EMPLOYER RATE INCREASE FAQS

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.

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.

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%).

If passed, how will this 4% increase be implemented?

The legislation provides for a 0.5% per-year phase-in over eight years. STRS Ohio operates on the same fiscal year as the state and as school districts; July 1 is the start of the fiscal year.

When is the last time STRS Ohio's employer contribution rate was increased?

The employer contribution rate was last increased to its current 14% rate in 1984. Since that time, the STRS Ohio member contribution rate (currently 14%) has increased nine times; most recently in 2013 during pension reform legislation.

Will this impact what educators contribute?

No, the legislation applies only to the employers. Member contribution rates were increased by 40% to 14% of pay in the pension reform legislation enacted in 2012, but the employer contribution rate has not increased for 40 years.

How will employers fund the increase?

The legislation proposes a modest 4% increase phased in over eight years. It is beneficial for Ohio's public schools to be able to attract and retain excellent educators. This increase aids that endeavor by providing additional resources that could allow the Retirement Board to reduce the service credit required for full benefits or pay retirees a modest COLA. As the service credit requirements are able to be reduced, older career teachers at generally higher pay and medical costs will be able to retire thus providing resource savings for the employers. The employers were not part of the equation during pension reform. They will need to be part of the equation now.

Will the increase impact negotiations of teacher contracts?

Again, this is a modest 4% increase phased in over eight years. The legislation has the support of the state's teacher unions who are responsible for negotiating the contracts.

STAKEHOLDERS

What organizations support this legislation?

To date, supporters of the legislation include the Ohio Federation of Teachers, the Ohio Education Association, the Ohio Conference of American Association of University Professors, the Ohio Retirement for Teachers Association and the Ohio Council of Higher Education Retirees.

Is STRS Ohio working with other public pension funds that also are seeking employer increases? (Ohio Police & Fire Pension fund and Ohio Public Employees Retirement System)

STRS Ohio worked with our sister systems on pension reform and stands ready to work with them on raising the employer contribution rates. Strong Ohio pension funds are vitally important for millions of Ohioans who depend on the systems for their retirement security. STRS Ohio alone sends approximately $6 billion in annual benefit payments to retired teachers living throughout Ohio. That is $6 billion making its way into the economies of towns large and small across the state. It is providing an income stream that STRS Ohio retirees cannot outlive. We want to ensure the Ohio retirement systems are strong and resilient.

STRS OHIO BENEFITS

Can additional funding from employers be used to provide a cost-of-living adjustment (COLA)?

The legislation does not direct the funding toward anything specific. The funds available via the additional contributions could be put toward a COLA. They could also be used to help pay down the system's unfunded liabilities or to reduce the service credit required to retire with full benefits.

When will the State Teachers Retirement Board next evaluate the feasibility of benefit changes for members (such as a COLA for benefit recipients or retirement eligibility change for active members)?

The board's Sustainable Benefit Plan (SBP), developed by its' actuary, facilitates the annual process by which the board and its actuaries consider certain benefit changes. It allows for incremental changes that will not materially impair the fiscal integrity of the system.

As part of the SBP, the State Teachers Retirement Board and its actuary will review benefits no later than spring 2025, to evaluate whether additional benefit plan design changes may be made in accordance with the laws in effect at that time. As part of 2012 pension reform, the General Assembly provided the board with limited authority to adjust COLAs, member contributions and retirement eligibility requirements. Ohio law requires the board's actuary to determine if a proposed benefit change could materially impair the fiscal integrity of the system. The board can only adjust with a supporting determination by its actuary.

Why doesn't STRS Ohio pay a regular COLA?

Weak equity returns in the early 2000s along with changing demographics negatively impacted STRS Ohio's financial condition. STRS Ohio's funded ratio dipped to just 55.1% — meaning the system had only 55 cents on hand for every dollar of benefits expected to be paid in the future. Pension reforms passed by the legislature in 2012 helped improve STRS Ohio funding levels but not enough to ensure long-term solvency of the fund. In 2017, STRS Ohio reduced the COLA to 0% to preserve the fiscal integrity of the pension fund and to meet the state of Ohio's 30-year funding requirement. These changes, along with strong investment returns, have helped STRS Ohio reach a funded ratio of 80%.

The improved funding levels allowed the Retirement Board to approve paying a permanent* 3% COLA beginning in fiscal 2023 and a permanent* 1% COLA beginning in fiscal 2024. The board and its actuary will evaluate whether STRS Ohio can consider a COLA for fiscal 2025 without materially impairing 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.

HEALTH CARE

How would an increase in the employer contribution rate impact the STRS Ohio Health Care Program?

At 2023 fiscal year end, health care fund assets stood at $4.78 billion, with a funded ratio of 168.5%. The fund is projected to remain solvent for all current retirees and active teachers. Plan payouts totaled about $376 million, an average of more than $1.03 million per day.

In the past, a portion of employer contributions were allocated to the Health Care Fund. In 2015, due to pension funding challenges, that portion of contributions was reallocated to pension funding. Unlike pension funding, health care funding is not required by statute. STRS Ohio carefully evaluates health care program features and costs on an annual basis; having made program changes in the past to protect the funding of the program for current and future retirees. Currently, the Health Care Fund is being managed to be self-sustaining without further allocations from employer contributions.

If health care coverage is not required to be offered by the system, can't STRS Ohio just put those dollars into the pension fund?

Federal law prohibits the monies currently in the health care fund from being moved to the pension fund.

Does the health care fund have a financial impact on the system?

STRS Ohio began offering health care coverage to retirees and dependents in 1974. The accumulated value of the funds allocated over the life of the program is approximately $14 billion. STRS Ohio currently provides health care coverage to more than 100,000 individuals, most of whom reside in Ohio. While not required by statute, STRS Ohio recognizes that members and retirees highly value this optional coverage.

SYSTEM OPERATIONS

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 made permanent the requirement of 34 years of service for an unreduced retirement (previously scheduled to increase to 35 years of service on Aug. 1, 2028)
- Eligibility for a reduced retirement benefit has been lowered from 30 years of service to 29 years of service.

*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.

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.

Is STRS Ohio managing its operation prudently?

Two recent independent audits confirmed that STRS Ohio is a well-managed system. In 2022, Funston Advisory Services completed a fiduciary performance audit commissioned by the Ohio Retirement Study Council. This audit concluded that STRS Ohio is operationally excellent with effective policies and processes and is a generally well-run and high performing organization. The audit further recognized high performance of STRS Ohio's investment performance and member services.

In 2023, Ohio's Auditor of State shared the results of its special audit of STRS Ohio. Its findings included, "STRS' organizational structure, control environment and operations suitably designed and well monitored, both internally and by independent experts. These experts help assure that STRS follows applicable asset and liability measurement, reporting, investing and cash management laws, professional standards and best practices. Our conclusions are consistent with the findings of these independent firms."

How is STRS Ohio a low-cost fund regarding its investments?

CEM Benchmarking's costs analysis showed STRS Ohio's costs were low compared to peers, primarily due to a low-cost implementation style (managing about two-thirds of assets in-house) and paying less than peers for similar services. CEM estimated this approach saved STRS Ohio about $135 million in 2022. The study also showed STRS Ohio's five-year annualized net total fund return (Jan. 1, 2018–Dec. 31, 2022) was 7.0%, above both the U.S. public median of 5.9% and the similar sized U.S. peer median of 6.5%. CEM is an industry leader in providing investment and pension administration benchmarking and its analysis compared STRS Ohio with 146 U.S. pension funds.

Furthermore, as reported to the Ohio Retirement Study Council by RVK, for the 10-year period ended June 30, 2023, STRS Ohio total fund net investment returns are the highest of the Ohio pension funds.

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40-308c, 8/24/0