

Retirement Board adopts plan for pension design and contribution changes

Following many months of discussion and after receiving significant input from STRS Ohio members, the State Teachers Retirement Board unanimously approved a multifaceted plan on Sept. 1, 2009, to strengthen the financial condition of the system. In approving the plan, board members cited the difficulty in making the decision, noting that these changes impact all STRS Ohio members and employers. The plan includes an increase in contributions for both members and employers; an increase in final average salary years; a change in eligibility for retirement; a change in the benefit formula; and a reduction in the annual cost-of-living adjustment.

Before the market downturn, STRS Ohio had a funding period of 41.2 years, exceeding state statute's 30-year maximum funding period. Factors, such as members living longer, caused a reduction in available funds to pay off accrued liabilities over time. The unprecedented decline in global markets and the accompanying recession, along with the projected gradual economic recovery, significantly accelerated the need for STRS Ohio to make pension benefit changes. Without these changes, STRS Ohio would eventually be unable to pay future benefits. This plan enables the Retirement Board and staff to meet their fiduciary responsibility to help ensure the long-term solvency of STRS Ohio for future generations of teachers.

STRS Ohio staff projects that these changes would save almost \$9 billion in accrued liabilities and would bring the pension fund to a 33.4-year funding period from its current status of infinity, assuming the proposed timeline for the changes can be implemented. Further, the current 1% employer contribution to the health care fund continues under the proposed changes. **All of the changes contained in the proposed plan require legislative action by the Ohio General Assembly and the governor, as all the plan components require changes in existing statutes.**

In addition to STRS Ohio, the other four Ohio public pension plans have been impacted by low investment

returns, demographic factors and the economic outlook. As a result, the Ohio Retirement Study Council (ORSC), which is the legislative oversight body for the five systems, directed each system to present a board-approved plan at the ORSC's Sept. 9, 2009, meeting for either maintaining or returning to a 30-year funding period.

STRS Ohio's plan components are outlined below — visit STRS Ohio's Web site, www.strsoh.org, for complete plan details. STRS Ohio will continue to use its newsletters, Web site and e-mail news service to make sure members and employers know the progress of the legislation and any changes going forward.

Increase in Contributions

- Increase member contributions by 0.5% per year beginning July 1, 2011, to a total of 2.5% on July 1, 2015.
- Increase employer contributions by 0.5% per year beginning July 1, 2016, to a total of 2.5% on July 1, 2020.

Currently, STRS Ohio members pay 10% of their salary to STRS Ohio and employers pay 14% of total teacher payroll in lieu of paying into Social Security. This plan component increases member and employer contributions by a total of 5% by July 1, 2020. The member increase would be phased in at 0.5% per year, beginning July 1, 2011, until 2.5% is reached on July 1, 2015. The employer increase would be delayed for five years, when it would be phased in at 0.5% per year, beginning July 1, 2016, until 2.5% is reached on July 1, 2020. Ultimately, STRS Ohio members would contribute 12.5% and employers would contribute 16.5%. This phased approach allows time for the economy to improve and also helps employers with budgeting. Any change in the STRS Ohio contribution rate would apply to the member and employer ARP contribution rate.

Increase in Final Average Salary (FAS) Years

- FAS calculation to be based on five highest years of earnings (instead of current three highest years), beginning Aug. 1, 2015.

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Retired public employees face two-month reemployment restriction

Reemployment in a public position in Ohio is restricted during the first two months following retirement from a public position. Violation of this two-month restriction will result in the loss of retirement benefits for the month(s) worked. The amount a retiree forfeits by violating the two-month waiting period is the Single Life Annuity monthly benefit calculated before the reduction for a Partial Lump-Sum Option Plan (if selected). Please be sure to discuss this rule with any Ohio public retiree who you are planning to hire so that you can determine an appropriate start date.

STRS Ohio members who continue public employment and their employers both contribute to STRS Ohio. These contributions fund a benefit that is payable following the last day of reemployment. Any contributions made during the two-month violation period are not eligible for matching funds or interest. They may be refunded when employment terminates.

New hire materials now being mailed

After a brief delay this summer to incorporate important updates, STRS Ohio has completed its new hire packets and they are now being mailed to newly hired faculty when those new hires are reported to STRS Ohio. If any of your new hires have not received a mailing that includes the *STRS Ohio Retirement Plan Options for Full-Time Higher Education Faculty 2009–2010* brochure, please have them call our Member Services Center toll-free at 1-888-227-7877 and we will promptly send them our new hire packet.



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Change in Eligibility for Retirement

- Increase years of service required for retirement, beginning Aug. 1, 2015.

The recommended change increases the number of years required to be eligible for retirement. Beginning Aug. 1, 2015, members can retire at any age with 35 years of service; at age 60 with 30 years of service; or at age 65 with five years of service. (Members may retire earlier with an actuarially reduced benefit at age 55 with 30 years or at age 60 with five years.) Members who meet age and service eligibility for service retirement as of July 1, 2015, will retain their eligibility under the existing rule.

Change in Benefit Formula

- New formula would be 2.2% per year for the first 30 years of service; 2.5% per year thereafter, beginning Aug. 1, 2015.

The 35-year enhanced benefit is no longer needed to encourage teachers to work longer and is eliminated.

Those who have 30 years of service; who are age 55 with 25 years of service; or who are age 60 with five years of service as of July 1, 2015, receive the greater of:

- (a) The benefit as of July 1, 2015, under the current formula; or
- (b) The benefit upon retirement under the new formula.

In short, members who are eligible for service retirement will receive no less of a base pension benefit than they could have received on July 1, 2015. Under the new formula, at the end of a 35-year career, teachers would receive 78.5% of their final average salary; teachers who retire at age 60 with 38 years would receive 86% of final average salary.

Reduction in Cost-of-Living Adjustment (COLA)

- Beginning July 1, 2011, current retirees would receive an annual 2% COLA; members retiring after July 1, 2011, would receive a 1.5% COLA each year. Currently, the COLA is 3%.

STRS Ohio can explain retirement plan options to new hires

As you plan for your new hire orientation, please remember that STRS Ohio staff can make a short presentation regarding your faculty's retirement plan options. This presentation provides a balanced approach to educating faculty about STRS Ohio and the alternative retirement plans (ARPs). Member education programs are also available for current STRS Ohio members. If you would like to learn more

about the educational opportunities offered to higher education faculty, please contact Shara Bailey at BaileyS@strsoh.org or call (614) 227-5235.

This is also the perfect time to update your supply of current STRS Ohio brochures, *Retirement Plan Comparison Charts* and *Retirement Plan Election Forms*. For updated forms or more information, contact Shara Bailey.

Nearly 75% of new faculty members choose an STRS Ohio retirement plan

By a wide margin, newly hired higher education faculty members who were eligible to select a retirement plan chose an STRS Ohio retirement plan in fiscal year 2009 over those offered by private vendors. About 75% of those faculty members selected an STRS Ohio plan, while nearly 15% chose TIAA-CREF, 6.5% chose Aetna and the remaining amount was split among the rest of the ARP vendors.

STRS Ohio offers a range of plan options, including a Defined Benefit Plan, a Defined Contribution Plan

and a Combined Plan, while private vendors only offer a defined contribution product. STRS Ohio also offers another feature that private vendors do not — new hires who choose either STRS Ohio's Defined Contribution Plan or Combined Plan have a reselection option during their fifth year of membership. During the reselection period ending June 30, 2009, 52% of those eligible chose to remain in their current plan, while another 41% moved to the Defined Benefit Plan.

To schedule a meeting or for plan or benefit information, please contact:
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