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### **August 2011 Financial Planning Strategies:**

As most of you know, Ohio public pension plans continue to face solvency concerns. Approximately two years ago, the Ohio Retirement Study Council (ORSC) requested proposals from each of Ohio's five major pension systems regarding addressing the funding shortfall. These proposals are summarized below. ORSC is in the process of hiring an actuarial firm to analyze the systems' proposals. Some individuals feel the assumptions used in creating some of the proposals, such as an 8% rate of return, are too aggressive.

Common trends in systems' proposals include increased retirement age, changes to cost-of-living adjustments (COLA), and changing the final average salary (FAS) used in pension calculations from the highest three years of salary to the highest five years. Below is a summary of the changes proposed by each of Ohio's five public pension systems:

#### **Ohio Public Employees Retirement System**

- Increase age and years of service requirement:
  - Unreduced benefit with 32 years of service and age 55 or 5 years of service and age 67
  - Reduced benefit with 25 years of service and age 57 or 5 years of service and age 62
- FAS calculation reduced from 3-highest salary years to 5-highest salary years
- COLA calculation reduced from simple 3% to change in CPI calculation up to 3%
- Extends the increased 2.5% FAS calculation to 35 years of service requirement rather than 30 years

#### **Ohio State Teachers Retirement System**

- Gradually increase age and service requirements through 2023 to:
  - Unreduced benefit with 35 years of service and age 60 or 5 years of service and age 65
  - Reduced benefit with 30 years of service and age 55 or 5 years of service and age 60
- Change benefit formula multiplier to 2.2% for all years of service
- Change FAS calculation from 3-highest to 5-highest
- Reduce COLA to 2% simple calculation (from 3% simple calculation)
- Phase-in increase of member contributions by 3%: 1% per year through 2014

#### **Ohio School Employees Retirement System**

- Increase age and years of service requirement for those retiring after 08/01/2015:
  - Unreduced benefit with 30 years of service and age 57 or 10 years of service and age 67
  - Reduced benefit with 25 years of service and age 60 or 10 years of service and age 62



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#### **Ohio Police & Fire**

- Delay COLA eligibility until age 55 except for beneficiaries & survivors
- Gradually increase employee contributions from 10% to 12% through 2013
- Use 5-highest FAS calculation for those with fewer than 15 years of service
- Reduce DROP interest rate from 5% to 3% for all participants: new and existing
- Increase DROP years of service requirement from 3 years to 5 years
- Gradually increase contributions to 25% through 2013

#### **Ohio State Highway Patrol Retirement System**

- Reduce COLA from 3% to 2%
- Increase contributions from 10% to 11%
- Change FAS calculation from 3-highest to 5-highest
- Increase COLA eligibility from age 53 to 60
- Reduce allocation of contributions to health care fund by 1%

As retirement funding structures change, it is important to ensure your portfolio can keep up with inflation and provide for current liquidity needs. A well-diversified portfolio of cash, bonds, and dividend- as well as growth-oriented stocks is necessary to accomplish this. We also encourage you to keep us informed of expected cash needs over the next 3-5 years to ensure these needs are available in your cash and bond position. We will continue to monitor your projected retirement closely to ensure you are adequately prepared for future needs in spite of potential future pension cuts.

We will keep you informed of changes as they develop. Again, please notify us of any expected future cash needs you may have so we can plan accordingly. If you have any questions or would like to discuss this further, feel free to contact our office.

Sincerely,

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Vice President of Financial Planning

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