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Retirement
Study
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To: Governor Mike DeWine
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Members of the Ohio Retirement Study Council
LSC Director Wendy Zhan

From: Bethany Rhodes, Director/General Counsel

Date: March 26, 2024

Subject: 2023 ORSC Annual Report

Since 1968, and pursuant to Revised Code 171.04, the Ohio Retirement Study Council has submitted an annual report to the Governor and the General Assembly covering its evaluations and recommendations regarding the five state retirement systems. ORSC staff is pleased to submit this year's report on the Evaluations and Recommendations Regarding the Operations of the State Retirement Systems. The staff report includes information on the systems' investment performance, status of health care funds, actuarial reviews of the systems, fiduciary reports, progress on achieving 30-year funding, reports on enacted pension legislation, pending pension-related issues, a subject index of pension bills introduced, and a status sheet for pension legislation as of December 31, 2023.



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Annual Report

2023

Evaluations and Recommendations Regarding the Operations of the State Retirement Systems

135th General Assembly

January 1, 2023 – December 31, 2023

Issued March 26, 2024

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Bethany Rhodes

ANNUAL REPORT
THE 134th GENERAL ASSEMBLY
JANUARY 1, 2023 - DECEMBER 31, 2023

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Introduction

The Ohio Retirement Study Council (ORSC) staff is pleased to submit this report on the five public state retirement systems and the fund for volunteer firefighters for the period beginning January 1, 2023, and ending December 31, 2023. This report is submitted pursuant to section 171.04(B) of the Ohio Revised Code, which requires the ORSC to “make an annual report to the Governor and the General Assembly covering its evaluation and recommendations with respect to the operations of the state retirement systems and their funds.”

As of January 1, 2023, the five systems have combined assets of approximately \$225 billion with approximately 669,000 active contributing members, 1,155,000 inactive members, and 499,000 beneficiaries and recipients. The State of Ohio has a long tradition of providing retirement benefits to public employees. These benefits are held in trust and managed by the five systems and funded through employer and employee contributions and investment earnings on those contributions.

Ohio’s five public state retirement systems are the State Teachers Retirement System (STRS), created in 1920 for teachers in public schools, colleges, and universities; the Public Employees Retirement System (PERS), created in 1935 for state employees and expanded in 1938 to cover local government employees; the School Employees Retirement System (SERS), created in 1937 for non-teaching school employees; the State Highway Patrol Retirement System (HPRS), created in 1944 by the withdrawal of all state troopers from PERS; and the Ohio Police and Fire Pension Fund (OP&F), created in 1967 after the abolition of 454 local police and fire relief and pension funds, many of which were on the verge of financial insolvency because of a routine disregard for the financial consequence of benefit increases.

As a direct result of the collapse of local police and fire pension funds, the ORSC was created in 1968 to assist the state legislature, governor, and other public officials in the formation of sound public pension policy and is one of the oldest public oversight councils in the country. The general purpose of the ORSC is to advise and inform the state legislature and other elected officials on all matters relating to the benefits, funding, investment, and administration of the five public retirement systems in Ohio.

Legislators are accustomed to working in two-year budgetary cycles, whereas decisions about public pension plans typically involve significant long-term costs such as 30-year pension obligations. If not made prudently and with foresight, such decisions can threaten the stability of state and local government budgets years after those obligations are made and result in serious inter-generational inequity through reduced benefits or higher taxes.

The ORSC is required to make an impartial review of the laws governing the administration and financing of Ohio’s five public retirement systems and to recommend to the General Assembly any changes it may find desirable with respect to the allowances and benefits, the sound financing of the cost of benefits, the prudent investments of funds, and

the improvement of the language, structure, and organization of the laws.¹ It must report to the Governor and the General Assembly concerning its evaluation and recommendations with respect to the operations of the systems. The ORSC is required to study all statutory changes in the retirement laws proposed to the General Assembly and report to the General Assembly on their probable cost, actuarial implications, and desirability as a matter of public policy.

The ORSC evaluates the operations of the systems on a continuing basis. During the past year, the ORSC reviewed the retirement systems' operating budgets and administrative rules. In addition, the ORSC staff has continued a digitization project to preserve records in the ORSC's possession, monitored legislation introduced in the General Assembly that would affect the state retirement systems, and continued a multi-year project to standardize the reports provided by the systems to the General Assembly and ORSC. The ORSC also completed a fiduciary audit of HPRS and a report in response to a special audit of STRS conducted by Ohio Auditor of State Keith Faber.

This report is a compilation of the evaluations and recommendations the ORSC made throughout 2023. It provides a summary of the ORSC reports and staff activities completed during 2022, pending public retirement issues, and staff recommendations. In addition, it provides a historical record of legislative action taken during the 135th Ohio General Assembly on bills affecting PERS, STRS, SERS, OP&F, HPRS, the Ohio Public Safety Officers Death Benefit Fund and the Volunteer Fire Fighters' Dependents Fund (VFFDF).

Further detail on any topic listed in this report is available in the ORSC office or online at www.orsc.org.

¹ R.C. 171.04.

30-YEAR FUNDING PLANS
THE 135th GENERAL ASSEMBLY
JANUARY 1, 2023 – DECEMBER 31, 2023

Each retirement system whose funding period exceeds 30 years in any given year is required to submit to the ORSC and the standing committees of the Ohio House and Senate, with primary responsibility for pension legislation, a plan approved by the retirement board that reduces the funding period to no more than 30 years, along with any progress made by the board in meeting the 30-year funding period.² This 30-year amortization refers to the amount of time the respective system would need to actuarially fund all currently accrued but unfunded benefits. This standard was modeled after the national standard adopted by the Governmental Accounting Standards Board for all governmental pension plans. The change was intended to maintain intergenerational equity among generations of Ohio citizens and system members by limiting the ability to fund current benefit costs by extending the funding period beyond 30 years. **Actuarial reports issued in 2023 indicate that all systems remain within the 30-year time frame for the ninth year in a row.** The actuarial reports are as of December 31, 2022, for PERS, OP&F, and HPRS and June 30, 2023, for STRS and SERS.

Ohio is unique in requiring its state retirement systems to pay off all unfunded liabilities over a 30-year period. Lacking such a requirement, many other retirement systems across the country tend to focus on funded ratio. While the funded ratio is an important component in understanding the financial health of a retirement system, the ratio is a reflection of a system's funding at a *particular moment in time*, given certain actuarial assumptions. A funded ratio is less able to express the trajectory of a system through time, if all current conditions and actuarial assumptions remain stable. The funded ratio and the years of unfunded liabilities, therefore, are top-line numbers that express different things:

- 1) The **funded ratio** provides the current ratio of the systems assets versus their existing liabilities under current actuarial assumptions; and
- 2) The **years of unfunded liabilities** estimates the amount of time, given the retirement system's current plan design and actuarial assumptions, to reach a 100% ratio.

The following table summarizes the funding period and funded ratio of each retirement system as reported in its last actuarial valuation. It also provides the return assumption underlying these valuation figures, with higher rates meaning the system relies on stronger returns to fund its liabilities:

	Years of Unfunded Liabilities	Funded Ratio	Assumed Rate of Return in 2022
PERS	16	84%	6.90%
STRS	12	81%	7.00%
OP&F	27	70%	7.50%
SERS	22	75%	7.00%
HPRS	21	74%	7.25%

² R.C. 145.221, 742.16, 3307.512, 3309.211, and 5505.121.

SYSTEMS' INVESTMENT PERFORMANCE

July 1, 2022 – June 30, 2023

The ORSC is required to conduct a semiannual review of the policies, objectives, and criteria of the systems' investment programs.³ RVK is the ORSC's investment performance consultant. While there is a wealth of information in the analyses, this report details only the rolling 1-, 5-, and 10-year performance experiences, and comments from RVK.

Investment Performance Summary (July 1, 2022 - December 31, 2022)

The following summarizes the report received by the ORSC and reflects the investment performance for all six funds⁴ for the period ending December 31, 2022. The findings of this report are briefly summarized as follows:

- All of the retirement system portfolios had negative results for the one-year period ending December 31, 2022; net of fees, four of the funds outperformed their policy benchmarks in that same period, with HPRS and PERS lagging their benchmark.
- Over the trailing five-year period, one fund (SERS) has achieved their actuarial interest rate (the actuarial rate is the investment return target used by the systems' actuaries to determine its capacity to fully fund future benefits). Net of fees, PERS returned 5.27% (vs. 6.90% actuarial rate), PERS-HC 3.85% (vs. 6.00%), STRS 6.99% (vs. 7.00%), OP&F 6.08% (vs. 7.50%), SERS 7.35% (vs. 7.00%), and HPRS 6.51% (vs. 7.25%).
- Over the trailing ten-year period, five of the funds have achieved their actuarial interest rate, with PERS-HC lagging that rate. Net of fees, PERS returned 7.22% (vs. 6.90% actuarial rate), PERS-HC 5.55% (v. 6.00%), STRS 8.53% (vs. 7.00%), OP&F 7.62% (vs. 7.50%), SERS 8.46% (vs. 7.00%), and HPRS 7.79% (vs. 7.25%). During the same period, all of the funds have exceeded their benchmarks.

To summarize RVK comments:

1) Currently, all the funds are diversified across multiple asset classes and exhibit characteristics of prudent investment diversification. RVK further noted that the determination of a fund's asset allocation is the single most important investment decision and is a major determinant of long-term return and the volatility risk of asset values. Creating a diversified portfolio of asset classes enables the investor to achieve a potential higher rate of return while minimizing the volatility of the portfolio. A fund following a smoother, less

³ R.C. 171.04.

⁴ The PERS health care portfolio (designated "PERS HC" by RVK) is tracked separately from the PERS pension benefit funds (designated as "PERS DB" or "PERS").

volatile path compounds value at a faster rate. RVK advised the ORSC to not assume that all the funds should have the same asset allocation. Differences in their liabilities, funding status, the risk tolerance of their fiduciaries and other factors will likely produce legitimate differences in asset allocation. They advised the ORSC and retirement system boards to monitor changes in asset allocation over time.

2) While the report focuses on recent information in return and risk taken at each of the funds, RVK strongly encouraged the ORSC to focus on the 3- and 5- year risk and return results to better gauge the stewardship of pension assets.

Investment Performance Summary (January 1, 2023 – June 30, 2023)

The following summarizes the report received by the ORSC and reflects the investment performance for all six funds⁵ for the period ending June 30, 2023. The findings of this report are briefly summarized as follows:

- All of the retirement system portfolios had positive results for the one-year period ending June 30, 2023; net of fees, five of the funds outperformed their policy benchmarks in that same period, with OP&F lagging their benchmark.
- Over the trailing five-year period, three funds exceeded their actuarial interest rate (the actuarial rate is the investment return target used by the systems' actuaries to determine its capacity to fully fund future benefits. Net of fees, PERS returned 6.59% (vs. 6.90% actuarial rate), PERS-HC 5.46% (vs. 6.00%), STRS 8.20% (vs. 7.00%), OP&F 7.32% (vs. 7.50%), SERS 8.95% (vs. 7.00%), and HPRS 8.45% (vs. 7.25%).
- Over the trailing ten-year period, all of the funds have achieved their actuarial interest rate. Net of fees, PERS returned 7.59% (vs. 6.90% actuarial rate), PERS-HC 6.10% (vs. 6.00%), STRS 8.73% (vs. 7.00%), OP&F 8.24% (vs. 7.50%), SERS 9.23% (vs. 7.00%), and HPRS 8.47% (vs. 7.25%). During the same period, all of the funds exceeded their fund benchmarks.

RVK made the same summary comments as during the previous performance analysis:

1) Currently all the funds are diversified across multiple asset classes and exhibit characteristics of prudent investment diversification. RVK further noted that the determination of a fund's asset allocation is the single most important investment decision and is a major determinant of long-term return and the volatility risk of asset values. Creating a diversified portfolio of asset classes enables the investor to achieve a potential higher rate of return while minimizing the volatility of the portfolio. A fund following a smoother, less volatile path compounds value at a faster rate. RVK advised the ORSC to not assume that all the funds should have the same asset allocation. Differences in their liabilities, funding status,

⁵ The PERS health care portfolio (designated "PERS HC" by RVK) is tracked separately from the PERS pension benefit funds (designated as "PERS DB" or "PERS").

the risk tolerance of their fiduciaries and other factors will likely produce legitimate differences in asset allocation. They advised the ORSC and systems' boards to monitor changes in asset allocation over time.

2) While the report focuses on recent information in return and risk taken at each of the funds, RVK strongly encouraged the ORSC to focus on the 3- and 5- year risk and return results to better gauge the stewardship of pension assets.

STATUS OF HEALTH CARE FUNDS
THE 134th GENERAL ASSEMBLY
JANUARY 1, 2023 - DECEMBER 31, 2023

In 1974, the five public retirement boards were given broad discretionary authority to provide health care coverage to retirees and their dependents. Unlike pension benefits, which are vested upon retirement, health care benefits are not a vested right under Ohio's public pension laws. Therefore, the courts have determined that the boards are authorized to change the premiums, eligibility, and level of health care benefits at any time. A 2004 ruling by the Tenth District Court of Appeals⁶ upheld the discretionary nature of health care benefits in a lawsuit that had attempted to prevent the SERS Board from making changes to its health care plan. The Ohio Supreme Court let this decision stand in May 2005 when it declined to review the case.

Since 1974, each system has provided some level of comprehensive hospital, medical, and prescription drug coverage. In 1977, the systems were required by law to reimburse benefit recipients for Medicare Part B premiums (medical). Pension reform provided greater latitude to the respective boards on Medicare Part B premiums, and as a result, since 2017, neither PERS nor HPRS provide a reimbursement. Additionally, retirees who do not qualify for Medicare Part A (hospital) are provided a reimbursement for coverage. All employees hired on or after April 1, 1986, are required by federal law to contribute to Medicare and will, therefore, not require this reimbursement. Employees hired before that date were not required to contribute to Medicare. Additionally, as of 2019 and 2021, OP&F and PERS, respectively, do not provide direct insurance coverage, instead providing a stipend to retirees to purchase health care through a health care exchange.

Beginning in 2006, Medicare began offering a prescription drug benefit known as Medicare Part D. Low income retirees who qualify for a government subsidy for their Medicare prescription drug benefit may fare better under Medicare Part D than the systems' plans. These low income retirees will need to determine which prescription drug plan is better for them.

Controlling health care costs has been and continues to be a major concern for Ohio's retirement systems. In calendar year 2022, the total cost of providing retiree health care was approximately \$1 billion. As employee contributions are used solely to fund pension benefits under federal and state law, any discretionary health care costs borne by the retirement systems must be financed by excess employer contributions only; the systems are not permitted to use any employee contributions for health care.⁷

The retirement systems' actuaries annually review the amount of contributions required to fund vested pension benefits. Employer contributions in excess of what is needed to support those benefits can be allocated to health care. Each year the retirement systems review their health care plans and make adjustments as needed. The following chart indicates the percentage of employer contributions each system allocated to health care during 2023 and the projected solvency period for each system's health care fund.

⁶ *Ohio Assn. of Pub. School Emp. V. School Emp. Retirement Syst., 2004-Ohio-7101.*

⁷ R.C. 145.47, 26 U.S.C. 401(a), and 26 U.S.C. 401(h).

Ohio Retirement System	Percentage of Employer Contribution Allocated to Health Care in 2022	Projected Solvency Period for Health Care Funds (as of 2021)
PERS	0.00%	2050
STRS	0.00%	Indefinite**
OP&F	0.50%	2046
SERS	0.00%*	2058
HPRS	3.36%	2035

*Does not include employer health care surcharge of up to 1.5% state average of total active member payroll.

**"Indefinite" means that funding will last beyond 100 years if all assumptions are met.

REPORTS ON ENACTED PENSION LEGISLATION
THE 135th GENERAL ASSEMBLY
JANUARY 1, 2023 - DECEMBER 31, 2023

H.B. 33

H.B. 33 (the biennial budget bill) contained a number of provisions regarding the state retirement systems. The Act establishes a Contribution Based Benefit Cap (CBBC) in SERS, makes administrative changes to the PERS Combined Plan, specifies STRS membership for certain pre-service substitute teachers, PERS service credit purchase, and conforming changes to STRS Board appointing authority.

Effective Date: July 4, 2023

PENDING PENSION-RELATED ISSUES AND RECOMMENDATIONS
THE 134th GENERAL ASSEMBLY
JANUARY 1, 2023 - DECEMBER 31, 2023

The ORSC staff informs legislators and other elected officials of relevant public retirement issues and of prior recommendations that have been made but not acted upon by the legislature. There remain a number of issues and recommendations that continue to warrant legislative consideration. At its September 2014 meeting, the ORSC asked its staff to update these recommendations that have not been acted on. The list was presented and accepted at its November 2014 meeting. What follows is a brief summary of each issue and of action taken by the legislature or the ORSC, if any, in the 134th General Assembly.

Transfer of Service Credit and Retirement Eligibility in Uniform Services

Current provisions of law are preventing certain PERS Law Enforcement (PERS-LE) members from retiring, even though they have sufficient credit to do so.

For most of ORSC's history, OP&F has not permitted credit to be transferred from PERS to OP&F unless the member was actively serving as a police or fire fighter. Historically, this made sense, as PERS did not have a law enforcement division until 1975, and it did not make sense to provide an enhanced law enforcement benefit to a member who was not a law enforcement officer or fire fighter. However, since 1975, this restriction on credit transfers has continued even for PERS law enforcement.

As part of a broader movement to orderly transfer credit between the retirement systems, S.B. 42 of the 130th GA modified the transfer of credit between PERS, STRS, and SERS. One provision included a requirement that a member receive a benefit from the system in which they have the majority of credit. The bill also provided, for PERS but not STRS or SERS, that the "majority of credit provision" applied to credit transfers from OP&F and HPRS. Because service (including PERS-LE service) may not be transferred to OP&F or HPRS unless the member is in the active service of that system, certain members with split service between PERS and a uniform system are caught in a position where they are unable to retire, even though they have sufficient credit to do so.

In its recommendation in H.B. 520 of the 131st GA, the ORSC recommended that the active service requirement be removed from OP&F for PERS law enforcement members (but not non-law members) to allow the normal transfer of service credit. This recommendation was not part of the enacted version of H.B. 520, meaning that there will continue to be members with split service who are unable to retire, even though they have sufficient credit to do so. The ORSC reaffirmed this position in its analysis of H.B. 94 of the 135th General Assembly.

Community School Employees in STRS and SERS

Amendments to Am. Sub. H.B. 2 and Sub. H.B. 340 of the 131st General Assembly provided that certain community school employees would contribute to Social Security rather than STRS or SERS, and certain existing community school employees already contributing to both STRS and SERS would continue to dually contribute. ORSC staff issued

a memo on November 2, 2015, discussing the issue and noted that determination of these individuals is a matter unresolved by the IRS and that Ohio's Section 218 Agreement does not permit dual contribution to Social Security and a state retirement system. ORSC staff remarked that, depending on IRS eventual determination, additional changes to Am. Sub. H.B. 2 and Sub. H.B. 340 in the future may be required.

Triennially Reporting of Valuations

Pension reform during the 129th General Assembly included a modification of the timing of certain reports issued by OP&F. One modification required triennial valuations by OP&F, rather than annual.⁸ The ORSC recommended during pension reform that this provision remain annual, as it is for the other four retirement systems, an opinion concurred upon by independent consultants and again supported by the ORSC during the 130th General Assembly. No action has been taken by the General Assembly to revert the requirement to an annual valuation report. However, because of concern expressed by ORSC members at the September 12, 2013, ORSC meeting, OP&F Director John Gallagher indicated that OP&F would continue to supply annual valuation reports to the ORSC.

Board Authority

A component of pension reform in the 129th General Assembly was the authority of OP&F, SERS, STRS, and HPRS to independently adjust the plan design features of their respective retirement systems. Pension reform required the ORSC to review that authority. At the April 9, 2013, ORSC meeting, the ORSC recommended that the board authority provisions be modified in the following ways: 1) Any plan design change receive actuarial review; 2) Any plan design change receive review and prior-approval by the ORSC; 3) The board authority provisions be standardized and consistent among the systems; and 4) That objective, measurable standards be established to determine when a board is authorized to make or propose plan design adjustments.

There has been no further action on this recommendation. Subsequent to pension reform, further authority has been granted to SERS to adjust COLA in Am. Sub. H.B. 49 of the 132nd General Assembly. The ORSC disapproved of permitting the SERS Board to provide a COLA above CPI.

Ad Hoc Report on Disability Experience of Law Enforcement/Report Standardization Project

In November of 2012, Representative Schuring requested that ORSC staff provide an accounting of the disability experience of the law enforcement divisions, with recommendations to improve its functionality. ORSC staff issued a report in November 2014. The ORSC took no action on the report, but did ask staff to suggest a process to standardize all reports provided by the retirement systems to the ORSC. At its December 11, 2014, meeting, the ORSC modified then accepted a staff plan to standardize a number of reports. ORSC staff have completed the standardization of four reports (the Iran/Sudan Divestiture Report, Internal Audit Report, Budget Report, and Annual Health Care Report)

⁸ R.C. 742.14(A).

and are continuing the standardization project. The final report to be standardized is the Annual Disability Report.

Actuarial Funding of Pension Benefits

There are generally three sources of revenue for the public retirement systems to fund, on an actuarial basis, their defined benefit plans: (1) employee contributions; (2) employer contributions; and (3) investment earnings. Investment earnings are typically the largest source of revenue for the five public retirement systems, funding up to 80% of the benefits paid. Therefore, the experience of a retirement system meeting its actuarial interest rate is essential to funding promised benefits. The actuarial interest rate is the rate of return the retirement system uses in anticipating sufficient funding levels in the future.

10-year actuarial interest rates The most recent semi-annual investment review required by law as of June 30, 2023, indicated that over the trailing ten-year period, all of the funds have achieved their actuarial interest rate.

The success of a system in meeting its long term actuarial interest rate is one of the most closely monitored data points by the ORSC, but it is not the sole determining factor of adequate pension funding.

Adequacy of OP&F contribution rates The ORSC is required to conduct an annual study on the adequacy of contribution rates of OP&F.⁹ The 2022 study was reviewed at the September 14, 2023, ORSC meeting. In that report, PTA/KMS found that the assumed level of future OP&F administrative expenses was not realistic and not an appropriate consideration. A recalculation of the OP&F funding period that excludes a \$9 million PERS adjustment would result in a funding period of 31 years (rather than a 29 year period calculated by the OP&F actuary).

Cost and Funding of Retiree Health Care Benefits

All of the retirement systems face significant challenges controlling health care costs while maintaining meaningful coverage. The significant investment losses experienced from March 2000 to March 2003, the recession of 2008-2009, and general market declines in 2022 have exacerbated the health care funding problem; the retirement systems must first fund their statutory mission, guaranteed pension benefits, which has required a reduction in the amount allocated to discretionary retiree health care benefits. The pre-Medicare retirement ages for many public employees create an additional challenge for each retirement system's health care program.

Remove 13th Check Authority in STRS

R.C. 3307.671 permits the STRS Board to provide a supplemental benefit to retirees. This has often been referred to as the "13th check." The repeal of this section was initially advocated in 1996 under the "Joint Legislative Committee to Study Ohio's Public Retirement Plans"¹⁰ and the ORSC has continued to support its immediate removal from the

⁹ R.C. 742.311.

¹⁰ 1996 Joint Legislative Committee to Study Ohio's Public Retirement Plans, chaired by Sen. Cooper Snyder and Rep. Dale Van Vyven.

Ohio Revised Code. Authority to provide to a "13th check" is a divestment of fund assets to the benefit of one generation over another.

STRS does not currently provide this supplemental benefit, but existing law could be used to provide such a benefit.

Update Past Studies Relative to Disparity of Employer Rates in OP&F

Employer contribution rates for police and firefighters are established in statute. Police employers are required to contribute an amount equal to 19.50% of salary, while firefighter employers are required to contribute 24%. In its annual study on the adequacy of contribution rates, ORSC's previous actuary, Milliman, recommended a blending and equalizing of those rates at a weighted average of 21.5%.¹¹ Their position was that without equalizing the rates, firefighters are in part subsidizing the benefits of police officers. Previous funding plans proposed by OP&F have also proposed equalizing the rates.

Reemployment Provisions

There continues to be legislative interest in the re-employment provisions of the five public retirement systems that allow members who have been retired to return to public employment while continuing to receive their pension. Recommendations have varied depending on if the re-employment resulted from a "retired-rehired" process, in which the member retired and then was rehired in the exact same position, versus so-called "double-dipping," where the member retires and returns to employment in a new capacity (for instance, a retired teacher becomes a state legislator). In the past, the ORSC has recommended that the re-employment provisions be standardized and more robust penalties be issued for "retired-rehired" situations, rather than establishing a uniform prohibition of re-employment.

Mandatory Social Security

The State of Ohio has a long and successful record of opposing mandatory Social Security coverage for its public employees. This issue continues to resurface in the context of various Social Security reform proposals as a means of generating additional revenues for Social Security. The General Assembly and the ORSC has consistently opposed efforts to require Social Security participation.

Purchase of Service Credit

In 2007, pursuant to the ORSC's request, Milliman completed a report on the cost of purchasing service credit. The report noted that with regard to health care benefits, should they be reduced in the future, some of the additional health liabilities could be eliminated. Additionally, if service purchases did not count toward eligibility or amount of health care benefits, then the additional health care liabilities would be eliminated. The report revealed that the retirement systems subsidized the purchase of credit in nearly every case in 2005.

¹¹ Milliman USA letter to ORSC dated June 6, 2002.

Pension reform has largely eliminated this subsidization. Any additional purchases requiring subsidization that were inadvertently excluded should be reviewed to determine if they should likewise be modified.

Independent Legal Counsel

In 2006, fiduciary audits of STRS and OP&F were completed by Independent Fiduciary Services. One of the recommendations was that Ohio law should be amended to authorize the retirement systems' boards to retain independent outside legal counsel without the prior approval of the Ohio Attorney General. This recommendation has not been acted upon but was reaffirmed by the ORSC at its November 2014 meeting and also supported in the PERS fiduciary audit conducted by Aon in 2019. However, in its 2017 fiduciary audit of SERS, Funston found that this structure did "not appear to be causing problems." Funston Advisory Services similarly found in its 2022 fiduciary audit of both OP&F and STRS that the General Assembly should consider if the respective boards should be permitted to select its own external legal counsel.

Custodian

Another recommendation from the 2006 fiduciary audits of STRS and OP&F that has not been acted upon was that the applicable Ohio statutes should be amended to grant authority to select, contract with, manage, and terminate the financial institution(s) that will provide master custody services to the retirement systems, which are subject to the oversight jurisdiction of the ORSC. ORSC reaffirmed this position at its November 2014 meeting.

Subsequent to the reaffirmation of this position, two additional consultants, Funston (2017 fiduciary audit of SERS and 2022 fiduciary audits of STRS and OP&F) and Aon (2019 fiduciary audit of PERS), found that the model used in Ohio results in higher costs and complexity for, respectively, SERS, PERS, STRS, and OP&F custodial services and recommended that the boards be provided authority to contract directly with a single global custodial bank.

Review of Policy Framework for Pensions

During its 2012 review, PTA/KMS stated that "a well-defined public policy acts as a standard against which any proposal can be fairly analyzed." They found that the current ORSC policy statement appeared to be dated, incomplete, and on occasion, inconsistent with current practices and provisions. From existing files, it appears the ORSC "Principles Governing Pensions" has not been amended since its adoption in 1978.

PTA/KMS recommended that the ORSC consider updating this policy framework. This recommendation has not been acted upon but was reaffirmed by the ORSC at its November 2014 meeting.

Implement a Declining 30-year Funding Policy

Under current law, each year the 30-year funding period described under page three above ("30-Year Funding Plans") is reset, meaning it is not a requirement to make *progress* to achieve full funding only that a system is not to *exceed* the 30-year period. PTA/KMS

recommended in its 2012 review that the 30-year funding policy be modified to provide that it is an absolute funding limit rather than a minimum standard. They recommended a removal of the 30-year funding period as an objective in favor of the establishment of a declining 30-year period that aims for a funding period of 15-20 years.¹²

At its February 2015 meeting, the STRS Board adopted a closed 30-year funding period beginning July 1, 2015. Under a closed funding policy, a retirement system selects a date target to be fully funded—in this case STRS policy aims for a fully funded plan by 2045. A closed funding policy requires that a system make *progress* toward funding its total unfunded liabilities. The SERS funding policy has advocated for a closed 30-year funding period since 1998. PERS, OP&F, and HPRS do not have a closed 30-year funding policy.

¹² William Forna, Linda Bournival, and Paul Schrader, “Analyzing Retirement Systems’ 30-Year Plans and Alternative Pension Reform Solutions” (2012), 36. Available online at: <https://orsc.org/Assets/Reports/93.pdf>

DOCUMENTS STATUTORILY REQUIRED OF THE RETIREMENT SYSTEMS
THE 134th GENERAL ASSEMBLY
JANUARY 1, 2023 - DECEMBER 31, 2023

The retirement systems are required by statute to submit various documents to the ORSC to assist the ORSC in its evaluation of the systems. The following is a listing of each report the retirement systems are required to submit to the ORSC along with a very brief summary of the contents of the report. Copies of completed reports can be obtained at the ORSC office and the ORSC website (www.orsc.org).

Annual Actuarial Valuation (R.C. 145.22(A), 742.14(A), 3307.51(A), 3309.21(A), 5505.12(A))

This annual report is an actuarial valuation of the pension assets, liabilities, and funding requirements of the retirement systems. With the exception of OP&F, which requires triennial valuations, the actuarial valuation must be submitted annually to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation. These reports were timely issued. This review also fulfilled the requirements of R.C. 5505.152.

Annual Report on Health Care (R.C. 145.22(E), 742.14(E), 3307.51(E), 3309.21(E), 5505.12(E))

This report provides a full accounting of the revenues and costs relating to health care benefits. The report on health care must be submitted annually to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation. These reports were timely issued.

Quinquennial Investigation (R.C. 145.22(B), 742.14(C), 3307.51(B), 3309.21(B), 5505.12(B))

This report must be completed at least once every five years. It is an actuarial investigation of the mortality, service, and other experience of the members, retirees, contributors, and beneficiaries of the system to update the actuarial assumptions used in the actuarial valuation. This quinquennial review must be submitted to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation. No quinquennial reviews were required in 2023.

Annual Report on Disability Experience (R.C. 145.351, 742.381, 3307.513, 3309.391, 5505.181)

The report details the preceding fiscal year of the disability retirement experience of each employer. The report must specify the total number of disability applications submitted, the status of each application as of the last day of the fiscal year, total applications granted or denied, and the percentage of disability benefit recipients to the total number of the employer's employees who are members of the respective retirement system. The report on the disability experience must be submitted to the Governor, the ORSC, and the chairpersons of the standing committees and subcommittees of the House of Representatives and Senate with primary responsibility for retirement legislation. These reports were timely issued.

30-Year Funding Period (R.C. 145.221, 742.16, 3307.512, 3309.211, 5505.121)

This report is required if the system's funding period exceeds 30 years. The report must include a plan approved by the system's board that indicates how the board will reduce the amortization period of unfunded actuarial accrued liability to not more than 30 years. The report on the 30-year funding period must be submitted to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation not later than 90 days after the retirement system board receives the actuarial valuation in which the funding period exceeds 30 years. No 30-year plans were required in 2023.

Actuarial Analysis of Legislation (R.C. 145.22(D), 742.14(D), 3307.51(D), 3309.21(D), 5505.12(D))

These reports are required when any introduced legislation is expected to have a measurable financial impact on the retirement system. The actuarial analysis must be submitted to the ORSC, the Legislative Service Commission, and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation within sixty days from the date of introduction of the legislation.. An actuarial analysis of H.B. 94, regarding transfer of certain law enforcement credit, was completed.

Budgets (R.C. 145.092, 742.102, 3307.041, 3309.041, 5505.062)

Each retirement system is required to submit to the ORSC its proposed operating budget, along with the administrative budget for the board, for the next immediate fiscal year at least 60 days before adoption of the budget. The budgets were timely submitted.

Audit Committee Report (R.C. 145.095, 742.105, 3307.044, 3309.044, 5505.111)

Each retirement system is required annually to submit to the ORSC a report of the actions taken by its Audit Committee. These reports were timely issued.

Rules

The systems are required to submit to the ORSC a copy of the full text, rule summary, and fiscal analysis of each rule they file with the Joint Committee on Agency Rule Review (JCARR) pursuant to R.C. 111.15. The systems' rules were reviewed in 2023 and any concerns were resolved through ORSC meetings and discussions with JCARR staff.

Divestment of Assets in Iran and Sudan

Section 707.20 of H.B. 562 of the 127th General Assembly required OP&F to establish a policy for the identification of businesses in which the fund has direct or indirect holdings that are engaged in scrutinized activities in Iran or Sudan and a policy to divest those holdings. OP&F has continued to report on those efforts and, as of December 2022, had reduced the market value of those holdings by 100%. The other retirement systems have voluntarily developed a policy of divestiture of holdings of companies conducting business in Iran and Sudan.

DOCUMENTS STATUTORILY REQUIRED OF THE ORSC
THE 134th GENERAL ASSEMBLY
JANUARY 1, 2023 - DECEMBER 31, 2023

The ORSC is required by statute to issue various reports. The following is a listing of each report that ORSC is required to complete along with a very brief summary of the contents of the report. Copies of completed reports can be obtained at the ORSC office or the ORSC website (www.orsc.org).

Investment Performance (R.C. 171.04(D))

The ORSC is required to semiannually review the policies, objectives, and criteria of the retirement systems' investment programs, including a review of asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, relative volatility, and performance evaluation guidelines. **ORSC's consultant (RVK) provided these reviews to the ORSC in 2023.**

10-Year Actuarial Review (R.C. 171.04(E))

The ORSC is required, at least once every 10 years, to complete an actuarial review of the actuarial valuations and quinquennial actuarial investigations of the retirement systems, including a review of the actuarial assumptions and methods, the data underlying the valuations and investigations, and the adequacy of each system's employee and employer contribution rates to amortize its unfunded liability.

No actuarial reviews were required in 2023.

10-Year Fiduciary Performance Audit (R.C. 171.04(F))

The ORSC is required, at least once every 10 years, to complete a fiduciary performance audit of each retirement system. **ORSC contracted with Funston Advisory Services to complete a fiduciary performance audit of HPRS in 2022. Those reports were completed in 2023.**

Annual Review of OP&F Contribution Rates (R.C. 742.311)

The ORSC is required, annually, to review the adequacy of employer and employee contribution rates under OP&F and make recommendations on the proper financing of the benefits of the Fund. **The 2022 report was presented to the ORSC at its September 14, 2023, meeting.**

ORSC Annual Budget (R.C. 171.05)

The ORSC is required, annually, to submit a budget of its expenses. **The ORSC budget was submitted and approved in May of 2023.**

ORSC Annual Report (R.C. 171.04)

The ORSC is required, annually, to submit a report on its evaluation and recommendations regarding the state retirement systems. **The 2022 report was submitted in March 2023.**

STATUS OF PENSION LEGISLATION
THE 135th GENERAL ASSEMBLY
JANUARY 1, 2023 - DECEMBER 31, 2023

HOUSE BILLS

<u>H. Bill</u>	<u>H. Int.</u>	<u>Actuarial Received</u>	<u>Short Title</u>	<u>ORSC Pos.</u>	<u>H. Cmt</u>	<u>Reported Out = Floor Vote</u>	<u>Sen. Int.</u>	<u>Sen. Cmt</u>	<u>Reported Out = Floor Vote</u>	<u>Conf Cmt</u>	<u>Con.</u>	<u>Eff Date</u>
HCR 6	3/14/2023		King/Plummer, Urge Congress to Repeal the Windfall Elimination Provision		PEN	5/22/23 cmte 12/6/23 floor	12/11/2023	GO				
HB 4	2/15/2023		Young/King, Economic Boycotts		FI							
HB 33	2/15/2023		Edwards-Biennium Budget		FIN	4/26/2023	4/27/2023	FIN	6/14/2023 cmte 6/15/2023 floor	6/30/2023		Various
HB 78	2/27/2023		Seitz/Miller, A., STRS Board Membership and Elections	AA	PEN	10/3/23 cmte 12/6/23 floor	12/11/2023	INS				
HB 94	3/7/2023		Click/Willis, Uniform service credit transfers to OPERS	AA	PEN							
HB 146	4/4/2023		Bird, SERS Contribution based benefit cap		PEN							
HB 257	8/22/2023		Hoops/ Claggett, Virtual meetings	A	GO	11/15/23 cmte 11/29/23 floor	12/5/2023	GO				
HB 261	9/12/2023		Patton/Sweeney, Make EMS "Public Safety Officers" under PERS	D	PEN							
HB 296	10/10/2023		Abrams/Hall, OP&F contribution rate		PEN							
HB 310	10/30/2023		Jones, STRS Military Service Credit		PEN							
HCR 6	3/14/2023		King/Plummer, Urge Congress to Repeal the Windfall Elimination Provision		PEN	5/22/23 cmte 12/6/23 floor	12/11/2023	GO				
HB 4	2/15/2023		Young/King, Economic Boycotts		FI							

HB 33	2/15/2023	Edwards-Biennum Budget		FIN	4/26/2023	4/27/2023	FIN	6/14/2023 cmte 6/15/2023 floor	6/30/2023	Various
HB 78	2/27/2023	Seitz/Miller, A., STRS Board Membership and Elections	AA	PEN	10/3/23 cmte 12/6/23 floor	12/11/202 3	INS			
HB 94	3/7/2023	Click/Willis, Uniform service credit transfers to OPERS	AA	PEN						
HB 146	4/4/2023	Bird, SERS Contribution based benefit cap		PEN						

SENATE BILLS

<u>S. Bill</u>	<u>S. Int.</u>	<u>Actuarial Received</u>	<u>Subject, Sponsor, and System</u>	<u>QRSC Pos</u>	<u>S. Cmt</u>	<u>Reported Out – Floor Vote</u>	<u>H. Int.</u>	<u>H Cmt</u>	<u>Reported Out – Floor Vote</u>	<u>Con. Cmt.</u>	<u>Con</u>	<u>Eff Date</u>
SB 1	1/11/20 23		Education Reform (Watching)		ED	3/1/23 cmte 3/1/23 floor	3/17/2023	EWD				
SB 6	1/11/20 23		Schuring, ESG prohibition	A	FIN	4/18/23 cmte 5/10/23 floor	5/16/2023	FI				
SB 18	1/11/20 23		Wilson, Data storage state agencies (Watching)		GO							
SB 91	3/22/20 23		Schaffer, T., Fraud, waste, and abuse (Watching)		GO	6/21/23 cmte 6/28/23 floor	6/29/2023	GO	12/13/23 cmte 12/13/23 floor		12/13/2023	
SB 168	10/3/20 23		Reynolds, Education Reform (Watching)		ED	12/13/23 cmte 12/13/23 floor	12/19/2023	PSE				
SB 194	11/27/20 23		Reynolds, OP&F contribution rate		INS							
SB 1	1/11/20 23		Education Reform (Watching)		ED	3/1/23 cmte 3/1/23 floor	3/17/2023	EWD				

HOUSE COMMITTEE ABBREVIATIONS

FIN Finance
FI Financial Institutions
GO Government Oversight
INS Insurance
PEN Pensions

SENATE COMMITTEE ABBREVIATIONS

ED Education
FIN Finance
GO Government Oversight
INS Insurance

ORSC POSITION

A Approved
D Disapproved
AA Approved with Amendment
AD Action Deferred
N/A No Action Required

LEGISLATIVE ACTION

A Amended
S Substitute
P Postponed Indefinitely
R Rereferred
V Vetoed
E Emergency
CR Concurrence Refused