



February 27, 2020

The Honorable Jack Cera
Ohio House of Representatives
77 South High Street, 10th Floor
Columbus, Ohio 43215

Dear Representative Cera:

I appreciate your interest and engagement during the recent Ohio Retirement Study Council meeting. In my responses below, I've attempted to provide you greater context behind the answers to your questions and would welcome another opportunity to discuss them in further detail.

1. Do pension plans utilize their actuarial valuation when planning for beneficiaries' health care benefits?

Yes. OPERS regularly reviews the health care actuarial valuation, the health care 50-year projection report, the pension actuarial valuation, the pension 50-year projection in combination with the latest investment projections and health care trend projections when evaluating our ability to provide health care payments.

The issue of health care availability is highly dependent on the satisfactory funding level of the pension plan. Health care is a discretionary plan and has no dedicated ongoing funding source. Health care's funding is derived secondarily only after pension funding is deemed adequate. Only then, after pension funding is completed, is a portion of the employer contribution rate available to fund health care. Since OPERS' health care is a separate trust and is pre-funded, the trust fund itself earns interest which is a secondary source of revenue for the health care plan. Thus, the long-term funding of both the pension and health care plans are reviewed.

Health care was added as a discretionary plan in 1974 and since then, OPERS retirees have greatly benefited from the System's ability to manage the employer contribution funding to cover both pension and health care. However, rising health care costs are a national problem, and OPERS is affected in the same way as other insurers and individuals. As costs for medical coverage and prescription drugs have risen, our demographics have gradually shifted to include more retirees, longer lifespans and fewer public workers contributing to our system. Still, our objective is to continue offering health care coverage. To do so, we must implement changes to the current program.

OPERS approved a comprehensive set of health care changes in 2012 which were phased in over a period of five years. At that time, the Medicare-eligible members were moved to the open market and



eligible members were provided a subsidy. Additionally, it was at that time we communicated that the pre-Medicare retirees would also eventually be moved to the open market once the market became more robust. It was also communicated that the viability of the health care support provided was dependent on being able to fund health care using a portion of the employer contribution rate.

As OPERS has evaluated this recent set of changes to health care approved in 2020 and scheduled to take effect in 2022 (10 years after the approval of the last set of health care changes), OPERS has communicated to members that the issue necessitating the review is that there is no available funding for health care for at least the next 15 years based on the long-term pension needs. The health care trust will only provide funding for 11 years of health care payments. OPERS worked with actuaries to review the long-term outlook for both pension and health care.

The 2022 health care changes preserve health care for all members currently receiving health care and based on members' feedback, meets their main objective by continuing to provide health care for eligible future retirees. However, it is important to note that the current changes only extend the solvency of the health care fund to approximately 22 years. Within this time-period, OPERS will need to resume funding health care to retain the program's viability. This is also being communicated to members.

OPERS' objective is to establish long-term plans that will be sustainable over time.

2. Do the pension plans support the Affordable Care Act?

OPERS supports the Affordable Care Act (ACA) as well as any solution that provides affordable, quality health care options for all members. We recognize this is a national issue that must be addressed comprehensively.

How would beneficiaries be impacted if the ACA is overturned, as many non-Medicare retirees use the ACA marketplace.

Currently, OPERS provides a group plan for the pre-Medicare eligible population and are not impacted by the ACA. As of January 1, 2020, there were 36,237 eligible pre-Medicare retirees with 30,430 enrolled in the OPERS group plan. However, as we transition to the open market, the ACA market will play an important part in our members' health care coverage needs. OPERS will contract with a vendor that will assist the pre-Medicare retirees with selecting a plan using a combination of private exchange, off-exchange plans and open exchange plans. OPERS will continue to monitor the open market pricing, in combination with OPERS funding, in establishing the health care subsidy. Should the ACA market be impacted, OPERS would re-evaluate opening a group plan, as well as other alternatives. (see Attachment A for a summary of the Health Care changes to be implemented in 2022.)



3. How have hedge fund impacted the pension plans' investments?

In accordance with fiduciary standards and best practices, OPERS maintains a diversified investment portfolio designed to achieve the long-term funding needs of the System. OPERS regularly reviews the asset allocation with the advice of outside investment experts to position the investment portfolio to achieve the appropriate return with an acceptable level of risk.

OPERS began dedicating an allocation to Hedge Funds in September 2011 with several direct investments. The goal of the asset class is to provide diversification to the public equity markets. Public equity markets have a greater level of volatility and the hedge fund program was structured to have a low correlation to the equity portfolio, thereby providing downside risk. This asset class should provide better risk-adjusted returns through lower volatility and smaller impacts in down return years. OPERS' Hedge Fund portfolio posted an annualized return of 4.0% which exceeds the asset classes in which OPERS would have been invested without this asset class (alternative asset class returns ranged from 2.0% - 3.3%).

4. How do current retirees' vested benefits impact possible changes to pension benefits?

Only upon retirement are pension benefits vested. OPERS' proposed changes impact future COLAs which are not vested.

5. For PERS, the proposed COLA change would decrease unfunded liability by \$3.44 billion. What change would be needed to raise this amount of money from changing the employer and/or employee contribution?

It would take an additional projected 1.7 percent employer contribution to match the \$3.44 billion estimated reduction in unfunded liability.

Are there any other levers that could be utilized?

Any other levers would involve additional changes to active OPERS members. The changes implemented in 2013 (S.B. 343) were significant and impacted only active members (*see Attachment B*). These changes resulted in savings of \$3.2 billion and reduced the active member unfunded liability by 40%. To achieve a similar level of impact in the unfunded liability for the retirees would require savings of \$6 billion. The proposed COLA change reduces the unfunded liability by \$3.44 billion of which \$2 billion relates to the retiree impact and \$1.44 billion relates to the active member impact.



There are few remaining benefit provisions for active members that can be adjusted to achieve a similar level of savings. One of the remaining levers would be to modify the formula benefit multiplier. To achieve a similar level of impact to the unfunded liability, OPERS would need to modify the benefit multiplier from 2.2 to 2.0 for all active members for all years already worked and for all future years. **To be clear, such a change would entail a retroactive adjustment to ALL active members' benefits, resulting in a nine percent reduction.**

6. *What are the number of retirees eligible for COLAs? For PERS, how many retirees are in each group?*

All retirees are currently eligible for a COLA; however, there are two groups. Those who retired prior to January 7, 2013 are currently eligible to receive a fixed three percent COLA. Those who retired after January 2013 are eligible to receive a COLA that is based on the Consumer Price Index (CPI), not to exceed three percent. As of January 31, 2020, there were 156,486 retirees (73%) who retired prior to January 7, 2013 receiving a fixed three percent COLA. There were 58,660 retirees (27%) who retired after January 7, 2013 who are receiving a CPI-based COLA.

Again, thank you for your active interest in Ohio's public retirement system. My staff will follow up with you about meeting with you to discuss these and other issues most important to OPERS. In the interim, if you have additional question, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Karen E. Carraher".

Karen Carraher
Executive Director

Cc: The Honorable Kirk Schuring, Chairman, Ohio Retirement Study Council
Bethany Rhodes, Director and General Council, Ohio Retirement Study Council

OPERS Health Care Changes



The OPERS Board of Trustees voted to adopt changes to health care coverage for OPERS Medicare and pre-Medicare retirees, effective Jan. 1, 2022. This action will preserve retiree health care coverage now and for years to come.

The changes preserve health care for all eligible members and retirees, extending the solvency of our health care fund from 11 years to nearly 19 years. In addition, preliminary 2019 investment returns of 19 percent will further extend solvency to nearly 23 years.

Here's a look at how OPERS operates and what these changes will mean in the future.

Health Care Changes 2022

Effective 2022, OPERS will make several changes to health care coverage. We will continue communicating the details of this plan between now and 2022. We have different types and levels of coverage for pre-Medicare retirees and Medicare retirees.

Pre-Medicare

- OPERS will replace the current self-insured group plan with a marketplace concept. Participants will seek coverage on the open market with the assistance of a service provider, and we will provide a monthly allowance to them to help pay for their coverage and out-of-pocket expenses.
- This framework is called a Health Reimbursement Arrangement, an IRS-approved method of providing tax-free money for health care expenses. OPERS will deposit money into notional Health Reimbursement Arrangement (HRA) accounts, which retirees can draw from to be reimbursed for qualifying expenses. Balances carry over from year to year.
- The initial base allowance for these retirees will be \$1,200 monthly. Retirees will receive a portion of this allowance based on their years of qualifying service credit and their age when they initially signed up for coverage. Allowances will range from 51 percent (\$612 per month) to 90 percent (\$1080 per month) of the base amount.
- Eligibility requirements for health care are changing. Those retiring after 2021 will need to have 30-32 years of qualifying service credit to be eligible for pre-Medicare coverage.
- Any pre-Medicare retirees currently eligible or receiving OPERS health care coverage will continue to remain eligible.

WHERE THE MONEY COMES FROM

MEMBER CONTRIBUTIONS



- State-and-local members contribute 10%
- Law enforcement members contribute 14%
- Public safety members contribute 13%

No members contribute to Social Security

EMPLOYER CONTRIBUTIONS



Entities that employ our members contribute at the following levels:

- State and local 14%
- Law enforcement 18.1%
- Public safety 18.1%

INVESTMENT INCOME



Member and employer contributions are invested by OPERS

Currently 2/3 of what we pay in pensions comes from investments.

Impact of Pension Changes – By Group

