QG | QDRO GROUP

780 East Smith Road, Medina OH 44256 P: 844.721.6500 F: 330.722.6158 www.qdrogroup.com

STRS Ohio COLA Reduced to 0%

The State Teachers Retirement System of Ohio Board recently voted to reduce cost-of-living increases to 0% effective July 1, 2017.[1]

This move was made to "preserve the fiscal integrity of the retirement system" and will greatly affect the future monthly benefits that STRS participants will receive. This change will also have a significant impact on the actuarial present value of STRS Ohio pensions that courts consider when making an equitable distribution of property in a divorce.

Annual non-compounding cost of living increases under the STRS defined benefit plan were set at 3% under House Bill 98 of the 125th the General Assembly which became effective October 27, 2006. The adjustment was granted on each anniversary of retirement. This remained in effect until January 17, 2013 when Senate Bill 342 of the 129th General Assembly reduced COLA to 2% beginning five years after retirement. It was that same bill which granted the Board the authority to make adjustments to COLA without the need to amend the statute.

Small changes in COLA can have large impacts of the present value of pensions that courts routinely consider when making an equitable distribution of marital property. For example, a 52 year old female teacher with 27 years of credited service who has been married for 21 years and has a final average salary of $62,000 would have a marital present value of $432,456.48, with the delayed 2% COLA. The value with no COLA would be $357,719.20.

If the other party has a Social Security benefit with a marital present value of $110,000, the percentage assigned in a Division of Property Order (DOPO) would change from 37.28% under the 2% COLA to 34.62% with no COLA.

In other words, if you represent the STRS participant, you should make sure that any present value calculation for the STRS benefit reflects the change to 0% COLA. Not doing so could result in your client giving up a larger portion of their benefit than necessary in a DOPO, or receiving a lesser portion of other marital assets in exchange.

The April 21, 2017 post announcing the change also indicated that the board intends to re-evaluate this matter by the time of the next five-year actuarial experience review to determine whether a COLA increase might be financially viable.

---

[1] https://www.strsoh.org/news/board-news/2017/april-board-news.html