AARP in the STATES

# SNAPSHOT: Ohio Public Employees Retirement System

## Overview

The Ohio Public Employees Retirement System (OPERS) was established in 1935. Today, the system provides retirement, disability and survivor benefit programs, including a defined benefit (DB) pension, for public employees throughout the state who are not covered by another state or local retirement system, currently some 356,734 active employees. OPERS is the largest state pension fund in Ohio, and the 12th largest public retirement system and 16th largest retirement system in the U.S.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby both employees and employers contribute to the pension fund over time to manage costs. In contrast, private sector pensions almost always are funded solely by the employer.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings including defined contribution (DC) plans generally have greatest opportunity to achieve financial security in retirement.

### Key Facts

- Employees contribute between 10.0% and 11.1% of salary to OPERS.
- Employers contribute between 14.0% and 17.87% to the fund.
- OPERS members do not participate in Social Security.
- Each dollar invested by Ohio taxpayers in OPERS supported $5.01 in total economic activity in the state.

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## Key OPERS Data[1]

The chart below summarizes the key data for OPERS, as of December 31, 2010:

| | |
|---|---|
| Total active employees | 356,734 |
| Total benefit recipients | 179,565 |
| Average annual benefit in traditional plan | $22,078 |
| Employer contribution rate | 14.0% for state and local government divisions; 17.87% for law enforcement and public safety divisions |
| Employee contribution rate | 10.0% for state and local government divisions; 11.1% for law enforcement division; and 10.5% for public safety division |
| Total assets* | $57.6 billion |
| Funded ratio* | 75.3% |
| Unfunded actuarial accrued liability* | $18.9 billion |

* As of valuation year 2009.

## The Economic Impact of Ohio Pensions[2]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Ohio communities and the state economy. Within the state of Ohio, 2012 expenditures stemming from state and local pensions supported:

- 144,785 jobs that paid $6.3 billion in wages and salaries
- $19.7 billion in total economic output
- $3.0 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.63 in total economic activity in Ohio.

Each dollar "invested" by Ohio taxpayers in these plans supported $5.71 in total economic activity in the state.

[1] All data, unless otherwise noted, as of December 31, 2010.

[2] Rhee, N. 2014. *Pensionomics 2014: Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

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# The School Employees Retirement System of Ohio By the Numbers

The following provides a snapshot of key data relative to the **School Employees Retirement System of Ohio (SERS)**. SERS was established in 1937, and provides retirement benefits and health coverage for employees working for a school or school system in a nonteaching position. Today, SERS provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

**$5.71** Total economic activity in Ohio for each dollar invested by Ohio taxpayers in SERS.

**$19.7 billion** Total economic output in Ohio created in 2012 when public sector retirees spent their pension income.

**$3.0 billion** Federal, state and local tax revenues generated by spending of Ohio public pension income.

**144,785** Jobs created from pension income spending by SERS state and local government retirees.

**125,337** Total active members of SERS.

**$14,436** Average service pension benefit among new 2011 retirees.

**10.0** Percentage of salary that SERS general employees currently contribute from every paycheck to their pension benefit to share the funding responsibility.

**5.0** The median employee contribution rate nationally.

**66** Percentage of pre-retirement income replaced by the defined benefit (DB) plan for an employee with 30 years of service. OPERS employees do not participate in Social Security.

**80** Percentage of pre-retirement income from all income sources that is considered adequate for a secure retirement.

All data comes from either SERS or the National Institute on Retirement Security.

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# **SNAPSHOT:** The School Employees Retirement System of Ohio

## Overview

The School Employees Retirement System of Ohio (SERS) was established in 1937. Today, the system provides a defined benefit (DB) pension plan as well as access to health coverage for those who worked in the public schools in a nonteaching position, including bus drivers, custodians, administrative assistants, food service providers, educational aides, and school business officals.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby both employees and employers contribute to the pension fund over time to manage costs. In contrast, private sector pensions almost always are funded solely by the employer.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings including defined contribution (DC) plans generally have the greatest opportunity to achieve financial security in retirement.

### Key Facts

- Employees contribute 10% of salary to SERS.
- Employers contribute 14% to the fund.
- SERS members do not participate in Social Security.
- Each dollar invested by Ohio taxpayers in SERS supported $5.71 in total economic activity in the state.

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## Key SERS Data[1]

The chart below summarizes the key data for SERS, as of June 30, 2011:

| | |
|---|---|
| Total active employees | 125,337 |
| Total retired members and survivor beneficiaries | 67,221 |
| Average service pension benefit* | $14,436 |
| Employer contribution rate | 14.0% |
| Employee contribution rate | 10.0% |
| Total assets | $10.4 billion |
| Funded ratio | 65.2% |
| Unfunded actuarial accrued liability | $5.5 billion |

*Among new 2011 pension benefit recipients.

## The Economic Impact of SERS Pensions[2]

Expenditures made by retirees of state and local government and the schools provide a steady economic stimulus to Ohio communities and the state economy. Within the state of Ohio, 2012 expenditures stemming from state and local pensions supported:

- 144,785 jobs that paid $6.3 billion in wages and salaries
- $19.7 billion in total economic output
- $3.0 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.63 in total economic activity in Ohio.

Each dollar "invested" by Ohio taxpayers in these plans supported $5.71 in total economic activity in the state.

[1] All data, unless otherwise noted, as of June 30, 2011.

[2] Rhee, N. 2014. *Pensionomics 2014: Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

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# The School Employees Retirement System of Ohio By The Numbers

The following provides a snapshot of key data relative to the **School Employees Retirement System of Ohio (SERS)**. SERS was established in 1937, and provides retirement benefits and access to health coverage for employees working for a school or school system in a nonteaching position. Today, SERS provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

**$5.71** Total economic activity in Ohio for each dollar invested by Ohio taxpayers in SERS.

**$19.7 billion** Total economic output in Ohio created in 20 when public sector retirees spent their pension income.

**$3.0 billion** Federal, state and local tax revenues generated by spending of Ohio public pension income.

**144,785** Jobs created from pension income spending by state and local government and school retirees.

**125,337** Total active members of SERS.

**$14,436** Average service pension benefit among new 2011 retirees.

**10.0** Percentage of salary that SERS employees currently contribute from every paycheck to their pension benefit to share the funding responsibility. Nationally, the median employee contribution is 5.0%.

**5.0** The median employee contribution rate nationally.

**66** Percentage of pre-retirement income replaced by the defined benefit (DB) plan for an employee with 30 years of service. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

**80** Percentage of pre-retirement income from all income sources that is considered adequate for a secure retirement.

All data comes from either School Employees Retirement System of Ohio or the National Institute on Retirement Security.

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# SNAPSHOT: Pensions for Ohio Teachers

## Overview

As early as the turn of the 20th century, American legislators seemed to understand the importance of teacher quality to students' education. A 1917 report on public education noted that, "A school teacher's work is personal, direct, and positive. It works for the good or the ill of each pupil."[1]

### Key Facts

- Teachers contribute 10% of salary out of each paycheck to the pension fund.
- The average school employee benefit is $39,057 per year, or $3,255 per month.
- STRS covers 177,897 active teachers and 138,088 retirees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The STRS pension replaces 66% of pre-retirement income for a teacher with 30 years of service.
- Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

Defined benefit (DB) pension plans were first introduced for teachers in the United States to help with the recruitment of high quality educators, and as an incentive to keep those educators in the teaching profession. By 1916, some form of retirement plan was available to public schoolteachers in 33 states. It was thought that such a retirement system might serve two purposes: 1) bringing more diverse, and highly qualified teachers into the profession; and 2) creating a more productive workforce that actually saves public employers money, as one dollar in pension benefits was seen as worth more than a dollar in salary.[2]

Public school teachers in Ohio have pension coverage through the State Teachers Retirement System of Ohio (STRS).

STRS covers 177,897 active teachers and faculty employees. Ohio teachers contribute 10% out of each of their paycheck to the pension fund. When they retire, the average teacher benefit is $39,057 per year, or $3,255 per month.

The STRS pension replaced 66% of pre-retirement income for a teacher with 30 years of service. Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement. STRS members do not participate in Social Security.

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## Teachers Receive Lower Compensation

Public employees receive lower wages than their private sector counterparts. Even after accounting for pensions and other benefits, on average, state and local workers receive 7% less than those in the private sector.[3] More specifically, teachers are paid 14.3% less than comparable private sector workers—and this pay gap has increased in the last decade.[4] Teacher pensions play an important role in offsetting the financial impact of lower salaries.

Research shows that pensions are reliable and relieve retirement anxiety. Some 83% of Americans indicated that those with pensions are more likely to have a secure retirement, and 81% believe all workers should have access to a pension plan.[5]

## Pensions Help Retain Quality Teachers in Ohio[6]

Better teachers are experienced teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.
In Ohio:

- The cost of turnover in Ohio is $12,430 per teacher.
- 1,127 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $14.0 million in teacher turnover costs in 2003 in school districts across the state.

## About NRTA

NRTA: *AARP's Educator Community* is a national umbrella organization for the nation's largest network of retired educators. For nearly 65 years, NRTA has worked with state and local Retired Educators Associations (REAs) across the country on areas of mutual interest in advocacy and community outreach.

Collectively, NRTA and REAs engage and advocate on behalf of nearly one-million retired educators. Our shared priorities are to protect earned pension benefits and to assure access to affordable retiree healthcare. Additionally, NRTA helps inspire and honor the work of REA volunteers through NRTA's With our Youth! national recognition program.

[1, 2] Graebner, W. 1978. Retirement in education: The economic and social functions of the teachers' pension. *History of Education Quarterly*, 18(4), 397-417.

[3] Heywood, J., and K. Bender. 2010. *Out of Balance: Comparing Public and Private Sector Pay over Twenty Years*. Washington, DC: National Institute on Retirement Security.

[4] Allegretto, S., S. Corcoran, and L. Mishel. 2008. *Teachers' Pay Continues to Slide.* Washington, DC: Economic Policy Institute.

[5] Perlman, B., K. Kenneally, and I. Boivie. 2011. *Pensions and Retirement Security 2011: A Roadmap for Policy Makers.* Washington, DC: National Institute on Retirement Security.

[6] Boivie, I. 2011. *The Three Rs of Teacher Pension Plans: Recruitment, Retention, and Retirement*. Washington, DC: National Institute on Retirement Security.