

What Every STRS Ohio Member Should Know in 2011

The following facts may prove useful in 2011 in conversations with family members, neighbors and, most importantly, your legislators.

STRS Ohio has been providing retirement benefits to Ohio's public educators since 1920. STRS Ohio members pay 10% of their salary into STRS Ohio and their employers pay 14% of their teacher payroll into STRS Ohio instead of paying into Social Security. Historically, about 75 cents of every dollar paid in benefits comes from the third source of system income — investment returns.

In early 2009, the State Teachers Retirement Board began looking at ways to help strengthen the financial condition of the retirement system. Data showed that without changes to pension plan design, there would be a time in the future when STRS Ohio would be unable to pay pensions.

The Retirement Board approved a multifaceted plan to address this funding challenge. The plan's components increase member contributions; increase age and service requirements for retirement; calculate pensions on a lower, fixed formula; increase the period for determining final average salary; and reduce the annual cost-of-living adjustment (COLA) for current and future retirees and defer the COLA for future retirees. With these changes, teachers would receive 77% of their final average salary with 35 years of service at age 60 or older. This plan complies with the Ohio statutory requirement to bring the pension fund to a 30-year funding period. Further, the current 1% employer contribution to STRS Ohio's health care fund continues.

All these changes require legislation to be implemented. Pension legislation for STRS Ohio, as well as the other four statewide pension systems, was introduced on Feb. 1, 2011. Topics some members of the public have voiced concern about — such as reemployed retirees and employer pickup of member contributions — are allowed in law and reflect decisions made between employers and employees at the local level — not by the pension system. Pension legislation or other bills may also include provisions addressing these issues.

The changes proposed by the Retirement Board help preserve Defined Benefit pensions for Ohio's public educators. Overall, about 96% of STRS Ohio's 470,000 members are enrolled in or are receiving benefits from STRS Ohio's Defined Benefit Plan. For STRS Ohio members who have had a choice of plans (Defined Benefit Plan, Defined Contribution Plan or Combined Plan) during the past 10 years, about 85% ultimately enroll in the Defined Benefit Plan. Further, member survey data shows that — *even with knowing what the proposed changes will bring* — members still value the pension they currently receive or expect to receive in the future.

These earned pensions represent good public policy for helping to maintain financial security for Ohio's older citizens. These pensions:

- Provide retired teachers a reasonable and reliable pension they won't outlive.
- Save taxpayers billions of additional dollars in public assistance expenditures now spent to help individuals whose savings accounts, such as 401(k) plans, do not provide enough to keep them out of poverty in their retirement.
- Provide a stable source of revenue, including tax revenue, for Ohio's local economies. In calendar year 2010 alone, pension benefit payments exceeding \$4.3 billion were distributed to retired teachers living in Ohio's 88 counties.
- Are both efficient and economical, as a Defined Benefit pension can deliver the same retirement income at almost half the cost of a Defined Contribution savings account due to pooling of investment risk, continual diversification of assets and professional investment management.
- Help Ohio's schools, colleges and universities recruit and retain quality educators.