



## ***SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO***

300 E. BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746  
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### **Testimony Before the House Pensions Committee House Bill 146**

**Presented by Richard Stensrud, Executive Director  
School Employees Retirement System of Ohio  
May 9, 2023**

Chairman Young, Vice Chair King, Ranking Member Lightbody and members of the House Pensions Committee, I am SERS Executive Director Richard Stensrud. I want to thank you for the opportunity to provide testimony in support of House Bill 146, establishing a contribution-based benefit cap in the School Employees Retirement System (SERS).

As you know SERS is a statewide defined benefit plan that provides retirement, disability, and survivor benefits to non-teaching employees of Ohio's public schools; including vocational, technical, and community schools; and community colleges.

SERS members are individuals who work for a public or community school or school system in a nonteaching position. They range from bus drivers, custodians, administrative assistants, food service providers, and educational aides to Treasurers and business administrators.

The SERS Board of Trustees is responsible for making decisions regarding policy and governance of the System. The Board comprises nine members: four elected by active employee members; two elected by retired members; and three appointed investment expert members. One investment expert is appointed by the Governor, one by the State Treasurer, and one by the Speaker of the House and President of the Senate.

To maintain sustainability of the system, the SERS Board of Trustees began several years ago to have regular discussions on plan design features that would help assure that the System is in the position to withstand changes in member demographics, investment experience, and financial pressures. One area of concern that was identified was individual situations of benefit inflation or "spiking".

Each year a member works, the service credit they earn is funded by contributions from the member and the member's employer based on the member's annual salary. As and when salary increases, so do the contributions. It is assumed that over the working career, those contributions, plus the investment earnings on those funds, will be sufficient to fund the benefit that will be provided upon retirement. Under the current statutory structure, that retirement benefit is based on the member's Final Average Salary, which is the highest three years of the member's working career. In most cases, the accrued contributions and related investment earnings are sufficient to fund the benefit. However, when an individual has years in the Final Average Salary that are substantially higher than the progression in the rest of the working career, it can result in



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a Final Average Salary that is well above what is expected from normal compensation increases. The result is that their career contributions do not support their benefit as calculated by the traditional formula. In such a case, the funding to support the inflated benefit must come from the other members of the system.

SERS' existing tools do not protect against this kind of spiking. To enhance the system's defenses against such situations, and to help assure that benefit spiking does not diminish the system's sustainability, the SERS Board determined to seek the implementation of a Contribution Based Benefit Cap (CBBC) a tool like the one that OPERS has had in place for the last 10 years. To that end, we are pleased to have worked with Representative Bird on the introduction of HB 146.

As Representative Bird described in his sponsor testimony, the CBBC method in the legislation compares a member's traditional formula benefit to the member's CBBC benefit, which is based on their total contribution history. The CBBC calculation annuitizes the contributions and then multiplies it by a factor to identify the outer end of the contribution/benefit alignment. A member's pension is capped at the lower of the formula benefit or the CBBC benefit.

The approach is objective, fair, and aligns with the basic premise that a member's contributions plus investment earnings over time should fund the member's pension. The CBBC prevents excessive spiking in a manner that provides a measure of equity.

The CBBC is not intended to and will not impact benefits that are a product of normal salary growth, promotions or job changes during the working career. The CBBC will only impact situations where there has been an outsized period of salary relative to the rest of the career.

To illustrate how significant an increase would be necessary to trigger a reduction under the proposed CBBC we have provided several scenarios that were used with our Board and stakeholder groups to show the type of compensation patterns we are talking about.

As you can see from the attached chart of the five scenarios listed, only the example of the individual experiencing a \$75,000 jump in salary in the last five years prior to retirement would be capped under a CBBC factor of five. They would not be impacted if the factor was set at six.

Substantial testing has been done to assess the impact of a CBBC. Specifically, we consulted with our actuary Cavanaugh Macdonald to analyze what would have been the impact had the CBBC been in place on actual SERS member retirements between May 2020 and June 2021.



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During that time period, there were 3,270 total age and service retirements, which excludes any new disability conversation retirements that would not be considered under the proposed CBBC.

Of those actual retirements only 83 had a benefit that would have been greater than or equal to a CBBC factor of five. Of that same group, 28 had a benefit that would have been greater than or equal to a CBBC factor of 5.5. And only 11 of those had a benefit that was greater than or equal to a CBBC factor of six.

So as you can see, it is anticipated that only a very small percentage of future retirees will be affected by the CBBC, less than two percent based upon testing of actual SERS retirements over that one-year period, focused on the most excessive increases.

SERS has regularly communicated with stakeholder groups about the CBBC proposal during the Board consideration of the proposal, which has taken place over multiple meetings. We are also requesting a delayed implementation date of August 2024 be included as part of the legislation, to give us time to communicate the change and educate members about the potential impact on pension benefits.

SERS retiree stakeholder organizations, SERO and POP5 support this legislation. Our employee and employer stakeholder groups understand the need to curtail spiking. There are no organizations opposed to the proposal.

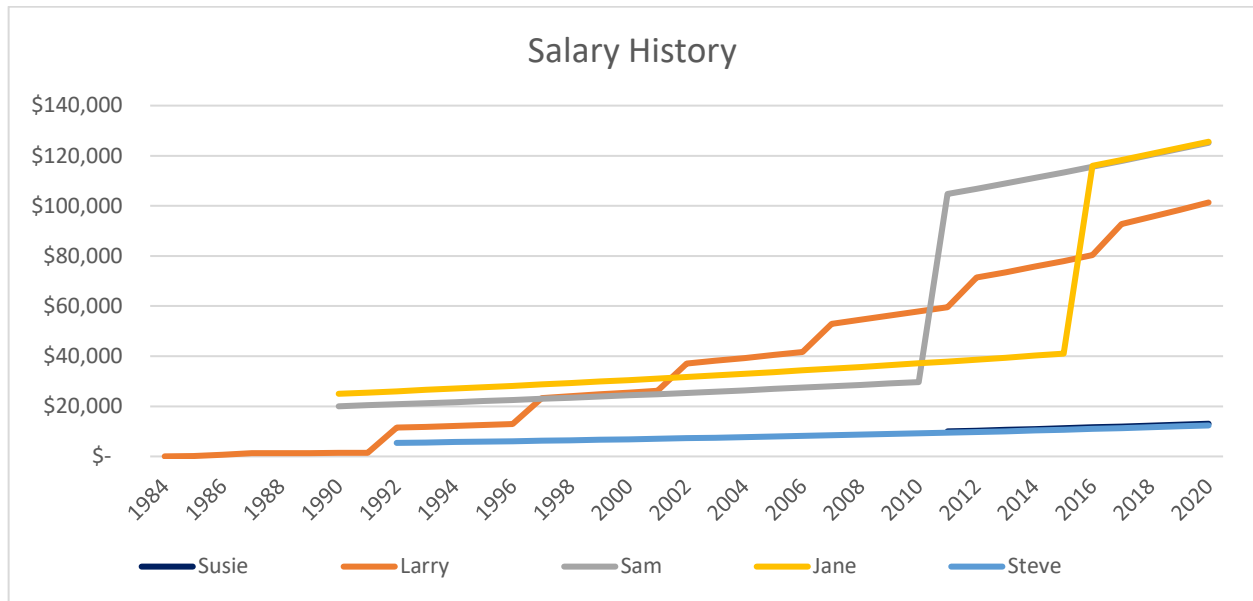
Thank you for your consideration. I am happy to answer any questions you may have.



# CONTRIBUTION BASED BENEFIT CAP (CBCB) TESTIMONY

May 2023

## CBBC Examples



	Susie	Larry	Sam	Jane	Steve
<b>Scenario</b>	3% annual increase	3% annual increase plus 10K every five years	2% annual increase plus 75K increase 10 years prior to retirement	2% annual increase plus 75K five years prior to retirement	3% annual increase
<b>Age</b>	67	67	67	67	67
<b>Years of Service Credit</b>	10	31	30	30	28
<b>3-Yr FAS</b>	\$ 12,671	\$ 98,413	\$ 122,711	\$ 123,132	\$ 11,998
<b>Accumulated Contributions</b>	\$ 11,976	\$ 158,175	\$ 182,379	\$ 160,987	\$ 27,603
<b>Formula Benefit</b>	\$ 2,788	\$ 67,117	\$ 80,189	\$ 81,267	\$ 7,391
<b>CBBC Cap - 5</b>	\$ 5,992	\$ 79,146	\$ 91,257	\$ 80,544	\$ 13,812
<b>CBBC Cap - 6</b>	\$ 7,191	\$ 94,976	\$ 109,509	\$ 96,652	\$ 16,574

Per the Board’s direction at the June 2021 Sustainability discussion, staff consulted with Cavanaugh Macdonald to analyze a Contribution Based Benefit Cap (CBBC) on SERS member retirements between May 2020 and June 2021. Those results are set forth below. As a reminder, extensive information on the CBBC is set forth in the April, May, and June 2021 sustainability materials.

**Query Results**

- Time Frame May 2020 – June 2021
- 3,480: Total retirements (age and service and new disability conversion)
- 3,270: Total age and service retirements (excluding new disability conversion retirements)
- Lowest CBBC: 0.749
- Highest CBBC (excluding new disability conversion retirements): 7.70
- 206 age and service retirements (excluding new disability conversion retirements) with a CBBC greater than or equal to 4.50 (6.3% of the 3,270 non-conversion retirements)
- 83 age and service retirements (excluding new disability conversion retirements) with a CBBC greater than or equal to 5.0 (2.5% of the 3,270 non-conversion retirements)
- 28 age and service retirements (excluding new disability conversion retirements) with a CBBC greater than or equal to 5.5 (0.9% of the 3,270 non-conversion retirements)
- 11 age and service retirements (excluding new disability conversion retirements) with a CBBC greater than or equal to 6.0 (0.3% of the 3,270 non-conversion retirements)

CBBC factor	All Age and Service <b>Including</b> Conversion Disability Retirements 5/2020- 6/2021	Age and Service <b>Excluding</b> Conversion Disability Retirements 5/2020- 6/2021
<2	330	
≥2 but <3	1,380	
≥3 but < 4	1,179	
≥ 4 but <4.50	309	
≥ 4.50 but < 5	141	123
≥ 5 but < 5.50	66	55
≥ 5.50 but <6	28	17
≥ 6.0	47	11