



# Does the State Teachers Retirement System of Ohio Meet Defined Contribution Plan Design Gold Standards?

Gold Standard	STRS DC Plan
<b>Defined Plan Objectives</b> <i>Ensure plan objectives are defined in writing as part of a comprehensive benefits policy statement.</i>	Some
<b>Communication and Education</b> <i>Ensure members are educated on the available choices and have all relevant information to make competent retirement choices.</i>	Yes
<b>Auto Enrollment</b> <i>Enroll new employees into the DC Plan by default.</i>	No
<b>Adequate Contributions</b> <i>Replace approximately 80% of a worker's final salary.</i>	Yes
<b>Retirement Specific Portfolio Design</b> <i>Offer "one-touch" investment options for employees who are not sophisticated investors and do not want to avail themselves of in-plan investment advice.</i>	Some
<b>Benefit Portability</b> <i>Safeguard the ability to recruit highly mobile 21<sup>st</sup> Century employees.</i>	Some
<b>Offer Distribution Options</b> <i>Provide members with a variety of asset distribution methods while limiting borrowing.</i>	Yes
<b>Disability Coverage</b> <i>Offer a separate disability insurance benefit from a quality insurer.</i>	No

## PENSION INTEGRITY PROJECT CONTACTS

- Leonard Gilroy, Senior Managing Director ([leonard.gilroy@reason.org](mailto:leonard.gilroy@reason.org))
- Zachary Christensen, Managing Director ([zachary.christensen@reason.org](mailto:zachary.christensen@reason.org))

Reason Foundation is a national 501(c)(3) public policy research and education organization with expertise across a range of policy areas, including public sector pensions, transportation, infrastructure, education, and criminal justice. For more information about the Pension Integrity Project at Reason Foundation, visit [reason.org](http://reason.org).



<b>Objective</b>	<b>Gold Standard</b>	<b>STRS DC Plan</b>
<b>Defined Plan Objectives</b>	Defines objectives in writing as part of a comprehensive “benefits policy statement” or at least within a “retirement plan policy statement.”	<i>The purpose and objectives of the Ohio STRS DC are addressed partially in Ohio Revised Code Section 3307.81, which directs the Ohio STRS retirement board to create the DC. The STRS retirement board has issued a set of Board Policies that state the purpose of the Board is to ensure that statutorily defined current and long-term retirement and other benefits services are provided to covered teachers and beneficiaries. While retirement benefit security is indirectly addressed in the authorizing statutes, board policies, and the program design as described in the plan document, there is no formal and clear statement that the DC is intended to deliver lifetime retirement income to members and beneficiaries.</i>
<b>Communication and Education</b>	Educated members on the available choices and relevant information needed to make competent retirement decisions.	<i>The Ohio STRS DC provides a wide range of participant education and communication materials and services covering all aspects of the initial plan choice, accumulation period tracking and planning, investment management, and distributions during retirement. The benefit comparison charts should be modified to include the benefit accrual and contribution structures and amounts. A more robust side-by-side initial plan choice benefit projection tool for different life career paths should be considered.</i>
<b>Auto Enrollment</b>	Defaults members into a defined contribution retirement option if no other option is selected upon hire.	<i>New employees are automatically enrolled in the Ohio STRS program with a 180-day window to choose the DB, DC, or Combined Plan. Those who do not make a selection default into the DB Plan, which is not in line with best practices. The DC Plan would better suit most new hires and should be the default.</i>
<b>Adequate Contributions</b>	Replace approximately 80% of a worker’s final salary.	<i>Given that Ohio STRS teachers do not participate in Social Security, total contribution rates of 25.09% (11.09% employer and 14% employee) are adequate to fund a retirement benefit that will enable a retiree to maintain their standard of living following a career of employment.</i>
<b>Retirement Specific Portfolio Design</b>	Offer “one-touch” investment options for employees who are not sophisticated investors and do not want to avail themselves of in-plan investment advice.	<i>The DC investment menu provides an appropriate range of choices covering the risk and return spectrum and includes pre-built target date accounts for those who prefer not to manage their own asset allocation. Accumulation period annuity options are not offered but the participant account can be used to purchase lifetime annuity benefits.</i>
<b>Benefit Portability</b>	Safeguard the ability to recruit highly mobile 21st Century employees.	<i>Accumulations attributable to employee contributions are, of course, immediately vested. Accumulations attributable to employer contributions are not fully vested for five years. Vesting is on a pro-rated scale beginning with 20% vested per year until full vesting at five years. Full and immediate vesting of these employer contributions would be preferred to meet the needs of the modern mobile workforce. The 20% per year vesting schedule partially meets this best practice standard.</i>
<b>Offer Distribution Options</b>	Provide members with a variety of asset distribution methods while limiting borrowing.	<i>The plan makes various distribution options available ranging from leaving the assets in the plan to various fixed-period and lifetime annuities. The distribution offerings meet best practices by including both standard lump sum and periodic payment options and, importantly, lifetime annuity options.</i>
<b>Disability Coverage</b>	Offer a separate disability insurance benefit from a quality insurer.	<i>DC members are not eligible for any disability benefit under STRS. The DB and Combined Plan options do provide a disability allowance. Under the Combined Plan 2% of the participant’s 14% contribution is used to purchase a disability allowance. There is no similar provision under the DC Plan.</i>

#### **PENSION INTEGRITY PROJECT CONTACTS**

- Leonard Gilroy, Senior Managing Director ([leonard.gilroy@reason.org](mailto:leonard.gilroy@reason.org))
- Zachary Christensen, Managing Director ([zachary.christensen@reason.org](mailto:zachary.christensen@reason.org))

Reason Foundation is a national 501(c)(3) public policy research and education organization with expertise across a range of policy areas, including public sector pensions, transportation, infrastructure, education, and criminal justice. For more information about the Pension Integrity Project at Reason Foundation, visit [reason.org](http://reason.org).

