SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
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Proponent Testimony
Senate Bill 151
Senate Insurance and Financial Institutions Committee
Richard Stensrud, Executive Director
June 20, 2017

Good morning Chairman Hottinger, Vice Chair Hackett, Ranking Member Brown, and members of the committee. I am Richard Stensrud, Executive Director of the School Employees Retirement System of Ohio (SERS). I am here today to discuss the provisions of Senate Bill 151 that pertain to SERS' board-approved Cost-of-Living Adjustment (COLA) changes, and to provide insight as to why these changes are necessary.

These changes place the responsibility for future COLA changes in the hands of the SERS Board, a group composed primarily of active and retired members who are elected by their peers.

The Board takes seriously its fiduciary obligations to plan for the retirement security of its 76,000 benefit recipients, and 125,000 active members. The Board's priorities are to protect retiree benefits as much as possible, ensure intergenerational equity, and not to overcorrect based on short-term economic conditions. We believe the proposed COLA changes are a fair and balanced approach to address the pension fund's current financial challenges.

The Board-approved changes we are requesting include:

1. Changing the system's COLA from a fixed 3% annual increase to a COLA based on the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%
2. Receiving authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W; however, any adjustment above or below CPI-W could only be enacted if the system's actuary determines it would not materially impair the fiscal integrity of the system, or is necessary to preserve the fiscal integrity of the system

I would like to thank the Ohio Retirement Study Council (ORSC) for reviewing the changes contained in this bill, and for approving the legislation with recommendations. Furthermore, all of the other Ohio pension systems have amended their COLA statutes in the last several years with provisions similar to what SERS is proposing.

While our pension fund is stable, we have identified immediate financial challenges and long-term funding goals that require immediate attention to prevent a bigger problem down the road.

Following the end of the Great Recession in 2012, SERS' pension funded status steadily grew from 62% funded at 30 years, to 69% over 27 years. This progress was due to the age and service changes made during the 2012 pension reform and significant investment returns. However, based on warnings from investment professionals that returns will be lower than expected for the next 7-10 years, the Board lowered its expected rate of return and began looking at additional changes to address the short-term investment challenges to reach the long-term pension funding goal of 90%.

SERS' funding policy provides that until the pension is at least 70% funded, employer contribution dollars cannot go into health care. Our actuary estimates the health care fund has 7 years of funding, so there is an urgency to take this action to again enable some funding to go into health care.

From the beginning, the SERS Board process was transparent. SERS invited input from advocacy groups that represent SERS' active and retired members over the last two years. Staff convened roundtable meetings in which the financial challenges were detailed, and potential solutions discussed. SERS' actuary was present at these meetings to discuss the impact of the changes to the membership and SERS. Attached to my testimony, you will find four letters of support or understanding concerning the COLA changes that we received from our advocacy group partners.

In addition, we kept the membership informed of the Board's decisions through our printed and electronic publications, member meetings, website, and social media accounts.

The decision to change the COLA for active members and retirees was difficult. According to SERS' actuary, a fair solution needed to include retirees, because more than 60% of the System's unfunded liabilities are attributable to retirees. Life expectancy has continued to rise after members retired, and in more and more cases, retirees are living longer in retirement than they paid into the system. The only way to involve retirees in the funding solution is to make changes to the COLA, because all other options affect only active members. Active members have borne the brunt of past pension changes, and we must ensure when these folks retire they have a pension like that of our current retirees.

Thank you for considering this bill. On the present course with no changes, SERS' actuary predicts that the pension fund will not reach 70% funded until 2030, at which point, it is possible we would also be outside of the state's 30-year funding window. With the COLA changes, the pension fund is expected to reach 70% funded in 2018, and 90% funded by 2034. The 90% mark is critical, because at that level, the pension fund can better withstand a serious market downturn.

I would like to thank Senator Hite for introducing this bill, and for assisting with its timely passage by amending it into the substitute budget bill. Companion legislation is also being heard in the House.

I would be happy to address any questions you may have.

SCHOOL EMPLOYEE RETIREES OF OHIO
The Voice of the Retired School Employee

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March 15, 2017

Helen Ninos, Interim Executive Director
School Employees Retirement System
300 East Broad Street, Suite 100
Columbus, Ohio 43215-3746

Dear Helen,

Our SERO Board and staff have been involved in discussions and attended many meetings regarding the proposed changes to the cost-of-living benefit (COLA) for current and future retirees at SERS. We appreciate that we have been able to give input and be a part of these important discussions regarding potential changes for SERS members. These meetings have helped us to understand the need for changes.

SERO has always supported a 3% fixed COLA, however, we would not support a goal that ultimately puts SERS in jeopardy of falling outside of established required funding guidelines. We appreciate the sensitivity that SERS has shown to our retirees with regard to benefits and health care. SERS has made smaller, measured changes over time while utilizing cost saving programs to shield our retirees from drastic changes.

We know SERS understands the gravity of these changes for our retirees. The changes include a 3 year freeze of the COLA for current and future retirees, indexing the COLA to the CPI-W and capping future COLA benefits at 2.5%. We are glad that language is included that will allow SERS to return to the 3% COLA given economic and actuary considerations as well. Based on the documentation that has been presented to us, we do support the changes that you have made to the COLA for both current and future retirees.

Sincerely,

Valerie Rodgers

Valerie Rodgers
Director

OEA
OHIO EDUCATION ASSOCIATION

Rebecca L. Higgins, President
Scott W. DiMauro, Vice President
Tim Myers, Secretary-Treasurer
Sheryl Mathis, Executive Director

The OEA will lead the way for continuous improvement of public education while advocating for members and the learners they serve.

March 14, 2017

Helen Ninos, Interim Executive Director
School Employees Retirement System
300 East Broad Street, Suite 100
Columbus, OH 43215-3746

Dear Ms. Ninos:

In September of 2016, the School Employees Retirement System (SERS) Board of Trustees voted to seek legislative changes to the cost-of-living adjustment (COLA) for current and future retirees. The changes being sought include a three-year COLA freeze for current and future retirees indexing future COLA payments to the Consumer Price Index (CPI-W) capped at 2.5%. The Ohio Education Association is supportive of this proposal.

In the months leading up to the Board action, SERS engaged stakeholders representing active employees, retirees and employers—the constituencies of SERS. This provided an opportunity for OEA and other stakeholders to understand the underlying conditions of the retirement system, ask questions and provide feedback to the Board. Throughout and after the decision-making process, SERS kept members updated with continuous communications. OEA appreciates this openness and transparency.

Any reduction to the COLA is painful. Current and future retirees in SERS have low average pensions. The COLA is valuable because it helps retirees maintain purchasing power and not fall behind because of inflation. However, it is critical to maintain the long-term security and reliability of pension benefits. The recommendation of the SERS Board is a prudent and measured way to accomplish this.

Sincerely,

Becky Higgins

Becky Higgins
President

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An Affiliate of the National Education Association

Ohio Federation of Teachers AFT, AFL-CIO
A Union of Professionals

March 24, 2017

Helen Ninos
Interim Executive Director
School Employees Retirement System of Ohio
300 East Broad Street, Suite 100
Columbus, OH 43215

Dear Ms. Ninos:

I am writing to express the views of the members of the Ohio Federation of Teachers on the proposed changes to the School Employees Retirement System (SERS) cost of living adjustment (COLA). No retiree wants to have his or her COLA changed; it is a very difficult decision for all involved. We appreciate your willingness to work with all stakeholders to explore multiple options.

The stability of the pension fund is the primary goal and this action achieves that goal. It protects the 30-year funding period. Also, we appreciate what has not been changed:

- **Employee contribution** – employee contributions remain at 10%; employer contributions remain at 14%.
- **Cost-of-Living Adjustment (COLA)** – the COLA remains at 3% until 2018.
- **Final Average Salary (FAS)** – the FAS remains the average of the three highest years of salary.

As the funding period improves and the percentage funded improves, we hope the Board will take future action to restore the COLA to three percent when appropriate. We understand the need for quick legislative action in this regard and we will share our views with ORSC and other key legislators.

Sincerely,

Melissa Cropper

Melissa Cropper, President
Ohio Federation of Teachers

April 10, 2017

Helen Ninos
Interim Executive Director
School Employees Retirement System of Ohio
300 E. Broad St.
Columbus, Ohio 43215

Dear Ms. Ninos,

We are writing to express our views regarding the SERS board's proposed changes to the Cost of Living Adjustment (COLA) for SERS retirees. We recognize that the decision to propose changes that affect current and future retirees was a difficult one, and we appreciate the open process you utilized to engage stakeholders in the process.

As the SERS staff and the board considered options for protecting the system's 30-year funding period, we know you looked at several other options before settling on the changes to the COLA. While we know changes to the COLA will be difficult for retired school employees, the future health and stability of the pension system must be maintained. It is our hope that as conditions improve, the SERS board will consider restoring a more beneficial COLA for retirees.

Thank you for the opportunity to participate in discussions about this issue. We hope to continue working with you on important issues facing the pension system and its participants.

Sincerely,

Barbara Shaner

Barbara Shaner, OASBO

Damon F. Asbury

Damon Asbury, OSBA

Thomas P. Ash

Tom Ash, BASA