Testimony Before the
House Aging and Long Term Care Committee
On House Bill No. 413

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February 6, 2018

Chairman Arndt, Vice Chair Pelanda, Ranking Minority Member Howse, and members of the House Aging and Long Term Care Committee, thank you for this opportunity to speak. My name is Charles Heimbaugh and I was the City of Akron's Senior Economist for many years prior to my retirement in 2009 as its Capital Planning Manager. After nearly 34 years of public service, I made my decision to retire based heavily on projections of my future pension. I assumed that I would receive an annual fixed flat 3% COLA, as currently written into Ohio law. OPERS is now proposing that the COLA calculation be changed.

I've had much experience with cost of living indices throughout my career. As further background, I have a degree in economics and an MBA. From my viewpoint, OPERS compared APPLES TO ORANGES in the attached email sent to retirees on 8/4/17 titled "OPERS considers changes to retiree COLA." The email misleadingly stated: "The CPI has topped 3 percent only five times during the past 25 years, so OPERS' fixed COLA has resulted in a net benefit increase for many retirees." The attached TABLE 1, which compares various consumer price indices over the last 25 calendar years to the existing OPERS COLA calculation, refutes this statement.

Contrary to OPERS' allegation, TABLE 1 shows that the annual increase in the CPI-W exceeded the annual increase in the COLA in 12 of the 25 years. Over this period, the CPI-W increased 73% (annual average of 2.22%), the CPI-U increased by a total of 75% (annual average of 2.26%), and the CPI-E increased 81% (annual average of 2.40%). The existing COLA is based on a fixed 3% per year flat increase on the INITIAL pension amount (simple interest that is not compounded). Compared to the various CPI increases, the existing COLA would have resulted in a 75% total increase, or a 2.26% average annual increase in our pensions over the last 25 years. The existing COLA has been historically neutral with respect to the CPI.

TABLE 2 shows the effect of the proposed H.B. 413 change to the COLA calculation in which the annual COLA is tied to the CPI-W, but is capped at a flat 2.5% on the INITIAL pension amount (OPERS proposed a 2.25% cap). If this calculation had been applied over the last 25 years, our pensions would have increased by a total of 50%, or a 1.63% average annual increase. This is substantially less than the increase in the CPI of 74% (2.24% annual average) during the 25-year period used for calculations. Retirees' pensions would not have kept up with the cost of living by a considerable amount.

If the legislature is determined to make changes, TABLE 3 shows a suggested alternative to calculating COLA. Like the proposed H.B. 413 change, it would tie the adjustment to the CPI-W and be capped at 2.5%. However, the COLA would be applied to the PRECEDING year pension amount. By changing the base from the INITIAL pension to the PRECEDING year pension, retirees' pensions would more closely keep up with the cost of living. If this calculation had been applied over the last 25 years, our pensions would have increased by a total of 64%, or a 1.99% average annual increase.

In summary, the existing system of providing an annual fixed flat 3% COLA to those who retired prior to January 2013 has effectively kept our pensions in step with the cost of living. There is a well-known saying that applies as OPERS proposes revising the COLA: **"IF IT AIN'T BROKE, DON'T FIX IT."**

TABLE 1

EXISTING COLA CALCULATION
VS VARIOUS CONSUMER PRICE INDICES

Calendar Year	CPI-W (Annual Average)	CPI-W % Annual Increase	CPI-U (Annual Average)	CPI-U % Annual Increase	CPI-E (Annual Average)	CPI-E % Annual Increase	OPERS COLA Cummulative Increase	OPERS COLA % Annual Increase	**Annual Increase Comparison:** If CPI-W > COLA then 1
1992	138.2		140.3		147.6		100		
1993	142.1	2.82%	144.5	2.95%	152.2	3.15%	103	3.00%	
1994	145.6	2.52%	148.2	2.61%	156.6	2.85%	106	2.91%	
1995	149.8	2.83%	152.4	2.81%	161.2	2.93%	109	2.83%	
1996	154.1	2.93%	156.9	2.93%	166.1	3.06%	112	2.75%	1
1997	157.6	2.22%	160.5	2.34%	170.1	2.44%	115	2.68%	
1998	159.7	1.33%	163.0	1.55%	173.2	1.81%	118	2.61%	
1999	163.2	2.24%	166.6	2.19%	177.3	2.33%	121	2.54%	
2000	168.9	3.47%	172.2	3.38%	183.5	3.51%	124	2.48%	1
2001	173.5	2.74%	177.1	2.83%	189.2	3.10%	127	2.42%	1
2002	175.9	1.36%	179.9	1.59%	192.7	1.84%	130	2.36%	
2003	179.8	2.24%	184.0	2.27%	197.4	2.45%	133	2.31%	
2004	184.5	2.60%	188.9	2.68%	203.3	3.00%	136	2.26%	1
2005	191.0	3.52%	195.3	3.39%	210.4	3.50%	139	2.21%	1
2006	197.1	3.23%	201.6	3.23%	217.3	3.27%	142	2.16%	1
2007	202.8	2.85%	207.3	2.85%	223.8	3.00%	145	2.11%	1
2008	211.1	4.09%	215.3	3.84%	232.4	3.82%	148	2.07%	1
2009	209.6	-0.67%	214.5	-0.36%	231.9	-0.21%	151	2.03%	
2010	214.0	2.07%	218.1	1.64%	235.0	1.36%	154	1.99%	1
2011	221.6	3.56%	224.9	3.16%	241.8	2.88%	157	1.95%	1
2012	226.2	2.10%	229.6	2.07%	246.7	2.06%	160	1.91%	1
2013	229.3	1.37%	233.0	1.46%	250.6	1.56%	163	1.88%	
2014	232.8	1.50%	236.7	1.62%	255.2	1.83%	166	1.84%	
2015	231.8	-0.41%	237.0	0.12%	256.7	0.60%	169	1.81%	
2016	234.1	0.98%	240.0	1.26%	260.8	1.59%	172	1.78%	
2017	239.1	2.13%	245.1	2.13%	266.7	2.27%	175	1.74%	1
Total Number of Years that CPI-W exceeded OPERS COLA									**12**

	Total	**Average Annual**
CPI-W increase (1992-2017)	**73%**	**2.22%**
CPI-U increase (1992-2017)	**75%**	**2.26%**
CPI-E increase (1992-2017)	**81%**	**2.40%**
OPERS COLA increase (1992-2017)	**75%**	**2.26%**

Notes:

1) CPI-W is Consumer Price Index for Urban Wage Earners and Clerical Workers. U.S. City Average, All Items, Unadjusted Indexes. 1982-84 = 100
   Source: https://data.bls.gov/timeseries/CWUR0000SA0
2) CPI-U is Consumer Price Index for All Urban Consumers. U.S. City Average, All Items, Unadjusted Indexes. 1982-84 = 100
   Source: https://data.bls.gov/timeseries/CUUR0000SA0
3) CPI-E is Experimental CPI for Americans 62 Years of Age and Older. All Items, Seasonally Adjusted. 1982=100
   Source: https://fred.stlouisfed.org/series/CPIEALL
4) OPERS COLA based on fixed 3% flat increase per year (simple interest, no compounding) applied to initial pension.

TABLE 2

PROPOSED H.B. 413 COLA CALCULATION

12 months ending June of Year	CPI-W (Annual Average)	CPI-W % Annual Increase		Calendar Year	OPERS COLA Cummulative Increase	OPERS COLA % Annual Increase
1992	136.1	3.01%		1992	100.00	
1993	140.3	3.03%		1993	102.50	2.50%
1994	143.7	2.44%		1994	105.00	2.44%
1995	147.9	2.91%		1995	107.44	2.32%
1996	151.8	2.69%		1996	109.94	2.33%
1997	156.1	2.80%		1997	112.44	2.27%
1998	158.6	1.58%		1998	114.94	2.22%
1999	161.2	1.63%		1999	116.52	1.37%
2000	166.0	3.03%		2000	118.15	1.40%
2001	171.7	3.42%		2001	120.65	2.12%
2002	174.3	1.53%		2002	123.15	2.07%
2003	178.1	2.17%		2003	124.68	1.25%
2004	181.7	2.04%		2004	126.85	1.74%
2005	187.3	3.04%		2005	128.88	1.60%
2006	194.7	3.99%		2006	131.38	1.94%
2007	199.6	2.48%		2007	133.88	1.90%
2008	207.4	3.93%		2008	136.36	1.85%
2009	209.8	1.18%		2009	138.86	1.83%
2010	212.4	1.22%		2010	140.05	0.85%
2011	217.4	2.33%		2011	141.27	0.87%
2012	224.3	3.18%		2012	143.60	1.65%
2013	227.8	1.60%		2013	146.10	1.74%
2014	231.2	1.49%		2014	147.69	1.09%
2015	232.0	0.34%		2015	149.18	1.01%
2016	232.7	0.28%		2016	149.53	0.23%
2017	236.6	1.69%		2017	149.80	0.19%

	Total	Average Annual
CPI-W increase (1992-2017)	**74%**	**2.24%**
OPERS COLA increase (1992-2017)	**50%**	**1.63%**

Notes:

1) CPI-W is Consumer Price Index for Urban Wage Earners and Clerical Workers U.S. City Average, All Items, Unadjusted Indexes. 1982-84 = 100

   Source: https://data.bls.gov/timeseries/CWUR0000SA0

2) Annual OPERS COLA based on the % increase of preceding years's (ending in June) CPI-W, capped at 2.5%, applied to initial pension. Unlike the CPI-W, this is a FLAT increase which is simple interest, no compounding. No annual COLA increase if preceding year's CPI-W increase is negative.

TABLE 3

ALTERNATIVE PROPOSED COLA CALCULATION

12 months ending June of Year	CPI-W (Annual Average)	CPI-W % Annual Increase		Calendar Year	OPERS COLA Cummulative Increase	OPERS COLA % Annual Increase
1992	136.1	3.01%		1992	100.00	
1993	140.3	3.03%		1993	102.50	2.50%
1994	143.7	2.44%		1994	105.06	2.50%
1995	147.9	2.91%		1995	107.62	2.44%
1996	151.8	2.69%		1996	110.31	2.50%
1997	156.1	2.80%		1997	113.07	2.50%
1998	158.6	1.58%		1998	115.90	2.50%
1999	161.2	1.63%		1999	117.73	1.58%
2000	166.0	3.03%		2000	119.65	1.63%
2001	171.7	3.42%		2001	122.64	2.50%
2002	174.3	1.53%		2002	125.71	2.50%
2003	178.1	2.17%		2003	127.64	1.53%
2004	181.7	2.04%		2004	130.40	2.17%
2005	187.3	3.04%		2005	133.06	2.04%
2006	194.7	3.99%		2006	136.38	2.50%
2007	199.6	2.48%		2007	139.79	2.50%
2008	207.4	3.93%		2008	143.26	2.48%
2009	209.8	1.18%		2009	146.84	2.50%
2010	212.4	1.22%		2010	148.57	1.18%
2011	217.4	2.33%		2011	150.39	1.22%
2012	224.3	3.18%		2012	153.89	2.33%
2013	227.8	1.60%		2013	157.74	2.50%
2014	231.2	1.49%		2014	160.26	1.60%
2015	232.0	0.34%		2015	162.64	1.49%
2016	232.7	0.28%		2016	163.20	0.34%
2017	236.6	1.69%		2017	163.66	0.28%

	Total	Average Annual
CPI-W increase (1992-2017)	**74%**	**2.24%**
OPERS COLA increase (1992-2017)	**64%**	**1.99%**

Notes:

1) CPI-W is Consumer Price Index for Urban Wage Earners and Clerical Workers U.S. City Average, All Items, Unadjusted Indexes. 1982-84 = 100

Source: https://data.bls.gov/timeseries/CWUR0000SA0

2) Assumes annual OPERS COLA based on the % increase of preceding years's (ending in June) CPI-W, capped at 2.5%, applied to preceding year's pension. No annual COLA increase if preceding year's CPI-W increase is negative.

From: OPERS <mbsnotify@opers.org>
Sent: Friday, August 4, 2017 5:32 PM
To: CHEIMBAUGH@GMAIL.COM
Subject: OPERS considers changes to retiree COLA

A special announcement from OPERS Executive Director Karen Carraher

OPERS considering adjustment to retiree COLA

As Executive Director, I am proud to say your retirement system is in a strong position to continue to fund your benefits as well as those of future generations. Part of our job at OPERS is to address risks to the System so our funding remains strong.

As was the case when OPERS made landmark pension plan changes in 2012, times are changing. Our retirees are living longer, requiring us to pay benefits for many more years than in the past. Further, we are in a decades-long period of low inflation.

With this environment in mind, we have begun to gather feedback from members, retirees and stakeholder groups about potential changes to the cost-of-living adjustment that would affect current retirees.

The purpose of a COLA is to lessen, not fully offset, the effects of inflation on your pension benefit. OPERS started providing a COLA in 1970, and it has changed several times since then. We currently grant a fixed, 3 percent COLA to our retirees. For those who retired after January 2013, that COLA is scheduled to match the Consumer Price Index with a maximum adjustment of 3 percent, starting in 2019.

The CPI has topped 3 percent only five times during the past 25 years, so OPERS' fixed COLA has resulted in a net benefit increase for many retirees. Simply put, the COLA we are paying is exceeding the CPI in these low inflationary times.

Thus, we are soliciting feedback on the idea of basing the COLA for all retirees, including current retirees, on the CPI capped at 3 percent starting in 2019. Some who retired prior to 1990 have seen inflation reduce their purchasing power. For them, we could provide a one-time benefit increase. We are also looking at other options, including a COLA freeze and a COLA based on the CPI capped at 2.5 or 2 percent. There are many other scenarios that could be added as we gather feedback.

These actions would require approval by the OPERS Board of Trustees as well as the Ohio Legislature. You should know we are considering this action while our system is healthy – we must proactively assess our fund so we can remain that way. OPERS is funded at 80 percent, which is a benchmark for pension system strength, and we're well within the state-mandated limits for pension fund solvency.

However, we can't always count on the future reflecting the past. In order to retain our strong financial position, and continue to offer the COLA to current and future retirees, we are considering these steps now.

I have started meetings with stakeholders to share preliminary ideas. My main goals are to provide an understanding of why we would pursue changes when we are in a good financial position, and to solicit feedback. As we go down this path together, it is important to stress we are gathering feedback and will move through a very open and public process to evaluate changes.

To watch a video and for future updates on this issue, go to www.opers.org/cola. Also, watch your mail for a survey.

Karen Carraher
Executive Director