House Aging and Long Term Care Committee
Proponent HB 413
Karen Carraher, Executive Director of OPERS
February 6, 2018

Good afternoon, Chairman Arndt, Vice Chair Pelanda, Ranking Member Howse, and members of the House Aging and Long Term Care Committee. Thank you again for allowing me to testify in support of House Bill 413. My name is Karen Carraher and I'm Executive Director of the Ohio Public Employees Retirement System.

As I've traveled the state over the past several months talking with OPERS members, I've received much feedback about our recommended cost-of-living adjustment changes. While I understand the emotional arguments against making COLA changes, OPERS' resolve is unwavering as to why the recommended changes are in the long term best interest of all our members.

I know you've heard from me previously, but today I want to provide you with a quick update and answer any lingering questions you might have.

I've broken out the testimony by issues that have been repeatedly brought to my attention, albeit by relatively few members.

Finance & Investments

First, as I indicated to you in December, 2017 was a strong investment year. While we are waiting to confirm final numbers, I am proud to say our 2017 return is expected to exceed 16%. However, as I've said before, this is the perfect time to implement the recommendations included in HB 413. We are experiencing low inflationary times, when individuals are best equipped to afford them. Even with our recent investment return and strong financial position, the fact remains we have a $19 billion unfunded liability that needs to be addressed. Our projected funded ratio is expected to only improve from 80 percent to 81 percent even after a great investment return year. OPERS does not, nor do we intend, to make decisions based on one investment return year. While those who oppose our efforts would prefer we wait for a financial crisis, OPERS does not manage by crisis. We have never proposed changes without careful evaluation and the proposals contained in HB 413 are no different. We have remained responsible stewards of our funds and have always taken the financially responsible path, even when it's not necessarily the easy one.

OPERS, like other Ohio retirement systems, has been criticized for its presence in certain investment classes and their associated fees. It's easy to criticize with limited information. The fact is that some asset classes are more expensive than others. OPERS maintains a diversified portfolio and each asset class we invest in has been recommended and endorsed by the Board's independent investment experts. While I understand the concerns raised, OPERS has always worked hard to reduce the fees we pay to external managers. Critics fail to acknowledge that OPERS employs investment strategies that are thoroughly vetted by experts in the field and ultimately have produced positive results. The fact is OPERS asset allocation has nearly two-thirds invested in equity and fixed income. The final one-third is allocated to alternatives such as real estate and private equity. Again, the OPERS Board of Trustees sets the asset allocation based on advice from independent investment professionals, and reviews the allocation on an annual basis. OPERS' investment returns are reported net of fees and we clearly outline the fees paid to external asset managers annually in the Comprehensive Annual Financial Report. Our investments fees are equivalent to just a small fraction of the nearly $100 billion investment portfolio.

As you've heard previously, our opponents have been quick to point out that the OPERS CAFR states, "…the liability associated with members who are already retired or have commenced their benefit is 100% funded." The statement is true on an annual basis and is an accounting function. By law, we are obligated to pay the benefits that have commenced and in order to make those payments each year, funds are transferred from the active member employer fund to the pension fund to make those payments. This makes them 100% funded but only on an accounting basis.

Health Care

As I have I mentioned previously, we are no longer funding our retiree health care plan. While health care coverage is not a statutory mandate, we all know the importance of health coverage to our retirees. The health care trust fund, with approximately $12 billion, is currently relying entirely on investment returns and our actuaries have determined that it provides us with 12 years of

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solvency under the current health care plan design. Our current funding allocation has all contributions funding pension, which is our statutory requirement. We have made it clear to our retirees that we cannot consider funding health care until the pension funding is stronger. Our retirees continue to inform us of the importance they place on health care.

Future COLAs Not Vested

Finally, you will likely hear that HB 413 would be a violation of retirees' rights. After careful deliberation and analysis of the proposal before you, we are confident the proposals in HB 413 are squarely within the parameters of the law. HB 413 does not take back any previously granted benefits or cost-of-living adjustments. Rather, the bill would adjust how future adjustments are calculated and administered. COLAs are granted annually.

OPERS first granted a COLA in 1970, at a rate of 1.5%, at a time when inflation was 6.0%. Since then, the legislature has changed the law granting future COLAs six times.

Conclusion

We have a fiduciary responsibility to make decisions in the best interest of all one million members. We have a responsibility to be prudent stewards of our funds and to look forward and prepare for the challenges we see, not wait for them to occur. There is no business in the world that would operate that way if they plan to survive, so why would anyone want their pension system to adopt that approach?

Let me say again, now is the perfect time to address the unfunded liability by making smaller, incremental changes to the plan design, rather than waiting for a financial crisis, when the changes would likely be more drastic and without lead time for implementation.

So, it generally boils down to why now? Many of you have asked my staff and me that question. We are proposing changes now to position ourselves financially, by reducing the unfunded liability, with reasonable margins for future adverse experience. This is what you have entrusted Ohio's retirement systems to do.

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I encourage your favorable acceptance of the proposals contained in HB 413 so OPERS can continue its strong history of doing what's right for its members.

Thank you, again, Chairman Arndt and members of the House Aging and Long Term Care Committee, for consideration of this important legislation.

I'm happy to answer any questions.