

# OMAC MuniNews

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Moody's Public Pension Landscape Series

## Reform Flexibility in Ohio Lessens Pension Stress

### Summary

Four large plans encompass nearly all public pension liabilities in Ohio (Aa1 stable). Declines in the funded status for these plans have not directly translated to increased budget pressure for the state and its local governments, however. Instead, broad statewide reforms have relied on legal flexibility to reduce benefit levels and increase employee contributions (see Exhibit 1).

➤ **Legal Framework and Reform Outcomes: Statewide reforms high-light legal flexibility to lower liabilities.** Following sharp investment declines in 2008 and three of the plans falling outside a statutory 30-year funding target, the state implemented various reforms for each plan in early 2013. Reforms included increased employee contributions and various benefit reductions.

➤ **Distribution and Control of Plans: Public pension liabilities are highly concentrated in four state-controlled plans.** In addition to these four, one other state plan and two locally controlled plans also populate Ohio's pension landscape. The state legislature controls contributions and pension benefits for all statewide plans, which provide benefits for employees of the state and local governments in our database, except for those whose benefits are provided by the Cincinnati Retirement System and the City of Hamilton Metropolitan Pension Plan.

➤ **Cost Trends: State and local contribution requirements have held steady, but haven't consistently kept pace with actuarial costs.** Maintained at constant levels relative to payroll, contribution rates set by the state legislature have historically been insufficient to meet plan actuarial requirements, particularly for the State Teachers Retirement System of Ohio (STRS) and the Ohio Police & Fire Retirement System (OP&F). The 2013 reforms improved this diverging trend, but additional state action – including an increase to employer contribution rates – could be necessary if plan funding deteriorates further.

➤ **Plan Demographics: Consistent with national trends, Ohio's largest plans have experienced declines in active employees relative to retirees.** The statewide teacher plan, STRS, has fallen well below national norms, with actives only slightly outnumbering benefit recipients.

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EXHIBIT 1

Ohio Pension Dashboard

**Overall State and Local Pension Assessment**



Underfunded statewide plans have driven some local downgrades, but reforms have improved funding while sparing state and local budgets, for now.

**Legal Framework**



The state legislature has demonstrated its ability to reduce benefits and increase employee contributions if needed to maintain 30-year statutory funding targets.

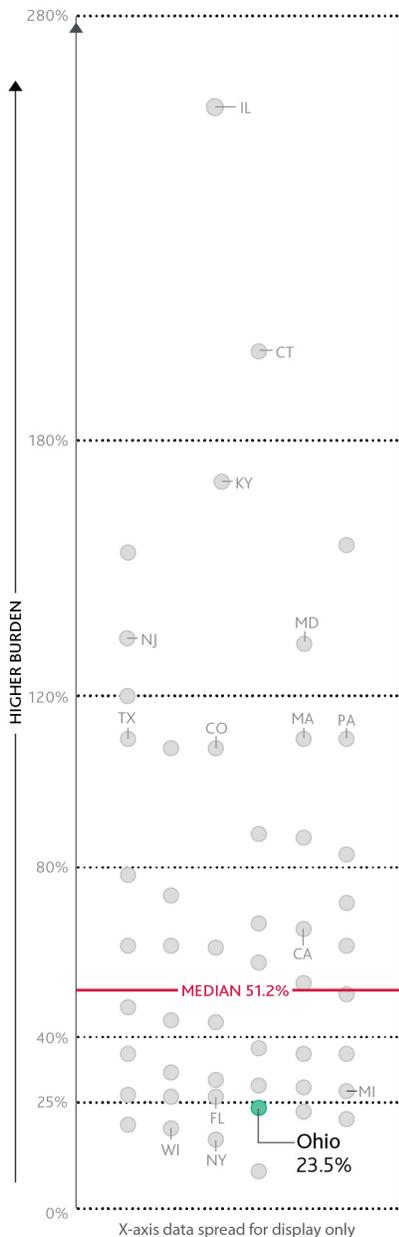
**Ohio (Aa1/STA)**

**Ranking**

Fiscal 2012		(1 is highest burden)	
UAAL (\$billions)	\$6.6		
ANPL (\$ billions)	\$15.8		
ANPL / Revenues	32.0%	42 / 50	

**Pension Burden: Ohio vs. all US States**

Fiscal 2010-2012 three-year average Moody's Adjusted Net Pension Liability (ANPL) / Revenues



**Reform Outcomes**



STATEWIDE REFORMS IMPLEMENTED

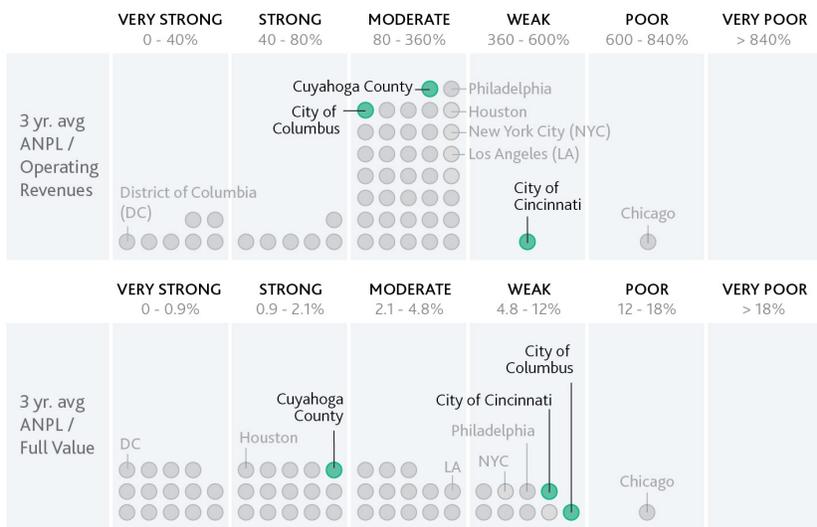
- June 2009:** The Ohio Retirement Study Council (ORSC) asks all five retirement systems to develop 30-year plans to address pension funding.
- January 2013:** Pension reform legislation for the five statewide plans becomes effective.
- April 2014:** A federal court suspends procedural deadlines while Cincinnati and its employees engage in mediation over a legal challenge to the city's 2011 pension reforms.
- July 2014:** Statewide teacher plan makes further shift of employer contributions to pensions from retiree health care in an effort to achieve the plan's 30-year funding target by 2016.

**Moody's Key Pension Metrics: Large Ohio Local Governments**

Fiscal 2012	
<b>City of Columbus (Aaa/STA)</b>	
ANPL (\$ billions)	\$2.8
ANPL / Full Value	6.8%
ANPL / Revenues	3.1 x
<b>City of Cincinnati (Aa2/NEG)</b>	
ANPL (\$ billions)	\$2.0
ANPL / Full Value	13.3%
ANPL / Revenues	4.9 x
<b>Cuyahoga County (Aa1/STA)</b>	
ANPL (\$ billions)	\$1.4
ANPL / Full Value	1.7%
ANPL / Revenues	1.3 x

**Pension Burden of Large Ohio Local Governments Compared to Peers**

Largest local governments' in Moody's GO Methodology scorecard categories\*  
Fiscal 2010 - 2012 Reporting



Sources: Moody's Investors Service. State and local government comprehensive annual financial reports (CAFRs).

Notes: Fifty largest local governments determined by 2012 gross direct debt outstanding. Cuyahoga County and Cincinnati are not among the rated fifty largest local governments, but are shown for comparison. Categorical placement is shown only, not relative rankings or scoring within categories. Philadelphia implemented a new property tax assessment system, raising full value considerably. The impact of this reassessment does not impact 2012 data, and is not reflected in this exhibit showing the city's ANPL relative to full value.



## Legal Framework and Reform Outcomes: Statewide reforms highlight legal flexibility to lower liabilities

» Ability to Adjust Benefits: Broad authority associated with statutory 30-year funding target

Ohio state law sets employer and employee contribution rates, as well as benefit levels, for the five statewide plans that comprise the vast majority of the state's pension landscape. Ohio's 30 year target deviates from more typical annual required contribution (ARC) funding, where government contributions are comprised of employer normal cost and an amortization payment towards the unfunded accrued actuarial liability (UAAL). Under Governmental Accounting Standards Board (GASB) 27, the UAAL cannot be amortized over a period greater than 30 years.<sup>1</sup>

In contrast, plan actuaries for the five statewide plans annually determine the number of years in which each plan UAAL can be amortized under the current contribution rates and actuarial assumptions. If the number of years exceeds 30, the pension funds must submit plans to the Ohio Retirement Study Council (ORSC) for adjusting contributions and/or benefits to meet the 30-year funding requirement. Ultimately, the state, not the ORSC, implements any changes to contributions and benefits. The state has demonstrated through its recent reforms that it can enact substantial benefit changes, including those that affect cost-of-living adjustments (COLAs) for current retirees. These changes lowered actuarially accrued liabilities.

The statewide changes did not affect the Cincinnati Retirement System (CRS). Instead, the city itself makes decisions regarding contributions and benefits, while its board of trustees provides recommendations. Cincinnati (Aa2 negative) implemented a number of moderate benefit changes that became effective July 1, 2011, such as reduced COLA benefits for certain groups of employees and increased retirement ages.

» Reform and Litigation: Statewide reforms passed in 2012, took effect in early 2013

The state's reforms increased employee contribution rates and made benefit changes, including changes to cost-of-living adjustments (COLAs) for employees already retired in the case of STRS. There were no legal challenges to the state reforms.

### Legal challenge to Cincinnati's reforms ongoing

While Cincinnati participates in two of the statewide plans, the city must act on its own to address funding challenges in the CRS. Similar to some of the statewide plans, the funded status of the CRS has deteriorated in recent years, driven by sharp investment losses in 2008 and city contributions consistently below the ARC. But unlike the statewide plans, the CRS does not have a statutory 30-year funding target. Reforms implemented by the city were legally challenged by groups of employees in 2011. In March 2014, a federal court denied the city's motion to dismiss the challenge. In April 2014, the same court suspended all procedural deadlines while the city and plaintiffs engage in mediation.

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<sup>1</sup> However, the UAAL can be amortized on an "open" basis under GASB 27, which means that the amortization period resets every year.



## Distribution and Control of Plans: Public pension liabilities are highly concentrated in four state-controlled plans

The state largely controls public pensions in Ohio because it sets benefits and contributions for five statewide plans. With very few exceptions, the state and local governments participate in these five plans, four of which account for the vast majority (nearly 98%) of adjusted net pension liabilities (ANPLs) in our database (see Exhibits 2 and 3).

**State:** The state has exposure to three pension plans, the Ohio Public Employees Retirement System (OPERS), the Ohio Highway Patrol Retirement System (HPRS) and STRS. Under our methodology for adjusting state and local governments pension data, we allocated all of HPRS, 22% of OPERS and just 0.4% of STRS to the state in fiscal 2012.

**School Districts:** School districts and education related special districts participate in both the School Employees Retirement System (SERS) and STRS. Non-teaching employees are members of SERS and teachers and faculty are members of STRS.

**Cities:** Cities in Ohio generally participate in both OPERS and OP&F. There are only two exceptions in Moody's database: the cities of Cincinnati and Hamilton (Aa3 stable). Cincinnati participates in OP&F for its public safety employees, but its general employees participate in the CRS. In the case of Hamilton, the city has a very small single-employer defined benefit plan that provides supplemental benefits to employees hired prior to the city's OPERS participation, which began in 1962.

**Counties:** Counties in Ohio participate in OPERS, and many also participate in STRS. Some Hamilton County employees also historically participated in the CRS. However, the last active county employee remaining in city's plan recently retired, according to CRS staff.

**Community Colleges:** Community colleges participate in OPERS, STRS, and SERS.

**Public Universities:** Public universities generally participate in OPERS and STRS, although some also participate in SERS. The University of Cincinnati (Aa3 stable) has historically participated in the CRS in addition to OPERS and STRS, although its contributions have been very small. In its fiscal 2013 financial reporting, the University reports no contributions to the city's plan, and CRS staff indicate only two active employees of the University remain in the plan.

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### EXHIBIT 2

#### Ohio Pension Landscape Contains Five Statewide Plans and Two Local Plans

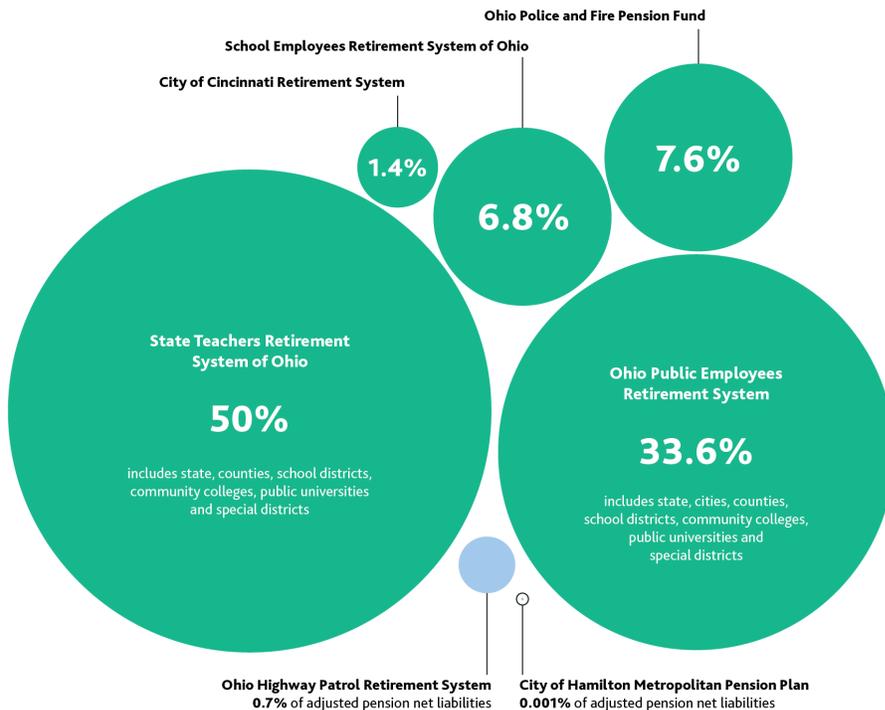
Each circle represents one plan. The size of a given circle increases with the number of participating rated entities.



*Source: Moody's Investors Service public pension database. Excludes entities that we do not rate. Some entities participate in more than one plan.*

**EXHIBIT 3**  
**Adjusted Net Pension Liabilities (ANPLs)**  
**Concentrated in Two Plans**

Each circle represents one plan. The size of a given circle represents a plan's proportion of all Ohio ANPLs in Moody's database.

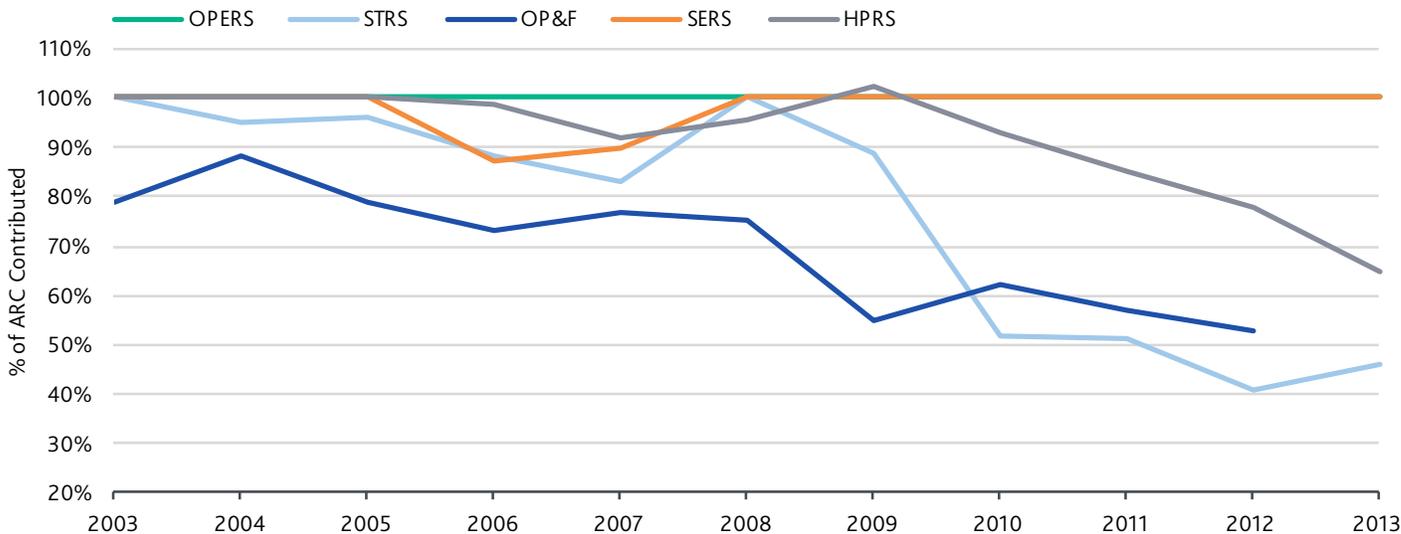


*Source: Moody's Investors Service public pension database. Excludes entities that we do not rate. Some entities participate in more than one plan.*

**Cost Trends: Statewide contribution requirements have held steady, but haven't kept pace with actuarial costs in all cases**

The Ohio state legislature sets both employee and employer contribution rates as a percent of covered payroll for the five statewide plans. Over the past decade, the employer rates paid by the state and local government employers, particularly for HPRS, OP&F and STRS, have been insufficient to meet pension actuarial costs, represented by the ARC. In contrast, contributions for OPERS have consistently met the ARC over the last decade, and contributions for SERS have met the ARC since 2008 (see Exhibit 4). Local government exposure to actuarial contribution shortfalls and unfunded liabilities of statewide plans, particularly OP&F and STRS, drives elevated ANPLs in many cases. In contrast, the vast majority of the State of Ohio's relatively modest pension burden is associated with OPERS.

**EXHIBIT 4**  
**Contributions Haven't Kept Pace with Ohio's Statewide Plan Actuarial Costs**



*Sources: Plan CAFRs.*



Each respective pension plan board allocates contributions between both pension and retiree health care benefits. Increased allocations to pension funding at the expense of pre-funding for retiree health benefits were also a component of the state's reforms. For example, the portion of OP&F contributions allocated to retiree health care was diminished and re-allocated toward pension benefits beginning in 2013. Additionally, a schedule of employee contribution rate increases was put in place. Employee contributions will increase by 0.75% of payroll annually until reaching 12.25%. The first increase occurred half-way through the plan's valuation year in July 2013. Thus, the reported employee contribution rate for valuation year 2013 increased from 10% to 10.38%. At the same time, employer contributions were maintained at 19.50% for police and 24.00% for fire (see Exhibit 5).

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EXHIBIT 5

State Reforms Maintain Employer OP&F Contributions Steady

Year	Contribution Rates				Allocation		
	Member	Police	Fire	Employer Average	Total	Pension	Health Care
2009	10.00%	19.50%	24.00%	21.57%	31.57%	24.82%	6.75%
2010	10.00%	19.50%	24.00%	21.59%	31.59%	24.84%	6.75%
2011	10.00%	19.50%	24.00%	21.60%	31.60%	24.85%	6.75%
2012	10.00%	19.50%	24.00%	21.62%	31.62%	24.87%	6.75%
2013	10.38%	19.50%	24.00%	21.61%	31.99%	28.37%	3.62%

*Source: OP&F actuarial valuation as of January 1, 2013. 2013 member rate increase represents half of first year increase.*

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The 2013 statewide reforms did not increase the contribution rates paid by the state and local governments for any of the five plans. However, if additional changes are required to meet the statewide 30-year funding target, there is no guarantee the state would again keep employer contribution rates from increasing and only implement further benefit changes and/or increase employee contributions.

### **Plan Demographics: Consistent with national trends, Ohio's largest plans have experienced declines in active employees relative to retirees**

The ratio of active to retired members of Ohio's largest plans, OPERS and STRS, has declined since 2004. However, OPERS remains slightly above national norms while STRS remains far below the nation (see Exhibits 6 and 7). In the case of STRS, the number of retirees is nearly equal to the number of active employees. The shift towards retirees concurrent with heightened unfunded liabilities could increasingly burden state and local budgets with past costs, unless the financial health of the plans can be maintained and ultimately improved without further increases to employer contribution rates.



## EXHIBIT 6

## Ohio's Two Largest Public Pension Plans Display Similar Track Record of Investment Returns but Disparate Contribution Histories

Plans	OPERS	STRS
Sectors Impacted	State, Cities, Counties, School Districts, Community Colleges, Public Universities, and Special Districts	State, Counties, School Districts, Community Colleges, Public Universities, and Special Districts
Plan Type	Multi-Employer: Cost Sharing	Multi-Employer: Cost Sharing
Participants in Social Security?	No	No
Actuarial Valuation Date	12/31/2012	7/1/2013
Moody's ANPL (\$ billions)	\$68.3	\$72.7
UAAL (\$ billions)	\$16.0	\$31.8
As-Reported Funded Ratio	80.9%	66.3%
Assumed Investment Rate of Return	8.00%	7.75%

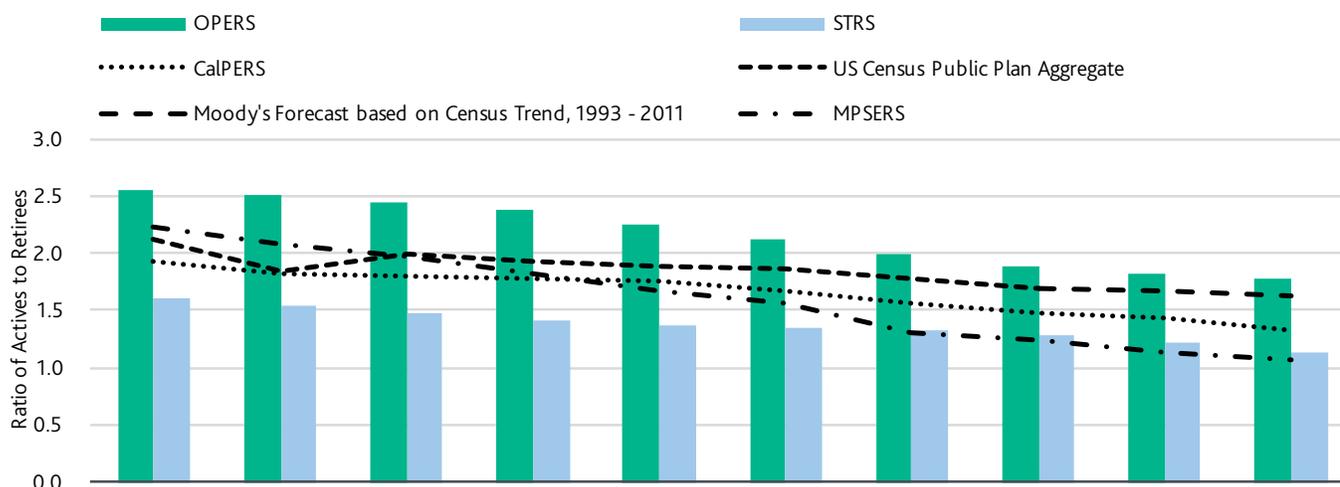
  

	% of ARC Paid	Investment Returns	Actives / Retirees	% of ARC Paid	Investment Returns	Actives / Retirees
2004	100%	12.5%	2.6	95%	17.7%	1.6
2005	100%	9.0%	2.5	96%	12.3%	1.5
2006	100%	14.7%	2.4	88%	13.7%	1.5
2007	100%	8.5%	2.4	83%	20.7%	1.4
2008	100%	-26.9%	2.2	100%	-5.4%	1.4
2009	100%	20.1%	2.1	89%	-21.7%	1.3
2010	100%	13.9%	2.0	52%	13.5%	1.3
2011	100%	0.2%	1.9	51%	22.6%	1.3
2012	100%	14.4%	1.8	41%	2.3%	1.2
2013	100%	14.0%	1.8	46%	13.7%	1.1

Sources: Plan CAFRs.

## EXHIBIT 7

## Ratio of Actives to Retirees Exceeds National Norms for OPERS, Below Average for STRS



Sources: Plan CAFRs and actuarial valuations; US Census Annual Survey of Public Pensions, Moody's Investors Service.

Moody's forecast is based on linear regression of US Census trend from 2004 to 2011.

CalPERS: California Public Employees Retirement System

MPSERS: Michigan Public School Employees Retirement System

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# August 2014 Election Results

Voters approved 20% of Ohio's school district levies in the August 5, 2014 special election. Of the five (5) school district tax levies on the ballot, one (1) was approved while four (4) were defeated.

Of the two (2) bond issues on the ballot, school districts represented the all of the issues. Of these, both issues were considered large - \$10,000,000 or greater.

The following tables show the results of the bond issues and school tax levies submitted at the August 5, 2014 special election. The results were compiled with the assistance of the County Boards of Election, and the office of the Secretary of State.

## Bond Issues

The following table compares this years results with those of the past four years.

YEAR	VOLUME SUBMITTED	VOLUME APPROVED	PCT. APP.	NUMBER SUBMITTED	NUMBER APPROVED	PCT. APP.
2014	\$ 65,447,631	\$ 0	0.0%	2	0	0.0%
2013	83,201,577	69,702,577	83.8	4	3	75.0
2012	80,328,135	0	0.0	4	0	0.0
2011	40,000,000	0	0.0	1	0	0.0
2010	227,221,906	46,750,161	20.6	9	3	33.3

The second table shows by issue size, the volume and number of each submitted, and the volume and number of each approved (including ratio approved).

Issue Size *	-----SUBMITTED-----		-----APPROVED-----			
	Volume	No.	Volume	% Vol.	No.	% No.
Large	\$ 65,447,631	2	\$ 0	0.0 %		0.0 %
Intermediate	0	0	0	0.0		0.0
Small	0	0	0	0.0		0.0
<b>TOTAL</b>	<b>\$ 65,447,631</b>	<b>2</b>	<b>\$ 0</b>	<b>0.0 %</b>		<b>0.0 %</b>

\*Large - \$10,000,000 or greater; Intermediate - \$5,000,000 to \$9,999,999; Small - less \$5,000,000

The third table show by subdivision classification, the volume and number of issues approved.

	-----VOLUME-----			-----NUMBER-----		
	Submitted	Approved	% App.	Submitted	Approved	% App.
County	\$ 0	\$ 0	0.0 %	0	0	0.0 %
Municipality	0	0	0.0	0	0	0.0
Township	0	0	0.0	0	0	0.0
School District	65,447,631	0	0.0	2	0	0.0
<b>TOTAL</b>	<b>\$ 65,447,631</b>	<b>\$ 0</b>	<b>0.0 %</b>	<b>2</b>	<b>0</b>	<b>0.0 %</b>



The fourth table shows further breakdown of the volume and number of issues approved for school districts.

	-----VOLUME-----			-----NUMBER-----		
	Submitted	Approved	% App.	Submitted	Approved	% App.
City S/D	\$ 0	\$ 0	0.0 %	0	0	0.0 %
Local S/D	65,447,631	0	0.0	2	0	0.0
Jt. Voc. S/D	0	0	0.0	0	0	0.0
<b>TOTAL</b>	<b>\$ 65,447,631</b>	<b>\$ 0</b>	<b>0.0 %</b>	<b>2</b>	<b>0</b>	<b>0.0 %</b>

### School District Tax Levies

The first table shows the total new millage levies submitted (number and volume), and also the results thereof.

Type	--Submitted--		-----Approved-----				-----Defeated-----			
	No.	Millage	No	Pct.	Millage	Pct.	No.	Pct.	Millage	Pct.
Current Expense*	1	7.90	0	0.0	0.00	0.0	1	100.0	7.90	100.0
Permanent Improvement	1	1.00	0	0.0	0.00	0.0	1	100.0	1.00	100.0
<b>TOTAL</b>	<b>2</b>	<b>8.90</b>	<b>0</b>	<b>0.0</b>	<b>0.00</b>	<b>0.0</b>	<b>2</b>	<b>100.0</b>	<b>8.90</b>	<b>100.0</b>

\* Includes Current Operating

The second table shows the total renewal millage levies submitted (number and volume), and also the results thereof.

Type	--Submitted--		-----Approved-----				-----Defeated-----			
	No.	Millage	No	Pct.	Millage	Pct.	No.	Pct.	Millage	Pct.
Current Expense*	2	17.10	0	0.0	0.00	0.0	2	100.0	17.10	100.0
Permanent Improvement	1	5.38	1	100.0	5.38	100.0	0	0.0	0.00	0.0
<b>TOTAL</b>	<b>3</b>	<b>22.48</b>	<b>1</b>	<b>33.3</b>	<b>5.38</b>	<b>23.9</b>	<b>2</b>	<b>66.7</b>	<b>17.10</b>	<b>76.1</b>

\* Includes Current Operating

The third table gives a three year comparison (Primary Elections) by levy type, the total new millage submitted and approved, with the ratio approved.

	----- 2014 -----			----- 2013 -----			----- 2012 -----		
	Subm.	App.	% App.	Subm.	App.	% App.	Subm.	App.	% App.
Current Expense *	7.90	0.00	0.0	13.87	0.00	0.0	24.35	6.75	27.7
Permanent Improvement	1.00	0.00	0.0	1.50	1.00	66.7	15.56	11.96	76.9
<b>TOTAL</b>	<b>8.90</b>	<b>0.00</b>	<b>0.0</b>	<b>15.37</b>	<b>1.00</b>	<b>6.5</b>	<b>39.91</b>	<b>18.71</b>	<b>46.9</b>

\* Includes Current Operating

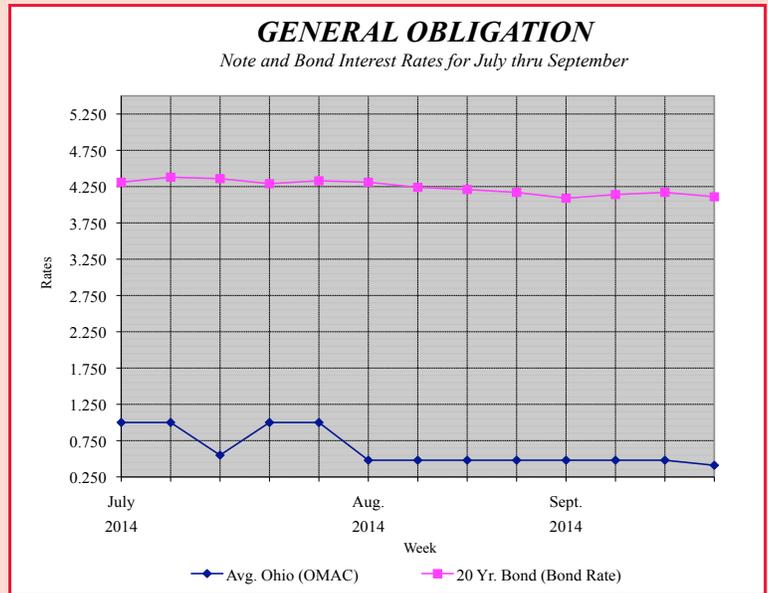


## MARKET UPDATE

### GENERAL OBLIGATION

#### Note and Bond Interest Rates for July thru September

The following graph compares Ohio short-term note rates with the Bond Buyer's 20 year bond index. The short-term rates represent actual rates reported to OMAC by Ohio purchasers and reported on OMAC's weekly calendar.



## OMAC Recognizes Timothy McCabe

OMAC wishes to recognize Timothy McCabe of Huntington Investments Company for his five years of service as Chairman/President of OMAC's Board of Trustees. During his tenure, Tim has provided guidance and insight that has been instrumental in OMAC's success. Tim will remain on OMAC's Board as a Trustee.

## OMAC Board Elections

The following people were elected to the OMAC Board of Trustees by the membership to three year terms at the October 24, 2014 Annual Membership Meeting: Omar Ganoom of Ross Sinclair and Associates LLC, Timothy McCabe of Huntington Investment Company and Christopher Johns of Sweney Cartwright.

OMAC congratulates Omar Ganoom of Ross Sinclair and Associates on his election by the Board of Trustees as Chairperson/President of the Board for 2015. Omar was elected on October 24, 2014 at the Board of Trustees Meeting. At the same meeting, Jeffrey Freese of KeyBanc Capital Markets was elected Treasurer to the Board of Trustees.



# CALENDAR

## *Calendar of Issuer Conferences & Outings for 2014*

NAME	EVENT	DATE	LOCATION
CAAO	Winter Conference	Nov. 19 – 21	Embassy Suites- Dublin, Ohio
CTAO	Fall Meeting	November 18 - 20	Columbus Marriott NW at Tuttle Crossing – Dublin, Ohio
OSBA	Capital Conference	November 9 – 12	Columbus Convention Center – Columbus, Ohio

(T) - means date or place is tentative.

*Red lettering means revised or updated events.*

CAAO - County Auditor's Association of Ohio ----- (614) 228-2226 ----- [www.caaao.org](http://www.caaao.org)  
 CAAO - County Auditor's Association of Ohio ----- (614) 228-2226 ----- [www.caaao.org](http://www.caaao.org)  
 CTAO - County Treasures Association of Ohio ----- (614) 517-5072 ----- [www.ohiocountytreasurers.org](http://www.ohiocountytreasurers.org)  
 GFOA - Government Finance Officers Association ----- (614) 221-1900 ----- [www.ohgfoa.com](http://www.ohgfoa.com)  
 MFOA - Municipal Finance Officers Association of Ohio ---- (614) 221-4349 ----- [www.omloho.org](http://www.omloho.org)  
 NACO - National Association of Counties ----- (614) 221-5627 ----- [www.naco.org](http://www.naco.org)  
 OAPT - Ohio Association of Public Treasurers ----- (440) 576-3944 ----- [www.ohioapt.org](http://www.ohioapt.org)  
 OASBO - Ohio Association of School Business Officials ----- (614) 431-9116 ----- [www.oasbo-ohio.org](http://www.oasbo-ohio.org)  
 OMCA - Ohio Municipal Clerks Association ----- (614) 221-4349 ----- [www.omca.us](http://www.omca.us)  
 OSBA - Ohio School Boards Association ----- (614) 540-4000 ----- [www.ohioschoolboards.org](http://www.ohioschoolboards.org)

**If your organization has other events scheduled that you would like to see listed here, please contact OMAC at 800-969-6622 or email us at [chris@Ohiomac.com](mailto:chris@Ohiomac.com).**