



**Taxpayers on the Hook:
Taxpayer Contribution Rates for Ohio Government Pensions
Outpace National Averages**

**Adam Schwiebert
September 2, 2011**

It's no secret that Ohioans are struggling. Long unemployment lines, thinning pocketbooks, and uncertainty about the future have created economic hardship for many. With appraisals being sent out by county auditors letting us know our homes are worth less, Ohioans from all economic backgrounds continue to lose ground. Added to this list of concerns is government taxation.

While Ohio has made recent progress in relieving the tax burden on its citizens, a key area of weakness remains: the cost of government worker retirements. As compared with the other 50 states, Ohio's taxpayers contribute a significantly higher percentage toward government worker retirements than do taxpayers of the other states. This puts requirements for higher taxes, which in turn, stifle the private sector innovation and growth that Ohio desperately needs.

Ohio's defined-benefit government retirement systems function like many other government retirement systems across the United States. Revenue to fund the systems is generated from three sources: employer contributions, employee contributions, and investment returns. An area of increasing concern centers on employer contributions. Employer contributions, more accurately labeled as "taxpayer contributions," is the percentage of each government worker's salary that taxpayers contribute to the respective pension system. As this percentage grows, taxpayers are forced to contribute more toward the pension system via higher taxes (or cuts in other government programs or services).

The following research specifically examines the level of taxpayer contributions to government retirement systems across the United States. By comparing Ohio's taxpayer contribution rates from the Ohio Public Employee Retirement System, the

State Teachers' Retirement System of Ohio, and the Ohio Police & Fire Pension Fund to similar funds from across the 50 states, the burden on Ohioans becomes clear.¹

The bottom line is that Ohio taxpayers are on the hook for a sizable tax bill due to generous taxpayer contribution rates. The three Ohio government pension systems outpace both the national averages and medians of similar pension systems found in other states.

I. Ohio Public Employees Retirement System (OPERS)

OPERS, with over 950,000 members, is the largest government retirement system in Ohio. With its employer contribution rate set at 14 percent, **Ohio ranks 14th highest** in terms of taxpayer contributions, compared to the remaining 49 states. Despite the relatively high employer contribution rate, OPERS still possesses over **\$18.9 billion in unfunded liabilities**, leaving the system only 75.3 percent funded.² That means for every \$1 in liabilities, it only possesses 75¢ in assets. Critically, this huge liability is based on accounting standards well below those required by private sector pensions.

National Average Contribution Rate:	12.17
National Median Contribution Rate:	11.94
Ohio Contribution Rate:	14.00
Ohio Ranking:	14 th out of 50

If Ohio's taxpayer contribution rate was lowered to the national median, taxpayers could save hundreds of millions of dollars over the course of a biennial budget. For example, according to its 2010 Comprehensive Annual Financial Report (CAFR), the total annual required contributions from taxpayers totaled \$1.124 billion.³ If the taxpayer contribution rate was 11.94 percent, the estimated annual required contributions from taxpayers would total \$959 million, for an **annual savings of \$165 million or \$330 million over a biennial budget.**

II. State Teachers' Retirement System (STRS)

STRS, the second largest government retirement system in Ohio with 470,000 members, currently is tied for **9th highest** out of the 34 states with similar STRS

¹ Due to the limited number of highway patrol pension funds across the U.S., along with limited data, this report will not compare the Ohio Highway Patrol Retirement System with those of other states. Also, due to the large number of separate municipal retirement systems across the U.S., the Cincinnati Retirement System will not be examined in this report either.

² Ohio Public Employees Retirement System, "2010 Comprehensive Annual Financial Report," at <https://www.opers.org/investments/cafr.shtml> (accessed July 25, 2011).

³ Ibid.

retirement programs. The fund currently stands 59.1 percent funded, with over **\$38.7 billion in unfunded liabilities**.⁴

National Average Contribution Rate:	11.85
National Median Contribution Rate:	9.80
Ohio Contribution Rate:	14.00
Ohio Ranking:	Tied 9 th out of 34

If Ohio’s taxpayer contribution rate were lowered to that of the national median, as with OPERS, hundreds of millions of taxpayer dollars could be saved. In fiscal year 2010, STRS received \$1.505 billion in taxpayer contributions.⁵ By adjusting the taxpayer contribution rate to match that of the national median, taxpayers contributions would drop to \$1.054 billion, resulting in taxpayer **savings of \$451 million annually, or \$902 million over the course of a biennial budget**.

III. Ohio Police and Fire Pension Fund (OP&F)

OP&F currently serves over 32,000 active and retired Ohio police officers. With an employer contribution rate of 19.50 percent, OP&F’s police employer contribution rate ranks **10th highest** out of the 36 states with similar police retirement systems. This contribution rate leaves OP&F 72.8 percent funded with a **liability of over \$2.6 billion**.⁶

Police Employer Contribution Rates

National Average Contribution Rate:	14.70
National Median Contribution Rate:	11.36
Ohio Contribution Rate:	19.50
Ohio Ranking:	10 th out of 35

Aligning the taxpayer contribution rates for police retirement with the national median could save Ohio taxpayer tens of millions of dollars annually. According to its 2010 financial report, taxpayers contributed just over \$137 million towards police retirement.⁷ If the contribution rate was adjusted from its current rate of 19.5 percent to the national median of 11.36, **savings of \$58 million dollars** could be achieved annually.

In addition to police officers, OP&F also serves over 24,000 active and retired Ohio firefighters. Thirty-three states possess similar firefighter retirement plans, with an average employer contribution rate of 15.61 percent. This ranks OP&F’s firefighter

⁴ State Teachers Retirement of Ohio, “2010 Comprehensive Annual Financial Report,” at <https://www.strsoh.org/about/CAFR10.html> (accessed on July 26, 2011).

⁵ Ibid.

⁶ Ohio Police and Fire Pension Fund, “2010 Comprehensive Annual Financial Report” at <http://www.op-f.org/downloads/default.asp?cat=reports> (accessed July 28, 2011).

⁷ Ibid.

employer contribution rate as the **6th highest** out of those 34 states. Despite this ranking, OP&F is still left with its **\$2.6 billion liability**.

Fire Employer Contribution Rates

National Average Contribution Rate:	15.61
National Median Contribution Rate:	12.00
Ohio Contribution Rate:	24.00
Ohio Contribution Rate:	6 th out of 34

Again, the data indicates that shifting the taxpayer contribution rate toward the national median would yield dramatic taxpayer savings. In 2010, taxpayers contributed approximately \$148 million toward firefighter retirement.⁸ By reducing the taxpayer contribution rate to the national median, **over \$74 million dollars** could be saved annually.

IV. A Better Way That Protects Taxpayers and Provides for Government Worker Retirements

While Ohio ranks near the top in terms of taxpayer contribution rates across several of its government pension systems, taxpayers are left asking where such a large percentage of their money is going, and why such large liabilities remain. In return for such high contribution levels, the least taxpayers can expect are government pension systems that are on sound fiscal footing. Unfortunately for Ohio taxpayers, that is not the case.

Despite the generous contributions that taxpayers put forth, Ohio's government pension systems remain fiscally unstable, threatening the long-term security of government worker pensions and possibly putting taxpayers further on the hook for future pension bailouts. But for the election of leaders the pensions knew would not support an increase in the taxpayer contribution rate, two of the five pensions may have succeeded in getting the General Assembly to increase the taxpayer contribution rate even higher.

Instead of reinforcing the status quo, sensible pension reforms can be enacted to relieve some of the heavy burden off of taxpayers while at the same time creating more secure retirement systems. Establishing a mandatory 401(k) style retirement system for all government workers, such as already in place in Michigan, would be a strong move toward fiscal responsibility for both public employees and taxpayers alike. As a point of reference, on average, private sector Ohioans receive 10.2 percent from their employers towards their retirements (6.2 percent from the employer into the Social Security fund and 4 percent towards a 401(k) plan).

⁸ Ibid.

As shown in the Buckeye Institute’s report, *The Impact of Shifting Ohio State Workers to Defined Contribution Plans*, Ohio taxpayers stand to save billions of dollars by adopting a defined contribution plan similar to the Michigan model. These findings were again confirmed in a recent report from the Mackinac Center for Public Policy titled, *Estimated Savings from Michigan’s 1997 State Employees Pension Plan Reform*. Both reports demonstrate that defined contribution retirement systems are an effective solution that removes taxpayers from the unnecessary risk of future pension bailouts. Such a strategy also protects taxpayers from market volatility, as has been seen in recent months and years. Thus, any serious conversation about creating more fiscally sound retirement systems that protect taxpayers must include defined contribution retirement plans.

While few Ohioans have escaped the effects of economic downturn, all Ohioans are required to foot the bill for generous taxpayer contributions to the state’s government pension funds. Despite this generosity, taxpayers are left with fundamentally flawed retirement systems that continually fail to guarantee long-term fiscal solvency. Serious pension reform is therefore necessary to ensure a more fiscally sound retirement for all government workers without the crushing burden of onerous taxation on all Ohioans.

Projected annual savings by aligning taxpayer contribution rates with national medians:

Pension System	Projected Savings
Ohio Public Employees Retirement System	\$165 million
Ohio State Teachers Retirement System	\$451 million
Ohio Police and Fire Pension Fund:	
Police Retirement	\$58 million
Fire Fighter Retirement	\$74 million
TOTAL PROJECTED ANNUAL SAVINGS:	\$748 million

