HB 413

By Henry C. Dolive, Ph.D., OPERS Retiree

Summary of 145.323 and Related Commentary *in Italics*

1. The new COLA maximum is stated as 2.5%, rather than the originally proposed 2.25%.

2. For most populated retirement cohort, the COLA will be the actual CPI reflected in the U.S. city average for urban wage earners and clerical workers for a defined previous 12-month period up to a maximum of 2.5%.

> ***A. the CPI used is not an accurate reflection of inflation for retirees, whose typical expenses are those which are disproportionate higher and fluctuate most widely, such as medical care.***
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> ***B. PERS COLA increases are calculated on the basis of the pension the retiree received at the date of retirement, not on what he/she received as pension the previous year. Even Social Security COLAs are based on the previous year. In OPERS, the longer a person has been retired, the less adequate OH COLA increases will be. Medical expenses increase with age. Ironically, these are the very benefits needed most but which OPERS already radically cut several years ago – and now retirees ability to offset some of these increases through COLAs are proposed to be curtailed.***
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> ***C. The very basis of the OPERS calculations justifying this increase is specious. OPERS only looked at in how many of the past 25-30 years (the length of time changed with the OPERS publication) the CPI exceeded 3%, and found that it was "only" 5 (it was actually 6); therefore, OPERS concluded that at the legislated 3%, we've been "overpaying" in most years (ignoring A. and B. above). In point of fact, the average CPI increase throughout the period was 3.05%. Thus, retirees have been slightly undercompensated, COLA-wise, during this period, not "overpaid" as presented.***

3. The OPERS Board is empowered to raise the COLA, *but only to 3% and only under a combination of conditions which are highly unlikely*:

> A. The CPI has been above 3% for 3 consecutive years.
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> B. The Retirement System assets-to-liabilities ratio is at least 100%
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> C. OPERS' actuarial ability to meet its obligations must extend for at least 30 years

Even if all these conditions are met, any Board-authorized COLA additional increases could not be renewed if any condition became "unmet".

A pernicious aspect of this legislation is that it seems to give the OPERS Board discretion, but under this legislation, their discretion would be more an illusion than a meaningful emergency protection for retirees.

<u>What Is Not Covered in HB 413, Section 145.323</u>

1. ***HB 413 would allow the OPERS senior management to point to one of the nation's most stable retirement systems in terms of their own accomplishments, but does little to recognize the "breaking of trust" with, and the hardships it imposes on, retirees and current employees.***

2. ***It is this lack of fairness and related hardships which much be balanced against the risks of just-shy-of-perfect reserves.***

3. ***It also fails to discuss the impact that the pension benefits will have on recruiting and retention of employees in Ohio's public sector.***

4. ***Nowhere does this bill (or generally available explanatory material) provide or reference a state-by-state comparison of the percentage of unfunded mandate, or the related number of years of reserve, of the other 49 states. Nowhere does this bill provide or reference a comparative monetary shortfall. Nowhere does it provide background on the current rate of investment return and attempt to apply that flow to making up its paper shortfall.***

<u>Background and Context</u>

This bill comes far too close on the heels of a radical restructuring of the medical benefits coverage provided since the 1950s and fully funded since 1974. Personally, I declined better compensated out-of-state job offers because of the superior OPERS retirement benefit package, which had never been publicized as "optional" until OPERS decided to radically curtail it. Then, the traditional method of "grandfathering" cuts was rejected in favor of "longitudinal equity". Retirees who had no opportunity to make up the cuts through continuing their employment, received the same cuts, "ex post facto," as would much younger, newer employees who had the realistic opportunity of moving to another state or entering the private sector. Now, in the third year of "phase-in" of the cuts, my out-of-pocket annual medical coverage shortfall is ~$15,000 (OPERS had originally estimated it would be $12,000, but later said it would be much less). Whereas I served in a relatively well compensated position, these cuts will drastically limit our ability to save for the college education of our adopted However, the fact that these same cuts were fostered upon employees with much smaller pensions had to be crippling.

Now, in the last year of the three-year medical benefit cuts phase-in, comes the proposed COLA cut legislation, one which senior management attempts to justify by a poorly written, hastily administered employee/retiree survey. Especially In light of a lack of explicit study of alternative measures, the proposed legislation is too much and too unfair in terms of timing, hardships, and

"implied contract" of Ohio with thousands of its governmental employees. Analyzing these impacts on employees who dedicated their careers to public service in Ohio -- in contrast to the minimal and decreasing risks to the retirement system -- has not been adequately undertaken. As a recently deceased member of OPERS Board of Directors used to say, this proposal ". . . is a solution in search of a problem".

Request to the Committee

I respectfully request that the House Aging and Long Term Care Committee, Chaired by the Honorable Steven M. Arndt, reject this bill and instruct OPERS that, if it believes it has a funding problem, that it find another way of addressing it than through reducing the legislative-established COLA, a position which has been articulately promoted by PERI. Beyond the unfairness and economic pain to former employees, to do otherwise could embroil the state and its agencies in legal action such as recently filed by SERS, based upon many of the reasons cited above.

Additional Thought

The orientation of cuts to both medical benefits and the current COLA proposal are made relatively easy by the structure of the OPERS Board of Directors. Only 2 of 11 members are chosen to represent retirees. OPERS senior management is certainly aware of the balance of interests on its Board. Only these two retiree representatives voted against the COLA cut proposal. The remainder voted to force the immediate "cost savings" on retirees, the very "employees" the system was designed to serve. The other Board group representatives are chosen by active employees, and the stated objective of their members was to "kick the can" of cuts which would affect them as far down the road as possible. Such a Board structure, combined with a well paid management team whose evaluations (and compensation + mobility) depend upon actuarial risk reduction in their current roles, pretty much dictate that there will be future cost-cutting proposals and that these will be disproportionately on the backs of the retirees.