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 changes 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 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.

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%).

What actions is STRS Ohio taking to improve funding and the potential for future benefit changes for its members?

STRS Ohio's financial condition has improved dramatically over the past 10 years. Since 2022, the Retirement Board has provided benefit changes for active and retired members totaling more than $3.8 billion, including:

- 3% permanent* COLA for eligible benefit recipients beginning in fiscal year 2023 and removal of the requirement that teachers work until at least age 60 to receive an unreduced retirement benefit.
- 1% permanent* COLA for eligible benefit recipients beginning in fiscal year 2024 and making permanent the requirement of 34 years of service for an unreduced retirement.
- Eligibility for a reduced retirement benefit has been lowered from 30 years of service to 29 years of service.

Contributions from STRS Ohio members and their employers, along with investment returns earned by the system are used to fund member benefits. From 2000–2023, the system received $63.5 billion in cumulative member and employer contributions and paid benefits more than two times the contributions totaling $131.2 billion. Over this same time period, investment returns provided $103.3 billion in necessary resources to the fund.

The pension fund ended fiscal year 2023 with $86.2 billion in investment assets and its current funding period — the time STRS Ohio would need to fully fund benefits for current and future retirees — is currently at 11.2 years, within the State of Ohio's 30-year target. While the board has been able to make recent benefit changes, funding future benefit changes comes at an expense that, without adequate funding, could negatively impact the fiscal integrity of the fund.

*When a COLA is granted, it is "permanent" in that the increase is reflected in every monthly benefit payment going forward, which also factors into the long-term costs associated with the COLA increase.

Organizations in support of this legislation

- Ohio Education Association
- Ohio Federation of Teachers
- Ohio Conference of the American Association of University Professors
- Ohio Council of Higher Education Retirees
- Ohio Retirement for Teachers Association

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