ORC 3305.06 (D)

The mitigating rate was established by Ohio Revised Code chapter 3305.06 (D), which reads in part, “Each public institution of higher education employing an electing employee shall contribute on behalf of that employee to the state retirement system that otherwise applies to the electing employee’s position a percentage of the electing employee’s compensation to mitigate any negative financial impact of the alternative retirement program on the state retirement system.”

How the alternative retirement plan (ARP) negatively impacts STRS Ohio

When the ARP was established in 1997, STRS Ohio had an existing unfunded liability — due in part to employer-supported benefit enhancements. This portion of the benefit structure was to be funded over time by employer contributions on future payrolls and the long-term investment earnings on those contributions. STRS Ohio’s long-term funding was dependent on employers meeting these future payroll obligations. ARPs divert some of those expected contributions away from STRS Ohio — but the employer obligation to fund the benefit remains. This employer obligation is paid in part by the mitigating rate.

Explaining the mitigating rate and why it is necessary

The mitigating rate was established and recognized in Ohio statute as a portion of the employer contribution used to offset the negative financial impact of faculty choosing participation in an ARP. The rate was initially set at 6% — the amount actuarially determined to mitigate for the negative financial impact — and was expected to be in place until the STRS Ohio’s unfunded liability was retired. Without the mitigating rate, the employer’s obligation would fall on the remaining members and employers in the system.

The mitigating rate allows employers to pay their obligation over time

The approach to pay down the liability slowly over time recognized that pension systems, by design, invest and fund benefits over long time horizons. Relationships with members can span 60 years or more. This long-term approach also allowed the employers to avoid a larger upfront exit payment.

Defined benefit plans are funded differently than 401k plans

STRS Ohio is a multi-employer defined benefit plan. Benefits are funded through investment returns and contributions made by members and their employers. All STRS Ohio employers (1,164) contribute 14% of their defined benefit employees’ salary into the Employer Trust Fund. Defined Benefit members contribute 13% of their salary into the Teachers Savings Fund. At retirement, money is set aside from the Teacher Savings Fund, the Employer Trust Fund and investment earnings to pay the retiree’s defined benefit. Public employers in Ohio are not required to provide a “match” of the employee’s contribution regardless if the employee is in the STRS Ohio Defined Benefit Plan or an ARP.
**Current status of mitigating rate**

In December 2014, the Ohio Retirement Study Council confirmed that the ARP has a negative financial impact on the retirement systems and recommended that a consistent formula be established in statute to provide clarity and consistency for employees, employers and the retirement systems.

STRS Ohio stakeholder groups agree the mitigating rate is necessary and appropriate for the retirement system. STRS Ohio is working to find the right balance of meeting its fiduciary obligation while providing some predictability to members and employers.

<table>
<thead>
<tr>
<th>2014 Higher Education Payroll (in millions)</th>
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<tbody>
<tr>
<td>ARP Payroll</td>
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<tr>
<td>STRS Ohio Payroll</td>
</tr>
<tr>
<td>Total</td>
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</tbody>
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**Misconceptions about STRS Ohio’s Defined Benefit Plan and the mitigating rate**

*Myth:* Money is being diverted from ARP accounts to STRS Ohio.

*Fact:* 100% of ARP participants’ contributions (currently 13%) go directly into their ARP account. Higher education employers are required to pay 4.5% of their employer contribution to STRS Ohio to pay down past and current obligations for the faculty participating in the defined benefit plan. Currently, the remaining 9.5% of the employer contribution is credited to the member’s ARP account.

*Myth:* Employers will always put the maximum employer contribution allowed by Ohio law into ARP accounts.

*Fact:* Once 14% of the employer contribution is no longer needed to pay down STRS Ohio’s unfunded liability, employer contributions could be reduced and this reduction would apply to employers of ARP, Defined Benefit, Defined Contribution and Combined Plan participants.

*Myth:* STRS Ohio is NOT hurt financially because faculty who would have contributed to STRS Ohio are choosing an ARP plan.

*Fact:* Funding of a defined benefit has a long time horizon. Employee and employer contributions are critical since most of the benefits paid in retirement are paid out of investment earnings on those contributions. While ARP participants are not accruing benefits to be paid by STRS Ohio, the diversion of payroll contributions to the ARP leaves a shortfall of the employer funding obligation to STRS Ohio if not for the mitigating rate.

*Myth:* ARP participants are the only faculty affected by the mitigating rate.

*Fact:* Participants in the STRS Ohio Defined Contribution Plan have 9.5% of the employer contribution credited to their account, just like ARP participants. The remaining 4.5% of the employer contribution goes to pay down current and future benefit obligations supported by employers throughout the years.

*Myth:* Higher education employers are paying more than they are statutorily required to pay to STRS Ohio.

*Fact:* Under Ohio law, employers currently contribute 14% of payroll. This is the maximum amount required in statute. For ARP participants the employer contribution is split between STRS Ohio (4.5%) and the ARP (9.5%).