

Importance of Pension Oversight

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Prudent oversight prevents imprudent overreaction



History of Pensions

- ◆ Ancient Greeks established war widow pensions 2,500 years ago
- ◆ Lincoln established first full-fledged pension system in 1862 for veterans injured in Civil War
- ◆ By 1920, pension plans were common part of employment contract with large employers

History of Ohio Public Pensions (Ohio = Non-Social Security State)

- ◆ State Teachers Retirement System - 1920
- ◆ Public Employees Retirement System - 1935
- ◆ School Employees Retirement System - 1937
- ◆ Highway Patrol Retirement System - 1944
- ◆ Ohio Police & Fire Pension Fund - 1967

History of Social Security and the States

- ◆ 1935: State and local government employees excluded.
- ◆ 1950's: States could enter into voluntary, revocable agreements for coverage.
- ◆ 1983: Agreements became irrevocable.
- ◆ 1991: Mandated Social Security Coverage for all state and local government employees not covered by a public retirement system.

States not covered by Social Security

- ◆ Alaska
- ◆ California
- ◆ Colorado
- ◆ Connecticut
- ◆ Georgia (certain local governments)
- ◆ Illinois
- ◆ Louisiana
- ◆ Kentucky
- ◆ Maine
- ◆ Massachusetts
- ◆ Missouri
- ◆ Nevada
- ◆ Ohio
- ◆ Rhode Island (certain local governments)
- ◆ Texas (certain local governments)

Economic Engine

- ◆ In 2008 Ohio's five retirement systems paid over \$11 billion in benefits to retirees and their beneficiaries.
- ◆ Public retirement systems are the only piston in the economic engine firing presently.



Creation of Ohio Retirement Study Council (ORSC)

- ◆ Local police and fire pension funds routinely disregarded financial impact of benefit increases.
- ◆ 454 local funds faced financial disaster.
- ◆ 1967 local funds consolidated into statewide fund (OP&F).
- ◆ Transferred assets of \$75 million and liabilities of \$490 million.

Creation of ORSC (cont'd)

- ◆ Created in 1968 in response to consolidation of local police and fire pension funds
- ◆ Legislature recognized the need for continuing oversight of the state pension funds.
- ◆ Assist state legislature in formation of sound public pension policy.
- ◆ Balance needs of active members, retirees, and taxpayers.

Creation of ORSC (cont'd)

The purpose of the Council is to advise and inform the State Legislature on all matters relating to the benefits, funding, investment, and administration of the five statewide retirement systems in Ohio.

Duties of ORSC

- ◆ Make an impartial review of all laws governing the public retirement systems and makes recommendations to the legislature on any changes the ORSC finds desirable with respect to benefits, sound financing of benefit costs, and prudent investment of funds
- ◆ Report to the governor and legislature on its evaluation and recommendations with respect to the operations of the public retirement systems and their funds

Duties of ORSC (cont'd)

- ◆ Study all proposed changes to the public retirement laws and reports to the legislature on their probable costs, actuarial implications and desirability as a matter of sound public policy
- ❖ Review semiannually the policies, objectives, and criteria of the systems' investment programs

Duties of ORSC (cont'd)

- ❖ Have prepared, at least once every ten years, an independent actuarial review of the annual actuarial valuations and quinquennial actuarial investigations prepared by each system
- ❖ Have conducted a fiduciary performance audit of each system at least once every ten years
- ❖ Review all proposed rules submitted by the retirement systems and submit any recommendations to the Joint Committee on Agency Rule Review

Duties of ORSC (cont'd)

- ◆ Review the police and fire contribution rates and makes recommendations to the legislature that it finds necessary for the proper financing of OP&F benefits
- ❖ Prepare an independent actuarial study every three years on the required employer supplemental contribution to be made on behalf of academic and administrative employees of higher education electing an alternative retirement plan

Funding of ORSC

- ◆ Comes from state pension systems, not General Revenue Fund
 - ❖ Protects Council from political interference
- ◆ Council approves annually
- ◆ Each system pays proportionate share based on their assets

Pension Leadership

- ◆ Provide independent fiscal and policy advice.
- ◆ Membership
 - ❖ 3 House members
 - ❖ 3 Senate members
 - ❖ 3 Governor's appointees
 - ❖ Systems' Directors are non-voting members

Member Duties

- ◆ Upon appointment, must complete orientation program before being able to vote, deliberate, or be counted in attendance.
- ◆ Minutes reflect when member leaves and returns to meeting.
 - ❖ If leave or absent from meeting, must sign form stating member reviewed all materials.
- ◆ Member must be in room to vote.

Next Generation vs. Next Election



- ◆ Legislators are accustomed to dealing in two-year budgetary cycles.
- ◆ Pension plans involve long-term costs, such as 30 year pension obligations.
- ◆ Since 1990, there have been 42 Council members and 19 Directors.

How it works

- ◆ Bill is introduced
- ◆ Impacted system provides actuarial analysis within 60 days
- ◆ ORSC staff analyzes bill and makes recommendation at public meeting
- ◆ Recommendation is based on public policy and fiscal impact
- ◆ Council votes on recommendation
- ◆ Sponsor and legislature are informed of vote
- ◆ Traditionally no public testimony

Social Security Advisory Board

- ◆ Independent, bipartisan board
- ◆ Created by Congress in 1994
- ◆ Members appointed by the President and Congress
- ◆ Advises the President, Congress, and the Commissioner of Social Security on matters related to the Social Security and Supplemental Security Income programs.

Workers Compensation Council

- ◆ Modeled after ORSC
- ◆ Recommendations are part of oversight
- ◆ Workers Compensation Council did not make recommendations

Merits of Oversight Council

- ◆ Pension expertise
- ◆ Continuous supervision of pension laws
- ◆ Policy based on sound pension principles not special interests
- ◆ Consistent policy to perpetual stream of retirement bills
- ◆ Legislative term limits; try to have at least one 1st term legislator on Council
- ◆ Fair to participants and taxpayers

PRUDENCE

- ◆ No immediate danger of pensions not being paid in the next 2 - 3 decades.
- ◆ Pension systems are being pro-active by asking the Legislature for the tools to sustain a Defined Benefit plan.

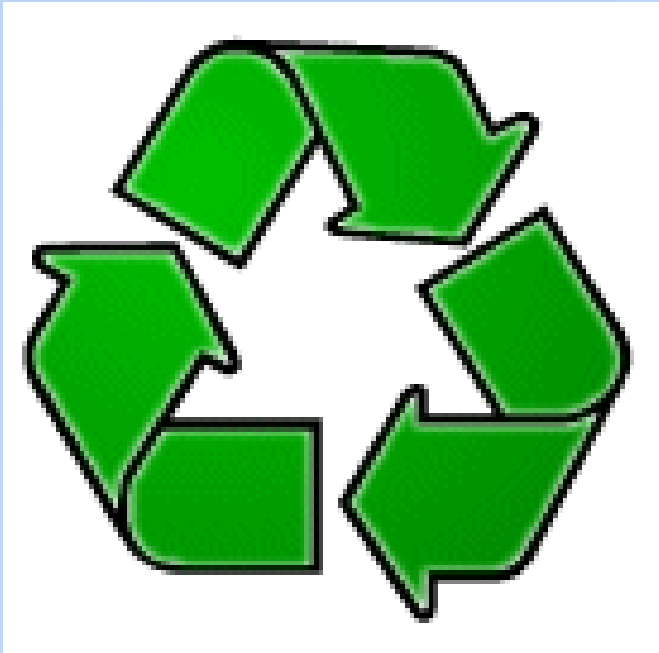
Pension Prudence

- ◆ Defined Benefit plans provide a safe, stable, and secure retirement benefit.
- ◆ They are the tool needed to provide a smooth transition from employment to retirement.

Race to the Bottom

- ◆ Fewer companies are offering Defined Benefit plans.
- ◆ Defined Contribution plans are cheaper only if you reduce the amount of the contributions.

Pay Forward



- Woody Hayes

- ◆ Member/Employer (taxpayers) contribute to retirement system.
- ◆ Member receives retirement benefit.
- ◆ Member recycles benefit back into local economy by purchasing goods and services.
- ◆ Ohio's own stimulus plan.

Current Pension Issues Under Consideration

◆ Contributions

- ❖ Increase employee and employer contribution rates
- ❖ Rates have been steady over long-term
- ❖ 30% of money for benefits is paid from contribution, 70% comes from investment returns.
- ❖ Ohio public employer contribution rates range from 14% (PERS, STRS, SERS) to 26.5% (HPRS).
- ❖ Private employers contribute approximately 13.1% toward employee's retirement. (Includes 6.2% for Social Security.)

Current Pension Issues Under Consideration (cont'd)

- ◆ Cost-of Living Allowance
 - ❖ Reduce percentage of COLA
 - ❖ Delay receipt of COLA
- ◆ Service Credit
 - ❖ Increase minimum salary
 - ❖ Increase minimum number of days worked

Current Pension Issues Under Consideration (cont'd)

- ◆ Age & Service Retirement
 - ❖ Increase normal retirement age
 - ❖ Increase minimum number of years needed for benefit
- ◆ Benefit Formula
 - ❖ Decrease formula multiplier
- ◆ Final Average Salary
 - ❖ Increase to average from 3 to 5 years
- ◆ Grandfathering Clause

Defined Benefits are Worth Protecting

- ◆ ORSC created in 1968
- ◆ Policymakers have a lot on their plates
- ◆ Non-partisan expertise is vital, especially with legislative term-limits

Politics is a contact sport

