



Legislative Committee

April 18, 2024

- **Elect chair**
- **Review charter**
- **Employer contribution rate increase**
- **HB 411**
- **Preschool teachers**

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: LEGISLATIVE COMMITTEE CHARTER

Purpose

The purpose of the Legislative Committee is to assist the Board in reviewing legislation and developing positions on proposed legislation in accordance with the laws of the State of Ohio and Board Policies.

Function

The Legislative Committee shall review and assess relevant legislation, in concert with the Governmental Relations Director and Chief Legal Officer, that may have a financial and administrative impact on STRS Ohio.

Composition

An odd number of Board members, typically five or seven, will be appointed by the Board Chairperson to the Committee. The members will include a minimum of three elected Board members and two appointed Board members. The Chairperson of the Committee will be elected from the membership of the Committee at the first Committee meeting of the fiscal year and remain in that role until he/she steps down or the Committee elects another Chairperson. Both elected and appointed Board members from the Committee are eligible to be elected Committee Chairperson. The Board Chairperson will appoint or reappoint Committee members as needed to fill any mid-term vacancies on the Committee with an appointment that will be noticed to the Board at its next meeting. The Board Chairperson is disallowed from serving as the Committee Chairperson.

Responsibilities

The responsibilities of the Legislative Committee are to:

- Meet as needed while the Legislature is in session, but no less than twice in any year. The first meeting each year should be in September. The Committee shall meet regularly to discuss new legislation that could impact STRS Ohio.
- Track, with the assistance of the Governmental Relations Director, Chief Legal Officer, and legislative relations firm, any relevant legislation.
- Review all legislation affecting STRS Ohio and determine its potential financial and administrative impact on the system.
- Recommend positions on all legislation affecting STRS Ohio to the full Board for approval, with input from staff, including the Executive Director, Governmental Relations Director, and the Chief Legal Officer.


- **Legislator meetings continue**

- Staff met with a group of Republican legislators in late March
- April Ohio Retirement Study Council (ORSC) meeting and presentation of the *ORSC Staff Report on the Historical Experience of the Five Ohio Retirement Systems Since 1998* offers a unique opportunity for staff to follow-up with council members on the report and the request for an increase in the employer contribution rate
- Strategically working toward securing sponsors

Employer Contribution Rate Increase




• Supporting materials



An STRS Ohio Pension

A Solid Foundation for Educators, A Good Value for Ohio

Ohio educators rely on STRS Ohio's comprehensive benefits for decades. Maintaining the fiscal integrity of the pension fund is just as important for the 22-year-old new teacher as for our oldest retiree.



MEMBERSHIP

in fiscal 2023:
More than 336,000 members and benefit recipients

Retirees and Beneficiaries

1994: **77,405** → 2023: **156,511**
More than a 100% increase

Active Members

1994: **167,770** → 2023: **175,032**
A 4% increase

A change from **two** active members for every one benefit recipient to **one** active teacher for every benefit recipient.


Average Full-time Educator

Age: 42.5	13 years of service credit	\$72,031 salary
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The average career teacher in the Defined Benefit Plan receives a **total benefit** during their retirement **many times larger than what they contributed** to their STRS Ohio pension during their career. Plus, they never outlive this benefit. For an educator who retired with 30+ years of service and has a 30-year retirement, this **lifetime benefit could exceed \$1 million.**

Recent Benefit Improvements

March 2022: <ul style="list-style-type: none">3% permanent cost-of-living adjustment (COLA) for eligible benefit recipients (beginning in fiscal year 2023)Age 60 retirement eligibility requirement eliminated	May 2023: <ul style="list-style-type: none">1% permanent COLA for eligible benefit recipients (beginning in fiscal year 2024)Unreduced retirement eligibility at 34 years extended	March 2024: <ul style="list-style-type: none">Unreduced retirement eligibility at 34 years made permanentReduced retirement eligibility lowered to 29 years
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Sustainable Benefit Enhancement Plan:

Allows for an annual process for the State Teachers Retirement Board and its actuaries to incrementally enhance benefits if there is no material impairment to the fiscal integrity of the system.

The Defined Benefit Plan Pension — A Lifetime Benefit

Oldest retiree: 108 years old. Started receiving benefits in 1973.

Longest time receiving benefits: 93-year-old disability benefit recipient. Has received benefits for 66 years.



STRS OHIO LEGISLATIVE PROPOSAL

The State Teachers Retirement System of Ohio is seeking an increase of the employer contribution rate. Currently, employers contribute 14% of payroll to the system. The legislation provides for an increase of 0.5% each year for eight years, so that once fully realized, the employer rate would be 18%.

Why is the bill needed?

A financially healthy pension system with the ability to provide modest and sustainable inflation protection for retirees and/or a reduction in service requirements for active teachers, is a benefit for all of Ohio. It can even help attract and retain teachers for our public schools.

Ohio's employer contribution rate is the second lowest among states where teachers are not covered by Social Security (median of 19.6%). The current rate of 14% of payroll is the maximum allowed under the statute and has remained unchanged since 1984.

The State Teachers Retirement Board does not currently have the authority to increase the employer contribution rate. An act of the legislature is needed to increase the rate. The phased-in increase proposed in this legislation would allow the State Teachers Retirement Board to responsibly consider benefit improvements sooner than would otherwise be possible.


Of note, Ohio's employer contribution rate is fixed, making it difficult to increase contributions in response to market downturns, exacerbating the impact of market volatility. Early funding reduces the need for catch-up contributions later. Adequate funding reduces the risk of future contribution spikes or unexpected financial strain and improves the pension plan's ability to weather economic downturns.

A decade of sub-par equity market returns in the early 2000s combined with demographic changes, put STRS Ohio on a path where the system would have been unable to pay benefits by 2040. Pension reforms passed by the Ohio legislature in 2012 have gradually helped improve the system's financial condition but have negatively impacted our members and retirees. These reforms included decreases to COLA for STRS Ohio retirees, teachers having to work longer in order to retire and a 40% increase to the member contribution rate. In working with the legislature and its stakeholder groups, STRS Ohio took the very difficult step of making benefit changes to keep the system from deteriorating further. The changes worked, and the system has recovered significantly, though not yet to the point where meaningful inflation protection or reduction of retirement eligibility requirements is possible.

What will STRS Ohio do with additional funds from employers?

The additional funding will further help stabilize the system and allow the Retirement Board and its actuary to consider modest, responsible benefit changes for active and retired teachers that could be sustained over the long term. These could include maintaining or reducing the requirement for

34 years of service credit for full retirement benefits and inflation protection for retirees. Benefit changes are evaluated by the system's actuary to ensure the changes will not materially impair the fiscal integrity of the system.



EMPLOYER RATE INCREASE FAQS

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How are demographic changes impacting STRS Ohio?

In 1993, STRS Ohio had 2.23 active teachers participating for every beneficiary paid from the fund. Thirty years later, this had declined to 1.12 active teachers for every beneficiary. This happened at the same time the system saw its members' life spans increasing. The Social Security Administration estimates how long the average 65-year-old American will live. In 1940, the average 65-year-old woman could expect to live 13.4 more years. By 1980 this had risen to 18.4 years, and by 2019 to 20.7 years.

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How does STRS Ohio's employer contribution rate compare with the rate in other states?

STRS Ohio employers contribute 14% of member payroll to STRS Ohio. Over the past 10 years, the employer rate in Ohio has been the second lowest in states where teachers are not covered by Social Security. In contrast, Ohio teachers have contributed at the third-highest rate (averaging 12.8% compared to a median of 9.25%).

- **The proposed House Bill 411 would raise minimum salaries for educators; new hires with a bachelor's degree would have a minimum salary of \$50,000 (currently \$35,000)**
- **An increase in salaries has two potentially significant impacts on the pension**
 - An increase in contributions shortens the funding period (full funding occurs sooner)
 - Higher starting salaries eventually result in higher pension payments
- **The second impact is very minor – while benefits will eventually be higher, so will the dollar amount of contributions be higher over a career; the change in contributions will cover the increased benefits**

- **The impact on the funding period is slightly larger**
 - Currently, fewer than 24,000 full-time teachers make less than \$50,000, and most of them make only a little bit less
 - Increasing their pay to \$50,000 annually adds about \$250 million of payroll, while published reports indicate an expected total pay increase of about \$480 million
 - The higher number could be because of different minimums for different combinations of qualifications and years of service, and because of the impact on part-time teachers
 - If payroll increased by \$480 million as of June 30, 2023, the funding period would have been half a year shorter (10.7 years rather than 11.2 years)
- **However, this impact is still relatively small because this is a one-time increase in salary. If passed, this bill does not negate the need for additional employer contributions.**

- **Met with State Board of Education (SBOE) Superintendent Craft**
- **SBOE requires a law change to adjust licensing requirements**
- **Possible path forward – update STRS Ohio’s teacher definition to include teachers required by the public school to have a license**
 - 3307.01(B)(1) “Teacher” means all of the following: (a) Any person paid from public funds and employed in the public schools of the state under any type of contract described in section 3311.77 or 3319.08 of the Revised Code in a position for which the person is required **by the state board of education or public school** to have a license or registration issued pursuant to sections 3319.22 to 3319.31 of the Revised Code;



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