A MILLIMAN GLOBAL FIRM
Milliman USA
Consultants and Actuaries

259 N. Radnor-Chester Road, Suite 300
Radnor, PA 19087-5260
Tel +1 610 687.5644
Fax +1 610.687.4236
www.milliman.com

July 1, 2002

Mr. Aristotle L. Hutras
Director
Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215-3580

Re: Supplemental Contributions from Higher Education Employers

Dear Aris:

As requested, we have prepared the actuarial study required under Section 171.07 of the Revised Code to determine whether any adjustments to the employer Supplemental Contribution Rate required under Sections 3305.06(D) and 3305.061 are necessary. Section 3305.06(D) requires employers of members electing coverage in an Alternative Retirement Plan, "ARP", for academic and administrative employees of public institutions of higher education to pay a percentage of the electing employees' compensation to the Ohio Retirement System in which they would have been a member absent their election to join the ARP. The Ohio Retirement Systems potentially affected by this bill are the Public Employees Retirement System, "PERS", the School Employees Retirement System, "SERS", and the State Teachers Retirement System, "STRS". Such a study is to be completed every third year.

<u>Purpose of Study</u>

The purpose of this study is to determine whether adjustments are necessary to the 3.5% employer Supplemental Contribution Rate currently made to STRS. This Supplemental Contribution Rate, as adjusted, is to continue until the unfunded actuarial accrued pension liability of each retirement system is fully amortized, as determined by the annual actuarial valuation performed by the system's actuary.

<u>Applicability to PERS and SERS</u>

The ARP Supplemental Contribution Rate payable to PERS was reduced to 0.0% as of January 1, 1999 since the December 31, 1998 Valuations for Active and Inactive Members and for Retired Lives for PERS indicated that the Unfunded Actuarial Accrued Liability was fully amortized as of that date. As a result, PERS is excluded from this updated study.

The ARP Supplemental Contribution Rate payable to SERS was reduced to 0.0% as of July 1, 2000 since the June 30, 2000 Annual Basic Benefits Actuarial Valuation for SERS indicated that the Unfunded Actuarial Accrued Liability was fully amortized as of that date. As a result, SERS is excluded from this updated study.

Determination of Rate

Section 3305.06(D) of the Revised Code mandates that the Supplemental Contribution Rate "mitigate any negative financial impact of the Alternative Retirement Program on the State Retirement System". In preparing this report, we have continued using the methods we utilized to estimate the magnitude of this Supplemental Contribution Rate during 1994 through 1996 while H.B. 586 was under consideration by the legislature and to prepare the initial actuarial studies dated July 1, 1999 and March 6, 2000.

Subsequent to the most recent study, Section 3305.061 was added to the Revised Code. It provides that "the percentage of an electing employee's compensation contributed by a public institution of higher education under division (D) of section 3305.06 of the Revised Code shall not exceed the percentage of compensation transferred under section 145.87, 3307.84, or 3309.88 of the Revised Code, as appropriate, by the state retirement system that otherwise applies to the electing employee's position."

As we indicated in the initial studies, there are three primary reasons why a Supplemental Contribution to the Ohio Retirement Systems is needed. The first reason is that the existing unfunded actuarial liabilities of the systems must be amortized. Each system relies on contributions on behalf of all employees (covering both current employees and future hires) in the groups currently covered by the Retirement Systems to amortize these obligations. To the extent that an ARP decreases the number of employees joining the Retirement System in the future or allows current members to transfer out, the financing base for amortizing these unfunded actuarial liabilities will be eroded.

The second reason is that employees who are most likely to join the ARP are those who expect to receive benefits from the Ohio Retirement Systems with a lower value than the benefits provided by the ARP. Those members of the Retirement System who expect the ARP will provide benefits with a value lower than the Retirement System will more likely choose to stay in the Retirement System. To the extent that this occurs, this also will serve to increase system costs.

A third reason is that University and College employees eligible to join an ARP receive compensation higher than the compensation provided to other members of the Retirement Systems. Employer contributions allocated to fund health insurance benefits for retired members are expressed as a percentage of pay in each of the three Retirement Systems. But the cost of health insurance does not vary in proportion to earnings. Thus, if the employees with higher than average earnings transfer to an ARP, contributions to finance health insurance will decrease by more than the cost of providing health insurance to retirees.

Data

We received data from STRS regarding ARP members with contributions forwarded to STRS by their employers during 2000-2001. These ARP members include those (1) who had elected to transfer during the first 120 days after the institution of higher education first established the ARP and (2) who were hired after the date the ARP was first established.

Results

The results of our calculations to determine the required Supplemental Contribution Rate based on this data have been summarized in the table below for STRS.

Calculated Supplemental Contribution Rate for:	
Pension Benefits	3.33%
Health Insurance	0.87
Total	4.20
Current Supplemental Contribution Rate as limited by 3305.061	3.50

The statute calls for an automatic adjustment of the Statutory Supplemental Contribution Rate based on this report "effective on the first day of the second month following submission of the actuarial study to the board of regents under section 171.07 of the Revised Code."

The actuarial assumptions and plan provisions used for these calculations are the STRS assumptions used for the July 1, 2001 Actuarial Valuation. These calculations assume that the number and age/earnings characteristics of the future hires who will elect to join the ARP will mirror the number and age/earnings characteristics of recent hires who joined the ARP, except that average starting salaries of future hires were assumed to grow each year at the payroll growth assumption adopted by STRS.

Period Supplemental Contribution is Payable

The Supplemental Contribution Rate will be payable until the unfunded actuarial accrued liability for all benefits, except health care benefits and benefit increases provided after March 31, 1997, is fully amortized as determined by the annual actuarial valuation.

Conclusions

Based on the STRS members who elected to join an ARP, a Supplemental Contribution Rate of 3.50% is appropriate based on the provisions of Sections 3305.06(D) and 3305.061 or the Revised Code.

Basis for Analysis

This estimate is based on the data supplied by STRS. We have not audited or verified this data but have relied on it as submitted. If the underlying data is inaccurate or incomplete, the results of our analysis will likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison to search for values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Some of the data records provided did not contain valid dates of birth. For those records, we assumed that the employee was hired at the average age at hire of ARP members for whom a valid date of birth was provided.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

We are members of the American Academy of Actuaries and meet its Qualification Standards to render this actuarial opinion.

Please let us know if you have any questions.

Sincerely,

William A. Reimert

Katherine A. Warren

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