

Ohio State Highway Patrol Retirement System

Special Meeting

July 31, 2018

Ohio State Highway Patrol Academy

Chairman and Members of the Board:

Good morning and, thank you for this opportunity to address the Board concerning a Board decision you will make next month to establish active member contributions to the system and cost of living adjustment (COLA) benefits to retirees in 2019.

It is somewhat safe to assume, no person in this room today was alive when the first academy class graduated from the Camp Perry School in November of 1933- with the exception of J.P. Allen. And, it is also somewhat safe to say none of the 60 graduates were thinking very much about retirement. At that time, the nation was coming out of the depression and these men were undoubtedly very happy to have a full time job with the State. They were probably most concerned about keeping warm!

When I graduated from the 55th Academy Class in 1960, I felt exactly the same way about my future and I am sure many here today felt the same way when they graduated. I was so happy to have a job making \$360.00/month-at an hourly rate of \$2.25 per hour. And, at that time, we had to buy our own insurance to drive a patrol car. Sixty years from now in 2078, Troopers will probably look back at whatever hourly rate is paid today with the same amusement as we now look back at my \$2.25 per hour. Retirement and our retirement system were not on my mind. I am sure I did not even know what a COLA was! However, as we all know, there comes a time when retirement benefits are a major concern in our lives.

During the last Presidential election cycle, one of the most interesting terms used to describe one of our political parties was: "A Basket of Deplorables."

As I thought about this "Basket Analogy", it came to my mind that I could change one word and have an analogy that would provide a visual picture of our retirement system. I called my analogy - "A Basket of Variables."

It would indeed be a very big basket with each of us inside in our little retirement baskets. This basket would have width, height, depth and it would expand and contract over time, with the mortality of our retired members and the addition of new, active uniformed troopers. There are many externalities outside the basket that have a great impact on our basket(s): The legislature, the Governor, the stock market, assumption rates, mortality rates, poverty levels, inflation rates, the Retirement Study Council,

special retirement study commissions, actuaries, health care costs, drug costs, and I am sure we can think of several more.

I do know that eight (8) years after the first academy class graduated, the Ohio State Highway Patrol Retirement System (I'll call it our big basket) was created on June 4, 1941, when the Ohio General Assembly passed House Bill 523, known as the Pension Fund Bill. This law covered all members of the uniform and radio divisions. I do not know the numbers, but it can be assumed with all of the motorcycle crashes and other on duty injuries, there was a need for a pension system to care for those that could no longer work or would be ready to retire after their required years of service.

As we advance the clock to the mid-1950s and early 1960s, many of those who came on in the early years were beginning to or thinking about jumping into their own retirement basket at **a fixed rate of retirement pay**. Monthly retirement pay for those retirees would remain the same until 1971, when a cost of living pay adjustment was passed by the Ohio Legislature. This COLA was based on need. A patrolman retiring in the late 50's or early 60's lost approximately 40% of his retirement pay to inflation before the passage of this COLA. **It is important to remember a COLA is generally based on the CPI as determined by the U.S. Government. It is also important to note any COLA adjustments are based upon the fixed rate of retirement pay at the time of retirement.**

Over the past 41 years, the COLA has been withheld and /or modified several times by the Ohio General Assembly, not only for the OSHPRS, but for all five (5) state pension systems. Such changes have included a total suspension of the COLA benefit, age requirements (such as increasing the eligibility age to 60) and so on. Such changes are certainly a huge variable when talking about our individual retirement baskets.

In 2013, based on a bill passed in 2012, the Board was granted the authority to establish member contribution rates, not to exceed 14% and change COLA benefits, not to exceed 3%. This legislation also increased the COLA benefit age from age 52 to age 60 and allows the Board to reduce the COLA to 0%, if necessary. The General Assembly also recognized the importance of the COLA for current, senior retirees whose benefit does not exceed 185% of the poverty rate. These retirees maintain the full 3% COLA.

The board has responsibly adjusted these percentages based on economic and actuarial projections, reducing the COLA from 3% to 1.25% and increasing the member contribution rate from 11.5% to 12.5%. With these and other actions by the OSHPRS Board, the system continues to stay within the legislatively required 30-year unfunded liability standard.

In a recent board subcommittee meeting, in anticipation and in preparation of the August retreat board meeting, the board asked the actuary to consider two options:

1. To eliminate the COLA and keep the member contribution at 12.5%- with 5.09% of member contributions dedicated to the health care fund.
2. Keep the COLA at 1.25% and member contribution at 12.5% with a \$1 million, lump sum contribution (0.92%) to the health care fund.

I understand since this request was made to our actuary, there have been further unofficial discussions and meetings. **My sources tell me the elimination of the COLA is no longer being considered. I certainly hope that is true.** On the other hand, the extreme “Nuclear” option would be to reduce the COLA to 0% (for retirees above the poverty threshold) and increase active member contributions to 14%.

Most of the options and outcomes, as presented by our actuary, GRS (Gabriel, Roder, & Smith), can be seen on the “Bingo Card” provided to our Board at the July meeting. **I am here to encourage the Board not to eliminate COLA for the retired members of the retirement system until it is absolutely necessary to do so based on actuarial information. Based on the same current actuarial information, I am also recommending no increase in the active member contribution rate.**

Reducing the COLA to zero would, in effect, be throwing our present and future retirees out of the big basket FOREVER! - Except for those currently below the poverty threshold. If you reduce the COLA to 0% you will essentially be tying a rope on their baskets and pulling them along, behind the big basket, as their rope gets longer and longer until they reach the 185% poverty level threshold. Then and only then, will you pull them back into the big basket and, under present law, give them their 3% COLA so they can maintain a minimal standard of living just above the poverty line. **Is that truly the direction we want our board to take?**

In closing:

In 1971, the Ohio Legislature recognized the importance of maintaining a standard of living above the poverty level for our retirees.

It is important to remember the Ohio Legislature again recognized in 2012 the need to maintain a standard of living **above the poverty level** for current retirees in our system. I have been told there are currently over 300 of them, including RT’s, CT’s, ET’s and Surviving Spouses. One hundred twenty two (122) of this number are uniformed officers.

I strongly encourage the Board not to reduce COLA to 0% at the Board meeting in August. It is neither necessary nor appropriate at this time in order to meet your fiduciary responsibilities.

I would be happy to answer any questions or give you a personal tour of my little retirement basket! Thank you.

Colonel Thomas W, Rice, Ret.
cc: Copy to all Board Members