Frequently Asked Questions

Q. Why do you have an unfunded liability?

A. As of 2016, OPERS has $100.2 billion in pension liabilities and $80.3 billion in assets leaving $19.9 billion in unfunded actuarial accrued liabilities. That's the amount OPERS has to fund on future benefit payments already earned beyond what we currently have in assets. These liabilities are not all due tomorrow. Understanding how the unfunded liabilities are created warrants a longer discussion but we will abbreviate it for explanation purposes.

The funding plan is built on assumptions much like a personal financial plan. When a member is hired we begin to build an estimate for a pension liability based on our actual historical experience of how long a member will work, average pay raises a member will receive over their career, at what age they will retire and ultimately what age they will pass away (based on national mortality statistics). At the end of every year, we measure each person's progress and update the ultimate expected cost (liability). Let's take an example of a pension plan consisting of only two people: Joe Smith and Susan Smith. Joe is an active member with 11 years of service and Susan is an 82-year-old retiree. We would estimate Joe's pension liability at the end of the year based on Joe's service credit (11 years) and his expected final average salary at retirement. We estimate Susan's liability to reflect future estimated pension payments based on the life expectancy per the national mortality statistics. The total of the two would be our liability for that year. We would compare that liability to the assets we have put aside and the difference between the two, if any is the unfunded liability.

The assets are generated from three sources. First is the member's contribution. Second is the employer's contribution. These two sources are invested to pay pension benefits. Once they are invested, this gives rise to the third source of assets, which is investment income. Investment income is by far the largest source of assets used to pay pension benefits as it generally supports approximately two-thirds of the ultimate pension benefit any member receives. That means the member and employer contribution supports only about one-third of the pension benefit a member receives.

One of the advantages of a defined benefit plan is that a member can't outlive their assets like they could if they were in a defined contribution or 401(k) plan. However, that also means when the mortality tables are extended to reflect longer lives, it leaves a shortfall that adds to the unfunded liability. For example, the last update to the mortality assumptions increased our unfunded liability by approximately $3 billion.

Similarly, the investment return on the pension assets is very important to the funding. The 2008 market downturn significantly increased the unfunded liability. While the market returns have recovered some of those losses, 2008 had a negative impact on our unfunded liability. Financial markets have produced lower returns and been more volatile during the 2000s and beyond than they have in previous decades. Compare the rates of return on your savings accounts now to your return back in the 90s and that same trend exists with other asset classes.

In order to maintain the fiscal health of the plan for the long term, OPERS regularly evaluates the benefits provided relative to the revenue sources. OPERS has made adjustments to the benefits of active participants including extending the length of the working career required to earn an unreduced benefit, increasing the number of years included in the final average salary, reducing the formula benefit factors, increasing the cost of purchased service credit, reducing

the impact of spiking, adjusting early retirement factors, increasing the minimum level of salary earned to qualify for service credit and many other changes. For example, prior to 2013 any member purchasing additional service credit paid on average about 20 percent of the true cost of that service and the other 80 percent of the cost added to the unfunded liability. Similarly, prior to 2013, any member retiring early with a reduced benefit received a greater benefit than was supported by the funding sources and the remainder added to the unfunded liability. These types of shortfalls and many others have been addressed since 2013.

OPERS continuously evaluates the funding plan and all components to keep OPERS fiscally healthy for the long term.

Q. Why do we use a simple COLA and not one that compounds annually?

A. It's true OPERS provides a simple COLA. That means the annual adjustment is always based on the member's original pension benefit, not the benefit plus the annual increases.

It's cost prohibitive to provide a compound COLA. It's a very expensive benefit and in some cases, as lifespans continue to increase, compound COLAs could easily lead to the COLA exceeding the pension benefit and paying people more in retirement than they earned (and much more than they contributed) during their careers. The original COLA was not granted until more than 35 years after the System was created and the original COLA was a 1.5 percent simple COLA.

The original concept of the OPERS COLA was to lessen the impact of inflation, not fully offset inflation. This is evidenced by the initial granting of a 1.5 percent COLA when inflation was 6 percent. Increasing annual adjustments would be totally unaffordable to the System.

But even with a simple COLA, given that we have been in a low inflationary time for an extended period, 86 percent of our retirees are at or above 100 percent of purchasing power. In fact, 60 percent of the time, the flat, 3 percent OPERS COLA has been higher than the Consumer Price Index.

Many retirees have commented that Social Security has a compounding COLA. Social Security is facing significant funding challenges and the Social Security trust fund is projected to be depleted by 2034. Not only are they facing funding challenges, but Social Security is also a redistributive plan meaning lower wage earners receive a higher percentage of their salary and higher paid workers receive a much lower percentage. For example, Social Security averages the highest 35 years of service to determine average indexed monthly earnings. They then apply different percentages to different break points to determine the benefit. For example, let's look at two scenarios. Assume the highest 35 years of service averages to $5,000 for the first person and $7,000 for the second person. To determine the benefit level, Social Security multiplies the first $885 by 90 percent and the next $4,451 by 32 percent and the remainder by 15 percent. In this example, the benefit would be $2,113 for the first person (42 percent of the $5,000 average) and $2,470 for the second person (35 percent of the $7,000 average).

Q. Why wasn't there an option on the recent OPERS COLA survey to "do nothing?" In other words, leave our COLA unchanged? It seems like you were steering us into one of several choices we don't want.

A. Experience tells us no one prefers changes to their benefits. We did not need a survey to tell us that information. We were trying to use the survey to help us understand preferences between changes being considered and evaluated.

OPERS has a fiduciary duty, to all members and retirees, to maintain the long-term sustainability of our pension plan. If we make changes to the COLA to strengthen our System, we'd like to know which changes would be more acceptable to our retired members.

Q. Who did OPERS survey about the proposed changes? How many responses did you receive?

A. Our goal was to hear from every OPERS retiree about the proposed COLA changes. We mailed approximately 200,000 surveys to our retirees. As of mid-September, we received more than 72,000 completed surveys and we are reviewing all the surveys.

Q. Why change the COLA when health care costs continue to go up?

A. Those are really two separate issues. The COLA was to provide an offset against inflation. OPERS has been fortunate enough to be able to provide health care coverage and some subsidy to offset health costs for eligible participants. Health care costs continue to increase and are a challenge for everyone. That is why OPERS health care has changed over the years. OPERS' goal is to provide a health care subsidy for as long as it is financially feasible.

Q. Why don't you just make changes to the active members and leave the retirees alone?

A. When we passed pension legislation in 2012, that's exactly what we did. The pension changes included requiring members to work longer, reducing the formula benefit, increasing the years included in their final average salary, increasing the cost of service purchase, increasing the minimum level of salary to be eligible for a benefit, adjusting early retirement factors, reducing the impact of spiking, modifying the disability program, and other changes. These modifications reduced the active members' share of our unfunded liabilities by more than $4 billion. At some point, further reductions in benefits for active members could result in members not electing to participate in the defined benefit plan, which would be detrimental to the plan.

The COLA is a very expensive benefit. We have modified it for the active members and continue to evaluate other changes.

Q. Which Consumer Price Index are you using as a basis for the COLAs?

A. The Bureau of Labor Statistics publishes different price indices, each measuring inflation.

OPERS has used the CPI-W since it established the COLA in 1970. This index is the measure used by the Social Security Administration as well as other pension systems. Some pension systems use the CPI-U as a basis for their COLA. There's also an experimental index called the CPI-E, designed for elderly costs. No pension system uses the CPI-E for COLAs. Comparative data shows that all three indices are comparable.

Q: How can I share my feedback with OPERS on the proposed cost-of-living adjustment (COLA) changes?

A: We're surveying retirees to solicit their feedback on proposed changes to the COLA. All retirees will receive a survey in the mail this month, and it will give you the best opportunity to voice your opinion about a number of changes being considered. Responses are requested back by Sept. 8, and they will be shared with the OPERS Board of Trustees.

Keep in mind that our Board has taken no action up to this point, and it will be both a public and legislative process. Any actions by the Board will be shared with you. No changes would take effect until on or after Jan. 1, 2019. We are exploring multiple options and taking your input into consideration, so please complete this important survey.

Q: Why are you proposing to change the COLA for current retirees now, when OPERS is well funded?

A: OPERS regularly reviews its plan design, and we don't wait for a financial crisis to arise to make adjustments. Prudent planning can avert a crisis.

Research shows the average number of years that 65-year-olds can expect to live in retirement has increased by eight years for men and more than nine years for women since OPERS was founded.

On average, our members are 57 when they retire and contributed to our system for 23 years. Thus, they can expect to live in retirement longer than they contributed. This creates financial challenges. Pension redesign in 2012 addressed this issue for active members. Active members will work longer and contribute more before they're eligible to retire, and they'll have lower monthly pensions than current retirees if they retire early.

The purpose of a cost-of-living adjustment is not to meet or surpass inflation. Rather, it's to lessen the effects of inflation. Because of the low inflationary time, we've seen that, over time, a flat, 3 percent COLA is exceeding the impact of inflation on retiree benefits.

OPERS did not offer a COLA for the first 35 years of our existence. We've also adjusted the COLA several times since first offering it in 1970 at the rate of 1.5 percent. It was initially based on the U.S. Consumer Price Index (CPI), and this relationship to inflation didn't change until 2002. That's one of the current considerations, and we've based the COLA on the CPI more often than we've provided a flat-rate increase.

Changes to the COLA will help adjust for longer retiree lives, preserve the long-term financial strength of the System, and serve the COLA's intended purpose – mitigating inflation for retirees.

Q: I retired before the pension changes you made in 2012 became effective. At that time, I thought I was promised a 3 percent COLA. How can you change it now?

A: OPERS was founded in 1935. We don't currently offer the same level of benefits or services we did when we were founded. Times change, and OPERS must adapt to changes.

OPERS has made changes to the COLA several times. From 1935 to 1970, OPERS did not have a COLA, and from 1970 on, we have made changes to the COLA based on changing circumstances, as we are considering now. That is why we are seeking your feedback now, due to our long-standing practice of proactive planning to ensure the long-term funding of our System.

Q: Hasn't my COLA vested?

A: COLAs to be granted in future years do not vest. COLAs granted in the past are not being impacted. The COLA changes under consideration are for purposes of ensuring the financial integrity of the pension funds and the security of all members' and retirees' pensions. Any contemplated changes will be made in a prudent manner for the fiscal integrity of the System, and within the parameters of the law.

Q. I already have to pay more for health care; how can you consider changing the COLA?

A. Changes to our health care plan impacted both current and future retirees and were essential for us to be able to maintain this non-required coverage. However, changes to the pension plan

in 2012 impacted only active members. The purpose of the COLA is to reduce the impact of inflation on a retiree's monthly pension benefit.

Q: Does OPERS plan to rescind the COLAs I've already received?

A: No. OPERS is considering changes only to COLAs to be granted in future years.

Q. I've seen studies that show people are dying younger, not living longer, as stated by OPERS.

A. While we do monitor nationwide trends, our funding assumptions are based on the experience of our retiree population, and the lifespans of our retirees continue to steadily increase.

Q. If you need more money, why don't you just increase the contribution rates for active members who are still in the workforce?

A. Active members *already* pay a higher percentage of their salary into the System than most retirees did. Most retirees contributed 8.5 percent of their salary when working, while current active members contribute 10 percent. Increasing the contribution rates again for active members would result in their contributions exceeding the value of the pension benefit they will ultimately receive.

Q. I understand you had to cut benefits after the stock market crashed in 2008, but the market has been good recently, so why aren't you OK now?

A. Since 1972, our investment returns have exceeded 8 percent the majority of years. Even with successful investment returns, we still have over $19 billion in unfunded pension liabilities.

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