ORSC

The Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215-3506
Phone: (614) 228-1346
Fax: (614) 228-0118
Website: www.orsc.org

Annual Report 2011

Evaluations and Recommendations Regarding the Operations of the State Retirement Systems and Their Funds

First Half of the 129th General Assembly
January 1, 2011 – December 31, 2011

February 2012

MEMBERS OF THE OHIO
RETIREMENT STUDY COUNCIL

SENATORS

Keith Faber, Chair
Scott Oelslager
Charleta B. Tavares

REPRESENTATIVES

Lynn Wachtmann, Vice-Chair
Dan Ramos
Kirk Schuring

APPOINTED BY THE GOVERNOR

Lora Miller
Seth Morgan
Vacant

EX-OFFICIO

Mark Atkeson, Highway Patrol Retirement System
Karen Carraher, Ohio Public Employees Retirement System
William Estabrook, Ohio Police and Fire Pension Fund
Lisa Morris, School Employees Retirement System
Mike Nehf, State Teachers Retirement System

INTERIM DIRECTOR

Annemarie Erkman

ANNUAL REPORT

FIRST HALF OF THE 129TH GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2011

February 2012

TABLE OF CONTENTS

Introduction

The Ohio Retirement Study Council (ORSC) is pleased to submit this report on the five state retirement systems and the fund for volunteer firefighters for the period beginning January 1, 2011 and ending December 31, 2011. This report is submitted pursuant to section 171.04(B) of the 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"*.

The State of Ohio has a long and successful track record regarding its five statewide retirement systems. The oldest of these retirement systems is the State Teachers Retirement System (STRS), which was created in 1920 for teachers in the public schools, colleges, and universities. The Public Employees Retirement System (PERS) was created in 1935 for state employees, with local government employees added in 1938. The School Employees Retirement System (SERS) was created in 1937 for non-teaching employees of the various local school boards. The Highway Patrol Retirement System (HPRS) was created in 1941 by the withdrawal of all state troopers from PERS. The Ohio Police and Fire Pension Fund (OP&F) was created in 1967 after the abolition of 454 local police and fire relief and pension funds, many of which predated the Social Security System created in 1935 and many of which were on the verge of financial insolvency. A special retirement program administered by PERS was subsequently created in 1975 for certain law enforcement officers, including sheriffs, deputy sheriffs, township police and various others. Today the five systems have combined assets of nearly $162.4 billion (as of January 1, 2011) and approximately 689,578 active contributing members, 695,480 inactive members, and 407,372 beneficiaries and recipients. The February 7, 2011 issue of Pensions and Investments included a list of the top 200 public and private pension funds in the nation. Four of Ohio's five public retirement systems are listed in the top 200. PERS ranked 15th out of all public and private; STRS ranked 18th out of all public and private funds; OP&F ranked 113th; while SERS ranked 126th among all public and private pension funds.

Created in 1968, ORSC was one of the first permanent pension oversight commissions in the nation. The Council was designed to develop legislative leadership in the area of retirement pensions for public employees. It is empowered 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. It must report to the Governor and the General Assembly concerning its evaluation and recommendations with respect to the operations of the systems. The Council 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 Council evaluates the operations of the systems on a continuing basis. During the past year the Council also reviewed the retirement systems' investment performance, operating budgets, and compliance with various provisions of S.B. 133 (eff. 9-15-04). In addition, ORSC staff presented to the Council analyses of legislation and updates on administrative rules filed by the systems. The analyses of legislation always contain staff recommendations and staff makes recommendations regarding changes in proposed administrative rules as needed.

All of the Council's reports and legislative analyses can be found on the Council's website at www.orsc.org. In addition, the website contains links to all five retirement systems, their laws, and various pension-related organizations. Staff recently archived all legislative changes to the laws affecting the ORSC and each retirement system. These archived laws are now available on our website.

This report is a compilation of the evaluations and recommendations the Council made throughout the year. It provides a summary of the ORSC reports completed during the first half of 2011, pending public retirement issues, and staff recommendations. In addition, it provides a historical record of legislative action taken by the 129th Ohio General Assembly on bills affecting PERS, STRS, SERS, OP&F, HPRS and the Volunteer Fire Fighters' Dependents Fund (VFFDF).

The report is divided into eight sections: Systems' Investment Performance; Status of Health Care Funds; Reports on Pending Pension Legislation; Reports on Enacted Pension Legislation; Pending Pension-Related Issues; Documents Submitted by the Retirement Systems; Subject Index of Pension Bills Introduced; and Status of Pension Legislation.

The Systems' Investment Performance section provides a summary of the investment performance reviews completed by Evaluation Associates, LLC (a subsidiary of Milliman), during 2011. The full reports can be obtained from the ORSC office or on the ORSC website: www.orsc.org.

The Status of the Health Care Funds provides a summary of the major changes made to the systems' health care benefits for 2012. The summaries of health care plan changes include an overview of changes the systems made relative to prescription drugs, benefits, premiums, eligibility, and plan design. In addition, it provides information regarding the amount of employer contributions that will be allocated to healthcare during 2012.

The Reports on Pending Pension Legislation section provides a detailed examination of each pension bill the ORSC has taken a position on during the first half of the 129th Ohio General Assembly, including the name of the principal sponsor, a description of its contents, its fiscal impact, and the ORSC position. These reports are intended to give the reader an awareness and understanding of all substantive changes made to the state retirement plans; they are not intended to serve as a substitute for the statutory laws governing these plans.

The Reports on Enacted Pension Legislation section provides a detailed examination of each pension bill enacted into law during the first half of the 129th Ohio General Assembly, including the name of the principal sponsor, a description of its contents, its fiscal impact, the ORSC position and its effective date. Like the Reports on Pending-Pension Legislation, the reports are intended to give the reader an awareness and understanding of all substantive changes made to the state retirement plans; they are not intended to serve as a substitute for the statutory laws governing these plans.

The Pending Pension-Related Issues section provides a summary of relevant public retirement issues and prior staff recommendations that have been made, but not acted upon by the legislature. It includes a brief summary of the issues and whether any legislation has been introduced this session that addresses the issue.

The Documents Statutorily Required of the Retirement Systems section provides information on all reports that the retirement systems are required by law to submit to the ORSC.

The Subject Index of Pension Bills Introduced provides a listing of legislation under subject headings and a key word description within the subject heading. Bills that cover more than one subject area are listed under all appropriate headings. All subject headings are listed at the beginning of the index for quick reference.

The Status of Pension Legislation provides a record of the legislative action taken on pension bills at each step of the legislative process from the date of introduction to the date of enactment, including the committee assignments in each house of the Ohio General Assembly, the date reported by the committees, the date passed by each house and the date reported by a conference committee and/or concurred in by the other house. Also provided are a brief description of the subject of the pension bill and the ORSC position on the bill. A key to all abbreviations used in the Status of Pension Legislation is found on the last page.

SYSTEMS' INVESTMENT PERFORMANCE

FIRST HALF OF THE 129TH GENERAL ASSEMBLY

JANUARY 1, 2011 – DECEMBER 31, 2011

Section 171.04(D) of the Revised Code requires the ORSC to conduct a semiannual review of the policies, objectives, and criteria of the systems' investment programs. The ORSC has hired Evaluation Associates, LLC to conduct the reviews. These reports are submitted to the Governor and General Assembly. The following is a summary of the investment reviews completed during 2011:

Investment Performance Review (Fourth Quarter 2010, June 30, 2011) -
This report, which was presented at the June 30, 2011 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning January 1, 2001 and ending December 31, 2010. The findings of this report are summarized as follows:

- During the third and fourth quarters of 2010, the financial markets rallied with a strong rebound. As a gauge of the marketplace, the Wilshire 5000 finished +24.42% and the MSCI EAFE returned +24.18% for the last two quarters of 2010. The global economic recovery appears to be underway fueled by better-than-expected corporate earnings, mostly favorable economic data and an increase in M&A activity. Clouding the global economic picture was the worsening financial condition of peripheral European countries including Ireland, Portugal and Spain. Despite persistently high U.S. unemployment, investor sentiment also improved. The second round of quantitative easing combined with the passage of the $858 billion Bush-era tax-cut extension led to an increase in consumer and business spending. Global and domestic equity markets showed strength despite the continuing sovereign debt crisis in Europe. Most segments of the bond market fell but investor interest in higher yielding debt remained strong.

- The Ohio Statewide fund returns for the six-month period ranged from 18.66% (OP&F) to 15.19% (SERS). Five of six systems outperformed their respective policy index for the six-month period. The best relative performers were SERS (15.19%) and OP&F (18.66%), outperforming their benchmarks by 295 and 211 basis points, respectively. OP&F was the best absolute performer, increasing 18.66% over the last two quarters, and outpacing its benchmark by 211 basis points. SERS rose 15.19% and outperformed its benchmark by 2.95%, PERS DB increased 16.94% and outperformed its benchmark by 90 basis points, PERS HC gained 16.76% and outpaced its benchmark by 25 basis points, STRS increased 16.17% and outperformed its benchmark by three basis points, and HPRS gained 15.82% and trailed its benchmark by 16 basis points.

- In comparison to a broad universe of other public retirement systems (the BNY Mellon All Public Total Fund Universe), OP&F and PERS DB plans ranked in the first quartile for the six-month period ending December 31, 2010. PERS HC, STRS and HPRS ranked in the second quartile, and SERS ranked in the third quartile. OP&F ranked in the 4th percentile, PERS DB ranked in the 25th percentile, PERS HC ranked in the 26th percentile, STRS ranked in the 33rd percentile, HPRS ranked in the 41st percentile and SERS ranked in the 52nd percentile.

- For the one-year period ending December 31, 2010, OP&F (+15.83%) outperformed its benchmark by 322 basis points. SERS (+12.35%) outperformed its benchmark by 197 basis points. PERS DB (+14.01%) outperformed its benchmark by 95 basis points, PERS HC (+13.51%) outperformed its benchmark by 63 basis points, HPRS (+13.60%) outperformed its benchmark by 20 basis points, and STRS (+13.49%) underperformed its benchmark by 10 basis points. Against their peers in the BNY Mellon All Public Total Fund Universe, five of six plans placed above the median, with OP&F placing in the 9th percentile among its peers. The remaining five funds placed in the 35th, 44th, 45th, 46th, and 62nd percentiles (PERS DB, HPRS, PERS HC, STRS and SERS, respectively).

- On a three-year basis, OP&F and PERS DB were the best relative performers, with OP&F leading its benchmark by 53 basis points, and PERS DB lagging its benchmark by one basis point. PERS HC, STRS, SERS and HPRS lagged their benchmarks by 35, 35, 87, and 108 basis points, respectively. Comparing the three-year returns of the systems to the BNY Mellon All Public Total Fund Universe, only one plan ranked above the median. PERS HC ranked in the 20th percentile, followed by OP&F, HPRS, PERS DB, STRS and SERS, which ranked in the 61st, 65th, 69th, 83rd, and 91st percentiles, respectively.

- For the five-year period, two of the six systems outpaced their respective policy benchmarks, with OP&F and STRS outperforming their benchmark by 63 and 15 basis points, respectively. In comparison to the BNY Mellon All Public Total Fund Universe, OP&F (+5.24%) ranked in the top quartile, while PERS HC (+4.86%) ranked in the second quartile. PERS DB (+4.39%), STRS (+4.34%) and HPRS (+4.30%) all ranked in the third quartile. SERS (+3.62%) ranked in the fourth quartile of the peer universe.

- Over the three, five and ten-year periods, all five plans trailed their actuarial interest rate. When compared to each system's respective policy benchmark, all of the five plans outperformed their individual benchmarks. Over the ten-year period, OP&F (+5.60%), STRS (+5.03%), PERS DB (+4.99%), HPRS (+5.09%) and SERS (+4.26%) outperformed their benchmarks by 45, 36, 18, five and two basis points, respectively. Relative to the peer group universe, OP&F, HPRS, STRS, PERS DB and SERS placed in the 17th, 42nd, 45th, 47th, and 83rd percentiles, respectively over the ten-year period.

- Please note that comparing investment performance relative to the plans' actuarial interest rate and policy benchmark are of primary importance, while peer group comparisons, although useful, should be of secondary importance in the performance evaluation process. In addition, since the plans have long-term funding schedules and investment time horizons, more emphasis should be placed on evaluating performance over longer holding periods.

- During the ten-plus years that we have been reviewing the results of the systems on behalf of the Council, the asset allocation targets have became more similar and are reasonably close to each other. The obvious exception is PERS HC. It is important to note that they have a lower actuarial interest rate target than the others, at 6.7%. The retirement plans all have actuarial return assumptions of 8.00% to 8.25%. As a result, PERS HC has a lower equity and higher fixed income allocation than the retirement plans. This similarity in policy makes comparing one system's results to the other a more meaningful exercise over the more recent time periods. Changes to asset allocation policy during the most recent six-month period by all six plans will likely cause some comparison differences in the near future.

- Appendix 1.1 and 1.2 at the end of this report compares the current and target asset allocation of each of the systems to two public fund universes, the total universe of public funds and the universe of public funds in excess of $1 billion. The following observations are based on a review of the systems' asset allocation in comparison to those peer universes:

    - The actual and target asset allocation of HPRS domestic equity ranked above the median plan's allocation to domestic equity (43.34%) in the BNY Mellon All Public Total Fund Universe. For OP&F, the actual domestic (38.94%) and target allocation (36.90%) were below the median. The actual (25.88%) and target (22.50%) allocation of SERS, the actual (35.70%) and target (35.45%) allocation of PERS DB, the actual (30.12%) and target (30.15%) allocation of PERS HC, as well as the actual (38.41%) and target (39.00%) allocation of STRS to domestic equity were all below that of the median plan.

    - Three of the six systems' actual and target asset allocations to fixed income were well below the median plan (27.25%) of the BNY Mellon All Public Total Fund Universe. PERS HC was the exception with a target (34.00%) and actual allocation (32.59%) above the median. The OP&F actual (25.71%) and target (26.10%) allocation, and PERS DB actual (23.76%) and target (25.00%) allocation, were slightly below the median.

    - The median plan allocation of the BNY Mellon All Public Total Fund Universe to non-U.S. equity as of December 31, 2010 was 17.24%. The target allocation for HPRS was slightly below the median at 15.00%, as was its actual allocation of 15.00%. The target allocations for the remaining plans were significantly above the median, with the actual allocations following suit.

    - The universe median allocation to real estate of the BNY Mellon All Public Total Fund Universe was 5.57% as of December 31, 2010. The target allocation of each of the systems, with the exception of HPRS (5.00%), is above the median allocation. In addition, the HPRS actual allocation (2.74%) was below the median, while the actual allocations for the remaining systems were above.

    - SERS has actual (22.02%) and target (25.00%) allocations to alternatives well above the peer median of 9.66%. HPRS has actual (18.49%) and target

(15.00%) allocations to alternatives also above the median. The remaining plans have lower target allocations to alternative assets.

- Overall, we believe this report provides the ORSC with a consolidated source of valuable information to assist in its oversight of the six Ohio Statewide funds and ensure that investment policies are effectively implemented. While the report does not provide very specific underlying portfolio detail, it does provide the necessary information to allow the ORSC to ask the right questions and act as an early indicator of potential issues that should be delved into in more detail. Any modifications to the report will only serve to enhance that ability.

- For performance reporting purposes, the asset allocation benchmarks in this report are generally consistent with investment policy asset allocations for all plans. As we previously stated, one of the primary purposes of this report is to provide an accurate representation of plan performance of the Ohio Retirement Systems and to provide an "apples to apples" comparison of the Retirement Systems' investment results. In order for this performance report to fulfill this purpose, it is necessary that each plan provide accurate information. In light of the increased complexity of the plans' portfolios, we have divided the "alternative investment" performance table into separate and distinct categories including private equity, hedge funds, and "other." Footnotes have been added to provide clarity. We will continue to review current performance benchmarking practices and make recommendations to ensure consistent and transparent reporting for all plans in subsequent performance reports.

- In light of the low investment returns experienced over the past three, five and ten-year year periods, the Systems should continue to re-evaluate investment, funding, and benefits policies. Potential changes to the Boards' long-term investment policies may include further diversification into alternative investments including hedge funds, private equity, commodities, and infrastructure. Changes to funding policies may include raising the contribution rates. Changes to benefits policies may include changes in plan eligibility or plan design.

- The Systems' investment policies are changing and we will, of course, continue to review any changes and proposed changes to the Systems' investment policies and report them to the ORSC in subsequent performance reports.

STATUS OF HEALTH CARE FUNDS

FIRST HALF OF THE 129th GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2011

In 1974, the five state retirement boards were given broad discretionary authority to provide health care coverage to retirees and their dependents. Unlike pension benefits, which become vested upon retirement, health care benefits are not a vested right under Ohio's public pension laws. Therefore, 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 Appeals (Ohio Association of Public School Employees, et al. v. School Employees Retirement System Board, et al.) 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 statutorily to reimburse benefit recipients for Medicare Part B premiums (medical). Retirees who do not qualify for Medicare Part A (hospital) are provided equivalent coverage under the systems' health care plans. All employees hired on or after April 1, 1986 are required by federal law to contribute to Medicare.

Beginning in 2006, Medicare began offering a prescription drug benefit known as Medicare D. For most retirees, the prescription drug benefit provided by the systems is superior to the benefit offered by Medicare. However, low income retirees who qualify for a government subsidy for their Medicare prescription drug benefit may fare better under Medicare D so they will need to determine which 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 2011, the total retiree health care costs paid by the retirement systems were over $2.6 billion. By law, any health care costs borne by the retirement systems must be financed by employer contributions only. The retirement systems' actuaries review annually the amount of contributions required to fund vested pension benefits. Contributions in excess of what is needed to support those benefits can be allocated to health care. The following charts indicate the percentage of employer contribution each system intends to allocate to health care during 2012 and the projected solvency period for each system's health care fund.

Ohio Retirement System	**Percentage of Employer Contribution Allocated to Health Care in 2012**
OPERS	4.00%
STRS	1.00%
SERS	0.55%*
OP&F	6.75%
HPRS	1.75%

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

Projected Solvency Period for Health Care Funds	
OPERS	2021 (as of 12/10)
STRS	2024 (as of 1/11)
SERS	2023 (as of 6/11)
OP&F	2043 (as of 10/11)
HPRS	2022 (as of 12/10)

Each year the retirement systems review their health care plans and make adjustments as needed. Below is a description of the changes to each system's health care plan effective January 1, 2012.

OPERS

PREMIUMS

OPERS will continue to reimburse retirees $96.40 each month for Medicare Part B premiums in 2012.

ELIGIBILITY

Beginning in 2012, health care coverage will be based on an individual's Medicare status, rather than a family status. For example, if the member is eligible for Medicare but the spouse is not, the member and spouse would be covered by different plan administrators.

BENEFITS

Participants in the OPERS Medicare Part D Plan will begin paying an annual $50 deductible in 2012 for brand name prescription medication.

The Intermediate Plan administered by Medical Mutual for non-Medicare eligible participants will offer new features in 2012. These features include medical nutritional counseling, certain chronic disease self-management programs and resources, education regarding end-of-life planning, introduction of a preferred retail pharmacy network, and $0 co-pays for generic medications used to treat some common chronic conditions.

For more information on the PERS health plan in general, please visit the system's website at www.opers.org.

STRS

PREMIUMS

For 2012, the STRS board reduced the subsidy of premiums for health care from 2.5% per year of service, up to 75% for benefit recipients to 2.4% per year of service, with a maximum subsidy of 72%. This is the beginning of a four-year phase-in to reduce the premium subsidy to 2.1% per year of service.

Premiums for AultCare, Kaiser Permanente, and Paramount will increase as well beginning in 2012. This is the start of another four-year phase-in that will calculate subsidies based on each plan's total cost. Premiums will increase each year until 2015.

Additionally, STRS will continue to reimburse Medicare Part B premiums on a sliding scale from $29.90 to $52.83 based on the member's years of service at retirement.

ELIGIBILITY

Aetna Medicare Plan (PPO) will be available to Medicare Part B-only enrollees in 2012. The Medical Mutual Plus Plan will no longer be available to Medicare Part B-only enrollees who are eligible for the Aetna Plan.

BENEFITS

The maximum annual expense for Express Scripts will increase to $4,700 for both Medicare and non-Medicare enrollees.

For more information on the STRS health plan, please visit the system's website at www.strsoh.org.

SERS

PREMIUMS

The SERS board made no changes in the premiums paid for health care, however, dental premiums will increase slightly in 2012.

The amount that SERS reimburses for Medicare Part B premiums remains set in statute at $45.50 per month.

ELIGIBILITY

SERS made no changes to its health care eligibility requirements for 2012.

BENEFITS

In 2012, retiree co-payments for insulin will be lower than in previous years. Dental benefits will be expanded to include four dental cleanings per year (up from two) and dental implant for major restorative surgery will be covered in full.

For more information on the SERS health plan, please visit the system's website at www.ohsers.org.

OP&F

PREMIUMS

OP&F will continue to subsidize 75% of the health care premium for retirees who retired on or before July 24, 1986 and 50% for their dependents. If benefits began being paid on or after July 25, 1986, OP&F will subsidize 75% of the retiree's premium and 25% for dependents.

OP&F will continue to reimburse the basic Medicare Part B monthly premium, which is $99.90 in 2012.

ELIGIBILITY

OP&F made no changes to its health care eligibility requirements for 2012.

BENEFITS

OP&F's health care plan will begin coverage for cochlear implants in 2012. They will continue to offer the diabetes management program.

For more information on the OP&F health care plan, please visit the system's website at www.pfdpf.org.

HPRS

PREMIUMS

The HPRS board voted to postpone the changes in the premium contribution that were scheduled to go into effect in January 2012. The board created a Special Committee on Health Care Funding that will review plan design as well as the health care subsidy for retirees and spouses.

HPRS will continue to reimburse retirees $96.40 each month for Medicare Part B premiums in 2012.

ELIGIBILITY

HPRS made no changes to it health care eligibility requirements for 2012.

BENEFITS

HPRS made no changes to its benefits structure for 2012.

For more information on the HPRS health care plan, please visit the system's website at www.ohprs.org.

REPORTS ON ENACTED PENSION LEGISLATION

FIRST HALF OF THE 129th GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2011

Am. Sub. H.B. 1 – Rep. Duffey

Am. Sub. H.B. 1 generally creates "JobsOhio." This analysis details only the portion of the bill related to the public retirement systems.

This bill creates JobsOhio as a nonprofit corporation to assume many of the duties currently carried out by the Department of Development. It specifies that directors or employees of JobsOhio are not members of the Public Employees Retirement System and that former employees of the Department of Development who are employed by JobsOhio are not considered public employees and, therefore, are not members of the Public Employees Retirement System.

Under current law, public employees who continue to perform the same job duties under the direction of a contractor who has taken over what had been a publicly operated function are considered members of the Public Employees Retirement System. This provision remains applicable in all other similar situation.

Fiscal Impact - A financial analysis was not completed on this bill.

ORSC Position - The ORSC did not take a position on this bill.

Effective Date – February 18, 2011 (Emergency).

Sub. H.B. 123 – Rep. Hottinger

Sub. H.B. 123 generally makes changes to the Workers Compensation laws. This analysis details only the portion of the bill related to the public retirement systems.

This bill would make the following changes to the laws governing the Ohio Public Employees Retirement System (OPERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), the Ohio Police and Fire Pension Fund (OP&F), the Highway Patrol Retirement System (HPRS), the Cincinnati Retirement System (CRS), or an Alternative Retirement Plan for higher education employees (ARP):

- Authorize the termination of a disability benefit of a member who pleads guilty to or is convicted of a specified offense committed while serving in a position of honor, trust, or profit if the disabling condition arose out of the commission of the offense the member was convicted of or plead guilty to.

- Expand the definition of "position of honor, trust, or profit" to include a position in which in the course of public employment, an employee has control over the expenditure of public funds of $100,000 or more annually.

Staff Comments –

H.B. 123 would authorize the termination of a disability benefit of a member who pleads guilty to or is convicted of a specified offense committed while serving in a position of honor, trust, or profit if the disabling condition arose out of the commission of the offense the member was convicted of or plead guilty to. The current specified offenses, which are not changed under this bill, include bribery, engaging in a pattern of corrupt behavior, theft in office, or conspiracy or complicity in committing any of the aforementioned offenses.

The bill would also expand the definition of "position of honor, trust, or profit" to include a position in which in the course of public employment, an employee has control over the expenditure of public funds of $100,000 or more annually. Current law defines "position of honor, trust, or profit" as the following:

- An elective office of the state or any political subdivision of the state;
- A position on any board or commission of the state that is appointed by the governor or the attorney general;
- A position as a public official or employee, as defined in R.C. §102.01 who is required to file a disclosure statement under R.C. §102.02;
- A position as a prosecutor, as defined in R.C. §2935.01;
- A position as a peace officer, as defined in R.C. §2935.01, or as the superintendent or a trooper of the state highway patrol.

Under the bill, when the system or provider receives notice that a member who is receiving a disability benefit has been charged with an offense in R.C. §2929.192(D), the system or provider is required to send written notice to the prosecutor that the member has been granted a disability benefit and may be subject to garnishment of the benefit.

Sub. H.B. 123 – Rep. Hottinger

The bill would require the court to hold a hearing prior to sentencing regarding the condition for which the offender was granted a disability. The court must give written notice at least ten days prior to the scheduled hearing date to the offender, the prosecutor who handled the case, and the appropriate public retirement system, alternative retirement plan provider, or if more than one is providing a disability benefit, the applicable combination. The hearing is limited to a consideration of whether the offender's disabling condition arose out of the commission of the offense the offender was convicted of or pleaded guilt to.

The system or provider is required to submit to the court documentation of the evidence on which the offender's disability benefit was granted. The documentation of evidence submitted to the court is excluded from the definition of "personal history record" and, therefore, is a public record.

If the court determines the disabling condition arose out of the commission of the offense the offender was convicted of or plead guilty to, then the court must order the disability benefit to be terminated. The bill authorizes the system or the provider to recover any disability benefits paid prior to termination.

This section of the bill arose out of a situation in which a public employee plead guilty in a corruption case involving his public employment. Prior to sentencing he applied for and was granted a disability benefit based on a disability that arose out of the commission of the crime. Because the disability benefit was granted prior to sentencing, the member was able to apply for and receive the disability benefit. Once the benefit was granted, it could not be terminated under current law even though the disability was caused by the member's criminal actions.

During the 127th General Assembly, S.B. 3 was enacted (eff. 5-13-08) to prevent a public employee who pleads guilty to or is convicted of a specified felony while serving in a position of honor, trust, or profit from receiving a future pension, annuity, allowance, or any other benefit other than the member's accumulated contributions. Under the provisions of S.B. 3, however, the member is not ordered to forfeit the right to a retirement allowance, pension, disability benefit, or other right or benefit, other than payment of the offender's accumulated contributions until sentencing.

This bill would expand the provisions enacted last session as part of S.B. 3 to include a situation where a disability benefit had already commenced prior to sentencing for a specified felony by allowing the retirement systems to terminate the benefit. It is limited in application because the disabling condition must be caused by the commission of the offense the member was convicted of or plead guilty to. This bill is consistent with current law.

Actuarial Impact – The provisions in this bill are identical to the provisions of S.B. 219 from the 128th General Assembly. Although no actuarial analysis was completed for this bill, one was completed for S.B. 219. According to the OPERS actuary, Gabriel Roeder Smith & Company, there is no data available upon which to make a detailed actuarial analysis of S.B.

219. However, it is their opinion that passage of the bill would have no measurable financial impact on the system. To the extent that benefits in the future are forfeitable and/or recoverable due to the proposed benefits provisions, this would result in actuarial gains to the system.

ORSC Position – The Ohio Retirement Study Council took no position on this bill. However, last session the Ohio Retirement Study Council voted to recommend that the 128th Ohio General Assembly approve S.B. 219.

Effective Date – April 25, 2011 (Emergency); retirement law provisions effective July 29, 2011.

Am. Sub. H.B. 153 – Rep. Amstutz

Am. Sub. H.B. 153 generally makes operating appropriations for the biennium beginning July 1, 2011 and ending June 30, 2012 and provides authorization and conditions for the operation of state programs. This analysis is limited to those provisions of the bill that pertain to the Ohio retirement systems.

The bill would make the following appropriations to Ohio Police & Fire Pension Fund (OP&F):

Appropriation Item	Fiscal Year 12	Fiscal Year 13
GRF 090-524 Police and Fire Disability Pension Fund	$7,900	$7,900

This state subsidy is authorized by R.C. §742.374 and funds the ad hoc increase enacted in H.B. 284 (109th General Assembly - 1971). Persons who were receiving a pension prior to July 1, 1968 were eligible for an additional monthly payment of two dollars for each year between their effective date of retirement and December 31, 1971.

Appropriation Item	Fiscal Year 12	Fiscal Year 13
GRF 090-534 Police and Fire Ad Hoc Cost of Living	$87,000	$87,000

This state subsidy is authorized by R.C. §742.3712 and funds the ad hoc increase first granted in H.B. 204 (113th General Assembly - 1979) and later codified in H.B. 638 (114th General Assembly - 1981). Persons who were receiving an age and service or disability pension prior to July 1, 1974 were eligible for a supplemental payment of five percent of the first 5,000 dollars of their annual pension. Persons receiving a survivor benefit prior to July 1, 1981 were also eligible for a supplemental payment of five percent of the first 5,000 dollars of their annual benefit.

Appropriation Item	Fiscal Year 12	Fiscal Year 13
GRF 090-554 Police and Fire Survivor Benefits	$600,000	$600,000

This state subsidy is authorized by R.C. §742.361 and funds the survivor benefit increases enacted in H.B. 215 (108th General Assembly - 1970), S.B. 48 (110th General Assembly - 1974) and H.B. 268 (111th General Assembly - 1976). This state subsidy was limited by H.B. 694 (114th General Assembly - 1981) to persons who first received survivor benefits prior to July 1, 1981. For survivors first receiving benefits on or after July 1, 1981, OP&F is required to make payment from its own resources.

Appropriation Item	Fiscal Year 12	Fiscal Year 13
090-575 Police and Fire Death Benefits	$20,000,000	$20,000,000

This state subsidy is authorized by R.C. §742.62 and funds benefits payable under the Ohio Public Safety Officers Death Benefit Fund to the surviving spouses and dependent children of law enforcement officers and fire fighters who die in the line of duty or from injuries sustained in the line of duty. OP&F administers the Death Benefit Fund; the State of Ohio funds the benefits payable thereunder.

ORSC Position – The ORSC took no action on this bill.

Effective Date - June 30, 2011 (Emergency).

PENDING PENSION-RELATED ISSUES

THE FIRST HALF OF THE 129th GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2011

The ORSC staff keeps legislators abreast 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. What follows is a brief summary of each issue and of action taken by the legislature, if any, in 2012. Further background and detail is available through the ORSC website www.orsc.org.

Actuarial Funding of Pension Benefits - There are generally three sources of revenue for the Ohio retirement systems to fund, on an actuarial basis, their defined benefit pension benefits: (1) employee contributions; (2) employer contributions; and (3) investment earnings. The legislature guarantees the defined benefit pension benefits that are paid to participants and determines the maximum contribution rates. Investment earnings are typically the largest source of revenue for the Ohio retirement systems, funding up to 75 percent of the benefits paid.

Pursuant to S.B. 82 (eff. 12-6-1996), 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 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. 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 inter-generational equity among taxpayers and system members by limiting the ability to fund benefit costs by extending the funding period beyond 30 years. The following table summarizes the funding period and funded ratio of each retirement system as reported in its last actuarial valuation[1]:

Retirement System	Funding Period	Funded Ratio
PERS	29	76.1%
STRS	Infinite	58.8%
SERS	28	65.22%
OP&F	Infinite	69.4%
HPRS	Infinite	62.0%

In 2004 Milliman reviewed the adequacy of the contribution rates in OP&F and concluded that the current rates were not adequate to support **both** the mandated pension benefits within the maximum 30-year funding period and the discretionary health insurance benefits provided by OP&F to retirees, beneficiaries and their dependents. One or more of the following actions will need to occur: statutory contribution rates must be increased between 5 and 5.5% of payroll; state subsidies must be provided to OP&F; mandated pension benefits must be reduced; and/or discretionary health care benefits must be reduced significantly or eliminated. Milliman further found that an infinite funding period in OP&F should be

[1] The most recent actuarial valuations for PERS, OP&F, and HPRS are as of 12/31/10; STRS and SERS as of 6/30/11.

deemed to be an unacceptable situation and that the cost of bringing the funding period into compliance with the maximum 30-year funding limit will continue to grow the longer corrective action is delayed. It is important to note that all five statewide retirement systems in Ohio have sufficient funds on hand to pay the statutorily mandated pension benefits for the next two to three decades.

Given the severe decline in investment market values since the end of fiscal year 2008 and the need to begin evaluating options to address this situation proactively, all five systems, in consultation with the ORSC, developed legislative proposals that would reduce their unfunded actuarial accrued liability periods. Under the current contribution and benefit levels, SERS and PERS, as a whole, are expected to exceed the 30-year funding period as they begin recognizing investment losses in each of the next four years due to the actuarial smoothing technique used. The Council approved a motion to have staff work with OP&F on December 10, 2008, on March 11, 2009 with STRS, and on April 8, 2009 with PERS, SERS, and HPRS.

STRS, SERS, OP&F, and HPRS presented their board-approved funding plans at the September 9, 2009 ORSC meeting. PERS presented its board-approved plan at the December 9, 2009 ORSC meeting. Failure to implement a viable plan that will reduce the funding period to no more than 30 years, as certified by the retirement system's actuary, could be potentially very costly in the long run with the gradual disfunding of these retirement systems. H.B. 69 and S.B. 3 were introduced this session and would implement the board approved plans. H.B. 69 is pending in the House Health and Aging Committee. S.B. 3 is pending in the Senate Government Oversight and Reform Committee.

The ORSC hired Pension Trustee Advisors and KMS Actuaries to complete a review of H.B. 69 and make recommendations related to pension reform.

Cost and Funding of Retiree Health Care Benefits - Faced with double-digit increases for the foreseeable future, particularly in the area of prescription drugs, all of the retirement systems face significant challenges of controlling costs while maintaining meaningful coverage. Contributing factors to the double-digit increases include: the advent of "baby boomer" retirements, improved life expectancy of retirees, higher drug utilization, advances in medical technology, direct consumer advertising, and the general declining ratio of active members to retirees. The significant investment losses experienced in 2008 by all investors have also exacerbated the health care funding problem since the retirement systems must first fund guaranteed pension benefits, which will likely require a reduction in or elimination of the amount currently allocated to discretionary retiree health care benefits, given the current caps on contribution rates. The early retirement ages for many public employees create a significant cost for each retirement system's health care program.

Joint Legislative Committee to Study Ohio's Public Retirement Plans - In 1995, the Joint Legislative Committee to Study Ohio's Public Retirement Plans (JLC) was created to complete a comprehensive review of the laws and operations of all five retirement systems. It consisted of six senators and six representatives (including members of the ORSC), and was supported by the ORSC staff. The JLC reviewed each system, concentrating on the following major areas: disability statutes, procedures, and experience; cost and funding of retiree health care benefits; retirement eligibility and benefit provisions; investment authority and performance; and the level of contributions in relation to the level of benefits provided. In 1996, JLC issued a report in which ORSC staff made a number of recommendations. Many, but not all, of the recommendations have been acted upon by the legislature over the years. The following recommendations were made by staff as part of the report, but have not been implemented:

- "That the normal retirement age be increased in the uniformed employee systems from 48 to 52 with a four-year phase-in and that benefits be reduced prior to normal retirement age." H.B. 69 would increase the retirement age to 52 for members hired after the effective date of the bill.

- "That the normal retirement age of 65 in the non-uniformed employee systems be increased in tandem with Social Security and that the 30-year service requirement be increased at the same rate and that benefits be reduced prior to normal retirement age or service."

  S.B. 148 (eff. 5-14-08) increased the normal retirement age to 67 and the minimum number of years of service new members of SERS need to be eligible for retirement from 5 to 10. H.B. 69 would make these changes applicable to all members.

  H.B. 69 would increase the normal retirement age for OPERS members from 65 to 67 and increase the number of years of service needed to retire at any age from 30 to 32.

  H.B. 69 also would include a minimum retirement age of 60 for STRS members and increase the number of years of service needed to retire at age 60 from 30 to 35.

- "That the statutory reduction rates for early retirement be repealed and that reduction rates for early retirement be determined on an actuarial basis in all five systems."

  S.B. 148 (eff. 5-14-08) changed the reduction factors for new members opting for early retirement. The reduced benefit is based on actuarial factors. H.B. 69 would make this change applicable to all members of SERS, as well as members of STRS and OPERS.

- "That disproportionate increases in salary prior to retirement be limited to a maximum percentage for purposes of determining final average salary in PERS, SERS, PFDPF and HPRS unless such increase results from employment with another employer or promotion to a position previously held by another employee." (H.B. 180 (eff. 10-29-91) established a percentage limit in STRS.)

- "That the statutory authority to grant an annual lump sum supplemental benefit check (i.e., 13th check) be repealed in STRS and that ad hoc post-retirement increases be enacted on an as-needed basis by the legislature."

- "That non-law enforcement service credit be excluded for purposes of determining eligibility for service retirement under PFDPF." (H.B. 648 (eff. 9-16-98) requires members who establish membership in OP&F on or after 9-16-98 to pay the difference between both the employee and employer contributions that were made and the employee and employer contributions that would have been made had the member rendered the service in OP&F,

plus annual compound interest thereon. Members who do not pay the difference receive pro-rated credit for their non-law enforcement service.)

- "That the five systems have prepared a study to determine the feasibility of pooling active members and retirees for purposes of health care coverage and submit their findings and recommendations to the standing committees of both houses of the Ohio General Assembly with primary responsibility for retirement and health care legislation and ORSC no later than December 31, 1996."

Defined Contribution Plan for SERS Members - Another staff recommendation included in the JLC final report was "that an alternative defined contribution plan be established, in conjunction with the existing defined benefit plan, in the three non-uniformed employee systems to provide greater portability and options for employees." Alternative defined contribution (DC) plans have been established in STRS pursuant to S.B. 190 (eff. 7-13-00) and in PERS pursuant to H.B. 628 (eff. 9-21-00). No alternative DC plan has been established in SERS, though S.B. 270 (eff. 4-9 01) requires the SERS board to establish such plan.

According to SERS staff, the SERS board commissioned The Segal Company to statistically verify member interest and identify the costs of implementing a defined contribution plan in 2002. Segal surveyed 10,000 SERS members who had less than five years of service and would be eligible for the DC plan. They found that 1% of new SERS members were interested in a DC option based solely on their own investments and 89% of new members preferred a guaranteed retirement. However, there appeared to be considerable interest in a hybrid plan that combined features of a DB and DC plan (46%). Segal completely outsourced the development and maintenance of the option. According to Segal this would require about $1 million in start-up costs and $1.3 million annually to operate. In February 2003, the SERS board decided that it was not in the best interest of its members to develop a DC option; however, the board requested that staff revisit the studies at a later time, and in the interim, request a language change making the current statute permissive rather than mandatory. However, there has been no such request this session.

Contributing Service Credit in PERS - H.B. 232 (eff. 2-16-84) increased the minimum amount of earnable salary required per month from $150 to $250 to receive one month's credit in OPERS. An OPERS member who earns $250 per month for twelve consecutive months ($3,000) is granted one year of service credit. This raises the public policy issue of whether the minimum monthly salary amount used to determine service credit in PERS should be increased and indexed to annual wage inflation. H.B. 69 would increase the minimum monthly salary required to receive one month's credit in OPERS to $1,000, indexed to wage inflation.

Deferred Retirement Option Plans (DROP) - Popular throughout the country, these plans are intended to encourage members to continue working beyond normal retirement and are often designed to be cost-neutral to the retirement system. Generally, participation in a DROP is limited to members who are eligible for normal service retirement. The member continues to be employed for some defined period, such as three to eight years, during which period the member's monthly service retirement benefit is credited to the member's DROP account, along with annual compound interest at some specified rate. Upon termination of employment, the member receives a lump sum distribution of the member's DROP account or some alternative distribution thereof, and begins receiving a monthly service retirement benefit based on the member's final average salary and service credit calculated at the time the member elects participation in the DROP. S.B. 134 (eff. 7-23-02) granted the OP&F board the authority to establish a DROP for its members. A recent review of OP&F's DROP revealed that 85% of members who do not retire when first eligible for retirement elect to participate in the DROP. In the analysis of S.B. 134, the ORSC staff raised the public policy issue of whether the other four retirement boards should be granted similar authority to establish DROPs for their respective memberships. S.B. 206 (eff. 6/15/06) established a DROP for members of HPRS. H.B. 202 would eliminate the DROP for members of HPRS and OP&F. That bill is pending in the House Health and Aging Committee. H.B. 69 would reduce the interest rate for OP&F DROP members, increase the minimum period, eliminate COLA during DROP, and reduce the percentage of member contributions that is credited to DROP. H.B. 69 would require an additional 1% of the employee's contribution to be paid to HPRS instead of the DROP account.

University of Akron Non-Teaching Employees - With the single exception of the University of Akron, all non-teaching employees of Ohio's state universities are members of PERS. Employees of the University of Akron are currently members of SERS. In the interest of maintaining parity in retirement benefits, there continues to be some legislative interest to transfer these employees from SERS to PERS. The ORSC actuary provided several options to address the actuarial impact upon both retirement systems of such a transfer in its report Transfer of University of Akron Active Members from SERS to PERS dated March 11, 2002. Based upon that report, the ORSC staff recommended "the transfer of the University of Akron non-teaching employees from SERS to the PERS state division in order to provide uniform benefits and representation for all non-teaching employees at state universities, provided:

1. PERS receives from SERS an amount equal to the member's actuarial accrued liability to the extent funded by SERS under the third option described above which would minimize any actuarial loss to PERS and have no actuarial gain or loss to SERS;

2. PERS serves as a pass-through or conduit for health care contributions received from the University of Akron (A PERS employer after enactment) to pay SERS for the net cost of providing health care benefits to University of Akron retirees still remaining in SERS until the last University of Akron retiree ceases to be covered under the SERS health care plan. This is consistent with the current pay-as-you-go financing of retiree health care benefits in all five retirement systems, and would hold SERS harmless as well as avoid any windfall to PERS on account of the proposed transfer; and

3. The current differential in the contribution rates under SERS and PERS, including the employer health care surcharge, remains payable by the University of Akron and its non teaching employees for 25 years (the current funding period under SERS), with the excess in contributions used to provide a supplemental contribution to SERS. This is consistent employees who elect the alternative defined contribution plan, and would mitigate any adverse impact upon the SERS health care plan and would eliminate any perceived financial

incentive for potential groups of employers and employees to "shop" among the state retirement systems for benefits. In the alternative, the University of Akron makes a lump sum payment to SERS that is the actuarial equivalent of the above supplemental contribution payable over 25 years as determined by the SERS actuary and reviewed by the ORSC."

The ORSC did not take any action upon the staff recommendation.

Reemployment Provisions - There continues to be legislative interest in the reemployment provisions of the Ohio retirement systems that allow members who have been retired for at least two months to return to public employment while continuing to receive their pension. H.B. 84 (eff. 7 31-01) requires elected officials who retire and are reelected or appointed to the same office from which they retired to notify the board of elections or appointing authority of their retirement in order to continue receiving their pension. H.B. 95 (eff. 6-30-03) included language that requires a hearing before certain retirants can be reemployed and changes the deadline for elected officials to file notice of intent to retire and run for reelection to the same office. H.B. 202 would limit the retirement benefit of a reemployed retiree, while H.B. 388 would suspend the retirement benefit of a reemployed retiree during the period of reemployment. Both bills are pending in the House Health and Aging Committee.

Health Care for Reemployed Retirees - H.B. 151 (eff. 2-9-94) required PERS reemployed retirants to receive primary health insurance coverage through the retirant's public employer if the employer provides coverage to other employees performing comparable work. PERS health care coverage becomes secondary. It is important to note that health care coverage is a discretionary retiree benefit. Effective January 1, 2004 the OP&F board amended its health care policy relative to reemployed retirees. In OP&F, reemployed retirees who are eligible for health care coverage through their employer must pay the full premium cost should they choose to enroll in the OP&F health care plan. The STRS board adopted a rule, which became effective January 2009, that requires reemployed retirees to receive health care coverage from their public or private employer if the employer offers health care. This raises a public policy issue of whether similar requirements should be adopted in the other state retirement systems with respect to reemployed retirants. Moreover, it raises a public policy issue of whether such requirements should include reemployment with a private employer that provides health insurance coverage as well.

Annual 3% COLA - In its analysis of H.B. 157 (eff. 2-1-02), which provides for an annual 3% COLA in all five retirement systems, regardless of the actual percentage change in the CPI-W, the ORSC staff recommended against the COLA changes under the bill and suggested that "any additional resources of these retirement systems be allocated to the provision of discretionary retiree health care benefits that are neither taxable nor subject to the Social Security offset and/or the provision of ad hoc increases, such as a "purchasing parity" adjustment of some target ratio of either 75% or 85%, to retirees whose benefits have been eroded the most by inflation over the years." The ORSC rejected the staff recommendation and recommended instead that the legislature approve H.B. 157. Between 1992 and 2006, the CPI-W has increased by less than 3% in 12 of those years. H.B. 69 would reduce a retiree's COLA for members of all systems, except SERS.

Workers' Compensation Offset - In its Analysis of Police and Firemen's Disability and Pension Fund Disability Plan, Procedures and Experience, November 8, 1996, William M. Mercer recommended that the legislature "consider offsetting the disability retirement benefit by any periodic benefit being received by the disabled member through workers' compensation." A subsequent study prepared by the ORSC actuary Milliman & Robertson pursuant to a legislative mandate concluded that "Based on the data collected in this study, M&R believes it is feasible for the State of Ohio to coordinate public retirement systems disability benefits and workers' compensation benefits. We clearly recognize that the decision to do so rests with the Ohio General Assembly. If such a decision is made, we recommend that the benefit coordination be structured as follows:

1. Offsets should affect the following benefits:

    a. Periodic Wage Replacement Benefits;

    b. Lump Sum payments to close workers' compensation cases;

    c. Cost of living adjustments.

2. Offset should not affect lump sum scheduled benefits.

3. Maximum income from combined disability and workers' compensation benefits should be set at 100% of final average salary.

4. If offsets are introduced in Ohio, they should be made applicable to all 5 public retirement systems at the same time."

(Report to the Ohio Retirement Study Council: Feasibility Study on Disability and Workers' Compensation Coordination, Milliman & Robertson, November 23, 1999)

Review of Adequacy of the Contribution Rates - Current law requires the ORSC to conduct an annual review of the police and fire contribution rates and make recommendations to the legislature that it finds necessary for the proper financing of OP&F benefits. In 2003 the Council voted to have Milliman review the adequacy of the contribution rates for PERS, STRS, SERS, and HPRS. The legislature should consider amending the law to require the ORSC to conduct similar actuarial reviews of the adequacy of the contribution rates for the other four retirement systems as well.

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 which are estimated to extend the solvency of Social Security by a mere two years.

Submission of Annual Actuarial Valuation - Each system is required to submit annually an actuarial valuation to the ORSC and the standing committee of the House of Representatives and Senate with primary responsibility for retirement legislation. The due date for each system is different: PERS must submit theirs by September 1, OP&F must submit theirs by November 1, STRS must submit theirs by January 1, SERS must submit theirs by May 1, and HPRS must submit theirs by July 1 following the year for which the valuation was made. This raises the issue of whether the due date should be the same for PERS, OP&F, and HPRS, all of whom operate on the calendar year and whether the due date should be the same for STRS and SERS, both of whom are on fiscal years beginning July 1 and ending June 30.

Purchase of Service Credit – Pursuant to the ORSC's request, Milliman, Inc. completed a report on the cost of purchasing service credit this year. The report noted that with regard to health care benefits, if they are reduced in the future, some of the additional health liabilities could be eliminated. Additionally, if service purchases did not count toward eligibility for or the 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. This was true even for service credit for which the member was required to pay the full actuarial cost. This report raised the public policy issue of whether a member's purchase of service credit should be subsidized by the retirement system. ORSC staff made the following recommendations, which the Council approved: (1) The purchase price for all types of service should be the full actuarial liability resulting from the purchase of service credit, except as prohibited by federal law, and members should be required to retire within 90 days of purchasing service and (2) purchased credit should be prohibited from being counted for purposes of health care eligibility or subsidy. H.B. 69 would require members of all five systems to pay the full actuarial liability to purchase service credit.

Independent Legal Counsel – The ORSC contracted with Independent Fiduciary Services to complete fiduciary audits of STRS and OP&F. These reports were completed in 2006. 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 State Attorney General. This recommendation has not been acted upon.

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.

"Bad Boy" Provisions - Currently, Ohio public pension laws permit the withholding of retirement benefits as restitution to the governmental unit for theft in public office and to the victim of certain sex offenses committed in the context of public employment. In 2008, forfeiture of a benefit from a public retirement system based on conviction of a specified felony while serving in a position of honor, trust, or profit was allowed in 2008 (S.B. 3; eff. 5-13-08). There continues to be legislative interest to expand these "bad boy" provisions to include other offenses. H.B. 123 (eff. 7-29-11), was enacted this session and authorized the termination of a disability benefit of a member who pleads guilty to or is convicted of a specified offense committed while serving in a position of honor, trust, or profit if the disabling condition arose out of the commission of the offense the member was convicted of or plead guilty to. H.B. 323 is pending in the House and would expand the list of specified offenses to include extortion and perjury.

DOCUMENTS STATUTORILY REQUIRED OF THE RETIREMENT SYSTEMS

FIRST HALF OF THE 129th GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2011

The retirement systems are required by statute to submit various documents to the ORSC to assist the Council 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 brief summary of the contents of the report. Copies of the reports can be obtained at the ORSC office.

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. The report must include (1) a summary of the benefit provisions evaluated; (2) a summary of the census data and financial information used in the valuation; (3) a description of the actuarial assumptions, actuarial cost method, and asset valuation method used in the valuation, including a statement of the assumed rate of payroll growth and assumed rate of growth or decline in the number of members contributing to the retirement system; (4) a summary of findings that includes a statement of the actuarial accrued pension liabilities and unfunded actuarial accrued pension liabilities; a schedule showing the effect of any changes in the benefit provisions, actuarial assumptions, or cost methods since the last annual actuarial valuation; and (6) a statement of whether contributions to the retirement system are expected to be sufficient to satisfy the funding objectives established by the board.

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. PERS must submit theirs by September 1, OP&F must submit theirs by November 1, STRS must submit theirs by January 1, SERS must submit theirs by May 1, and HPRS must submit theirs by July 1 following the year for which the valuation was made.

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 must include (1) a description of the statutory authority for the benefits provided; (2) a summary of the benefits; (3) a summary of the eligibility requirements for the benefits; (4) a statement of the number of participants eligible for the benefits; (5) a description of the accounting, asset valuation, and funding method used to provide the benefits; (6) a statement of the net assets available for the provision of the benefits as of the last day of the fiscal year; (7) a statement of any changes in the net assets available for the provision of benefits, including participant and employer contributions, net investment income, administrative expenses, and benefits provided to participants, as of the last day of the fiscal year; (8) for the last six consecutive fiscal years, a schedule of the net assets available for the benefits, the annual cost of benefits, administrative expenses incurred, and annual employer contributions allocated for the provision of benefits; (9) a description of any significant changes that affect the comparability of the report required under this division; and (10) a statement of the amount paid for Medicare Part B reimbursement.

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. PERS, OP&F, and HPRS must submit theirs by June 30, whereas STRS and SERS must submit theirs by December 31, following the year for which the report was made.

Quinquennial Evaluation - (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, retirants, contributors, and beneficiaries of the system to update the actuarial assumptions used in the actuarial valuation. The report must include (1) a summary of relevant decrement and economic assumption experience observed over the period of the investigation; (2) recommended changes in actuarial assumptions to be used in subsequent actuarial valuations; (3) a measurement of the financial effect of the recommended changes in actuarial assumptions.

The quinquennial evaluation must be submitted to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation. PERS, OP&F and HPRS must submit theirs by November 1, STRS and SERS must submit theirs by May 1 following the last fiscal year of the period the report covers.

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 public employees 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 Senate and House of Representatives with primary responsibility for retirement legislation.

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 thirty years. The report must include the number of years needed to amortize the unfunded actuarial accrued pension liability as determined by the annual actuarial valuation and a plan approved by the board that indicates how the board will reduce the amortization period of unfunded actuarial accrued liability to not more than thirty years. The report submitted by OP&F must also include whether the board has made any progress toward meeting the 30-year amortization period.

The report on the thirty-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 ninety days after the retirement system board receives the actuarial valuation in which the funding period exceeds thirty years.

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 include (1) a summary of the statutory changes that are being evaluated; (2) a description of or reference to the actuarial assumptions and actuarial cost method used in the report; (3) a description of the participant group or groups included in the report; (4) a statement of the financial impact of the legislation, including the resulting increase, if any, in the employer normal cost percentage; the increase, if any, in actuarial accrued liabilities; and the per cent of payroll that would be required to amortize the increase in actuarial accrued liabilities as a level per cent of covered payroll for all active members over a period not to exceed thirty years; (5) a statement of whether the scheduled contributions to the system after the proposed change is enacted are expected to be sufficient to satisfy the funding objectives established by the board.

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.

Investment Managers and Brokers - (R.C. §§145.114(E), 145.116(C), 742.114(E), 742.116(C), 3307.152(E), 3307.154(C), 3309.157(E), 3309.159(C), 5505.068(E), 5505.0610(C)) Each system is required to submit an annual report to the ORSC containing the following information: (1) the name of each agent designated as an Ohio-qualified agent; (2) the name of each agent that executes securities transactions on behalf of the board; (3) the amount of equity and fixed-income trades that are executed by Ohio-qualified agents, expressed as a percentage of all equity and fixed-income trades executed by agents; (4) the compensation paid to Ohio-qualified agents, expressed as a percentage of total compensation paid to all agents that execute securities transactions; (5) the amount of equity and fixed-income trades that are executed by agents that are minority business enterprises (i.e., owned and controlled by Ohio residents who are Black, American Indian, Hispanic, or Oriental), expressed as a percentage of all equity and fixed-income trades executed by all agents; and (6) any other information requested by the ORSC regarding the board's use of agents.

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 sixty days before adoption of the budget.

STRS and SERS operate on fiscal years beginning July 1 and ending June 30. They presented their proposed operating budgets for fiscal year 2012 at the May 12, 2011 ORSC meeting. PERS, OP&F, and HPRS submitted their budgets for calendar year 2012 at the December 14, 2011 ORSC meeting.

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.

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 pursuant to R.C. §111.15.

Iran/Sudan Divestment Report – (§707.20 of H.B. 562 of the 127th General Assembly) OP&F is required to report annually to the ORSC, Senate President, Speaker of the House, and the Minority Leader of both the Senate and the House on their progress in divesting from companies doing business with Iran or Sudan. The other four systems report that information voluntarily.

SUBJECT INDEX OF PENSION BILLS INTRODUCED

FIRST HALF OF THE 129TH GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2011

The Subject Index of Pension Bills Introduced provides a listing of pension bills under subject heading and a key word description within the main heading. Bills that cover more than one subject are listed under all appropriate headings.

The pension systems affected by the bill are also indicated. “All systems” means the Public Employees Retirement System (PERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), the Ohio Police and Fire Pension Fund (OP&F), and the Highway Patrol Retirement System (HPRS). “VFFDF” and “DBF” respectively refer to the Volunteer Fire Fighters’ Dependents Fund and the Ohio Public Safety Officers Death Benefit Fund.

The main subject headings are listed at the beginning of the index for quick reference. The bills that were enacted are marked with an asterisk.

Subject Headings

Appropriations	Health Care
Benefits	Judicial Orders
Contributions	Membership
Death Benefit Fund	Reemployment
Deferred Retirement Option Plan (DROP)	Salary
Disability	Service Credit
	Taxation

Appropriations
Subsidies – OP&F – HB 153*

Benefits
Accrual – OPERS, STRS, SERS, OPF – HB 69
Cost of Living – OPERS, STRS, OPF, HPRS – HB 69
Eligibility – OPERS, STRS, SERS, OPF – HB 69
Forfeiture of – ALL SYSTEMS - HB 123*; HB323; SB 20
Retroactive – OPERS – HB 69

Contributions
Employee rate – STRS, OPF, HPRS – HB 69
Mitigating rate – OPERS – HB 69
Prohibit employer pickup – ALL SYSTEMS – SB 5

Death Benefit Fund
Probation officers – OPF – SB 110

Deferred Retirement Option Plan
Contribution to – OPF, HPRS – HB 69
Eliminate – OPF, HPRS - HB 202
Interest credited to – OPF – HB 69
Minimum period – OPF – HB 69

Disability
On-duty presumptions – OPF – HB 346
Program changes – OPERS – HB 69

Health Care
Allocation of contribution – OPERS, SERS, OPF, HPRS – HB 69

Judicial Orders
Compliance – ALL SYSTEMS – SB 214

*Enacted

Membership
Determination – OPERS – HB 69
JobsOhio exempt – OPERS – HB 1*

Reemployment
Limit benefit during – ALL SYSTEMS – HB 202
Suspend benefit during – ALL SYSTEMS – HB 388

Salary
Final average salary – OPERS, STRS, OPF, HPRS – HB 69

Service Credit
Inter-system transfer – OPERS – HB 69
Purchase of - ALL SYSTEMS – HB 69

Taxation
Exempt certain retirement benefits – HB 239

*Enacted

STATUS OF PENSION LEGISLATION

FIRST HALF OF THE 129th GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2011

OHIO RETIREMENT STUDY COUNCIL

STATUS OF PENSION LEGISLATION

FIRST HALF OF THE 129TH GENERAL ASSEMBLY

January 1, 2011 – December 31, 2011

HOUSE BILLS

HSE BILL	INTRO	Actuarial Received	Subject, Sponsor, and System	Cont Pers	ORSC Pos	Hse Cmte	Testimony – Reported Out – Floor Vote	INTRO SEN	Sen Cmte	Testimony – Reported Out – Floor Vote	Conf Cmte	Concur-rence	Eff Date
1	1-11-11		JobsOhio: exempts from PERS membership Duffey - PERS			1-11-11 SGE Mecklen-borg	1-25-11 Sub----1-26-11 Amend ----2-1-11 Fl Vo: Y=59 N=37	2-2-11	2-8-11 FIN Widener	2-8-11----2-9-11----2-15-11----2-16-11 Amend; Fl Vo: Y=31 N=2		2-16-11 Y=60 N=35	2-18-2011 (E)
69	2-1-11	PERS: 3-30-11 HPRS: 3-1-11 STRS: 3-15-11	Pension corrections Wachtmann – ALL SYSTEMS	GK		2-1-11 HA Wacht-mann 2-2-11 RP Schuring	2-2-11----2-9-11--- 2-16-11----2-22-11----2-23-11----3-1-11----3-2-11----3-8-11----3-9-11----3-16-11---3-22-11---3-23-11----						
123	2-24-11		BWC budget; forfeiture of disability benefit based on conviction for certain felonies Hottinger – ALL SYSTEMS			3-1-11 INS Hottinger Referred 3-16-11 FA Amstutz	3-1-11----3-8-11----3-22-11----3-23-11 Fl Vo: Y=96 N=0	3-24-11	3-29-11 ICL Bacon	3-29-11----3-30-11----4-5-11 Amend----4-6-11 Sub; Fl Vo: Y=28 N=4		4-13-11 Y=94 N=3	4-25-2011 (E)
153	3-15-11		Biennial Budget Amstutz – ALL SYSTEMS			3-15-11 FA Amstutz	3-16-11----3-17-11----3-21-11----3-22-11----3-23-11----3-29-11----4-12-11----4-13-11----4-14-11----4-15-11----4-28-11 Sub----4-29-11----5-3-11----5-5-11 Amend; Fl Vo: Y=50 N=40	5-10-11	5-17-11 FIN Widener	5-3-11----5-4-11----5-5-11----5-10-11----5-11-11----5-17-11----5-18-11----5-19-11----5-24-11----5-31-11 Sub----6-2-11----6-7-11 Amend----6-8-11 Fl Vo: Y=23 N=10	6-28-11	Refused 6-8-11 Y= 0 N=98	
202	4-12-11	PERS:6-21-11 SERS: 7-11-11	Limits retirement benefit of re-employed retiree and eliminates DROP Hollington – AL SYSTEMS			4-13-11 HA Wacht-mann							
239	5-24-11		Exempt certain retirement pay from taxation Stautberg	BI		5-25-11 HA Wacth-mann	1-25-12----						
323	9-13-11		Forfeiture of benefits based on conviction of certain felonies Dovilla, Anielski – ALL SYSTEMS	AE		9-14-11 CRJ Slaby	09-27-11----11-16-11----1-18-12----1-25-12 –Amended						
346	10-12-11		Changes disability presumptions Yuko – OP&F			11-9-11 INS Yuko	11-29-11-----						
388	12/1/11		Suspend, during the period of employment, the retirement benefit of a public retirement system retiree who returns to public employment. Damschroder - ALL SYSTEMS			12-6-11 HA Wacht-mann							

SENATE BILLS

SEN BILL	INTRO	Actuarial Received	Subject, Sponsor, and System	Cont Pers	ORSC Pos	Sen Cmte	Testimony – Reported Out – Floor Vote	INTRO HSE	Hse Cmte	Testimony – Reported Out – Floor Vote	Conf Cmte	Concu r- rence	Eff Date
3	2-1-11	PERS: 3-30-11	Pension Corrections Faber – ALL SYSTEMS	GK		2-2-11 GOR Coley	2-22-11 Sub----3-24-11---						
5	2-1-11		Makes changes to collective bargaining; prohibits employer pickup of contributions Jones - ALL SYSTEMS			2-2-11 ICL Bacon	2-9-11 Sub----2-15-11----2-17-11 Amend----2-22-11----3-1-11---3-2-11 Amend; Fl Vo: Y=17 N=16	3-3-11	3-7-11 CL Uecker	3-8-11----3-9-11----3-10-11---3-14-11----3-16-11----3-17-11----3-29-11 Sub; Amend----3-30-11 Fl Vo: Y=53 N=44		3-31-11 Y=53 N=44	7-1-11 (Repealed by Referendum 11-8-11)
20	2-1-11	PERS: 4-14-11	Forfeiture of disability benefits based on conviction of certain felonies Grendell – ALL SYSTEMS *Amended into H.B. 123	AE		2-2-11 GOR Coley	2-17-11---2-22-11----3-3-11 Amend----						
110	3-8-11		Includes probation officers in Death Benefit Fund Wilson – OP&F			3-9-11 HHA Oelslager							
214	9-6-11		Modifies when system must comply with order for restitution Burke – ALL SYSTEMS			9-20-11 GOR Coley							

HOUSE COMMITTEES

ANR	Agriculture & Natural Resources
CL	Commerce & Labor
CRJ	Criminal Justice
ESB	Economic & Small Business Development
EDU	Education
FA	Finance & Appropriations
AD	Agriculture & Natural Resources Subcommittee
HHS	Health & Human Services Subcommittee
HE	Higher Education Subcommittee
PSE	Primary & Secondary Education Subcommittee
TJ	Transportation Subcommittee
FRS	Financial Institutions, Housing & Urban Development
HA	Health & Aging
RP	Health & Aging Subcommittee on Retirement & Pensions
INS	Insurance
WC	Workers' Compensation Subcommittee
JE	Judiciary & Ethics
LG	Local Government
PU	Public Utilities
RR	Rules & Reference
SGE	State Government & Elections
RED	Redistricting Subcommittee
TPH	Transportation, Public Safety & Homeland Security
VA	Veterans Affairs
WM	Ways & Means

SENATE COMMITTEES

AEN	Agriculture, Environment & Natural Resources
ED	Education
ENE	Energy & Public Utilities
FIN	Finance
FI	Financial Institutions
GOR	Government Oversight & Reform
HHA	Health, Human Services & Aging
HT	Highways & Transportation
ICL	Insurance, Commerce & Labor
JCV	Judiciary - Civil Justice
JCR	Judiciary - Criminal Justice
RR	Rules & Reference
SLV	State & Local Government & Veterans Affairs
WME	Ways & Means & Economic Development

LEGISLATIVE ACTION

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

ORSC POSITION

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

ORSC CONTACT PERSON

AE	Anne Erkman
BI	Bill of Interest