OPERS Ignores Its Own Statements and Misleads the Public

If All Ohioans Had the Same Benefit as Government Workers, It Would Cost Active Workers $123 Billion Per Year, or 26 Percent of Ohio's GDP

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Based on its latest Comprehensive Annual Financial Report (CAFR), available at www.opers.org/investments/cafr.shtml, the Ohio Public Employee Retirement System (OPERS) is only 75.3 percent funded, which means for every $1.00 it owes retirees it possesses just 75 cents (CAFR 7).

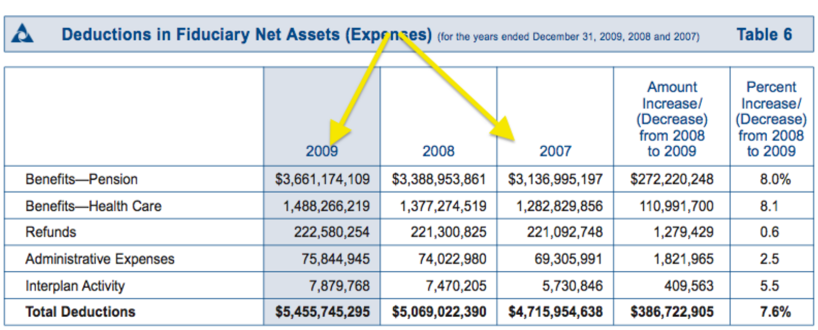
OPERS admits two funding issues: "Members are living longer in retirement than originally contemplated when the System was created, and [m]any members have more retirement years than contributing years as public employees" (CAFR 9). Essentially, government workers are retiring at a young age and are living longer in retirement than they did as employees. OPERS notes that members are living 2.5 times longer in retirement than the original 10-year expectation.

OPERS' health care plan is even in worse shape than the pension plan. It is only 36.3 percent funded (i.e., 36 cents for every $1.00 in liabilities) (CAFR 25).

OPERS' basic math problem includes the fact that (1) the Final Average Salary (FAS) for new retirees is getting higher every year and (2) more active members are retiring every year. OPERS concedes a key point we've been making for a year:

> As the number of new retirees increases as a percentage of the total retiree population, ***the cost of these pension payments will continue to rise as the percentage of recent retirees with higher final average salaries exceeds the population of benefit recipients who retired years ago when salaries were significantly lower than those paid for comparable positions today***.

(CAFR 29). Because of collective bargaining, government workers' beginning and ending salaries are substantially higher than when OPERS first began, and these high salaries result in gold-plated pensions that are unsustainable.


Deductions in Fiduciary Net Assets (Expenses) (for the years ended December 31, 2009, 2008 and 2007) **Table 6**

	2009	2008	2007	Amount Increase/ (Decrease) from 2008 to 2009	Percent Increase/ (Decrease) from 2008 to 2009
Benefits—Pension	$3,661,174,109	$3,388,953,861	$3,136,995,197	$272,220,248	8.0%
Benefits—Health Care	1,488,266,219	1,377,274,519	1,282,829,856	110,991,700	8.1
Refunds	222,580,254	221,300,825	221,092,748	1,279,429	0.6
Administrative Expenses	75,844,945	74,022,980	69,305,991	1,821,965	2.5
Interplan Activity	7,879,768	7,470,205	5,730,846	409,563	5.5
Total Deductions	**$5,455,745,295**	**$5,069,022,390**	**$4,715,954,638**	**$386,722,905**	**7.6%**

As Table 6 notes, the pension benefit expenses increased by 17 percent in just two years (CAFR 31).

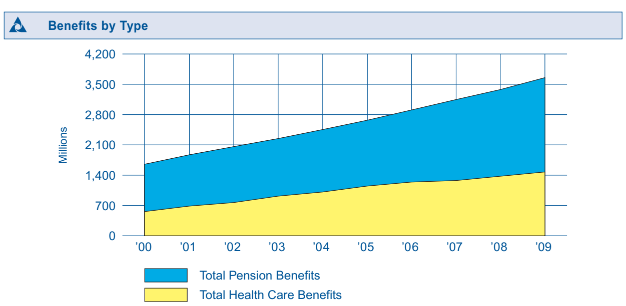
The pension currently possesses $18.116 billion in Unfunded Actuarial Accrued Liabilities. This amount represents 144 percent of the Active Member Payroll, a figure OPERS states "adjusts for inflation" and gives "an indication of whether the system is becoming financially stronger or weaker" (CAFR 60, 66). With the drop from 21 percent, the 144 percent figure indicates a significant weakening of the pension. The health care plan is $18.875 million in the red, representing 147 percent of Active Member Payroll (CAFR 63).

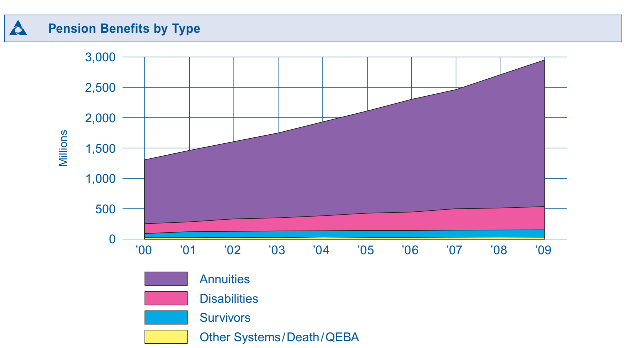
As the table below shows, the number of active members has remained largely static, as the number of retirees has jumped by 16 percent (CAFR 113). The annual allowance for retirees significantly increased from $2,402,846,883 in 2004 to $3,541,886,599 in 2009 – a 47 percent surge in just four years (CAFR 114).

Actuarial Valuation Data — **Traditional Plan**

Valuation Year	Active Members				Retired Lives		
	Number	Annual Payroll ($ millions)	Average Pay	Percent Increase in Average Pay	Number*	Annual Allowance ($ millions)	Average Allowance
2008	349,969	$12,546	$35,849	3.87%	169,000	$3,300	$19,525
2007	357,743	12,347	34,514	2.76	163,505	3,063	18,731
2006	356,430	11,971	33,586	2.12	159,039	2,852	17,934
2005	353,708	11,633	32,890	2.00	153,935	2,645	17,186
2004	350,835	11,313	32,246	2.08	149,296	2,443	16,365
2003	350,022	11,056	31,589	3.00	145,263	2,265	15,592

OPERS concedes: "If members retire at older ages than assumed, there is a gain. If younger ages, a loss." OPERS also notes: "If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss"(CAFR 116).





In reviewing the changes in pension assets, OPERS acknowledges that from 2000 to 2009, taxpayer contributions skyrocketed from $718,807,713 to $1,019,834,609, an increase of 42 percent. At the same time, the pension payouts went from $1,656,264,159 to $3,661,076,709 (CAFR 121,122). The two charts to the left show these enormous increases in costs (CAFR 128).

As the table below shows, other than

in 2000 and 2001, the pension ran a deficit every year from 1999 to 2008 (CAFR 132). As we now know, those surpluses came from a bubble stock market in the late 1990s and the large jump in pension assets/reduction in unfunded liabilities in 2006 and 2007 also came from a bubble stock market. Many believe the stock market performance over the last year also is artificially high, which may lead to yet another correction and losses.

Pension Assets vs. Pension Liabilities (last ten fiscal years, $ in millions) **Traditional Plan**

Year	2008	2007	2006	2005#	2005**	2004	2003	2002	2001<	2000<	1999
Pension Assets	$55,230	$67,067	$61,235	$54,433	$54,433	$50,430	$46,737	$43,706	$48,748	$46,844	$43,060
Accrued Liabilities	73,346	69,639	66,089	62,447	61,099	57,573	54,756	50,872	47,492	46,347	43,070
Unfunded Liabilities	(18,116)	(2,572)	(4,854)	(8,014)	(6,666)	(7,143)	(8,019)	(7,166)	1,256	497	(10)
Funded Ratio	75.30%	96.31%	92.66%	87.17%	89.09%	87.59%	85.36%	85.91%	102.64%	101.07%	99.98%

One of the most intentionally misleading statements made by OPERS goes to the very core of the taxpayer bailout issue. In a meeting with OPERS representatives, they made the claim that since the taxpayer contribution had not increased in years, taxpayers did not have to fear a future bailout, as any deficit would be closed by either employee contribution increases or benefit changes. The claim is patently false. It is true that the statutory ceiling had not been increased for some time, but the actual taxpayer contribution increased several times in the last ten years.

As recently as 2000, the taxpayer contribution stood at 10.65 percent. As the deficits noted above climbed, so did the taxpayer contribution rate, hitting 14 percent in 2008 (CAFR 144). Does any reasonable person believe that, given the financial losses, had the statutory ceiling been higher than 14 percent that OPERS would not have increased the taxpayer contribution to the higher ceiling? The statutory ceiling prevented OPERS from resorting to a higher taxpayer bailout.

As for the other government pensions, just a year ago, those pensions moved to make taxpayers bail them out by asking the legislature to increase the statutory ceiling. As reported in the Dayton Daily News:

> Teachers currently pay 10 cents into their retirement fund for every dollar they earn, while the school district pays 14 cents. But as state leaders explore ways to keep Ohio's five pension systems afloat amid faltering investments and a rough economy, STRS has proposed that both teachers and the districts that employ them increase their pension contributions by 5 percentage points — 2.5 more from teachers by 2016 and 2.5 more from the district by 2021.[1]

[1] Anthony Gottschlich, "Proposal to Increase Contribution to Teacher Pensions Jeered," Dayton Daily News, January 10, 2010, at http://www.daytondailynews.com/news/dayton-news/proposal-to-increase-contribution-to-teacher-pensions-jeered--474364.html (May 12, 2011).

The Columbus Dispatch also reported, "The police and fire fund plan calls for a phased-in contribution increase by municipalities that eventually would reach 25 percent."[2]

More specifically, contrary to the claims made by OPERS that it does not operate a system in which current contributions targeted for one employee pay for the unfunded liabilities of other employees, the portion of the taxpayer contribution that goes toward the unfunded liability rose from just .94 percent in 2000 to 3.61 percent by 2009 (CAFR 144). OPERS shades the truth by referring to the “employee’s contributions” and ignoring the taxpayer contribution meant as a match for the employee. The system is dependent upon a percentage of each employee’s taxpayer match going to cover the unfunded future liabilities.

The table below shows the dramatic increase in not just retirees receiving a pension, but also in disability claimants. From 2000 to 2009, retirees increased by 31 percent and disability claimants jumped by 43 percent (CAFR 134).

Traditional Plan

Year End	Annuities	Disabilities	Survivors	Total
2009	135,918	22,651	13,358	171,927
2008	130,734	22,515	13,250	166,499
2007	126,002	22,108	13,232	161,342
2006	122,021	21,563	13,161	156,745
2005	118,099	20,732	12,927	151,758
2004	114,698	19,758	12,510	146,966
2003	112,247	18,859	12,537	143,643
2002	109,565	17,809	12,291	139,665
2001	105,876	16,727	12,166	134,769
2000	103,680	15,811	11,937	131,428

The other grossly misleading claim OPERS (and all government pensions) makes is to provide taxpayers with the average yearly benefit, but failing to note that the figure provided includes disability and survivor claimants, as well as retirees with as little as 5 years of service, who receive significantly lower payouts.

For example, OPERS currently cites an average annual pension of just $22,078. The three groups noted above substantially drive that figure down. As the table below shows, government workers who spend their career (30+ years) in government have an average annual pension of $39,156, or 77 percent higher than the figure publicly promoted by OPERS. Without factoring in the compounding Cost of Living Adjustment, the average annual pension is a $1 million retirement. As an average, many workers receive pensions well north of $40,000 per year. Those workers with only 5-9 years of service receive an average annual pension of just $8,040. One can

[2] Steve Wartenberg, “Pension Plans Outline Reforms,” The Columbus Dispatch, September 10, 2009, at http://www.dispatch.com/live/content/local_news/stories/2009/09/09/pension.html (May 12, 2011).

see how these minimally eligible workers drive down the average annual pension figure cited by OPERS.

Of those retiring in 2009, 45 percent worked for 30 years or more while only 35 percent of those retiring in 2000 worked for 30 years or more. From 2000 to 2009, the number of retirees with 30 years of service jumped by 112 percent. Both the average final average salary and the average yearly benefit rose 31 percent from 2000 to 2009 (CAFR 137). These increases show the rise in lifelong government workers with their ever-increasing three-year salary averages.

Schedule of Average Benefits* (last ten fiscal years)** — **Traditional Plan**

Retirement Effective Dates		Years Credited Service 5-9	10-14	15-19	20-24	25-30	30+
2009	Average Monthly Benefit*	$670	$901	$1,217	$1,608	$2,195	$3,263
	Average Final Average Salary	$30,925	$37,211	$42,333	$45,453	$51,770	$57,750
	Number of Active Recipients	801	1,435	1,111	1,205	1,389	4,898
2008	Average Monthly Benefit*	$658	$803	$1,102	$1,491	$2,140	$3,006
	Average Final Average Salary	$28,690	$34,193	$39,625	$43,193	$49,965	$55,247
	Number of Active Recipients	784	1,360	1,012	1,066	1,268	3,750
2007****	Average Monthly Benefit*	$767	$816	$1,099	$1,519	$2,063	$2,977
	Average Final Average Salary	$31,477	$34,991	$40,020	$44,015	$48,653	$54,941
	Number of Active Recipients**	852	1,558	1,165	1,131	1,240	3,787
2006****	Average Monthly Benefit*	$732	$688	$1,015	$1,406	$1,994	$2,871
	Average Final Average Salary	$28,771	$30,409	$37,248	$40,359	$46,316	$52,998
	Number of Active Recipients**	606	1,349	986	993	1,383	3,198
2005	Average Monthly Benefit*	$766	$723	$1,013	$1,407	$1,987	$2,891
	Average Final Average Salary	$28,702	$32,126	$36,360	$39,854	$46,151	$52,805
	Number of Active Recipients**	645	1,317	987	954	1,319	3,442
2004	Average Monthly Benefit*	$784	$618	$985	$1,377	$1,889	$2,788
	Average Final Average Salary	$29,654	$27,902	$34,872	$38,429	$43,826	$50,600
	Number of Active Recipients**	520	1,215	1,016	932	1,282	3,072
2003	Average Monthly Benefit*	$736	$658	$1,040	$1,386	$1,944	$2,885
	Average Final Average Salary	$25,541	$29,196	$35,115	$37,183	$42,518	$49,747
	Number of Active Recipients**	642	1,254	1,037	944	1,230	3,131
2002	Average Monthly Benefit*	$703	$611	$965	$1,290	$1,855	$2,667
	Average Final Average Salary	$25,392	$27,426	$33,170	$34,733	$41,607	$46,883
	Number of Active Recipients**	579	1,295	1,069	1,079	1,393	3,489
2001	Average Monthly Benefit*	$635	$621	$953	$1,286	$1,777	$2,554
	Average Final Average Salary	$24,281	$28,405	$32,628	$35,007	$39,560	$45,092
	Number of Active Recipients	470	1,079	890	929	1,098	2,561
2000	Average Monthly Benefit*	$529	$546	$860	$1,195	$1,674	$2,483
	Average Final Average Salary	$22,833	$25,995	$29,947	$32,448	$37,508	$44,155
	Number of Active Recipients	443	1,114	880	896	974	2,313

The pensions and labor unions deny that career government workers today receive gold-plated pensions. In the debate on this issue, those entities often make the economically irresponsible statement that all Ohioans should have a pension like government workers have. Borrowing a concept highlighted by Ed Ring in "What If Everyone Had a California State Pension?,"[3] we ran the numbers to see what such a benefit would cost Ohioans.

First assume that private sector Ohioans start working at age 25 and are eligible to retire at 55 like state government workers. In 2010, Ohio had roughly 4.6 million workers between the ages of 25 and 54. Ohio had 3.15 million workers 55 and older eligible to retire under our system. The ratio of working to retired Ohioans is 1.46.

If every Ohioan received a pension similar to the OPERS career pension of $39,156, it would cost current workers ***$123 billion per year***, which equates to 26 percent of Ohio's Gross Domestic Product ($471.5 billion). On a per capita basis, it would cost working Ohioans $26,851 per year to fund the pensions of retired Ohioans. Based on the age distinctions above, by 2030, the U.S. Census projects Ohio will have 4.2 million workers and 3.7 million retirees —a ratio of just 1.14. At that time, the per capita cost for working Ohioans will be $34,373.

Ohio's private sector job market already suffers from systemic weaknesses, adding a cost that would swallow 26 percent of the state's GDP and tax each working Ohioan almost $27,000 per year is economically impossible. Money, as they say, does not grow on the money tree, which is why defined benefit pensions are dying in the private sector. OPERS and the other pensions can fight to the bitter end, but history and basic economics have already determined how this story will eventually end.

We hope legislators put Ohio on the front of this reform curve by moving to a 401(k) plan for all government workers rather than having Ohio once again take its place as a laggard among the states.

Consistent with OPERS intentionally misleading statements related to its own stability, it intentionally misrepresents our work. For example, in its "response,"[4] OPERS takes our example of what a government worker ***could*** earn in a 401(k) using conservative assumptions and erroneously claims that ***we*** are saying that is what government workers earn today in the pension.[5] We never made that claim, as any careful reading of the op-ed makes clear.

Next, OPERS cites a figure in our "Grand Bargain is Dead" report to show something—we are not quite sure what exactly. Nonetheless, as the chart cited

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[3] Ed Ring, "What if Everyone had a California State Pension," City Journal, May 5, 2011, at http://www.city-journal.org/2011/cjc0505er.html (May 12, 2011).
[4] Michael Pramik, "Op-ed's viewpoint doesn't reflect OPER's experience," Ohio Public Employees Retirement System, May 10, 2010, at http://perspective.opers.org/pension-reform/op-eds-viewpoint-doesnt-reflect-opers-experience/ (May 12, 2011).
[5] Mary McCleary, "The Impact of Shifting State Workers from Defined Benefit Plans to Defined Contribution Plans," The Buckeye Institute for Public Policy Solutions, April 2011, at http://www.buckeyeinstitute.org/uploads/files/Pension_Reform_(Defined_Benefit_to_Defined_Contribution).pdf (May 12, 2011).

makes clear to anyone who cares to look at it, the $116,000 figure OPERS cites was the median state government worker's ***estimated salary in the year 2030***. Thus, we are not surprised that that figure is "three times the annual wage that is reported to OPERS" for a worker today. Because we actually do believe in the importance of honesty, upon learning that the longevity portion of our original calculation erroneously compounded the benefit, we issued a corrected figure in "The Grand Bargain is Still Dead." The revised figure for 2030 is $76,791.

Finally, OPERS claims we ignored "that Ohio is a non-Social Security state." As the op-ed clearly noted, our 7.1 percent taxpayer contribution included "half the 6.2 percent employer Social Security payment." Because few private sector workers making what government workers make will ever see 100 percent of the employer payment to Social Security, we did not think government workers should get a windfall by getting the full 6.2 percent.

Keep in mind, the charts, tables, and data highlighted above represent the fiscal condition of the pension considered Ohio's ***best-***financed system. Imagine what the CAFR reports say about the other four government pensions. Of course, this data comes from the 2009 CAFR and does not reflect the gains made in 2010. The point is that taxpayers should not be exposed to the ups and downs of the stock market when it comes to government worker pensions – they already must navigate those gains and losses with their own retirements. As we've shown, moving to a mandated 401(k) system would save taxpayers billions of dollars, end the system of unfunded liabilities, protect taxpayers from future bailouts, and still do right by our government workers.

We hope legislators understand that the representatives of the pensions are not just neutral pension administrators; rather, those individuals are zealous advocates who are interested in nothing else but maintaining a status quo government pension, which is increasingly becoming the last bastion in America of unsustainable, gold-plated pension systems.