



THE HEART OF CUYAHOGA COUNTY

**6800 Brecksville Road
Independence, Ohio 44131
216.524.4131**

MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, November 3, 2023

Re: Finance Office and Related Topic Updates

Ohio Public Employees Retirement System (OPERS)

In its September/October 2023 Board Report, the Ohio Public Employees Retirement System (OPERS) stated that it has not sought to increase the employer's statutory maximum contribution rate (currently 14%) in *"nearly 50 years."*

However, the OPERS Board of Trustees recently authorized OPERS management to *"seek the system's first statutory maximum employer contribution rate increase in nearly 50 years."*

OPERS will be seeking legislative approval to increase that statutory maximum employer contribution rate from the current 14 percent to 18 percent.

OPERS is citing a number of reasons for this proposed rate increase, including:

- A significant unfunded liability in the OPERS Defined Benefit Fund
- A decreasing active member-to-retiree ratio

Ohio Public Employees Retirement System (OPERS) - Continued

- Weakening investment return assumptions
- Actual market losses in 2008 and 2022

In addition, OPERS is stating that *“health care [for OPERS retirees] is at risk because only the employer contribution can fund health care, and currently, all of that contribution is necessary to fund pensions.”*

For OPERS retirees, such an increase would greatly assist in solidifying the long-term viability of the system, given that there currently is *“a significant unfunded liability in the OPERS Defined Benefit Fund.”*

For public sector employers, though, increasing the maximum employer contribution rate from 14 percent to 18 percent would result in a 28.5% increase in OPERS-related pension costs for those public sector employers.

A public sector employer with, say, an \$8 million annual OPERS-related payroll would see its annual OPERS pension contribution cost increase from \$1.12 million/year (\$8 million times 14%) to \$1.44 million (\$8 million times 18%), or a material \$320,000/year+- with no corresponding increase in revenue to fund those increased costs.

Given that the OPERS Board of Trustees just recently authorized OPERS management to pursue this enabling legislation in the General Assembly (The Ohio House and Senate), it likely wouldn't be introduced, discussed, debated, and voted on until sometime in 2024.

Assuming that the proposal would be approved in 2024 – which is no guarantee – the contribution rate increase likely wouldn't take effect until 2025 at the earliest.

Therefore, this cost increase to public sector employers likely won't have to be factored into 2024 budgets/appropriations but may have to be in 2025 and thereafter.

Independence will see how this plays out over the course of 2024 and proceed accordingly. But it helps to be aware of this now, though for planning purposes.