

Faculty Association of ARP Participants

Prof. Smita Mathur

mathur.17@osu.edu

Phone: (614)292-5779

May 23, 2016

To: House Health and Aging Committee

Subject: House Bill 520 and the Alternative Retirement Plan (ARP)

Dear Chairwoman Gonzales & members of the committee,

I am Dr. Smita Mathur, Professor of Astronomy at The Ohio State University and founding president of the “Faculty Association of ARP Participants” (FAARPP). We thank Representatives Schuring and Ramos for their effort on revising the original law establishing ARP (ORC 3305.06(D)), parts of which we believe were ill-conceived. However, this testimony is to oppose parts of HB 520 related to provisions for ARP.

We request that the following amendments be made in HB 520, and I will discuss our rationale subsequently.

1. Current ARP participants should be offered a one-time opportunity to join STRS, and earn benefits based on their future years of service.
2. Current ARP participants should be also offered an opportunity to buy in to full membership in STRS via rollover of past accumulations from their ARP accounts.
3. ARP participants who do not choose to join STRS should be awarded partial STRS retirement benefit in proportion to their contributions to STRS through the “mitigation rate”.
4. Alternatively, ARP participants should be allowed to participate in Social Security.
5. The mitigation rate should be set to zero.

Current ARP participants should be offered a one-time opportunity to join STRS and earn benefits based on their future years of service.: Please note that most ARP participants opted for the ARP **not knowing about the mitigation rate**. We were never told about this; on the contrary, we were told that the two retirement plans, Defined Benefit and Defined Contribution are equivalent. Many of us would not have opted for ARP if we had known that about a third of our employer contribution would be diverted into STRS. Some of us would not have come to an Ohio university if

we had known this. We have been told consistently that the employer contribution to our retirement benefit is 14%, when it is actually 9.5% (14% minus the current mitigation rate). What goes into STRS is clearly not a “benefit” or “reward” to us as claimed in the benefit statements that we receive from our university. Since the information that induced us to join ARP was deceptive, whether or not intentionally, we should be allowed to reverse our decision and switch back.

Current ARP participants should be also offered an opportunity to buy in to full membership in STRS via rollover of past accumulations from their ARP accounts. The rationale behind this is the same as noted above. ARP members are allowed to change their plan vendors; we should similarly be given an opportunity to rollover our contributions from our ARP accounts into STRS for service credit. We understand that school teachers are allowed to change between DC and DB plans; university professors should be allowed the same.

Social Security. Public employers in the state of Ohio are exempt from Social Security taxes because of the state pension plans. This exemption becomes invalid for ARPs who are left without state pension and federal social security. This situation must be corrected immediately to be in compliance with federal law. Instead of diverting 4.5% of our salary to STRS, public employers should contribute 6.2% of our salary (the current rate) into Social Security.

Mitigation rate should be set to zero. This is likely the most contentious issue and perhaps the hardest to understand. In the original bill establishing ARP, there was a provision for a mitigation rate because of the worry about most teachers leaving the DB plan. Almost 20 years down the road it is clear that there was no mass exodus. As documented by the Ohio Retirement Study Council (ORSC), ARP participants makeup a small fraction of all teachers. Thus while the mitigation rate hurts us badly, it does not help STRS significantly. Please note that Ohio is the only state that unfairly taxes its ARP participants through a mitigation rate.

Mr. Nehf in his testimony claims that “as long as the ARPs are an option, they will continue to have a detrimental effect on the funding of STRS Ohio.” We strongly disagree. As Dr. Sohngen, a renowned economist from Ohio State has stated in his testimony, **ARP participants actually provide a net benefit to STRS.** The reason is simple: while ARP participants do not contribute into the system (STRS), **they also do not draw retirement benefit from from STRS.** The net effect is financially beneficial to STRS. Therefore, the entire premise behind a positive mitigation rate is faulty and should be immediately corrected.

Facing a similar situation, faculty in Virginia are offered an additional 3% **to opt out** of the DB pension system. This incentive corresponds to a negative mitigation rate. We are not requesting a negative mitigation rate. But making up shortfalls by a large tax on non-participants is blatantly unfair.

Thus, dear members of the committee, we are extremely distressed by the unfair way university professors in ARP have been treated. If you think, as we do, that there is no good rationale for a mitigation rate, then it should be set to zero. If you think, as Mr. Nehf suggests, that ARPs are bad for STRS, then we should be allowed to switch back to STRS. We should be allowed to switch back in any case, given the lack of transparency during enrollment. The mitigation rate should be set to zero because it is unfair, based on faulty assumptions, and with mathematical errors. In the least, our employers should contribute into social security instead of STRS. The way the system is set up currently amounts to both entrapment and extortion; you now have the opportunity to correct the wrongs inflicted upon us and to be in compliance with federal law. Thank you for your time!

Best regards,

Smita Mathur