

## Insight From the Administrator

By William I Winegarner



The following is from a December 2019 letter POP-5 sent to OPERS.

I am writing to express the perspective of our Board on the recently announced "Group D" initiative.

As an association dedicated to protecting and preserving all of the state of Ohio's public defined-benefit pensions plans, our board is against this proposal for the following reasons:

- Plans adopted by OPERS tend to act as templates for the other systems.
- The 1% aspect works as an additional introduction to the defined-contribution world.
- Without the 1% aspect, the proposal is simply a greatly reduced alternate pension plan.
- The reduced plan dilutes the value of Ohio's defined-benefit pensions for future workers.
- Pension parity for all generations should be Ohio's goal.

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## The Legislative Report

By Steve Buehrer, Esq.



2020 Promises

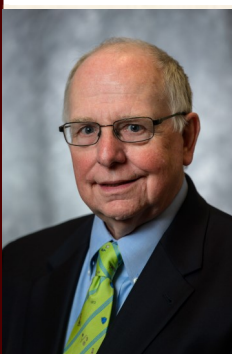
to Be Full of Activity

With the start of the New Year, the Ohio General Assembly has returned to the state capitol for session days and consideration of legislation pending in committees. Like every state and the federal

Congress, Ohio's state legislature meets in two-year terms. Legislation that was introduced during the first year (in this case 2019) is still alive and will be debated along with newly introduced bills through the conclusion of the second year (2020). Even though the second year of an Ohio General Assembly session historically does not have as many days of activity, the pace of committees and active discussions has been busy so far this year.

As I discussed in last quarter's newsletter, we have

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**Ed Ciecka—OPERS Representative**

Why Did I Join POP5?

A few weeks ago, my wife (Deb) and I met with our financial advisor. During this session he reviewed the performance of our investments, noted what was doing well and what was not as based on the market conditions. He talked with us about the effects of national policies on the market and where he thought the market is heading and spoke of potential risks in the economy. At the end of the session he provided us with some recommendations. Both Deb and I are retirees with a defined benefit pension through OPERS. Interestingly our financial advisor spent no time on talking about the risks facing our defined benefit pension which for us is our number one source of retirement income.

I am sure your experiences are the same as ours and that is why we joined POP5. The mission of POP5 is to support and protect the defined benefit pension plans of the State of Ohio through education of its members and of the public. For the past few decades defined benefit pensions have been in the cross hairs of some politicians who have the belief that defined benefit pensions are nothing more than a golden parachute for public employees. They are quick to look for public employees to come to their aid when they have an accident, to plow the snow from their street during a winter storm, or clean up after a tornado, but when they retire they are a drain on tax revenues. We need to be vigilant. We need to protect Ohio's Pensions. That's why we joined.

## RETIREES & WORKERS

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History shows that all of Ohio's public pensions look to each other for ideas and legislative successes to resolve current or future issues for their operations. If your proposal succeeds, others will follow over time.

When confronted with options, new employees have shown a tendency to take the path of least resistance - the path with fewer decisions to make. Placing them in the proposed D grouping opens the door to the investment decision making process.

Eliminating the 1% portion of the grouping exposes the meat of the proposal, which is a greatly reduced defined-benefit plan.

The question now arises. Why the radical change?

As you know, I have been an observer and proponent of Ohio's defined-benefit pensions since 1993. That's a total of 26 years of observation and learning.

My perception has become that a pension system is, or should be, nothing more than a money processing company. A system receives money from employees and employers, invests those funds and distributes proceeds to their members based on contribution and earning factors.

The strengths and weaknesses of Ohio's pension systems are one and the same, they are governed by their members. Their strength is derived from managing their fund in the best interest of current and future members. Their weakness is becoming emotionally involved in the desires of their current members.

If I recall correctly, OPERS offered no health insurance for the first 40 years of operation. In the 1970s investments resulted in huge financial gains and in 1973 you offered a \$500 health care assistance check. Over the following years, OPERS first purchased a \$25,000 health insurance policy, then transitioned into self-insurance which eventually evolved into the current programs. [Five ad-hoc pension increases and COLAs were also added during this period.] OPERS has only been providing these extra benefits for the past 47 years.

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## STANDING TOGETHER

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been blessed that no harmful bills to the pension systems have been introduced or even publically discussed so far this session. However, as predicted in my last column,

discussions about potential changes are starting to take place. Already, the OPERS board of directors has taken steps to shift additional health care cost onto retirees and future retirees. Because health care is not a statutorily mandated benefit offering, these modifications to the existing offering are not subject to approval by the legislature.

In further activity, the OPERS board has also proposed several other changes to the benefits offerings currently in place. First, the Board has recommended that cost of living adjustments for current retirees be frozen for two years beginning in 2022 and that new retirees would be prohibited from receiving COLA adjustments until two years have passed from their retirement. This COLA proposal is subject to General Assembly approval and has not yet been introduced.

The OPERS Board has also recommended the creation of a so called "Group D". As proposed, all new employees after 2022 would be part of this new retiree class. Although the specific details are still being hammered out, the plan would require longer working careers, lower benefits and a new provision that would designate a small portion of the employees' retirement contribution to a self-directed retirement plan. On its surface this self-directed plan looks more like a defined contribution plan than the traditional defined-benefit plan that public workers and retirees have become accustomed to seeing. Once again, any of these changes would need legislative approval and no enabling legislation has yet been introduced. POP 5 will closely monitor the progress and debate around these proposals. It is also important to remember that although these proposals would impact only OPERS members, the other systems often take their guidance from OPERS which remains the largest system. For this reason alone, all POP members should be aware of these

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From the figures I know, it appears that without the financial burden for funding the extra benefits, health care and mandated COLA increases, the pension fund is, and would continue to be, financially sound. I admit that I do not have hard figures at this time to demonstrate this point, but I believe my conjecture is reasonably accurate.

Pure pension systems should only deal with contributions, investments, allocations and distributions. That is the way Ohio's pensions started.

Employer replacement pension systems (disability – health care – cost of living), which our systems have become, are now emotionally involved and primarily motivated by those who are, or will shortly be, receiving distributions and benefits.

**For “meaningful” Ohio defined-benefit pensions to survive, system boards and the Legislature will have to determine if they should return to being purely pensions, or remain employer replacements.**

**If system leaders want to maintain pension parity, they may have to eliminate unaffordable additional benefits.**

**If the Ohio Legislature wants its pension systems to remain employer replacements, they need to provide the funds to accomplish the obligation.**

Like all retirees, the members of Protect Ohio Pensions have learned to rely on their extra benefits and prefer not to lose any of them; however, our primary purpose is to protect the continued existence of Ohio's defined-benefit pensions, and that includes pension value.

Pension value is greatly reduced in your group D proposal. Since the 1% aspect adds little financial benefit to employee retirement, it functions as little more than a cover for the reductions. At best it will open an investment-experience door to personal investment-programs which are counterproductive to a healthy defined-benefit program.

Because the group D proposal does not propose pension parity for all generations, we ask that the staff and board of OPERS reevaluate the entire proposal.

Protect Ohio Pensions will work with you, including the legislature, to arrive at a solution that will maintain pension parity and address proper additional benefit funding.



**Maryfrances Kamyar—  
Chief Operations Officer**

## **View From The Outside**

We are continuing our look at what is going on within the defined-benefit pension systems in other states. We do this to compare Ohio's pension systems with theirs. By learning about their strengths and weaknesses, we can develop a better strategic plan to help our systems and legislators to sustain and improve ours.

Basically, all pension plans were affected by the market downturn of 2008. The states that are seeing the largest “unfunded liabilities” are those states whose pension plans have been underfunded and overzealous in their additional benefits.

New Jersey has one of the worst funded pension systems with an unfunded liability in 2018 of \$130.7 billion. In an article by Samantha Marcus | NJ Advance Media for NJ.com, Samantha said, “*lawmakers for decades contributed less than the amount recommended by actuaries or nothing at all.*”

Oregon has closed their Tier One and Tier Two defined-benefit plans for current and future employees, and converted worker plans to Individual Value Accounts. The Oregon legislature voted in 1988 to supply a subsidy for Medicare, which was funded by their employers. Oregon SB 1049 redirects employee contributions of the Oregon Public Employee Retirement System to the Employee Pension Stability Account.

Ohio has funded their pension systems correctly. Employers are paying their “assessed responsibility” to the pension funds on time. Even though Ohio Pension systems are not directing funds from current workers and future retirements to pay down their unfunded liabilities, they are living off of future promised benefits to pay current retiree health care and COLA benefits. Most agree, that this is not a healthy, or a financially wise way to maintain a pension system.



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discussions and talk with their local legislators as opportunity allows.

Also, of interest on the legislative front was a Cleveland Plain Dealer story in late January that detailed other potential legislative introductions. Legislators from each political party and each end of the state are drafting legislation impacting the pension systems. Although bills have not been introduced, the aim of these various proposals seems to be more openness of board activities, greater oversight and disclosure of fees as well as limita-

tions on certain investment costs and salaries.

As these and other proposals are introduced, we will continue to monitor them closely to ensure they do not impede the operation of the defined-benefit pension systems.

Even though the announced schedules for Ohio's General Assembly do not show many formal days of session; 2020 is shaping up to be a busy year with many twists and turns. POP 5 is ready to follow these activities and make sure your interests are well represented.



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