETE PICTURE OF THE HEALTH OF OPERS

The Pew Center for the States recently issued a follow up to its Trillion Dollar Gap report from more than a year ago. From OPERS' perspective, the report identifies some positive signs that Ohio is on the right track with pension reform legislation. However, the report also paints an incomplete picture of the current health of the Ohio Public Employees Retirement System.

"The Widening Gap," estimates the spread between states' pension liabilities and pension assets to be 26 percent higher than 14 months ago. However, while the report seeks to describe the 2008 recession's impact on retirement security, it does not factor in the substantial investment gains made since June 2009.

Certainly, we appreciate the report's recognition of Ohio's leadership in pre-funding retiree health care coverage, and we agree that comprehensive pension reform is necessary – that is why the OPERS Board of Trustees recommended a series of pension benefit plan changes in November 2009.

However, the report provides its readers with an incomplete picture of the solvency of public pension systems in Ohio. Specifically, the report has based its conclusions on our investment experience prior to June 2009. Our nation experienced the worst economic collapse since the Great Depression in 2008, and we were just entering a period of sustained economic recovery in the first half of 2009. OPERS posted significant investment gains in 2009 (20.6%) and 2010 (13.9%). If this data had been incorporated into the Pew Center's report, its conclusions regarding Ohio's public retirement systems would have been much different. For example, the report indicates that Ohio's pension funds (together) are approximately 66% funded, yet, OPERS is over 75% funded, and because we have already accounted for 92% of the losses we incurred in 2008, we fully expect that percentage to rise over the next several months.

More concerning, are the report's questions regarding the discount rate assumptions used by Ohio's public retirement systems to calculate liabilities and contribution requirements. OPERS assumes that its investments will return at least 8% over a 30-year period. This assumption is in line with the assumed rates of return used across our industry by both public and private pension plans. And, our investment experience has shown that this assumption is both reasonable and attainable. In fact, OPERS' actual investment returns over the last 30 years have exceeded our assumed returns by almost one percentage point (8.98%). This is all the more impressive when you consider that this time period includes the economic disruptions in 2002 and 2008.

The State of Ohio, unlike many other states detailed in the Pew report, has always maintained its financial commitment to its retirement systems. We appreciate and respect that confidence, and we believe that we have maintained our commitment to the state to be a good steward of the tax dollars entrusted to us. Consider that, in 2009, we paid more than $5.5 billion in pension benefits and health care coverage into Ohio's economy.

As noted above, we agree with the Pew Center that pension reform is necessary. We have been advocating for meaningful changes in our benefit structure since 2009. If enacted, these changes would save over $4 billion, which equates to a more than 13-year reduction in our amortization period. We have been educating our members regarding the necessity of these changes for more than a year, and we are ready to work with you to develop and implement far-reaching, yet reasonable, pension reform, hopefully before the summer break. We stand ready to assist you in this effort, and we look forward to continuing our positive working relationship with you.

OPERS OFFERS CHOICES IN RETIREMENT PLANS

Ohio PERS understands that each of its members has unique and changing needs when it comes to planning for retirement. Ohio PERS offers three retirement plans to its members to meet these needs: the Traditional Pension Plan, the Member-Directed Plan, and the Combined Plan.

- The **Traditional Pension Plan** is a defined benefit plan under which a member's retirement benefit is based on a formula. The formula is determined by years of service credit and the average of the three highest years of earnable salary, referred to as final average salary (FAS). OPERS manages the investment of employee and employer contributions to ensure that funds are available to pay the formula benefit. The Traditional Pension Plan also includes disability and survivor benefits, as well as cost of living adjustments after retirement and access to health care coverage.

- The **Member-Directed Plan** is a defined contribution plan under which employee and employer contributions are deposited into a member's individual account and invested as directed by the member. The member's retirement benefit is based on member and employer contributions and the gains and losses on those contributions. Under the Member-Directed Plan, the member directs the investment by selecting from professionally managed Ohio PERS investment options.

  A portion of the employer contribution is credited to a Retiree Medical Account (RMA), which may be used for the payment of qualified health care expenses after retirement or termination of service.

- The **Combined Plan** is a retirement plan with both a defined benefit and a defined contribution component. Under the defined benefit portion of the Combined Plan, the member's retirement benefit is determined by a reduced formula (similar to the Traditional Pension Plan). Ohio PERS investment professionals manage the investment of employer contributions to ensure that funds are available to pay the reduced formula benefit, as well as disability and survivor benefits, cost-of-living adjustments after retirement and access to health care coverage in retirement. Under the defined contribution portion of the Combined Plan, member contributions are deposited into a member's individual account and invested as directed by the member. The member's retirement benefit under this portion of the Combined Plan is based on member contributions and the gains and losses on those contributions. The member directs the investment by selecting from among the OPERS Investment Options.

New members hired after Jan. 1, 2003, are eligible to select one of the three Ohio PERS retirement plans. All eligible members have a 180-day enrollment period from the date they were hired in which to make their retirement plan selection. If a member does not select a plan within the 180-day enrollment period, they will be defaulted into the Traditional Pension Plan.

Ohio PERS members also have three opportunities during their career to change their retirement plan based on reaching certain service time thresholds. Changing retirement plans has important consequences and members are advised to meet with OPERS counselors and their own financial advisor before making a plan change.

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*

OPERS Government Relations Team

Gordon Gatien
Government Relations Officer – 614-222-2924

Deborah McCarthy
Assistant Government Relations Officer – 614-222-6466

Christopher Collins
Assistant Government Relations Officer – 614-222-0555

Anthony Tedesco-Nichols
Assistant Government Relations Officer – 614-222-0381

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