



June 12, 2001

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

Re: House Bill 158

Dear Aris:

As requested, we have reviewed the actuarial cost statements dated May 30, 2001 regarding the proposed plan enhancement for members of the Public Employees Retirement System, "PERS", under House Bill 158, "HB 158", of the 124th General Assembly.

Background

Group B PERS-LE includes all Sheriffs, Deputy Sheriffs and Township Police members of the PERS-LE Division. Group A covers all other PERS-LE members. We have summarized some basic data regarding the active members of Groups A and B as of December 31, 1999 in the following table.

	Group A	Group B
Number	889	6,877
Payroll	\$37,444,017	\$261,595,982
Average Age	40.9 years	39.3 years
Average Service	14.5 years	11.4 years

Full-time regional transit authority police officers and state highway patrol police officers, "TA & HP police officers", are currently members of the State or Local divisions of PERS. There are approximately 131 such members.

Summary

In summary, our analysis of HB 158 indicates that:

1. The bill, as drafted, would allow Group A PERS-LE members and TA & HP police officers, to retain the enhanced refund benefits provided by SB 144 and become eligible for unreduced retirement at age 48 & 25 years of service. In contrast, Group B PERS-LE members are currently eligible for unreduced retirement at age 48 & 25 years of service but are not eligible for the enhanced refund benefits provided by SB 144.
2. As a result, the contribution rates adequate to support the current benefits for Group B PERS-LE members are not adequate to support the benefit increases for Group A PERS-LE members and TA & HP police officers that would be provided by HB 158.
3. There is almost, but not quite, enough margin in the current contribution rates applicable to Group B PERS-LE to make up the shortfall in the contribution rates from Group A PERS-LE and TA & HP police officers. For example, the PERS actuary estimates that if only Group A were being combined with Group B, the combined group would barely pass the 30-year funding requirement of SB 82. But adding the TA & HP police officers to the combined group pushes the funding period beyond the 30-year limit.
4. If the enhanced refund benefits provided by SB 144 were eliminated for Group A PERS-LE and TA & HP police officer members who choose to transfer as a result of HB 158, they could be merged with the current Group B PERS-LE members. If that were done, the current Group B contribution rates would be adequate to support the pension benefits within the 30-year funding requirements of SB 82.
5. HB 158 would offer TA & HP police officers the option of remaining in general PERS instead of joining the LE division. HB 158 would provide 48 & 25 unreduced retirement benefits to all Group A members except Hamilton County municipal court bailiffs without offering them the option of staying in Group A. As a result, the member contribution rates for all Group A members would increase from 9.0% to 10.1%. This is reasonable since no Group A members would lose any of their current benefits under HB 158 as drafted.

But if the alternative discussed under item 3 above were adopted (eliminating the enhanced refund benefits), Group A PERS-LE members who cannot complete 25 years of service prior to age 52 (the current unreduced retirement age in Group A PERS-LE) would gain nothing from transferring to Group B. Instead, they would lose the enhanced refund benefit and have their member contribution rate increase from 9.0% to 10.1%. This undesirable result could be avoided if Group A PERS-LE members were given the option of remaining in Group A.

6. Allowing current Group A PERS-LE and TA & HP police officer members the option of retaining their current benefits in lieu of transferring to the new unreduced 48 & 25 benefits is somewhat more costly than requiring all such members to transfer. This is due to the tendency of members to choose the option most beneficial to them.
7. If the Legislature intends that Group A PERS-LE and TA & HP police officer members retain the enhanced refund benefits provided by SB 144, member and/or employer contribution rates would have to be increased by a total of roughly 2.00% beyond the rates currently applicable to Group B members to cover the cost of the unreduced 48 & 25 benefits as well as the enhanced refund benefits. (This rough estimate should be refined by PERS' actuary and reflect whether current members would be given the option of transferring and the specific members to which the higher rates would apply.)
8. HB 158 would increase the health insurance costs of PERS, but because health insurance is financed within a single pool covering all PERS members, this change would have a relatively modest effect on PERS' ability to continue to finance these benefits.

House Bill 158

HB 158 would transfer TA & HP police officers from PERS-State and PERS-Local to PERS-LE. Current members would be allowed to elect to remain in the State or Local divisions of PERS if they make an election to do so within 90 days of the bill's effective date.

In addition, HB 158 would allow all PERS-LE members, except Hamilton County municipal court bailiffs, to receive unreduced retirement benefits at age 48 with 25 years of service. Moreover, the member contribution rates would increase from 9.0% to 10.1% for current Group A PERS-LE members and from 8.5% to 10.1% for TA & HP police officers.

HB 158 would not modify the enhanced benefits payable upon termination or death prior to retirement. Prior to the enactment of Senate Bill 144 in 2000, member contributions were refunded without interest. SB 144 provided that State, Local and Group A PERS-LE members would have the right to receive a refund of their contributions with interest at a rate of up to 6% set by the Board. In addition, if the member terminates or dies with between 5 and 10 years of service, an additional amount equal to 33% of the member's contribution balance is also paid. If the member terminates or dies with 10 or more years of service, an additional 67% of the balance is paid. Of course, PERS-LE members have the right to leave their contributions in PERS and receive the general PERS retirement benefits if they have 5 years of service.

Those provisions in SB 144 were not extended to Group B PERS-LE members. Thus if HB 158 were enacted, TA & HP police officers and Group A PERS-LE members would continue to receive the enhanced refunds provided by SB 144, but Group B PERS-LE members would remain ineligible for those enhanced refund benefits.

This may be an oversight in drafting the bill. As a result, we will show estimates of the additional costs associated with the bill as drafted and also if the bill were modified to eliminate the enhanced refund provisions for TA & HP police officers and Group A PERS-LE members who elect to transfer. We will also show estimates of the effect if the enhanced refund provisions were extended to Group B PERS-LE members.

Estimated costs of increased pension benefits

Gabriel, Roeder, Smith & Company, "GRS", who serve as actuaries to PERS, prepared an actuarial note regarding HB 158. An actuarial note dated May 30, 2001 indicated the effect on PERS-LE if current Group A PERS-LE members were transferred to Group B PERS-LE.

Based on this actuarial note, we have estimated the employer rates that would be required to support the payment of unreduced retirement benefits at age 48 and 25 years of service for each of the member groups potentially affected by HB 158. The results are summarized in the table on the following page.

As indicated in the following table, the current Group B members can afford the unreduced retirement at 48 & 25 without the enhanced refund benefits standing on their own with the current 10.10% member contribution rate and 12.40% employer contribution rate. None of the other three groups can.

(\$ Amounts in millions)

	Group A	Group B	Highway Patrol Police and Regional Transit Authority Police
Background data			
Number of Active Members	889	6,877	131
Payroll	\$37.4	\$261.6	\$5.5
Current member contribution rate	9.00%	10.10%	8.50%
Current employer contribution rate for pension benefits	12.40	12.40	9.01% State / 9.25% Local
Unreduced Retirement at 48 & 25 without enhanced refund benefits provided by SB 144			
Inc. in member rate	1.10%	0.00%	1.60%
Inc. in normal cost rate	0.17	0.00	4.78
Inc. in Unfunded Actuarial Liabilities, "UAL"	\$11.8	\$0.0	\$2.2
Funding Period	30 years	21 years	30 years
Inc. in rate to amortize UAL	1.33%	0.00%	0.62%
Add'l inc. in member or employer contrib. rate needed	0.40	0.00	3.80 State / 3.56 Local
Unreduced Retirement at 48 & 25 with enhanced refund benefits provided by SB 144			
Inc. in member rate	1.10%	0.00%	1.60%
Inc. in normal cost rate	1.22	1.05	5.83
Inc. in Unfunded Actuarial Liabilities, "UAL"	\$14.8	\$21.0	\$2.7
Funding Period	30 years	30 years	30 years
Inc. in rate to amortize UAL	1.73%	0.20%	1.01%
Add'l inc. in member or employer contrib. rate needed	1.85	1.25	5.24 State / 5.00 Local

The funding period for Group B PERS-LE is only 21 years and this group is quite large relative to the Group A PERS-LE and the TA & HP police officers. Under these circumstances, it might be possible to combine all of these members into a single pool that could be funded within the 30-year constraint imposed by SB 82. Several possibilities along these lines are discussed below.

1. As written, HB 158 would allow all current Group A PERS-LE members and the TA & HP police officers to become eligible for unreduced retirement at 48 & 25 without losing the enhanced refund provisions provided by SB 144. If these members were combined with all of the current Group B PERS-LE members and contributed at the same rates applicable to Group B currently; the funding period is estimated to be greater than 30 years. Thus, this alternative would fail the SB 82 30-year funding requirement.
2. If HB 158 were modified to eliminate the enhanced refund benefits provided by SB 144 for the Group A PERS-LE members and the TA & HP police officers, it would be possible to combine the two smaller groups with Group B PERS-LE without violating the 30-year funding requirement of SB 82. Effectively, this would result in the expansion of the current Group B PERS-LE to include the Group A PERS-LE members and the TA & HP police officers who choose to transfer. HB 158 would require all new members to join Group B.

If all eligible members choose to join the expanded Group B, the funding period of Group B would increase from 21 years to 25 years. But we can expect that many of the current members eligible to join the expanded Group B would decline to do so, if they had a choice. (As drafted, HB 158 does not give the Group A members the option of remaining in Group A.) Roughly one-third of the Group A PERS-LE members were hired at or after age 27. As a result, they will not complete 25 years of service until they attain age 52 or later and they could not benefit from the unreduced 48 & 25 retirement eligibility provision. (They are currently eligible for unreduced retirement at 52 & 25.) We estimate that approximately one-third of all Group A members could not complete 25 years prior to age 52.

For such current Group A members, transferring to Group B would be an unwise choice. They would lose the enhanced refund benefits provided by SB 144 and have their contributions increase from 9.00% to 10.10%. Presumably, such members would elect to stay in Group A. This would tend to increase the funding period beyond the 25 year estimate indicated above, but we believe that it is likely that the composite funding period would remain below 30 years and hence comply with SB 82.

3. Alternatively, the member or employer contribution rates could be increased so that the 30-year funding requirement would be satisfied thereby enabling the continued payment of the enhanced refund benefits. If a new LE group were created to cover the Group A PERS-LE members and the TA & HP police officers, it would be possible to continue the enhanced

refund benefits if member contributions were set at 10.10% as currently provided by HB 158 and the employer rate for pension benefits were increased from the 12.40% applicable to Group B members to roughly 14.25%. (If the current employer rate for health care benefits were added to this, the total employer rate would be 18.55%, which is higher than the 18.10% statutory maximum employer rate.) We say roughly because we cannot refine this figure without more complete census data. We suggest that, if the Legislature wishes to consider this alternative, GRS be requested to refine this calculation since they have complete PERS census data.

Instead of increasing the employer rate, the member rate could be increased to roughly 12.25% and the employer rate could be set at the current Group B employer rate for pension benefits of 12.40%. Or, the member and employer rates could both be increased.

Under this alternative 3, it would be desirable to require all current Group A members and TA & HP police officers to join the new group, that is, they would not be allowed to stay in their current plan, whether it be PERS-State, Local or Group A LE. If they were given a choice, the required member or employer contribution rate might have to be higher than the 12.25% and 14.25% figures we estimated above.

Estimated cost of increased health insurance benefits

GRS indicated in the actuarial cost statement "However, the retiree health program would be absorbing additional costs which would tend to accelerate the date when a rate and/or benefit adjustment would be needed to maintain balance in the retiree health program." An example of such a benefit adjustment would be if PERS instituted retiree contributions (in addition to the contributions required from retirees who elect an option other than the basic one) to help pay the cost of the healthcare benefits.

A report on retiree healthcare benefits presented by PERS to the ORSC on July 14, 1999 indicated that, even under a pessimistic scenario regarding healthcare cost inflation, the healthcare fund for all of PERS was projected to remain solvent until 2036, well beyond the 30-year funding period requirement of SB 82. Under the intermediate and valuation scenarios, the healthcare fund was projected to remain solvent until 2058 and indefinitely, respectively.

These estimates were based on the results of the December 31, 1999 Actuarial Valuations and the supplemental actuarial cost statement dated May 30, 2001.

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Please let us know if you have any questions or if you need any additional information.

Sincerely,



William A. Reimert



Katherine A. Warren

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Summary of Options/Issues relating to HB 158

	Group A PERS-LE members	Group B PERS-LE members	TA & HP police officers
<i>Current benefits & contributions</i>			
Unreduced Retirement Age	52 & 25	48 & 25	Any age with 30 years
Enhanced Refunds	Yes	No	Yes
Member Contribution Rate	9.0%	10.1%	8.5%
Employer contribution Rate for Pensions	12.40%	12.40%	9.01% State / 9.25% Local

<i>HB 158 as drafted</i>			
Unreduced Retirement Age	48 & 25	48 & 25	48 & 25
Enhanced Refunds	Yes	No	Yes
Optional	No	N/A	Yes
Member Contribution Rate	10.1%	10.1%	10.1%
Employer contribution Rate for Pensions	12.40%	12.40%	12.40%
Comply with 30-year funding requirement if stands alone	No	Yes	No
Comply with 30-year funding requirement if merged with Group B	No	No	No

<i>HB 158 modified to eliminate enhanced refunds and made optional for Group A members</i>			
Unreduced Retirement Age	48 & 25	48 & 25	48 & 25
Enhanced Refunds	No	No	No
Optional	Yes	N/A	Yes
Member Contribution Rate	10.1%	10.1%	10.1%
Employer contribution Rate for Pensions	12.40%	12.40%	12.40%
Comply with 30-year funding requirement if stands alone	No	Yes	No
Comply with 30-year funding requirement if merged with Group B	Yes	Yes	Yes

<i>HB 158 with increased contribution rates and enhanced refunds (except for Group B)</i>			
	Group A PERS-LE members	Group B PERS-LE members	TA & HP police officers
Unreduced Retirement Age	48 & 25	48 & 25	48 & 25
Enhanced Refunds	Yes	No	Yes
Optional	No	N/A	No
Member Contribution Rate	10.10% / 12.25%	10.10%	10.10% / 12.25%
Employer contribution Rate for Pensions	14.25% / 12.40%	12.40%	14.25% / 12.40%
Comply with 30-year funding requirement if stands alone	Yes	Yes	Yes
Comply with 30-year funding requirement if merged with Group B	Yes	Yes	Yes