



Good afternoon, Chairman Arndt, Vice Chair Pelanda, Ranking Member Howse and members of the House Aging and Long Term Care Committee. My name is Geoff Hetrick and I'm the President and CEO of Public Employee Retirees, Inc., also known as PERI, an association that represents tens of thousands of OPERS retirees.

I want to thank you for this opportunity to share our concerns regarding HB 413. This bill is financially unnecessary and if passed, would breach the trust 200,000 retired civil servants placed in their employer, OPERS and the Ohio General Assembly. You should know PERI has long supported OPERS and the defined benefit pension system; however, in our opinion, this bill is misguided.

Let's start with why this move is financially unnecessary. OPERS is one of the most financially stable systems in the country - In OPERS' own words, the System is strong. We agree with this assessment. It is supported by its current funded status, which is more than 80%, according to its own actuaries. OPERS is in very good health. They will tell you they have \$19 billion in unfunded liabilities. This is true, and numbers that size get our attention. However, we need to see this number in the context of the enormous assets OPERS manages. There is no crisis looming. OPERS is under no actuarial requirement to recognize this liability all at once, as the need to cover this obligation is spread over 30 years.

We've all read the newspapers . . . Many public retirement systems in other states are near insolvency – the product of everything from misguided investments to structures allowing state legislatures to reduce or forgo employer contributions to these pension systems. These issues can constitute a recipe for disaster but thankfully, one that will not occur here in Ohio, due to the way our public retirement systems were originally designed.

OPERS should not be compared with failing systems in other states that have received so much bad press. Yet some national organizations and individual reporters paint ALL defined benefit plans in a bad light, including OPERS. What they fail to disclose is their mission of seeing every public sector defined benefit plan converted to a defined contribution plan, regardless of solvency and despite the fact that OPERS should be recognized for its financial strength.

In promoting the need for HB 413, OPERS has made the decision that it is better to make an already strong system catastrophe-proof than to protect the financial security of 200,000 of its most vulnerable members, retirees. These people are not just numbers, they are thousands of individuals, with unique needs, many living pension check to pension check without the benefit of other income to help them make ends meet.

OPERS appears to be concerned that if there is another significant downturn in the economy, they will be ill-prepared to deal with it. While we cannot predict the future, we can certainly look at the past. In the 83 year history of OPERS, the system has never missed a payment to retirees. Through the Depression and many recessions, OPERS has been there for its members.

So, now we have HB 413, a bill that would make serious cuts to retirees' COLA. Why?

It started with the decision to reduce the System's anticipated annual rate of return from 8% annually to 7.5%. This reduction makes it more likely that OPERS will meet its targeted return in future years. However, with the reduction to 7.5% came a corresponding increase in the unfunded actuarial accrued liability. With this change, OPERS' funded ratio dropped from 85% to 80%. The Executive Director characterized this change in the 2016 annual report, with these words, and I quote, "While the funding ratio declined, the overall funded ratio remains strong."

Here's where the financial argument OPERS is making for a COLA reduction falls flat. Instead of the anticipated 7.5%, OPERS stock market returns had a banner year in 2017, achieving more than double their target at 16.2%. This translates into more than sufficient funding to cover the \$2.8 billion unfunded actuarial accrued liability and still have millions of dollars to contribute toward further improving the funded status of the pension. Hence, OPERS is strong and getting stronger and continues to be in compliance with the state's 30 year solvency requirement for pensions. It is hard to believe that OPERS is going down this path for no other reason than an overabundance of caution.

The second major problem with this bill is the breach of retiree trust. The COLA was implemented decades ago to help offset the effects of inflation and reductions to retirees' healthcare benefits. Many retirees carefully chose their retirement date based on the information provided by OPERS, which instilled confidence they were making the right decision for their family for the rest of their lives. If you retire on this date, you will have these benefits, with a 3% per year increase in your COLA. This was simple and readily understood by retirees, who had no reason to think these benefits would change, pending disaster. I will let the legal

experts reflect on the legal nature of this commitment but know that for that retiree looking at their promised benefit plan, there was no fine print, no caveats, disclaimers or other reasons to doubt OPERS would make good on their agreement. The worst part of this is that OPERS wants to change the rules of the game when many retirees do not have the capacity to return to work to supplement their incomes.

OPERS wants to reduce this COLA to actual inflation as measured by CPI-W with a cap at 2.5%. They have a number of arguments including the assertion that in some years, retirees have received more than their fair share with a fixed 3% COLA when CPI-W measured inflation came in at a level less than 3%. Even if there weren't an issue of breaching an agreement, this argument is simply not reality.

CPI-W measures the cost of a basket of goods for the typical wage earner, not a retiree. Retirees' cost of living is more accurately weighted to consider the costs associated with healthcare, which, as we all know, becomes a major expense as we age. In fact, the federal government tracked inflation for the elderly population between 1984 and 2011. This CPI-E measurement as it was known, averaged 3.1% during that 27 year period, above the 3% simple COLA payment that retirees receive now from OPERS.

The reduction in purchasing power of the fixed 3% COLA is best illustrated this way – If a retiree received a COLA of \$100 in 2000, its value today would only be \$72. An OPERS retiree's COLA is fixed at the time of their retirement – based on their original retirement benefit, meaning it is simple in nature and not compounded like Social Security. Bottom line, retirees are already taking a hit, even with the current 3% fixed COLA. The longer a retiree is retired, the less buying power their COLA provides.

OPERS has stated that active members — those still in the workplace — have made their sacrifice with changes to retirement benefits when Substitute Senate Bill 343 took effect in January 2013. While this may be true, it is disingenuous to assume retirees have not experienced shared pain. Since 2012, they have seen reductions to their healthcare benefits not only for themselves but for their spouses as well. Although OPERS will make the case that the pension is guaranteed, and healthcare is not, the stark reality is that every dollar of benefit that is lost, whether pension or healthcare related, is a dollar that a retiree must make up somewhere else.

Not only is OPERS breaching the trust of retirees, but their handling of the discussions and activities leading up to today's hearing have been confusing and insulting to retirees. Last summer and fall, the OPERS board examined several scenarios, all of which were designed to reduce the unfunded actuarial accrued liability through a combination of levers that primarily impacted retirees.

OPERS sent a survey to retirees in September. The sole purpose was to gauge which of many COLA freeze or reduction 'poison pills' retirees were willing to support . . . all this while assuring retirees the System was financially strong! 80,000 retirees took the time to respond to the survey and based on those surveys, that in many cases were also sent to us, the majority of respondents were upset with the way it was presented and with the options given, and rightfully so.

Frankly, OPERS created a PR nightmare and severely damaged the trust they had with retirees. Regardless of what happens with this bill, it may take OPERS many years, if ever, to regain the trust of the retiree community. Nowhere in the survey was there any meaningful discussion regarding OPERS' desire or willingness to look at the entire System for other workable solutions.

Despite the substantial pushback, OPERS board decided to adopt a plan last fall that would have capped the COLA at 2.25%, a figure that was agreed to as a compromise between those on the board advocating a 2% cap and some supporting a cap at 2.5%. Now, HB 413 appears with a cap at 2.5% that does not reflect this position of the OPERS board. It appears to many that the proposed COLA cap is a moving target, which is creating additional confusion for retirees.

Let me conclude by reiterating why this action against 200,000 retirees is not needed and will serve to not only punish retirees but damage OPERS' credibility with retirees in Ohio, now and in the future. One, there is no financial necessity. OPERS manages one of the few defined benefit systems in the country that is financially strong and getting stronger. Investment returns in 2017 were 16.2%. This provides more than adequate assets to cover unfunded liabilities to the 80% standard widely recognized as *healthy*!

Two, there was an agreement. Retirees trusted that, at least pending catastrophe, they would be paid as their plan clearly stipulated. And they have relied on this agreement to make decisions about their lives.

If, despite all this, OPERS is still concerned about the pension's overall funded status, there are other options available that will not harm retirees including delaying and capping the COLA for actives who retire in the future. Unlike retirees, they can adjust their separation date to mitigate the change this would mean for them in retirement, knowing that their final average salaries will be higher.

I know you will likely hear that there are other concerns OPERS has such as people are living longer and therefore placing an additional burden on the pension fund. For every study that says people are living longer you can easily find one from a reputable source that states just the opposite.

This brings me to my last comment regarding HB 413. OPERS also requests the authority to unilaterally act to reduce or freeze the COLA if the funded status falls below 80% or the amortization period exceeds 30 years, both thresholds of good financial health. PERI understands the importance of these measurements but believes the Ohio Retirement Study Council and ultimately the General Assembly should retain the final say in whether changes are made to the COLA. Billions of dollars are at stake here as is the well being of 200,000 retirees. These decisions are best left in your hands.

Thank you again Chairman Arndt, and members of the House Aging and Long Term Care Committee for taking the time to consider our concerns regarding HB 413. I'm happy to answer any questions you may have.