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Annual Report *2006*

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

*The 126th General Assembly
January 1, 2005 – December 31, 2006*

February 2007

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ANNUAL REPORT

THE 126TH GENERAL ASSEMBLY

JANUARY 1, 2005 - DECEMBER 31, 2006

February 2007

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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, 2005 and ending December 31, 2005. 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 over \$153 billion and approximately 715,000 active contributing members, 560,000 inactive members, and 354,000 beneficiaries and recipients. The January 23, 2006 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 16th out of all public and private; STRS ranked 17th out of all public and private funds; OP&F ranked 113th; while SERS ranked 120th 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, actuarial

condition, operating budgets, and compliance with various provisions of S.B. 133 (eff. 9-15-04). In addition, 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 2005-2006, pending public retirement issues, and staff recommendations. In addition, it provides a historical record of legislative action taken by the 126th 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 nine sections: Systems' Investment Performance; Status of Health Care Funds; Actuarial Reviews; Fiduciary Audits; 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 2005-2006. The full reports can be obtained from the ORSC office or on the ORSC website.

The Status of the Health Care Funds provides a summary of the major changes made to the systems' health care benefits for 2006 and 2007. 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 2007.

The Actuarial Reviews section provides a summary of the actuarial review completed by the ORSC actuary, Milliman USA, during 2005-2006. The full reports can be obtained from the ORSC office or on the ORSC website.

The Fiduciary Audits section provides information on the recommendations made by Independent Fiduciary Services, Inc. as part of their review of STRS and OP&F. The full reports can be obtained from the ORSC office or on the ORSC website.

The Reports on Enacted Pension Legislation section provides a detailed examination of each pension bill enacted into law during the 126th 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. The reports are intended to give the reader an awareness and understanding

of all substantive changes proposed for 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 Submitted by the Retirement Systems section provides information on all reports that the retirement systems are required 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

THE 126TH GENERAL ASSEMBLY

JANUARY 1, 2005 – DECEMBER 31, 2006

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 the 126th General Assembly:

Investment Performance Review (Fourth Quarter 2004), May 11, 2005 -

This report, which was presented at the May 11, 2005 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning January 1, 1995 and ending December 31, 2004. The findings of this report are summarized as follows:

- The six months ending 12/31/2004, the period since the last report, were positive for the systems. All experienced positive results, ranging from 8.02% (HPRS and SERS) to 9.21% (STRS). PERS, SERS, and STRS outperformed their respective policies for the six-month period, while HPRS and OP&F slightly lagged their policies. STRS, PERS, and OP&F also ranked above the median public retirement system in a broad universe of such funds. The top-performing fund for the six months was STRS (40th percentile). The other funds ranged from the 43rd percentile (PERS) to the 77th percentile (SERS).
- All systems have now outperformed their respective policy benchmarks for the past three years. For the trailing five-year period, all systems outpaced their respective policy benchmarks except for PERS, which slightly trailed its policy index by only 3 basis points.
- Long-term ten-year results have improved as a result of strong gains in 2004. All plans have ten-year returns that are above their actuarial interest rate assumptions.

Investment Performance Review (Second Quarter 2005), December 14, 2005 -

This report, which was presented at the December 14, 2005 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning July 1, 1995 and ending June 30, 2005. The findings of this report are summarized as follows:

- In the six months ending 6/30/2005, the period since the last report, the systems experienced modest, but generally positive results. All experienced positive returns, ranging from 0.76% (HPRS) to 2.79% (STRS). STRS and OP&F outperformed their respective policies for the six-month period, while HPRS, PERS, and SERS lagged their policies. STRS, SERS, and OP&F also ranked above the median public retirement system in a broad universe of such funds. The top-performing fund for the six months was STRS (12th percentile). The other funds ranged from the 25th percentile (SERS) to the 87th percentile (HPRS).
- Over the trailing three-year period, STRS, PERS, and SERS have outperformed their respective policy benchmarks. For the trailing five-year period, all systems have now outpaced their respective policy benchmarks.

- Long-term, ten-year results have slightly weakened as a result of minimal gains during the first two quarters of 2005. STRS, SERS, and OP&F have ten-year returns that are above their current actuarial interest rate assumptions, while results of HPRS and PERS did not exceed their respective interest rate assumptions.
- During the six and one-half years that EAI has been reviewing the results of the systems on behalf of the Council the asset allocation targets have tended to converge. Current targets are very close to each other. This similarity in policy makes comparing one system's results to the other a more meaningful exercise.
- EAI added an additional appendix at the end of the report that 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 grow out of their review of the systems' asset allocation:
 1. In general, the systems' asset allocation targets are above the median with respect to their allocation to equity and below the median with respect to their allocation to fixed income.
 2. During the first half of 2005, HPRS reduced its exposure to domestic equity, fixed income and real estate to establish a 10% target allocation to alternatives (5% in private equity and 5% in hedge funds). At present the fund is overweight in domestic equity by 6.80% with a corresponding underweight in real estate (5.3% vs. 12.0%). This report does not reflect changes to target allocation and policy index as alternative investment were not funded as of June 30, 2005.

Investment Performance Review (Fourth Quarter 2005), May 10, 2006 -

This report, which was presented at the May 10, 2006 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning January 1, 1996 and ending December 31, 2005. The findings of this report are summarized as follows:

- In the six months ending December 31, 2005, the period since the last report, the systems experienced strong performance results, ranging from 9.05% (STRS) to 6.65% (HPRS). All systems outperformed their respective policies for the six-month period except OP&F, which underperformed its policy index by 0.41%. However, OP&F's policy index return for the six-month period was the second best performing policy index (+7.33%), trailing only STRS' policy index (+7.75%) by 42 basis points. Policy index returns of SERS, PERS, and HPRS were 6.92%, 6.82%, and 6.32%, respectively for the six-month period. From a universe comparison perspective, all systems except HPRS ranked above the median public retirement system in a broad universe of such funds for six months ending December 31, 2005. The top-performing fund for the six months was STRS (3rd percentile). The other funds ranged from the 7th percentile (SERS) to the 52nd percentile (HPRS).

- For year-to-date ending December 31, 2005, STRS (+12.08%), SERS (10.76%), and PERS (+9.24%) outpaced their respective policy index returns, ranking them in the 3rd percentile, 13th percentile, and 33rd percentile, respectively, in the Russell All Public Total Fund Universe. Although OP&F trailed its policy index (+8.82% vs. +8.97%) for the same period, the system ranked above the median public retirement system in a broad universe of such funds.
- Over the trailing three-year period, all systems except OP&F have outperformed their respective policy benchmarks. However, OP&F's average three-year return of 15.44% placed ahead of SERS (+15.00%) and HPRS (+14.62%). From a universe comparison standpoint, STRS (16th percentile), PERS (29th percentile), OP&F (30th percentile), and SERS (41st percentile) ranked above the median return of the Russell All Public Total Fund Universe.
- For the trailing five-year period, all systems have outperformed their respective policy benchmarks. OP&F (+5.91%) and HPRS (+5.89%) ranked in the second quartile, while STRS (+5.62%) and PERS (+5.60%) ranked in the third quartile of the Russell All Public Total Fund Universe. Although SERS outpaced its policy index, the system placed in the 86th percentile to rank in the fourth quartile of the broad universe for the same period.
- Over the longer-term, ten-year period, OP&F, SERS, and STRS are exceeding their actuarial interest rate. In comparison to the systems' respective policy benchmarks over the past ten years, SERS and OP&F outperformed, while HPRS, PERS, and STRS trailed for the same period.
- During the seven years that EAI has been reviewing the results of the systems on behalf of the Council, the asset allocation targets have tended to converge. Current targets are very close to each other. This similarity in policy makes comparing one system's results to the other a more meaningful exercise. In the case of PERS, the Retirement Board accepted a proposed change to the defined benefit policy target to take effect on January 1, 2005. The change to the new defined benefit policy target was instituted due to increased exposure to illiquid asset classes (private equity and real estate). Prior to January 1, 2005, PERS utilized fixed weights for all asset classes – liquid and illiquid. Under the new policy target, PERS uses floating weights for illiquid asset classes, based on actual invested allocations to these areas.
- The following observations grow out of the review of the systems' asset allocation:
 1. The systems' actual asset allocation and asset allocation targets to domestic equity rank above the median plan's allocation to domestic equity (40.76%) in the Russell Total Public Fund Universe.
 2. The systems' actual asset allocation and asset allocation targets to fixed income fall below the median plan's exposure to fixed income (26.77%).
 3. In general, the systems' asset allocation targets are above the median (18.70%) with respect to their allocation to international equity. SERS and

HPRS were two exceptions, as they set their international equity target allocations to 16.0% and 15.0%, respectively.

4. The systems' asset allocation targets to real estate rank above the median plan's allocation to real estate (5.35%), while PERS, SERS, and STRS actual asset allocation to real estate exceeds the median plan's allocation.
 5. The systems' actual asset allocation and asset allocation targets to alternative investments rank below the median plan's allocation to alternative investments (4.18%).
- The following observations reflect EAI's review of the systems' operating cost structures:
 1. The range in cost structure among the systems ranged from a low of 16.5 bpts (PERS) to a high of 47.2 bpts (SERS).
 2. In 2005, all systems except SERS experienced a decrease in total operating expenses, in percentage basis, compared to 2004 year-end results.

Investment Performance Review (Second Quarter 2006), December 13, 2006 –

This report, which was presented at the December 13, 2006 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning July 1, 1996 and ending June 30, 2006. The findings of this report are summarized as follows:

- In the six months ending June 30, 2006, the systems experienced modest single digit performance results, due primarily to lackluster market returns in the second quarter of 2006. The range of returns for the six months goes from a low of 3.54% (PERS Health Care) to a high of 5.20% (OP&F).
- Four of the systems outperformed their respective policies for the six-month period. The two exceptions were PERS Defined Benefit, which underperformed its policy index by 0.36% and HPRS, which lagged by 10 basis points. OP&F's policy index return for the six-month period was the best performing policy index (+4.47%); PERS HC policy index was the lowest performing policy index (+3.40%). This was due to the plan's higher allocation to fixed income, which was quite weak over the six months period.
- From a universe comparison perspective, all systems except PERS DB ranked above the median public retirement system in a broad universe of such funds (the Russell/Mellon All Public Fund Universe) for six months ending June 30, 2006. The top-performing fund for the six months was OP&F (13th percentile). The other funds ranged from the 30th percentile (SERS) to the 62nd percentile (PERS DB).
- For the twelve months ending June 30, 2006, all of the systems outpaced their respective policy index returns, ranking them in the 14th, 20th, 24th, 36th, and 52nd percentiles in the Russell All Public Total Fund Universe. Although HPRS beat its policy index (+11.00% vs. +10.78%) for the same period, the system ranked slightly below the median public retirement system in a broad universe of such funds.

- Over the trailing three-year period, only HPRS has underperformed its policy benchmark, although only by 1 basis point. STRS has the strongest annualized three-year return of 14.54%, ahead of OP&F (+14.00%), SERS (+13.38%) PERS DB (+13.33%), and HPRS (12.54%). STRS also has the largest margin of outperformance against its policy benchmark, returning 1.22% more than the benchmark on an annualized basis.
- From a universe comparison standpoint, for the trailing three-year period STRS (13th percentile) and OP&F (22nd percentile) ranked in the first quartile, while SERS (36th percentile) and PERS DB (40th percentile) ranked above the median return of the Russell All Public Total Fund Universe. HPRS ranked in the third quartile (62nd percentile).
- For the trailing five-year period, all systems have outperformed their respective policy benchmarks. OP&F (+7.62%) and HPRS (+7.35%) ranked in the second quartile, while STRS (+7.15%) and PERS DB (+6.94%) ranked in the third quartile of the Russell All Public Total Fund Universe. It is important to note that STRS ranked in the 51st percentile, so for all intents and purposes it was at the universe median. Although SERS outpaced its policy index, the system placed in the 79th percentile to rank in the fourth quartile of the broad universe for the same period.
- Over the longer-term, ten-year period, OP&F, SERS, and STRS are exceeding their actuarial interest rate. In comparison to the systems' respective policy benchmarks over the past ten years, SERS and OP&F outperformed, while HPRS, PERS DB and STRS trailed for the same period.
- During the seven years that we have been reviewing the results of the systems on behalf of the Council, the asset allocation targets have tended to converge. Current targets are very close to each other. This similarity in policy makes comparing one system's results to the other a more meaningful exercise. In the case of PERS DB, the Retirement Board accepted a proposed change to the defined benefit policy target to take effect on January 1, 2005. The change to the new defined benefit policy target was instituted due to increased exposure to illiquid asset classes (private equity and real estate). Prior to January 1, 2005, PERS utilized fixed weights for all asset classes –liquid and illiquid. Under the new policy target, PERS uses floating weights for illiquid asset classes based on actual invested allocations to these areas.
- The following observations grow out of EAI's review of the systems' asset allocation:
 1. The systems' actual and target asset allocation to domestic equity rank above the median plan's allocation to domestic equity (40.74%) in the Russell Total Public Fund Universe.
 2. The systems' actual and target asset allocation to fixed income fall below the median plan's exposure to fixed income (28.66%).

3. In general, the systems' asset allocation targets are above the median (17.55%) with respect to their allocation to international equity. SERS and HPRS were two exceptions, as they set their international equity target allocations to 16.0% and 15.0% respectively. It is worth noting that SERS actual international equity allocation as of this report was 19.47%, or above the universe median. The HPRS actual allocation was 17.27%, below but close to the universe median.
4. The systems' asset allocation targets to real estate rank above the median plan's allocation to real estate (6.60%), while PERS DB, SERS, and STRS actual asset allocation to real estate exceeds the median plan allocation. SERS has the largest actual real estate allocation at 11.19%. HPRS has the largest target allocation at 12.00%.
5. The systems' actual asset allocation and asset allocation targets to alternative investments rank below the median plan's allocation to alternative investments (4.99%).

STATUS OF HEALTH CARE FUNDS

THE 126th GENERAL ASSEMBLY

JANUARY 1, 2005 - DECEMBER 31, 2006

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 2005, the total retiree health care costs paid by the retirement systems were over \$1.9 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 2007 and the projected solvency period for each system's health care fund as of December 2006.

Ohio Retirement System	Percentage of Employer Contribution to be Allocated to Health Care in 2007
PERS	5.0%
STRS	1.0%
SERS	3.32%*
OP&F	6.75%
HPRS	3.5%

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

Projected Solvency Period for Health Care Funds (as of December 2006)	
PERS	2024
STRS	2021
SERS	2012
OP&F	2016
HPRS	2021

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, 2006 and January 1, 2007.

PERS

The Health Care Preservation Plan (HCPP) that was adopted in 2004 calls for an increase in employee and employer contribution rates, as well as an eventual increase in the portion of the employer contribution that PERS will allocate to health care. As the January 1, 2007 effective date of the HCPP draws near, PERS will begin phasing-in these changes so as to minimize their impact on public employers and their employees. The first increase in the contribution rates became effective January 1, 2006. The following schedules illustrate these increases.

Employee Contribution Rate Increases			
	PERS Local	PERS State	PERS-LE
2005	8.50%	8.50%	10.10%*
2006	9.00%	9.00%	
2007	9.50%	9.50%	
2008	10.00%	10.00%	

*The rate contributed by PERS-LE members is set in statute.

Employer Contribution Rate Increases			
	PERS Local	PERS State	PERS-LE
2005	13.55%	13.31%	16.70%
2006	13.70%	13.54%	16.93%
2007	13.85%	13.71%	17.17%
2008	14.00%	14.00%	17.40%
2009	14.00%	14.00%	17.63%
2010	14.00%	14.00%	17.87%
2011	14.00%	14.00%	18.10%

In addition to the increase in the contribution rates, PERS made the following changes to its health care plan for 2006 and 2007:

PREMIUMS

2006: For members of PERS' traditional health care plan (administered by Medical Mutual of Ohio or Aetna PPOs), monthly premiums under Medical Mutual remain unchanged, while monthly premiums under Aetna will increase in most cases. Premiums for coverage under PERS' alternative health plans/HMOs will increase in most cases. PERS continued to reimburse the full Medicare Part B monthly premium, which was \$88.50 in 2006.

2007: Beginning January 1, 2007, current retirees and members eligible to retire before January 1, 2007 who are eligible for health care coverage will receive a monthly allowance toward the cost of health care, which they can use to purchase health plan options consisting of medical/pharmacy, dental, vision, and long-term care. The allowance for current retirees will equal 100% of the health care premium. Dependents will receive between 75 and 90% of the retiree's allowance depending on the retiree's years of service. In addition, PERS will be instituting a new income-based discount program for persons with household income below 150% of the poverty level. PERS will reimburse the basic Medicare Part B monthly premium, which is \$93.50 in 2007.

ELIGIBILITY

2006: PERS made no changes to its health care eligibility requirements for 2006.

2007: PERS made no changes to its health care eligibility requirements for 2007.

BENEFITS

2006: Beginning January 1, 2006, PERS will no longer require prior authorization for any medication in the proton pump inhibitor class. In addition, the system will cover Prilosec over-the-counter with a prescription for \$5 per month, while co-payments for the brand name prescription medications in the proton pump inhibitor class will increase March 1, 2006.

2007: A number of changes have been made in this area for 2007. For example, hearing aids will no longer be covered and the annual deductible under the Enhanced Plan has been increased to \$250 and the out-of-pocket maximum will be \$850. Also, retail purchases of prescription drugs will allow for a 30-day supply rather than the 34-day supply that was allowed in 2006.

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

STRS

The STRS board has voted to seek legislative approval to increase the employer and employee contribution rates by 2.5% each in order to establish a dedicated revenue stream

for health care funding. Under the proposal, the increase would be phased in over a five-year period in 0.5% increments. The proposal calls for 4.4% of the additional contributions to go into the Health Care Stabilization Fund (HCSF) while the remaining 0.6% would be used to fund pensions.

STRS made the following changes to its health care plan for 2006 and 2007:

PREMIUMS

2006: For 2006, the STRS board capped health care premium increases at 3% over the 2005 rates for all plans. In addition, the monthly premium for benefit recipients participating in the Health Care Assistance Program was reduced from \$40 to \$0.

For 2006, the STRS board voted to increase the reimbursement amount for Medicare Part B monthly premiums on a sliding scale from \$29.90 to \$62.37 based on the member's years of service at retirement.

2007: For 2007, STRS will provide a premium subsidy of 2.5% per year of service, up to a 75% maximum, for benefit recipients, while spouses and dependents will pay 100% of the projected rates. Premiums will increase between 0% and 19% depending on the plan, the years of service the benefit recipient has, and whether the benefit recipient is eligible for Medicare. The minimum monthly premium will be \$40. For 2007, STRS will reimburse Medicare Part B monthly premiums on a sliding scale from a minimum of \$29.90 to a maximum of \$52.83 based on the member's years of service at retirement.

Premiums for the optional dental plan will increase slightly in 2007, while there are no changes to the premiums for the vision plan.

ELIGIBILITY

2006: STRS made no changes to its health care eligibility requirements for 2006.

2007: STRS made no changes to its health care eligibility requirements for 2007.

BENEFITS

2006: The STRS board reduced co-payments for generic prescription drugs purchased through Caremark. Retirees in a Medical Mutual or Aetna Plus or Basic Plan or a Paramount HMO will pay \$10 rather than the current \$15 per generic prescription for up to a 30-day supply purchased at retail. Mail-service co-payments for generic drugs will drop from \$30 to \$20 for up to a 90-day supply. In addition, the maximum annual drug benefit for Basic Plan enrollees was increased from \$2,250 to \$3,100 for 2006.

2007: The STRS board approved changes that affect the Aetna and Medical Mutual Plus and Basic Plans and the Paramount plans. For example, the Basic Plan will cover preventive services at 100% with no deductible or co-payments. In addition, the maximum annual drug

benefit for Basic Plan enrollees will increase from \$3,100 to \$5,000. Changes to the prescription drug program include, but are not limited to, an increase in co-payments for all mail order prescription drugs.

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

SERS

PREMIUMS

2006: For 2006, the SERS Board voted to increase monthly health care premiums substantially, along with other plan changes, in order to extend health care coverage through 2010. For example, an SERS retiree who retired in 1994 with 20 years of service and is not eligible for Medicare A paid \$172 per month under Aetna and Medical Mutual PPO/Indemnity in 2005. That retiree will pay \$233 per month under the same plan. Coverage for a spouse without Medicare A under that plan will be \$520 per month in 2006 as opposed to \$301 in 2005.

No changes were made in the dental benefits offered to retirees, however, there were premium increases. Monthly premiums for a benefit recipient only increased from \$21.28 in 2005 to \$24.11 in 2006; for a benefit recipient plus one, the premium increased from \$40.34 to \$45.71; and for a benefit recipient plus two or more the increase was from \$61.06 to \$69.18.

The board also approved reduced monthly premiums for retirees whose total 2004 household income minus SERS health insurance premiums and Medicare B reimbursement is at or below the federal poverty limits. Those members' health insurance premiums will be reduced by 25%. In 2005, SERS benefit recipients whose 2003 income was below 125% of the 2004 federal poverty guidelines qualified for a 50% reduction in monthly health care premiums.

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

2007: There are no changes in the SERS medical and hospital premiums for 2007. However, the board voted to increase premiums for those enrolled in the optional dental plan by 4.3%.

The amount that SERS reimburses for Medicare Part B premiums continues to be set in statute at \$45.50 per month.

ELIGIBILITY

2006: SERS made no changes to its health care eligibility requirements for 2006.

2007: SERS made no changes to its health care eligibility requirements for 2007.

BENEFITS

2006: SERS made changes in out-of-network coverage under Aetna and MMO Managed Care. The calendar year deductible for out-of-network providers will increase to \$700 in 2006 and there is no co-insurance limit. In addition, reimbursement after the member's deductible is met will decrease from 65% to 10%. There are no changes in the HMO plans.

SERS increased co-pays for mail-order non-formulary and formulary prescriptions under the Medco Health and Aultcare PPO programs effective January 1. While a 90-day supply of generic drugs will remain at \$15, brand name formulary drugs will increase to \$45 and brand name non-formulary drugs will increase to \$80.

2007: The SERS board made no changes to benefits for 2007.

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

OP&F

PREMIUMS

2006: Premium contributions for all benefit recipients increased by 10% in 2006. This increase was intended to add solvency to the Health Care Stabilization Fund while the Board considers health care changes that will become effective in 2007.

On January 1, 2006, OP&F moved into the third year of its five-year phase-in of health care subsidy level changes. This means that members retiring in 2006 paid a higher percentage of their health care premiums and prescription drug contributions than members retiring in 2004 and 2005. For example, if a member retires on or after January 1, 2006, and their age at retirement plus their years of service at retirement equals at least 63 but not more than 77, the retiree will be responsible for paying 77.5% of the full health care premium and prescription drug contribution for their own coverage and 85% of the full premium and contribution for their spouse and children. In 2005 this same retiree would have paid 70% of the full health care premium and prescription drug contribution for themselves and 80% for their spouse and children. The percentage of the premium and contribution that a benefit recipient pays will continue to increase until 2009 when a Level 1 retiree (age at retirement plus years of service at retirement equal at least 63 but not more than 77) will pay 100% of the full health care premium for themselves and for their spouses and children. The percentage of the premium Level 2 retirees pay (age at retirement plus years of service at retirement equal at least 78, but not more than 82) will also continue to increase from 51.25% for a 2006 benefit recipient (46.5% in 2005) and 67.5% for their spouse and children (65% in 2005) to 62.5% for a 2009 benefit recipient and 75% for their spouses and children. Level 3 retirees (age at retirement plus years of service at retirement equal at least 83) will continue to pay 25% of the premium for themselves and 50% for spouses and children; this will not change under the plan.

OP&F continued to reimburse the full Medicare Part B monthly premium, which was \$88.50 in 2006.

2007: For 2007, the OP&F board revised the subsidy percentage that members receive toward their health care premiums. Rather than base the premium subsidy on a formula determined by the member's age at retirement and years of service, effective January 1, 2007 premium contribution rates will be based on when the recipient retired or began receiving OP&F benefits. If that occurred on or prior to July 24, 1986, OP&F will pay 75% of the health care premium for the retiree and 50% for 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 reimburse the basic Medicare Part B monthly premium, which is \$93.50 in 2007.

ELIGIBILITY

2006: OP&F made no changes to its health care eligibility requirements for 2006.

2007: OP&F made no changes to its health care eligibility requirements for 2007.

BENEFITS

2006: There were a handful of benefit changes to the OP&F health care plan for 2006. For example, members of OP&F's Option 3 Kaiser HMO plan will pay a \$10 co-pay for treatment from a specialist rather than \$0. Members of Option 1 Kaiser Medicare HMO will see the co-pays for their office visits increased from \$15 to \$25, while their emergency room co-pays will decrease from \$100 to \$50 in 2006.

2007: The OP&F board made significant changes to their health care plan for 2007. One of the most significant changes was the discontinuation of the HMO option effective January 1, 2007. The board also reduced the number of plan designs retirees could choose from. In 2007 the fund will offer one plan option (down from three option levels) and a choice between two providers, down from five. In addition, the board reduced the prescription drug coverage options from three to one.

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

HPRS

PREMIUMS

2006: Monthly premiums for dental coverage increased for spouses and children effective January 1, 2006; HPRS continued to pay the full premium to cover retirees. HPRS will continue to reimburse the full Medicare Part B monthly premium, which was \$88.50 for 2006.

2007: Effective January 1, 2007, monthly premiums for dental coverage for spouse and child coverage will increase from \$37.43 to \$42.18 and the premium for child only will increase

from \$14.41 to \$18.51. The premium for spouse coverage will remain at \$17.51 and HPRS will continue to pay the full premium to cover retirees. HPRS will reimburse the basic Medicare Part B monthly premium, which is \$93.50 in 2007.

ELIGIBILITY

2006: HPRS made no changes to its health care eligibility requirements for 2006.

2007: HPRS made no changes to its health care eligibility requirements for 2007.

BENEFITS

2006: Effective August 1, 2006, the benefit for eyeglass frames increased from \$85 to \$100.

2007: HPRS made no benefit changes to its health care plan for 2007.

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

ACTUARIAL REVIEWS
THE 126th GENERAL ASSEMBLY
JANUARY 1, 2005 - DECEMBER 31, 2006

Supplemental Contributions from Higher Education Employers (June 28, 2005) – This report was completed by the ORSC’s actuary, Milliman, pursuant to R.C. §171.07. Its purpose was to determine whether any adjustments to the employer supplemental contribution rate required under R.C. §§3305.06(D) and 3305.061 are necessary. The review was limited to STRS because the supplemental contribution rates payable to PERS and SERS had previously been reduced to 0.0%. Milliman concluded that, based on the STRS members who elected to join an ARP, the current supplemental contribution rate of 3.50% is appropriate.

Adequacy of OP&F Contribution Rates (January 9, 2006) – This report was completed by the ORSC’s actuary, Milliman, pursuant to R.C. §742.311 and was based on the results of the January 1, 2005 Actuarial Valuation of OP&F dated December 14, 2005. Milliman found that OP&F’s current statutory contribution rates are not adequate to support both:

1. the statutorily mandated benefits within the 30 year limitation on the funding period in R.C. §742.16; and
2. the discretionary health insurance benefits provided by the Board to retirees and their dependents and beneficiaries pursuant to R.C. §742.45.

Based on their review, Milliman made the following recommendations:

- That OP&F either:
 - (A) Continue current discretionary health care and mandated pension, survivor, and Medicare B reimbursements. Under this alternative the statutory employer and/or contribution rates to OP&F would need to be increased; state subsidies would need to be provided to OP&F; and/or the pension, survivor and/or Medicare B premium reimbursement benefits mandated by statute would need to be reduced.

or

 - (B) Continue current level of contribution rates. Under this alternative the OP&F board would need to significantly reduce or eliminate the discretionary health insurance benefit currently provided to retirees and their beneficiaries.
- That the contribution rates for police officers and firefighters be equalized.
- That the current actuarial assumption regarding the life expectancy of retirees and beneficiaries be reviewed by the OP&F actuary and Board prior to the preparation of the 2006 actuarial valuation rather than waiting for the next regularly scheduled review of the assumptions in 2007.
- That the 2006 and subsequent OP&F actuarial valuation reports include the actuarial cost of providing Medicare Part B premium reimbursements that are mandated by statute.

FIDUCIARY AUDITS

THE 126th GENERAL ASSEMBLY

JANUARY 1, 2005 - DECEMBER 31, 2006

In 2004, the ORSC contracted with Independent Fiduciary Services, Inc. to complete fiduciary performance audits of both STRS and OP&F. This action came in response to concerns that were raised regarding the administration and operations of the retirement systems. Since the ORSC's initial decision to have these types of audits completed for STRS and OP&F, the law was amended to require the ORSC to have conducted an independent fiduciary performance audit of each retirement system at least once every ten years (S.B. 133; eff. 9-15-04).

Both the STRS and OP&F audits were presented at the December 13, 2006 ORSC meeting. The following is a listing of the topics reviewed during the audit and a summary of the key recommendations made by IFS. The full reports, including a listing of all recommendations, can be found on the ORSC website.

Fiduciary Performance Audit of the State Teachers Retirement System of Ohio (December 2006) –

1. The Investment Policy Statement
 - No Key Recommendations.
2. Portfolio Risk
 - No Key Recommendations.
3. Investment Performance
 - No Key Recommendations.
4. Investment Structure and Costs
 - No Key Recommendations.
5. Use of External Consultants
 - Russell should provide annual disclosure of its business relationships with all investment managers or other providers of investment services.
6. Asset Allocation
 - STRS should conduct an asset allocation study at least every three years.
 - In future asset allocation and/or liability studies, additional risk and probability statistics should be shown.
7. Brokerage Practices
 - Enhance the Broker Evaluation policy to articulate specific criteria for qualifying and measuring emerging, women-owned brokers as well as Ohio-based brokers.
8. Selection of Investment Service Providers.
 - Elevate the manager search process to the level of a full policy and procedure document.
9. Statutory Provisions and Administrative Rules
 - The law should be changed to permit STRS to retain independent outside legal counsel without prior approval.
 - In the alternative, develop a memorandum of understanding that develops procedures for the Board to obtain counsel if/when a conflict arises.
10. Conflicts of Interest
 - STRS should adopt a prohibited transaction policy to define the term “parties in interest.”
 - STRS should develop a process for analyzing transaction with “parties in interest.”
11. Custodian

- Ohio law should be amended to establish an alternative statutory model more consistent with best practices that empowers the STRS Board to select the custodian.
 - Ohio law should be amended to remove the requirement that the custody bank must have an Ohio presence.
 - Ohio law should be amended to alter the reporting and control processes to reflect current automated reporting systems.
12. Internal controls and Risk Management
 - Formalize the risk management process and integrate STRS' overall mission, goals, and objectives into the risk assessment.
 - Increase the internal audit department to be more aligned with STRS' size and needs and develop an audit plan.
 13. Investment Accounting
 - No Key Recommendations.
 14. Board Governance, Policies, and Oversight
 - Board investment members should disclose campaign contributions
 - The Board should direct the Executive Director to maintain a record of responses to questions posed by members of the public at the Board's public meetings.
 15. Organizational Structure and Resources
 - Consider using a pay for performance model for non-investment personnel.
 16. Ability to Attract and Retain Employees
 - No Key Recommendations.
 17. Monitoring of Investments and Reporting
 - No Key Recommendations.
 18. Reporting to the ORSC
 - No Key Recommendations.

Fiduciary Performance Audit of the Ohio Police and Fire Pension Fund (December 2006) –

1. The Investment Policy Statement
 - No Key Recommendations.
2. Portfolio Risk
 - No Key Recommendations.
3. Investment Performance
 - No Key Recommendations.
4. Investment Structure and Costs
 - No Key Recommendations.
5. Use of External Consultants
 - Wilshire should acknowledge its status as a fiduciary, in writing.
 - Wilshire should provide annual disclosure of its business relationships with all investment managers or other providers of investment services.
6. Asset Allocation
 - Future asset liability studies should address how OP&F will meet the statutorily required amortization period of 30 years.
7. Brokerage Practices

- Develop and adopt a more comprehensive brokerage policy that is consistent with the Ohio-Qualified policy already adopted.
8. Selection of Investment Service Providers.
 - No Key Recommendations.
 9. Statutory Provisions and Administrative Rules
 - The law should be changed to permit OP&F to retain outside legal counsel without prior approval.
 - In the alternative, develop a memorandum of understanding that develops procedures for the Board to obtain counsel if/when a conflict arises.
 10. Conflicts of Interest
 - OP&F should adopt a prohibited transaction policy to define the term “parties in interest.”
 - OP&F should develop a process for analyzing transactions with “parties in interest.”
 11. Custodian
 - Ohio law should be amended to establish an alternative statutory model more consistent with best practices that empowers the OP&F Board to select the custodian.
 - Ohio law should be amended to remove the requirement that the custody bank must have an Ohio presence.
 - Ohio law should be amended to alter the reporting and control processes to reflect current automated reporting systems.
 12. Internal controls and Risk Management
 - Increase the internal audit department to be more aligned with OP&F’s size and needs and develop and audit plan.
 13. Investment Accounting
 - No Key Recommendations.
 14. Board Governance, Policies, and Oversight
 - Board investment members should disclose campaign contributions.
 15. Organizational Structure and Resources
 - No Key Recommendations.
 16. Ability to Attract and Retain Employees
 - No Key Recommendations
 17. Monitoring of Investments and Reporting
 - No Key Recommendations.
 18. Reporting to the ORSC
 - No Key Recommendations.

REPORTS ON ENACTED PENSION LEGISLATION

THE 126th GENERAL ASSEMBLY

JANUARY 1, 2005 - DECEMBER 31, 2006

Am. H.B. 10 – Rep. Schneider

Am. H.B. 10 conforms the laws of the Public Employees Retirement System (PERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS) and the Highway Patrol Retirement System (HPRS) with the current law of the Ohio Police and Fire Pension Fund (OP&F) with respect to the election of a joint and survivor annuity plan following marriage or remarriage.

Specifically, the bill makes the following two changes in PERS, STRS, SERS and HPRS:

1. The election of a joint and survivor annuity plan must be made *no later than one year after the date of the marriage or remarriage* for any marriage or remarriage by a retired member that occurs on or after the effective date of the bill. Presently, a retired member may make such election at any time prior to the member's death.

2. The election *shall become effective upon receipt of the board approved application form*, though any change in the benefit amount shall commence on the first day of the month following receipt of the application. Under present law, the election becomes effective on the first day of the month following receipt of the application form by the board.

Am. Sub. H.B. 648 (eff. 9/16/98) made similar changes to OP&F law with respect to the election of a joint and survivor annuity plan following marriage or remarriage by retired police officers and firefighters.

The bill also corrects language in Sub. S.B. 133 (eff. 9/15/04) from last session. Am. H.B. 10 extends the initial term of office for the additional retiree member appointed by the Governor pursuant to Sub. S.B. 133 to June 30, 2005. Without this change, the board member's term would have ended when the SERS board election was held in March. The same change was made with regard to the vacancy on the SERS board.

Staff Comments - The proposed changes to the governing statutes of PERS, STRS, SERS and HPRS under Am. H.B. 10 are modeled after those made to the governing statute of OP&F in 1998, and are intended to serve two important purposes. First, by limiting the time period for the election of a joint and survivor annuity plan in the case of post-retirement marriages to no more than one year after the date of marriage, the bill would mitigate the creation of additional liabilities resulting from adverse selection by the member against the retirement systems as permitted under existing law. For example, a member who is receiving a single life annuity (payable for the life of the member only) and subsequently marries has a financial incentive to delay making an election as long as possible to a joint and survivor annuity plan (payable for the life of the member and the member's spouse) due to the actuarial reduction required in the member's benefit. Therefore, the member may attempt "to game" the retirement systems by making an election to a joint and survivor annuity just prior to the member's death.

Second, by making the election of a joint and survivor annuity plan effective upon receipt of the application form by the retirement systems (rather than upon the first day of the month following such receipt), the bill would allow the retirement boards to give effect to the

Am. H.B. 10 – Rep. Schneider

member's intention in the event the member was to die between the retirement system's receipt of the election and the first payment thereunder. There have been instances in the past where members have made an election to change from a single life annuity to a joint and survivor annuity but have died between receipt of the election by the retirement systems and the first payment thereunder, thereby preventing the retirement boards under existing law from giving effect to the member's election and paying a joint and survivor annuity to the member's spouse.

H.B. 10 is similar to H.B. 455, which was introduced last session. Although it was not enacted, the ORSC voted at its May 12, 2004 meeting to recommend that the Ohio General Assembly approve H.B. 455.

Fiscal Impact - According to the PERS Actuary Gabriel, Roeder, Smith & Co., H.B. 10 would have no measurable financial effect on PERS.

ORSC Position - The ORSC voted at its February 16, 2005 meeting to recommend that the Ohio General Assembly approve H.B. 10.

Effective Date - March 7, 2005 (Emergency); Sections 1 and 2 effective June 6, 2005; Sections 3 and 4 effective October 27, 2006.

Am. Sub. H.B. 16 – Rep. Calvert

Am. Sub. H.B. 16 generally makes capital appropriations. This analysis describes only the provisions of the bill that relate to the Ohio public retirement systems.

This bill made a technical change to the laws governing PERS and STRS by changing the name of the “Medical College of Ohio at Toledo” to the “Medical University of Ohio at Toledo.”

Fiscal Impact - This bill has no fiscal impact on the retirement systems.

ORSC Position - The ORSC took no position on this bill.

Effective Date – May 6, 2005; Sections 38.01 and 40.01 eff. February 3, 2005; Sections 39.02, 39.03, and 39.04 eff. July 1, 2005; Sections 2.01 and 2.02 eff. August 1, 2005; certain provisions effective February 3, 2005 and July 1, 2005.

Sub. H.B. 25 – Rep. Wagner

Sub. H.B. 25 generally allows a state officer or employee to participate in an immunity determination proceeding. This analysis describes only those provisions of the bill that relate to the Ohio public retirement systems.

The bill provides that when an active or retired employee member is elected to fill a vacant seat on the board of one of the retirement systems, that member holds office until the first day of the new term that follows the next board election that occurs not less than ninety days after the successor member's election. Under prior law, the successor member held office only until the date of the board election, which created a gap in representation for that particular seat.

Sub. H.B. 25 also extends the term of the retiree members who were added to the PERS, STRS, SERS, and HPRS boards in S.B. 133 (eff. 9-15-04). S.B. 133 gave the Governor the authority to appoint the initial additional retiree member. Section 5 of S.B. 133 provided that the initial additional retiree member would hold office until the next board election that occurred not less than ninety days after the member's appointment. This bill provides that the appointed retiree member hold office until the first day of the new term rather than the date of the next board election.

Fiscal Analysis – Sub. H.B. 25 would have no fiscal effect on the retirement systems.

ORSC Position – The Council took no position on the bill.

Effective Date – August 4, 2005

Am. Sub. H.B. 66 – Rep. Calvert

Am. Sub. H.B. 66 generally makes operating appropriations for the biennium beginning July 1, 2005 and ending June 30, 2007 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 five state retirement systems.

The bill would make the following appropriations to OP&F:

Appropriation Item	Fiscal Year 06	Fiscal Year 07
GRF 090-524 Police and Fire Disability Pension Fund	\$25,000	\$20,000

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 06	Fiscal Year 07
GRF 090-534 Police and Fire Ad Hoc Cost of Living	\$180,000	\$150,000

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 06	Fiscal Year 07
GRF 090-554 Police and Fire Survivor Benefits	\$1,100,000	\$1,000,000

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

Am. Sub. H.B. 66 – Rep. Calvert

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 06	Fiscal Year 07
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.

H.B. 66 also repeals the annual state subsidy of \$1.2 million under R.C. §742.36, known as the “state contribution” to OP&F. This subsidy had been made annually to the 454 local police and fire pension funds in existence prior to their consolidation into OP&F. The annual contribution was continued and paid into OP&F and had remained unchanged since the consolidation in 1967.

An amendment adopted by the House Finance & Appropriations Committee to H.B. 66 would make municipal public safety directors eligible for the PERS Law Enforcement (PERS-LE) program. “Municipal public safety director” is defined to mean any person who serves full-time as the public safety director of a municipal corporation with the duty of directing the activities of the municipal corporation’s police department and fire department. Currently, they are members of the regular PERS program. The amendment further provides that not later than 90 days after the effective date of the bill, each municipal public safety director who is a current member of PERS shall indicate on a form supplied by the retirement system whether to receive benefits under the regular PERS program or the PERS-LE program.

H.B. 66 also gives each retirement board the authority to retain independent legal counsel to advise and represent the board if there is an allegation that the entire board has breached its fiduciary duty.

Staff Comments - State subsidies for various ad hoc increases granted to retirees and survivors before 1982 were eliminated in H.B. 94 (124th General Assembly - 2001) for PERS, STRS, SERS and HPRS but were continued for OP&F. Prior to enactment, however, an actuarial evaluation was prepared by Milliman USA, the ORSC consulting actuary, to determine the effect of eliminating the state subsidies upon the retirement systems’ funded status, funding periods, and ability to finance retiree health insurance. That evaluation generally determined that the state subsidies for PERS, STRS, SERS and HPRS could be eliminated without causing these systems to violate the maximum 30-year funding period established under current Ohio law or jeopardize their ability to continue to provide retiree health insurance. That same evaluation determined that the subsidies for OP&F should

Am. Sub. H.B. 66 – Rep. Calvert

continue to be made, stating that “it is unlikely that OP&F will be able to afford to give up the state subsidies for many years.” (The state subsidies to fund the ad hoc increases in OP&F will continue to decline each year as the number of retirees and survivors receiving these increases continues to decline due to mortality.)

At the request of the ORSC, a subsequent actuarial review of the contribution rates for all five retirement systems was prepared by Milliman USA in 2003 and updated in 2004. That review found that despite the rebound of the financial markets in 2003 the funding period for OP&F remained infinite, meaning that the unfunded actuarial accrued liability for mandated pension benefits in OP&F could not be amortized over any time period within the current funding structure. If the infinite funding period were allowed to persist, OP&F would become gradually disfunded. If OP&F were to continue to allocate the current 7.75% of payroll to discretionary retiree health care benefits, one or more of the following actions would need to occur for OP&F to achieve the maximum 30-year funding period required under current Ohio law:

- The statutory employer and/or member contribution rate limitations will need to be increased;
- The benefits mandated by statute will need to be reduced;
- Additional state subsidies will need to be provided to OP&F;
- The 30-year limit on the funding period required by law will need to be extended.

Therefore, we would recommend that the annual subsidy of \$1.2 million to OP&F be reinstated.

The amendment adopted by the House Finance & Appropriations Committee to allow municipal public safety directors to participate in the PERS-LE program raises a number of significant issues. Municipal public safety directors are not employed in a position that requires Ohio peace officer training certification, one of the criteria used to determine eligibility for the PERS-LE program. Eliminating this criteria that has been historically applied to the PERS-LE program could set a costly precedent by opening up the door for numerous other groups of employees seeking participation in the PERS-LE program due to its higher benefit formula and earlier retirement age. Under the PERS-LE program, members are eligible to retire as early as age 48 with 25 years of law enforcement service (or age 52 with 25 years of service if member’s primary duties are other than to preserve the peace, protect life and property, and enforce the laws in their jurisdiction). Normal retirement age in the regular PERS program is age 65 with at least 5 years of service or any age with at least 30 years of service. The benefit formula under the PERS-LE program is 2.5% of the member’s final average salary for the first 25 years of service, plus 2.1% for each year of service over 25. The benefit formula under the regular PERS program is 2.2% of the member’s final average salary for the first 30 years of service, plus 2.5% for each year of service over 30.

Am. Sub. H.B. 66 – Rep. Calvert

Also, no actuarial cost statement has been prepared on this amendment. Allowing current municipal public safety directors to transfer from the regular PERS program to the PERS-LE program would create additional unfunded actuarial liabilities to the PERS-LE program due to the higher benefit formula and earlier retirement age than the regular PERS program, as noted above, as no provision is made for the transferring member to cover such liabilities. While PERS on a combined basis (PERS state division, PERS local division, PERS-LE division) has a funding period of 29 years as of the actuarial valuation of December 31, 2003, it is important to note that the PERS-LE division to which the additional unfunded actuarial liabilities would accrue has a funding period of over 40 years. Beyond the higher cost of mandated benefits under the PERS-LE program due to the earlier retirement age and longer payout period, the normal retirement age of 48 (or 52) exposes the retirement system to significant health care costs as the primary insurer for up to 17 (or 13) years before Medicare becomes the primary insurer, generally age 65, and the retirement system becomes the secondary insurer.

Given the significance of these public policy and actuarial issues, we would recommend that the provisions of the bill making municipal public safety directors eligible for the PERS-LE program be removed.

Fiscal Impact - According to the OP&F actuary Mellon, the elimination of the annual \$1.2 million state subsidy would increase the unfunded accrued liability of OP&F by \$14.5 million and reduce the funded ratio of OP&F by 0.1%. It would also increase the funding period for the unfunded accrued liability, which, as of January 1, 2004, is infinity and therefore defies any further meaningful quantification. Thus, had the proposed change been in effect as of January 1, 2004, the unfunded actuarial liability would have increased from \$1,461,275,000 to \$1,475,775,000 and the funded ratio would have decreased from 86.5% to 86.4%.

The ORSC actuary Milliman USA believes that the above actuarial estimates are reasonable.

No actuarial cost statement has been prepared on the amendment adopted by the House Finance & Appropriations Committee making municipal public safety directors eligible for the PERS-LE program.

ORSC Position - At the April 13, 2005 meeting of the Ohio Retirement Study Council, the ORSC voted to recommend that the 126th Ohio General Assembly reinstate the annual state subsidy of \$1.2 million to OP&F and remove the provisions of the bill making municipal public safety directors eligible for the PERS-LE program. *Neither of these recommendations was incorporated into the bill.*

Effective Date - June 30, 2005 (Emergency); the provisions affecting municipal public safety directors and the boards' ability to retain independent counsel are effective September 29, 2005.

Sub. H.B. 71 – Rep. J. Stewart

Sub H.B. 71 allows a member of the Ohio Public Employees Retirement System (OPERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), and the Highway Patrol Retirement System (HPRS) to purchase service credit for active duty in the Ohio National Guard or armed forces reserves that consists of assembly for drill and instruction; training at encampments, maneuvers, outdoor target practice, or other exercises; and any training or duty in this state ordered by the governor.

Current law does not allow this type of active duty training to be purchased in PERS, STRS, SERS, or HPRS. Only the Ohio Police and Fire Pension Fund (OP&F) allows this type of service to be purchased.

The bill also allows a school district board of education or the governing body of a chartered nonpublic school to grant a high school diploma to any woman who left high school to support her family or the war effort during World War II, the Korean Conflict, or the Vietnam Conflict.

Staff Comments - The bill includes active duty in the armed forces reserves or Ohio National Guard for drill and instruction; training at encampments, maneuvers, outdoor target practice, or other exercises; and any training or duty in Ohio ordered by the governor as a type of military service credit that a member could purchase. Members of PERS, STRS, SERS, and HPRS may purchase up to five years of service in the armed forces. Armed forces is defined as the army, navy, air force, marine corps, coast guard, auxiliary corps as established by congress, Red Cross nurse serving with the army, navy air force, or hospital service of the United States, army nurse corps, navy nurse corps, full-time service with the American Red Cross in a combat zone, and such other service as may be designated by Congress. It also would allow them to purchase a portion of a year of service rather than a full year of service.

As introduced, the bill would have required the member to pay at least 75% of the additional actuarial liability. This raised the public policy issue of whether a member's purchase of service credit should be subsidized by the retirement system. When a member pays less than the full cost of the additional liability created by the purchase, an unfunded liability is created. This unfunded liability must be paid for out of employer contributions. Since 1989 the General Assembly has consistently been requiring members to pay more of the actuarial liability created by their purchase of service credit. In 1989, the law was amended to require STRS members who purchase service credit earned after July 1, 1989 to pay at least 50% of the additional actuarial liability created by the purchase (H.B. 293, eff. 9/15/89). In 1991, members of PERS, STRS, and SERS were first permitted to purchase credit for school board service provided they paid the entire additional liability resulting from the purchase (H.B. 382, eff. 6/30/91). In 1992, members of PERS, STRS, and SERS who purchase service credit for which they had previously exempted themselves were required to pay the entire cost of that credit (H.B. 383, eff. 5/4/92). Also in 1992, the law was amended to require members of OP&F who purchase credit for time they were laid off to pay the full cost of the additional liability created by the purchase (H.B. 197, eff. 10/11/94). Beginning in 1994, OP&F members who purchase out-of-state or federal service are required to pay the entire

Sub. H.B. 71 – Rep. J. Stewart

additional liability created by the purchase (H.B. 197, eff. 10/11/94). The most recent change that required members to pay more of the additional liability for purchases occurred in 2000. At that time, the law was changed to require members of PERS to pay at least 50% of the actuarial cost for military service credit (H.B. 186, eff. 3-17-00).

The substitute version of the bill, however, requires the member to pay 100% of the resulting additional actuarial liability. This change is consistent with recent legislative changes that have required members to pay more of the additional actuarial liability resulting from the purchase of service credit and with the ORSC recommendation for the introduced version of H.B. 71.

The substitute bill provides that the amount of credit eligible to be purchased is calculated by dividing the number of days actually served by 365. It also states that members may not purchase service credit for any period of military duty during which the member was contributing to the retirement system. (As introduced, the bill was unclear as to how much credit would be granted and whether a member could purchase more than one year of service credit during any twelve-month period.) These provisions are consistent with the ORSC recommendation for the introduced version of H.B. 71.

Fiscal Impact – The PERS actuary, Gabriel, Roeder, Smith & Company, reviewed the introduced version of H.B. 71 and found that there is no data upon which to make a detailed measurement of the financial effect of H.B. 71. However, based on a sensitivity test, the actuary concluded that the long-term cost of H.B. 71 would be less than 0.05% of covered payroll and would not change the amortization period for unfunded actuarial accrued liabilities. In addition, the actuary noted that if the cost to purchase the service is set at 100% of the resulting additional liability, there would be no measurable financial effect on the system. The actuary also recommended clarifying the definition of inactive duty in order to limit the potential financial effect.

Pursuant to a request from the sponsor of the bill, the STRS SERS, and HPRS completed actuarial cost statements assuming they were amended into the bill. OP&F did not complete an actuarial analysis because their law already allows members to purchase service credit for inactive duty training in the armed forces reserves and the Ohio National Guard. According to the STRS actuary, Mellon, there is no data upon which to make a detailed measurement of the financial effect of H.B. 71 if STRS were included in the bill. Based on the assumptions used by Mellon, the funding period would increase from 42.2 years to 42.4 years. Mellon also completed the actuarial analysis for SERS and found that, regardless of the data used to calculate the cost of the bill, the overall impact on SERS most likely would be minimal given the magnitude of SERS' total liabilities and unfunded actuarial accrued liabilities and the fact that SERS would subsidize only 25% of the additional cost. According to HPRS' actuary, Gabriel, Roeder, Smith & Company, there is no data upon which to make a detailed measurement of the financial effect of H.B. 71. However, they conducted a sensitivity test and the actuary concluded that the long term cost of H.B. 71 would be less than 0.05% of covered payroll and would change the amortization period for unfunded actuarial accrued

Sub. H.B. 71 – Rep. J. Stewart

liabilities by less than one year. Again, they recommended clarifying the definition of inactive duty in order to limit the potential financial effect.

Sub. H.B. 71 should have no actuarial impact on the system because it requires the member to pay the full cost of the actuarial liability resulting from the purchase of service.

ORSC Position - At the April 13, 2005 meeting of the Ohio Retirement Study Council, the ORSC voted to recommend that the 126th General Assembly approve H.B. 71 upon the adoption of the following amendments:

- That the proposed changes under the bill be made to the comparable laws governing STRS, SERS, and HPRS. *This amendment was adopted by the House Financial Institutions, Real Estate and Securities Committee.*
- That the bill be amended to allow for the purchase of inactive duty *training* rather than inactive duty and that the laws governing OP&F and HPRS interrupted and non-interrupted military credit be made consistent with respect to inactive duty training. *The House Financial Institutions, Real Estate and Securities Committee adopted an amendment that allowed for the purchase of active duty training.*
- That the bill be amended to clarify how much credit a member can purchase for each day of inactive duty training and that a member purchasing service for inactive duty training may not receive more than one year of service credit for any twelve month period. *This amendment was adopted by the House Financial Institutions, Real Estate and Securities Committee.*
- That the bill be amended to require the member to pay the full cost of the additional actuarial liability created by the purchase of the inactive duty service credit. *This amendment was adopted by the House Financial Institutions, Real Estate and Securities Committee.*

Effective Date – March 30, 2007

Sub. H.B. 246 – Rep. Oelslager

Sub. H.B. 246 generally creates a statutory form that could be used to create a power of attorney. This analysis describes only those provisions of the bill that relate to the Ohio public retirement systems.

This bill provides that a member of any of Ohio's five public retirement systems who uses the statutory power of attorney form must expressly authorize the following actions in order for the attorney-in-fact to have those powers:

- Termination of membership by withdrawing the member's employee contributions in order for the attorney-in-fact to have that power;
- Selection of a benefit payment option other than a joint and survivor annuity for married members, a single life annuity for single members, or a partial lump sum option.

Further, a member of the Public Employees Retirement System who is eligible to participate in a defined contribution plan offered by the system must provide express authorization in order for the attorney-in-fact to elect the defined contribution plan for the member.

Staff Comments – As introduced, the bill did not require express authority to make any decisions regarding a public employee's retirement benefit. There was concern that if a member of one of the public retirement systems used the statutory form provided for in the bill, the power of attorney would unintentionally allow a member's attorney-in-fact to make certain irrevocable decisions for the member. Specifically, the statutory power of attorney form would have allowed the attorney-in-fact to take a refund of the member's contributions or select a benefit payment option that is not in the member's best interest. Therefore, it was recommended that an amendment be adopted to require express authority for those types of decisions.

Fiscal Impact - This bill has no fiscal impact on the retirement systems.

ORSC Position - At the October 12, 2005 meeting of the Ohio Retirement Study Council, the Council voted to recommend that the 126th General Assembly approve the adoption of an amendment that would require an attorney-in-fact to have express authority in order to take a refund of the member's contributions or select a benefit payment option other than a joint and survivor annuity for married members, a single life annuity for single members, or a partial lump sum option.

Effective Date – March 29, 2006

Am. Sub. H.B. 272 – Rep. Schneider

Am. Sub. H.B. 272 makes the following changes to the Public Employees Retirement System (PERS):

- Requires employers to remit employer contributions on a monthly rather than quarterly basis (145.483; 145.51; 145.52; 145.53);
- Credits earnings rather than interest on voluntary deposits made to the existing additional annuity program; permits contributors to make such deposits through payroll deduction and to select among optional plans of payment subject to the same spousal consent requirements; and permits contributors to select a separate beneficiary for such deposits (145.23, 145.294, 145.43, 145.471, 145.472, 145.62, 145.63, 145.64, 145.65);
- Clarifies that a lump sum payment of the member's accumulated contributions or additional annuity deposits shall be divided equally among two or more beneficiaries unless the member specifies the percentage to be paid to each beneficiary (145.43);
- Makes the spouse of a PERS law enforcement officer who is killed in the line of duty immediately eligible for survivor benefits upon the officer's death regardless of years of service (145.45); and
- Permits PERS members who purchased an additional 35% credit for their elective or appointed service to apply for a refund of the amount paid or a portion of the amount paid for such credit that does **not** result in an increase in their service retirement allowance (145.201).

The bill also makes the following changes to 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):

- Clarifies the procedure for filling a board vacancy (145.06, 742.05, 3307.06, 3309.06, 5505.043);
- Eliminates the five-year sunset provision for the submission of annual disability experience reports by the five state retirement systems, thereby making it a permanent part of their laws (145.351, 742.381, 3307.513, 3309.391, 5505.181);
- Authorizes the five state retirement systems to establish a program under which a member, the member's employer or a retirant may make deposits for the purpose of providing funds for the payment of health, medical, hospital, surgical, dental, vision care or drug expenses, including insurance premiums, deductible amounts and co-payments (145.294, 145.583, 742.451, 742.56, 3307.393, 3307.70, 3309.27, 3309.692, 5505.203, 5505.281); and

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- Changes the venue for the commencement of an action to remove a retirement system board member from the court of appeals to the court of common pleas of the county in which the board member resides, with a right of review or appeal of such decision to the court of appeals (145.057, 742.046, 3307.061, 3309.061, 5505.048).

The bill further makes the following change to OP&F:

- Staggers the terms of office for the retired police board member and the retired firefighter board member (Section 3 of the bill).

Details and comments of the above changes follow.

Remittance of Employer Contributions - Current law requires employers to remit employer contributions to PERS on a quarterly basis, though the overwhelming majority of employers are currently remitting contributions on a monthly basis. Ninety (90) days after a quarterly period, any amounts that remain unpaid are subject to a five (5) percent penalty assessment and interest at a rate set by the board.

The bill requires all employers to remit employer contributions to PERS on a monthly basis. Such contributions must be received by PERS within thirty (30) days after the last day of the calendar month in which related member contributions are withheld. Unless the PERS board adopts a rule establishing a lesser interest rate and penalty for delinquent contributions, the statutory maximum interest rate and penalty shall be as follows:

- Interest, compounded annually and charged monthly, for each day after the due date equal to six (6) percent per annum on the past due amount and any penalties assessed;
- If at least eleven (11) but not more than thirty (30) days past due, a penalty equal to one (1) percent of the past due amount;
- If at least thirty-one (31) but not more than sixty (60) days past due, an additional penalty equal to one and one-half (1.5) percent of the past due amount;
- If sixty-one (61) or more days past due, an additional penalty equal to two and one-half (2.5) percent of the past due amount.

The bill permits the PERS board to adopt rules to lessen the maximum statutory interest rates and penalties on past due amounts, and to lengthen the period of time or enter into agreements with employers to comply with the statutory requirements.

These changes are intended to afford PERS the opportunity to earn additional investment income on these contributions, which income funds up to 80 percent of the benefits provided by PERS and enables contribution rates to remain relatively stable over the years.

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In order to mitigate any budgetary concerns on the part of employers who currently remit contributions on a quarterly basis, the bill would provide for a transitional period for those contributions due for the fourth quarter of next year; namely, October 2007, November 2007 and December 2007. The employer contributions due for October 2007 would be payable no later than December 31, 2008; the employer contributions for November 2007, December 31, 2009; the employer contributions for December 2007, December 31, 2010. Interest and penalties for failing to pay the amounts when due would be subject to the interest and penalties established under the bill.

The bill also provides for a transfer from the DB Plan to the DC plan, as a credit, those employer contributions due for the months of October, November and December 2007 under the DC plan to satisfy the transitional liability previously described which would be paid from the employer contributions for the month of February 2008. The amount transferred shall be added to the transitional liability of such employers and paid back to the DB plan in accordance with the schedule outlined above.

Additional Annuity Program - Current law provides that members in the DB plan may make voluntary deposits in the additional annuity program established under PERS. Such deposits are credited with annual fixed interest at a rate determined by the board. The DB member may elect, at the time of retirement, either an annuity having a reserve equal to the amount on deposit or a refund of such amounts, with interest. Such deposits shall be refunded in the event of death prior to retirement or withdrawal of accumulated contributions or upon application of the member prior to retirement in accordance with existing law.

The bill allows contributors in the DB plan (currently members) and reemployed retirants to make voluntary deposits to the additional annuity program. Under the bill, such deposits may be made through payroll deduction, and shall accrue earnings beginning on the first day following deposit as opposed to annual fixed interest beginning on the first day of the calendar year next following the deposit under existing law. According to PERS, the funds will be invested in the Ohio PERS Stable Value Fund.

The bill provides for either an annuity having a reserve equal to the amount deposited or a refund of the amount deposited, together with earnings, as under existing law, except that if the annuity amount would be less than \$25 per month, the contributor shall receive a refund.

Deposits shall be refunded under the following circumstances, as applicable:

- On withdrawal of the member's accumulated contributions;
- On the death of the contributor prior to retirement;
- On application of the contributor prior to attaining eligibility for age and service retirement under the DB plan;

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- On application of the reemployed retirant prior to attaining eligibility for the money purchase benefit;
- On application of the contributor who has attained eligibility for age and service retirement under the DB plan or the money purchase benefit and who is not married; and
- On application of the contributor who has attained eligibility for age and service retirement under the DB plan or the money purchase benefit and is married, provided spousal consent is obtained or the spousal consent requirement is waived by the board.

The bill allows contributors to select one of the optional plans of payment currently available upon service retirement under PERS for payment of their additional annuity deposits subject to the same spousal consent requirements under existing law for married contributors. The effective date of the additional annuity payment shall be the same as the effective date of the contributor's age and service retirement benefit or, if the contributor is a reemployed retirant, the same as the effective date of the retirant's money purchase benefit under existing law.

The bill also allows contributors to designate a separate beneficiary for payment of their additional annuity deposits apart from any other benefits or amounts payable under PERS subject to the same provisions governing all other beneficiaries under existing law.

Lump Sum Payments – Current law generally permits contributors to designate two or more beneficiaries jointly for receipt of any lump sum payment of accumulated contributions or additional annuity deposits under PERS. PERS administration interprets this provision to require equal division of such accumulated contributions or additional annuity deposits among the designated beneficiaries.

The bill permits contributors to specify the percentage of accumulated contributions or additional annuity deposits each beneficiary is to be paid. If no percentages are specified, the accumulated contributions or additional annuity deposits shall be divided equally among the beneficiaries.

Survivor Benefits for PERS Law Enforcement Officers – Current law generally provides that the spouse of a PERS Law Enforcement Officer is eligible for monthly survivor benefits at any age **if** the deceased officer has ten or more years of service **or** the spouse is caring for dependent children **or** the spouse is adjudged physically or mentally incompetent. Otherwise, the spouse of a PERS Law Enforcement Officer becomes eligible for benefits at age 62.

The bill makes the spouse of a PERS Law Enforcement Officer **who is killed in the line of duty** eligible for monthly survivor benefits at any age regardless of whether the deceased officer had ten or more years of service. The term “killed in the line of duty” means either that death occurred in the line of duty or that death occurred as a result of injury sustained in

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the line of duty. This is consistent with the survivor benefit provisions under the Ohio Police and Fire Pension Fund (OP&F) and the Highway Patrol Retirement System (HPRS).

Refund of 35% Elective or Appointed Service Credit – The bill permits members who purchased an additional 35% credit for their elective or appointed service to apply for a refund of the amount paid or a portion of the amount paid for such credit that does not result in an increase in their service retirement allowance. This is generally consistent with similar provisions under existing OP&F and HPRS law.

Board Vacancies – The bill provides that the PERS, STRS, SERS, OP&F and HPRS boards need not elect a successor member to their respective boards for any vacancy that occurs less than 90 days before the end of the predecessor member’s term of office. The bill also makes a technical correction to the laws governing the term of office for successor members of the board who fill a board vacancy to make it consistent with changes enacted in S.B. 133 (eff. 9/15/04).

Disability Experience Reports – The bill eliminates the five-year sunset provision for the submission of annual disability experience reports by PERS, STRS, SERS, OP&F and HPRS, which expired in 2005, thereby making it a permanent part of their laws.

Health Savings Accounts – The bill authorizes PERS, STRS, SERS, OP&F and HPRS to establish a program under which a member, the member’s employer or a retirant may make deposits for the purpose of providing funds for the payment of health, medical, hospital, surgical, dental, vision care or drug expenses, including insurance premiums, deductible amounts and co-payments. The program may be a voluntary employees’ beneficiary association, a medical savings account, or similar type program. It would allow such participants or their employers to make additional deposits, on a voluntary basis, for the purposes of providing funds for the payment of the previously described expenses. Such additional, voluntary deposits could be made through payroll deduction. It would authorize the retirement boards to enter into agreements with insurance companies or other entities authorized to conduct business in Ohio to implement the program. It would also authorize the boards to adopt rules to establish and administer the program.

Given the escalating cost of health care coverage and greater cost sharing with covered individuals, this change is intended to provide members an opportunity to save the necessary funds to meet their future health care needs upon retirement.

Removal of Board Members - S.B. 133 (eff. 9/15/04) established a procedure for the removal of a board member of any of the five state retirement systems who engages in certain conduct (R.C. §§145.057, 742.046, 3307.061, 3309.061, 5505.048). Under current law, proceedings for such removal shall commence in the court of appeals of the district in which the board member resides.

Am. Sub. H.B. 272 – Rep. Schneider

The bill changes the venue for the commencement of such proceedings from the court of appeals to the court of common pleas of the county in which the board member resides, with a right of review or appeal of such decision to the court of appeals.

OP&F Board – Under current OP&F law, the terms of office for the retired firefighter board member and the retired police officer board member are for four years and expire in the same year. The current terms for the retired firefighter board member and the retired police officer board member are scheduled to expire on the first Monday in June 2007.

The bill staggers the terms of office for the retired firefighter board member and the retired police officer board members by extending the current four-year term of the retired police officer board member by one year. Accordingly, the term of the retired firefighter board member would expire on the first Monday in June 2007 as under existing law, but the term of the retired police officer board member would expire on the first Monday in June 2008.

The rationale for the proposed amendment is to avoid the terms of office for both retired board members from expiring at the same time, thereby resulting in the loss of institutional knowledge. The proposed change would result in staggered terms of office, like those of the elected board members representing the active membership.

Fiscal Impact – According to the PERS actuary, Gabriel, Roeder, Smith & Company, the accelerated receipt of employer contributions would have a small positive effect on PERS. The other provisions of the bill would have no fiscal impact upon PERS or the other four state retirement systems.

ORSC Position – At the November 15, 2006 meeting of the Ohio Retirement Study Council, the ORSC voted to recommend that the 126th Ohio General Assembly approve H.B. 272 upon the adoption of the following amendment:

- That the current procedures for the removal of board members in STRS, SERS, OP&F and HPRS be amended to make them consistent with that of PERS, as amended under the bill. *(This recommendation was incorporated in the substitute bill as reported by the House Financial Institutions, Real Estate & Securities Committee.)*

Effective Date - April 6, 2007

Am. Sub. H.B. 468 – Rep. Hagan

Am. Sub. H.B. 468 generally revises the laws governing Ohio’s Best Rx Program. This analysis describes only those provisions of the bill that relate to the Ohio public retirement systems.

In 2003, the General Assembly created the Ohio’s Best Rx Program, under which eligible residents of Ohio receive discounted prices on covered prescription drugs (H.B. 311; eff. 12-18-2003). H.B. 311 required each retirement system to submit the following information to the Ohio Department of Job and Family Services (ODJFS) in order for ODJFS to determine the discounted price for drugs covered under the Ohio’s Best Rx Program:

- The name of each health care plan offered by the retirement system;
- The number of individuals eligible for benefits under each health care plan;
- The formula used to determine the per unit price for each drug covered by the plan and dispensed through means other than a mail order system, the per unit price for each drug, or both the formula and per unit price for each drug, if available;
- The per unit rebate for each drug covered by the plan and dispensed through a mail order system or other means.

Am. Sub. H.B. 468 eliminates the provisions requiring the retirement systems to submit any information regarding their prescription drug programs and eliminates all duties and obligations the retirement systems had relative to the Program.

Fiscal Impact – No fiscal analysis was completed on this bill.

ORSC Position – The ORSC did not take a position on the bill.

Effective Date – April 6, 2007; Sections 4 and 5 effective July 1, 2007.

Sub. H.B. 478 – Rep. Wagoner

Sub. H.B. 478 generally provides for the consolidation of the University of Toledo and the Medical University of Ohio at Toledo into the combined University of Toledo on July 1, 2006. This analysis describes only the provisions of the bill that relate to the Ohio public retirement systems.

Under prior law non-teaching employees of the Medical University of Ohio at Toledo were specifically designated as members of PERS. Although they are no longer specifically designated as members of PERS, those employees continue to be PERS members by virtue of their employment at the University of Toledo. The bill specifies that the General Assembly intended for non-teaching employees of the former Medical University of Ohio at Toledo to continue membership in PERS.

Fiscal Impact - This bill has no fiscal impact on the retirement systems.

ORSC Position - The ORSC took no position on this bill.

Effective Date - July 1, 2006

Am. Sub. H.B. 530 – Rep. Calvert

Am. Sub. H.B. 530 generally makes operating appropriations for the remainder of the biennium ending June 30, 2007. This analysis describes only the provisions of the bill that relate to the Ohio public retirement systems.

The bill transfers to the Director of Budget and Management the Auditor of State's authority related to the drawing of warrants for the payment or transfer of money from the state treasury. This authority becomes effective December 1, 2006. The bill makes the appropriate changes in the laws governing each retirement system.

Fiscal Impact - This bill has no fiscal impact on the retirement systems.

ORSC Position - The ORSC took no position on this bill.

Effective Date – March 30, 2006 (Emergency)

Am. S.B. 206 – Sen. Coughlin

Am. S.B. 206 provides for the establishment of a deferred retirement option plan (DROP) under the Highway Patrol Retirement System (HPRS), similar to the current DROP established under the Ohio Police and Fire Pension Fund (OP&F) pursuant to S.B. 134 (eff. 7/23/02).¹ Details of the proposed DROP follow.

The bill would require the HPRS board to establish and administer a DROP. In establishing and administering the DROP, the board may do all things necessary to meet the federal tax qualification requirements applicable to governmental plans under section 401(a) of the Internal Revenue Code. The board shall adopt rules to implement the DROP, and shall specify the initial implementation date of the DROP. The rules may also specify a period during which members may rescind their election to participate in the DROP.

Participation in the DROP would be limited to members who are eligible for normal service retirement (i.e., age 48 with 25 years of service or age 52 with 20 years of service) and who are younger than age 58. These members may elect to participate in the DROP by completing and submitting an election form provided by HPRS. The member's election shall become effective on the day the member files the form with HPRS. At the time of making such election, the member shall also select a plan of payment for monthly retirement benefits under existing law (i.e., single life annuity, joint and survivor annuity, guaranteed period annuity) which, except as otherwise provided under existing law, shall be irrevocable upon receipt by HPRS.

Under the bill, a member electing to participate in the DROP must agree to terminate employment not later than the earlier of the member's sixtieth (60th) birthday (the mandatory retirement age under existing law) or the date that is eight years after the effective date of the member's election. If the member refuses or neglects to terminate employment in accordance with this agreement, the HPRS board shall deem the member's employment terminated.

While participating in the DROP, the member shall not earn any additional service credit in HPRS, shall not be eligible to purchase any service credit under HPRS, and shall not be eligible for any health care benefits under HPRS (including the member's spouse and dependents). For purposes of board elections, the member shall be eligible to vote for the retirant member of the HPRS board. The member shall continue to make the same contributions as under existing law (10%); the state shall continue to make the same contribution under existing law (25.5%). The member's DROP account shall accrue the

¹ Generally, participation in a DROP is limited to members who are otherwise eligible for normal service retirement. The member continues to be employed for some defined period during which 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 upon the member's final average salary and service credit calculated at the time the member elects participation in the DROP.

Am. S.B. 206 – Sen. Coughlin

following amounts:

- The member's monthly retirement benefit calculated on the member's service credit and final average salary as of the last day of the employer's payroll period immediately prior to the effective date of the member's election to participate in the DROP and in accordance with the member's plan of payment selection;
- Any annual three percent (3%) cost-of-living allowances (COLAs) granted by HPRS under existing law;
- The member's contributions made while participating in the DROP;
- Annual compound interest on the above amounts at a rate set by the HPRS board.

(All employer contributions made on behalf of DROP participants shall be retained by HPRS and credited to the employers' accumulation fund as part of the overall funding of the retirement system.)

The member's participation in the DROP shall terminate upon the earliest of the following occurrences:

- Termination of employment;
- Last day of the eight-year period;
- The member's sixtieth (60th) birthday (current mandatory retirement age in HPRS);
- Acceptance of a disability retirement benefit;
- Death.

The bill requires that a DROP participant who terminates employment shall notify HPRS of the termination on a form provided by the retirement system, and shall not be eligible to make another election to participate in the DROP. With respect to a member who was younger than age 52 on the effective date of the DROP election, if the member terminates employment on or after the first day of the fourth year, the member shall be entitled to the entire accrued benefit in the member's DROP account, including annual compound interest. If the member terminates employment prior to the first day of the fourth year after the effective date of the DROP election, the member shall forfeit all interest on the accrued benefit in the member's DROP account. With respect to a member who was age 52 or older on the effective date of the DROP election, if the member terminates employment on or after the first day of the third year, the member shall be entitled to the entire accrued benefit in the member's DROP account, including annual compound interest. If the member terminates employment prior to the first day of the third year, the member shall forfeit all interest on the accrued benefit in the member's DROP account.

Am. S.B. 206 – Sen. Coughlin

Distributions of the accrued benefit in the member's DROP account shall not commence prior to the first day of the fourth year after the effective date of the DROP election for members who were younger than age 52 when they elected to participate in the DROP; for members who were age 52 or older when they elected to participate in the DROP, the accrued benefit in the member's DROP account shall not commence prior to the first day of the third year after the effective date of the DROP election. The member shall select one of the distribution options provided under section 401(a) of the Internal Revenue Code applicable to governmental plans.

The member's monthly retirement benefit calculated on years of service and final average salary prior to participation in the DROP and in accordance with the plan of payment selected by the member shall commence on the first day following the member's last day of employment.

Under the bill, should the DROP participant qualify for an on-duty disability retirement benefit, the member shall elect to receive one of the following:

- the on-duty disability retirement benefit provided under existing HPRS law. (Acceptance of this benefit results in the forfeiture of the member's accrued benefit in the DROP account, the granting of service credit for the period of DROP participation, and the calculation of the member's disability retirement benefit as though the member had not participated in the DROP); or
- the member's accrued benefit in the DROP account, plus a service retirement benefit calculated on the member's years of service and final average salary prior to the member's DROP election and in accordance with the member's plan of payment selection.

Should the DROP participant qualify for an off-duty disability retirement benefit, the member shall be entitled to the member's accrued benefit in the DROP account, plus a service retirement benefit calculated on the member's years of service and final average salary prior to the member's DROP election and in accordance with the member's plan of payment selection.

Should the member die while participating in the DROP, the accrued benefit in the member's DROP account shall be paid in a lump sum to the surviving spouse, or if none, the member's designated beneficiary, or if none, the member's estate. In addition, the surviving spouse, dependent children and dependent parents (if no surviving spouse or dependent children) shall remain eligible for monthly survivor benefits under existing HPRS law, except that the pension amount used to calculate the surviving spouse's benefit shall be based upon the deceased member's years of service and final average salary prior to the DROP election. The \$5,000 lump sum death benefit under existing law would also remain payable upon the death of a DROP participant. Should the member die in the line of duty, the surviving spouse, dependent children and dependent parents of the deceased member shall qualify for monthly survivor benefits payable under the Ohio Public Safety Officers Death Benefit Fund.

Am. S.B. 206 – Sen. Coughlin

The bill would require an actuarial investigation of the DROP at least once every five years to determine whether the DROP, as established or modified, has a negative financial impact upon HPRS and, if so, make recommendations to eliminate any negative financial impact. If the actuarial investigation indicates that the DROP has a negative financial impact, the HPRS board shall modify the plan. The rights and obligations of members who have already elected to participate in the DROP shall not be altered by any board action. Also, the employer contributions to HPRS shall not be increased to offset any negative financial impact of the DROP upon HPRS. The actuarial investigation of the DROP may be included as part of the five-year actuarial investigation of the retirement system required under existing law. If not included, the actuarial investigation of the DROP shall 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 the first day of November following the last fiscal year of the period the investigation covers.

The bill would amend the disability statutes of HPRS to make them consistent with the current mandatory retirement age of 60 in HPRS (formerly age 55). Under the bill, members on disability retirement who have not attained age 60 rather than 55 under the current statutes would be subject to the annual medical reexamination and annual statement of earnings requirements, unless waived by the board.

Staff Comments – DROPs have gained widespread recognition in the public sector. DROPs were first introduced in Louisiana in the early 1980's and spread rapidly throughout the South among municipal police and firefighter pension funds. In more recent years, DROPs have become popular in all parts of the country and among all branches of government service.

As part of the report of the Joint Legislative Committee to Study Ohio's Public Retirement Plans dated December 11, 1996, one of the recommendations included therein, but not acted upon by the legislature, was to increase the normal retirement age in both the uniform and non-uniform employee retirement systems. This recommendation was made in response to continual improvements in life expectancies experienced among the memberships of all five retirement systems in Ohio, which directly increase each retirement system's benefit costs, including post-retirement health care costs. Since then, the legislature has enacted S.B. 190 (eff. 7/13/00) upon the favorable recommendation of the ORSC which, among other things, provides a financial incentive for teachers to work beyond normal service retirement (30 years at any age); i.e., STRS members who remain teaching for 35 years receive an annual retirement allowance of 88.5% of their final average salary as opposed to 66% after 30 years. The legislature has also enacted S.B. 134 (eff. 7/23/02) upon the favorable recommendation of the ORSC which offered a similar financial incentive for police and firefighters to work beyond normal service retirement (age 48 with 25 years of service) by providing them an opportunity to receive a lump sum distribution not otherwise available upon retirement through the establishment of a DROP. These incentives are designed to help not only employers retain experienced workers and smooth the transition of such workers and their replacements, but also the retirement systems save on post-retirement health care costs.

Am. S.B. 206 – Sen. Coughlin

The DROP proposed under S.B. 206 for state troopers is generally consistent with that established under S.B. 134 for police and firefighters. The concept of a DROP is also generally consistent with the objective of the above-referenced recommendation included in the final report of the Joint Legislative Committee to get members to work beyond current normal service retirement eligibility.

One of the public policy issues raised by S.B. 206 is whether the PERS, STRS and SERS boards, like the OP&F and HPRS boards, should be granted similar authority to establish DROPs for their respective memberships. Based upon the experience in other states, there will likely be considerable interest from other groups of public employees, for example, PERS law enforcement officers whose benefit structure is comparable to OP&F and HRPS in terms of early retirement ages, to have the opportunity to participate in a DROP. The legislature should consider whether the PERS, STRS and SERS boards and their respective memberships would be similarly well-served by encouraging members to work beyond normal retirement through the establishment of a DROP.

Fiscal Impact – According to the HPRS actuary, S.B. 206 establishing a DROP is designed to be actuarially cost neutral to HPRS. The bill further provides a safeguard by requiring a separate actuarial investigation of the DROP to be conducted at least once every five years to determine whether the DROP has any negative financial impact upon HPRS and requiring the HPRS board to make any necessary modifications to the DROP, including termination, to eliminate any negative financial impact.

ORSC Position – At the November 16, 2005 meeting of the Ohio Retirement Study Council, the Council voted to recommend that the 126th Ohio General Assembly approve S.B. 206 upon the adoption of the following amendment:

- That the term “benefit recipient” in line 664 which is neither defined under existing law nor used in any other section of HPRS law be deleted and the term “retirant” which is defined under existing law be inserted in lieu thereof. *This amendment was adopted in the Senate Health, Human Services and Aging Committee.*

Effective Date – June 15, 2006

PENDING PENSION-RELATED ISSUES
THE 126th GENERAL ASSEMBLY
JANUARY 1, 2005 - DECEMBER 31, 2006

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. The legislature dealt with some of these issues this session, however, 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, during the 126th General Assembly. 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.

The last semi-annual investment review required by law and presented at the ORSC meeting on December 13, 2006 indicates that three of the five systems (STRS, SERS, and OP&F) have ten-year returns that are above their current actuarial interest rate assumptions, while two of the systems (HPRS and PERS) did not exceed their respective interest rate assumptions.

For funding purposes, the Ohio retirement systems smooth asset values and investment returns generally over four years in order to keep contribution rates and funded ratios relatively stable. The losses experienced during the recent market downturn will have an adverse impact over the next several years, having a dampening effect on any future gains that might occur, since these losses have not been fully recognized in the systems' actuarial value of assets and funded ratios. Moreover, the losses are likely to put upward pressure on the systems' contribution rates and/or funding periods for paying off unfunded liabilities.

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. The following table summarizes the funding period and funded ratio of each retirement system as reported in its last actuarial valuation:

Retirement System	Funding Period	Funded Ratio
PERS	20 years	89.1%
STRS	47.2 years	76.1%
SERS	30 years	75.6%
OP&F	Infinite	78.3%
HPRS	35 years	76.5%

The actuarial reports prepared by Milliman USA for the ORSC in 2003 and updated in 2004 generally concluded that in the case of OP&F and STRS one or more of the following actions

would need to occur to achieve compliance with the 30-year funding requirement: contribution limits increased; mandated pension benefits reduced; state subsidies provided; and/or contributions reallocated from discretionary health care benefits to mandated pension benefits. Since then, the latest actuarial valuations for OP&F and STRS indicate that little progress has been made by either retirement system in meeting the 30-year funding period.

In the case of OP&F, the actuarial valuation report as of 1/1/06 indicates that, based upon the current allocation of statutory contribution rates between mandated pension benefits and discretionary health insurance benefits, the unfunded actuarial accrued liability has an infinite funding period as previously reported in each of the three prior valuation reports; that is, the unfunded actuarial accrued liability for mandated pension benefits is expected to grow indefinitely into the future, gradually disfunding the retirement system. The unfunded actuarial accrued liability in OP&F grew from \$2.21 billion to \$2.64 billion while the funded ratio dropped from 80.9% to 78.3%. In its review of the adequacy of the current contribution rates in OP&F dated January 9, 2006, Milliman concludes that the current rates are 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 finds that an infinite funding period in OP&F should be 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.

In the case of STRS, the actuarial valuation report as of 7/1/06 indicates that the unfunded actuarial accrued liability decreased from \$20.1 billion to \$19.4 billion while the funded ratio increased from 74.0% to 76.1%. The funding period also decreased by 8.3 years from 55.5 to 47.2 years. Similar actions as indicated above by Milliman would need to occur in STRS to achieve compliance with the 30-year funding requirement.

In the case of HPRS, the actuarial valuation report as of December 31, 2005 indicates that the unfunded actuarial accrued liability increased from \$164.6 million to \$181.9 million while the funded ratio decreased from 77.6% to 76.5%. The funding period also increased by one year from 34 years to 35, despite an increase in the employer contribution rate by one percent from 24.5% to 25.5% (eff. 7/1/05) and an increase in the mandatory retirement age by five years from age 55 to age 60 (eff. 9/14/04). According to the HPRS actuary, either a small contribution increase or the passage of time will bring the funding period in HPRS to the 30-year target.

As shown above, PERS and SERS are at or below the maximum 30-year funding period. In the case of SERS, the unfunded actuarial accrued liability increased slightly from \$3.14 billion to \$3.15 billion and the funded ratio increased from 74.3% to 75.6%. In the case of PERS, the unfunded actuarial accrued liability decreased from \$7.2 billion to \$6.7 billion while the funded ratio increased from 87.6% to 89.1%. The funding period also decreased from 24 years to 20 years.

The actuarial reports prepared by Milliman USA in February 2004 indicate that the odds are against STRS and OP&F in achieving compliance with the 30-year funding requirement with the passage of time. Therefore, taking a “wait and see” approach toward the problem by leaving it to chance to resolve itself would appear to be potentially very costly in the long run with the gradual disfunding of these retirement systems. STRS and OP&F both submitted plans this year to the ORSC that would decrease their funding period to comply with the 30-year funding requirement. Both plans call for an increase in the employee and employer contribution rates to be phased in over a five-year period. (See the “Documents Submitted by the Retirement Systems” section of this report for further details.) H.B. 707 was introduced at the end of this session, but not enacted, and would have implemented the STRS plan.

Numerous options have been presented or come up in discussion with respect to the actuarial reports prepared by Milliman USA as well as the reports prepared by STRS and OP&F for the ORSC on reducing the funding period to no more than 30 years. Included among these options are the following: increasing the retirement age and/or service requirements; increasing the employee contribution limits; increasing the employer contribution limits; requiring members to pay 100% of the actuarial liability created by some or all service credit purchases; limiting the COLA to the lesser of 3% or the actual percentage change in the CPI-W; capping the reimbursement for Medicare Part B premiums; making the retirement systems’ health care coverage secondary for reemployed retirants; and reducing/discontinuing the employer contribution allocation to discretionary health care benefits. The following table shows the current contribution rates for each retirement system and the maximum rates permitted by current statute:

Retirement System	Current Contribution Rate	Maximum Rate by Statute
PERS		
state - employee	9%	10%
state - employer	13.54%	14%
local - employee	9%	10%
local - employer	13.70%	14%
law enforcement - employee	10.10%	10.10%
law enforcement - employer	16.93%	18.10%
public safety - employee	9%	10%
public safety - employer	16.93%	18.10%
STRS		
employee	10%	10%
employer	14%	14%
SERS		
employee	10%	10%
employer	14%	14%
OP&F		
police - employee	10%	10%
police - employer	19.50%	19.50%

fire - employee	10%	10%
fire - employer	24%	24%
HPRS		
employee	10%	10%
employer	25.50%	30%

These options would require legislation or a change in board policy. 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.

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 from March 2000 to March 2003 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. 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.”
- “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.”

- “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.”
- “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 Medicare Part B reimbursements be capped in PERS, PFDPF (OP&F) and HPRS.” H.B. 648 (eff. 9-16-98) established a minimum reimbursement rate of \$29.90 per month as well as a maximum monthly reimbursement rate as determined by the STRS board, not to exceed 90% of the Medicare Part B monthly premium in STRS; S.B. 270 (eff. 4-9-01) established the monthly reimbursement rate at \$45.50 in SERS. The Medicare Part B premium for 2006 is \$88.50 per month.)
- “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.”

Also, in testimony before the JLC in 1996, the Auditor of State recommended “that the legislature should require uniform reporting from all five systems. The Ohio Retirement Study Commission should prescribe the report format.” The rationale is to enable legislators, board members and the public to make meaningful comparisons of the systems since many public policy issues involve all five systems. S.B. 133 (eff. 9-15-04) included a provision that would require the ORSC to establish a uniform reporting format for the five systems. One of the requirements of the fiduciary audits recently conducted for STRS and OP&F was for the consulting firm to identify items critical for the ORSC to review on a regular basis as part of its oversight duties and to develop a reporting format for those items so that meaningful comparison of all five systems can be made. (See “Fiduciary Audits” section.)

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. 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. H.B. 320, introduced this session, would have made the current SERS board’s authority to establish a defined contribution plan(s) permissive rather than mandatory. However, ORSC staff recommended, and the Council agreed, that the proposed change be deferred until a more up-to-date member survey is conducted by SERS, in consultation with the ORSC, no later than one year after the effective date of the bill

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 PERS. A PERS 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. As introduced, H.B. 272 (eff. 4-6-07) would have increased the minimum monthly threshold required to earn full-time service credit from \$250 to \$450 per month. This provision was removed from the bill.

Surviving Spouses of PERS-LE Members - Another issue is certain disparities in the law concerning surviving spouses of active members in PERS-LE, OP&F, and HPRS. Under existing law, active members of OP&F and HPRS are eligible for survivor coverage immediately upon employment, whereas active members of PERS-LE become eligible for survivor coverage upon completion of 18 months of contributing service. Moreover, surviving spouses of active members of OP&F and HPRS are eligible for survivor coverage at any age, whereas surviving spouses of active members of PERS-LE are not eligible to receive benefits until they are 62 years old unless they have dependent children, the member had ten years of service, or the spouse is adjudged mentally or physically incompetent. A change in the law to correct these disparities should be considered. H.B. 272 (eff. 4-6-07) makes the surviving spouse of a PERS-LE member immediately eligible for monthly survivor benefits upon the death of a PERS law enforcement officer or public safety officer. It was enacted this session and becomes effective on .

Election of New Optional Plan upon Remarriage - H.B. 648 (eff. 9-16-98) amended OP&F law regarding the election and effective date of a joint and survivor annuity option upon remarriage. Under the bill, OP&F retirees who remarry may elect a new optional plan of payment, *provided they make such election no later than one year following remarriage*. Moreover, the new plan shall become effective upon the date the election is made. In contrast, the comparable laws of the other state retirement systems allow retirees to elect a new optional plan of payment at any time following remarriage; the effective date of the new plan is the first day of the month following the date the election is made. The objectives of the changes made under H.B. 648 were two-fold: (1) To limit adverse selection against the retirement system; and (2) To give effect to the retiree's intention should the retiree die subsequent to having made an election but prior to the first day of the month following such election. Similar changes should be considered in the other four retirement systems.

H.B. 10 and S.B. 21, introduced this session, deal with this issue. They would require the election of a joint and survivor annuity plan to be made no later than one year after the date of the marriage or remarriage for any marriage or remarriage by a retired member that occurs on or after the effective date of the bill and would have provided that the election becomes effective upon receipt of the board approved application form, though any change in the benefit amount shall commence on the first day of the month following receipt of the application. H.B. 10 was enacted by the legislature and became effective on March 7, 2005.

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 DROP plans 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. In its analysis of the bill, the ORSC staff raised the public policy issue of whether the other four retirement boards should be granted similar authority to establish DROP plans for their respective memberships. S.B. 206 was introduced this year and established a DROP for members of HPRS. It became effective on June 15, 2006.

Medical Savings Accounts - S.B. 247 (eff. 10-1-02) authorizes the PERS board to establish medical savings accounts or a similar type of program for the purpose of providing funds to the member for payment of health insurance expenses. This raises a public policy issue of whether the other four retirement boards should be granted similar authority to establish such accounts or programs for their members for the payment of health insurance expenses. H.B. 340 was introduced this session and would allow the HPRS board to establish medical savings accounts for its members, while H.B. 272 authorizes the boards of all the retirement systems to establish medical savings accounts.

“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. There continues to be legislative interest to expand these “bad boy” provisions to include other offenses. H.B. 37, introduced this year, would permit the withholding of retirement benefits to satisfy a judgment or order against the benefit recipient that results from the commission of a felony if the member was incarcerated. This bill was not enacted.

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) includes 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. 230, which was introduced this year, would eliminate the benefit forfeiture imposed on public retirement system retirants who return to public employment before the end of the two-month waiting period in order to fill a staffing need caused by an employee being called to active duty. This bill was not enacted.

Health Care for Reemployed Retirees - H.B. 151 (eff. 2-9-94) requires 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. Effective January 1, 2004 both the OP&F and HPRS boards amended their health care policies 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. In HPRS, reemployed retirees who are not eligible for Medicare must receive their primary health care coverage through their employer, if available; the HPRS health care coverage becomes secondary. 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 2005, the CPI-W has increased by less than 3% in 12 of those years. (CPI-W information for 2006 was not available as of the date of this report.)

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)

Board Governance/Fiduciary Audits - During the summer of 2003, a number of concerns regarding the administration and operations of the retirement systems were raised at the ORSC meetings. In response to these concerns, the House and Senate each introduced omnibus pension reforms bills that generally seek to improve accountability, oversight and professional standards with respect to the governance of the five retirement systems. The ORSC also voted to have fiduciary performance audits of STRS and OP&F completed. The audits covered the following areas, which include a review of all administrative costs:

- A. Investment Issues
 1. Current Investment Policies
 2. Portfolio Risk
 3. Investment Performance
 4. Investment Management Structure and Costs
 5. Use of External Consultants
 6. Asset Allocation
 7. Brokerage Practices
 8. Due Diligence Procedures/Selection of Investment Service Providers
 9. Statutory Provisions and Administrative Rules
 10. Conflicts of Interest
 11. Custodial Structure
 12. Internal Controls and Risk Management
 13. Investment Accounting
- B. Management Issues
 1. Board Governance, Policies, and Oversight
 2. Efficiency and Effectiveness of Organizational Structure and Resources
 3. Ability to Attract and Retain Employees

4. Monitoring of Investments and Reporting
5. Reporting to the ORSC

The ORSC contracted with Independent Fiduciary Services, Inc. to complete the audits of both STRS and OP&F. Recommendations from the audits, some of which may be applicable to the other retirement systems, are included in the “Fiduciary Audits” section of this report. The Council will be reviewing those recommendations throughout the next legislative session.

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. H.C. R. 20 was introduced this session and urges Congress to reject any legislation that would require Ohio’s public employees to participate in Social Security. The ORSC voted to recommend that the General Assembly approve this resolution. No action was taken on the resolution by the legislature.

Disability Experience Reports - H.B. 648 (eff. 9-16-98) required each retirement system annually to prepare reports on the disability retirement experience of each employer covered by each system. The reports are submitted to the Governor, the ORSC, and the chair of the standing committees and subcommittees in the Senate and the House of Representatives with primary responsibility for retirement legislation. This reporting requirement is scheduled to sunset in 2005. H.B. 272 eliminated the sunset provision.

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.

DOCUMENTS SUBMITTED BY THE RETIREMENT
SYSTEMS

THE 126th GENERAL ASSEMBLY

JANUARY 1, 2005 - DECEMBER 31, 2006

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.

PERS submitted its most recent quinquennial evaluation covering the years January 1, 2001-December 31, 2005 on November 1, 2006. STRS' evaluation covering the years 2003-2008 is due by May 1, 2009. SERS' evaluation covering the years 7-1-2001 to 6-30-2005 was submitted May 11, 2006. OP&F's next evaluation is due by November 1, 2007 and will cover the years 2002-2006. HPRS' evaluation, which covered the years 1-1-2000 to 12-31-2004, was submitted on May 11, 2006.

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. This report was first required to be submitted in 2000 and annually for the succeeding five years. PERS, OP&F, and HPRS must submit theirs by March 1, STRS and SERS must submit theirs by September 1. This reporting requirement expired in 2005. However, H.B. 272 (eff. 4-6-07) reinstated this requirement without the sunset provision.

Audit Committee Report - (R.C §§145.094, 742.104, 3307.032, 3309.032, 5505.111) S.B. 133 (eff. 9-15-04) required each system to appoint an internal audit committee. This committee is required to prepare an annual report of its actions during the preceding year and submit it to the ORSC.

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.

In 2006, the funding period at STRS, OP&F, and HPRS exceeded the statutory maximum of thirty years. STRS presented its 30-year funding plan to the Council at the March 8, 2006 ORSC meeting. STRS has proposed increasing the employer contribution rate from 14% to 16.5% and the employee contribution rate from 10% to 12.5% each in order to establish a dedicated revenue stream for health care funding while. Their report indicated that if the system discontinued funding discretionary health care benefits without increasing the current contribution rates, STRS' funding period would likely comply with the 30-year funding period requirement within three to five years. H.B. 707 was introduced, but not enacted, at the end of the 126th General Assembly and would have enacted the STRS board proposal.

OP&F presented its plan at the April 12, 2006 ORSC meeting. The 30-year plan presented by OP&F proposes to increase the employee contribution rate from 10% to 12% and the police officer employer contribution rate from 19.5% to 24%, which is the current employer contribution rate for fire fighter employers. The ORSC's January 9, 2006 report on the adequacy of OP&F's contribution rates indicated that the fund could meet the 30-year funding requirement if the OP&F board significantly reduced or eliminated discretionary retiree health care benefits.

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.

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 2007 at the May 10, 2005 ORSC meeting. PERS, OP&F, and HPRS submitted their proposed budgets for calendar year 2007 at the November 15, 2006 ORSC meeting.

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.

SUBJECT INDEX OF PENSION BILLS INTRODUCED

THE 126TH GENERAL ASSEMBLY

JANUARY 1, 2005 - DECEMBER 31, 2006

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

Additional Annuity Program	Deferred Retirement Option Plan (DROP)	Reports
Age and Service	Defined Contribution Plan	Salary
Alternative Retirement Plan	Health Care	Service Credit
Appropriations	Investments	Social Security
Benefit Options	Membership	Survivors
Boards	Ohio's Best Rx	Taxation
Contributions	ORSC	Technical
Cost-of-Living	Power of Attorney	Changes
Deduction	Reemployment	Travel
		Warrants

Additional Annuity Program

Credit earnings – PERS – HB 272*

Lump sum payment – PERS – HB 272*

Age and Service

Payment of benefits, statutory procedure – SERS – HB 320

Public safety officials – PERS – HB 270; HB 286

Alternative Retirement Plan

School boards establish – STRS, SERS – HB 700

Appropriations

Subsidies eliminated – OP&F – HB 66*

Benefit Options

Election upon marriage – ALL SYSTEMS – HB 10*; SB 21

Boards

Eligibility requirements - SERS – HB 320

Extension of term – SERS – HB 10*; ALL SYSTEMS – HB 25*; OP&F – HB 272*

Independent legal counsel – ALL SYSTEMS – HB 66*

Removal of – ALL SYSTEMS – HB 272*

Submit Medicaid recipient information – ALL SYSTEMS SB 90; SB91

Vacancy – ALL SYSTEMS – HB 272*

Contributions

Employee contribution rate – STRS – HB 707

Employer contribution rate – STRS – HB 707

Employer contributions, remittance of – PERS HB 272*

Leave of absence – SERS – HB 320

*Enacted

Cost-of-Living

Increase for certain retirees – OP&F – HB 120

Deduction

Pension garnishment for felony – ALL SYSTEMS - HB 37

Deferred Retirement Option Plan (DROP)

Authorized – HPRS – SB 206*

Defined Contribution Plan

Optional – SERS – HB 320

Health Care

Ineligible individual – SERS – HB 320

Health care savings accounts – ALL SYSTEMS – HB 272*; HB 506; HPRS – HB 340;

Medicare A premiums – SERS – HB 320

Reemployed retirees – PERS – HB 272

Investments

Divestiture in Sudan – ALL SYSTEMS – HCR 19; SCR 17

Global investment performance standards – ALL SYSTEMS – HB 354

Terrorism – ALL SYSTEMS – SB 9*

Membership

Corrections officers – PERS-LE HB 270

Municipal park rangers – PERS-LE – HB 286

Municipal public safety directors – PERS-LE – HB 66*

Public safety officials – PERS – HB 270; HB 272; HB 286

Township police cadets – PERS-LE – HB 286

Ohio's Best Rx

Reporting requirement removed – ALL SYSTEMS – HB 468*; SB 251

ORSC

BWC investments oversight – SB 151

Power of Attorney

Statutory form – HB 246*

Reemployment

Eliminate waiting period for certain reemployed retirees – PERS, STRS, SERS, OP&F – HB

230

Reports

Disability experience sunset removed – ALL SYSTEMS – HB 272*

*Enacted

Salary

Limit on Certain Executives - ALL SYSTEMS – HB 175

Service Credit

Leave-of-Absence – SERS – HB 320

Magistrates purchase additional 35% - PERS – HB 62

Purchase of certain active military service – PERS, STRS, SERS, HPRS – HB 71*

Refund of certain purchased credit – PERS – HB 272

Social Security

Oppose mandatory coverage – HCR 20

Survivors

Augmented estate – ALL SYSTEMS – HB 439

Eligibility for benefits – PERS-LE – HB 272*

Taxation

Deduction for retirement benefits – HB 578

Exempt up to \$10,000 of retirement benefits – HB 88; SB 30

Reduce income rate on retirement income – HB 616

Technical Changes

Reference to director of elections board – PERS - HB 3

Reference to Medical College of Ohio at Toledo – PERS, STRS – HB 16*; HB 478*

Travel

Prohibitions on – HB 176

Warrants

Auditor of State, authority – ALL SYSTEMS – HB 655

Director of Budget and Management, authority – ALL SYSTEMS – HB 530*

*Enacted

STATUS OF PENSION LEGISLATION
THE 126th GENERAL ASSEMBLY
JANUARY 1, 2005 - DECEMBER 31, 2006

OHIO RETIREMENT STUDY COUNCIL

STATUS OF PENSION LEGISLATION

126TH GENERAL ASSEMBLY

JANUARY 1, 2005 - DECEMBER 31, 2006

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	Concurrence	Eff Date
3	01-24-05		Revises Ohio's election laws DeWine - PERS	BI	N	EE Hughes 01-25-05	05-17-05 Amend; FI Vo: Y=70 N=29	05-18-05	RUL Harris 05-24-05	06-14-05----06-15-05----12-06-05---- 12-07-05----12-13-05 Amend; FI Vo: Y=21 N=11	01-17-06	01-31-06	05-02-2006
10	01-24-05	PERS:02-11-05	Regarding election by married or remarried retirant Schneider - All Systems	GK	A 02-16-05	FRS Widener 01-25-05	01-25-05----01-26-05 FI Vo: Y=96 N=0	01-27-05	HHA Coughlin 01-27-05	02-16-05----02-23-05----03-01-05 Amend; FI Vo: Y=32 N=0		03-02-05	03-07-2005 (E)
16	01-25-05		Capital appropriations Calvert - PERS	BI	N	FA Calvert 01-25-05	01-25-05 Amend----01-26-05 Amend; FI Vo: Y=92 N=2	01-26-05	FFI Carey 01-27-05	01-31-05----02-01-05 FI Vo: Y=29 N=1		02-01-05	05-06-05
25	01-26-05		Makes changes to the boards Wagner - All Systems		N	JUD Willamow ski	02-10-05----03-02-05----03-03-05 Sub----04-06-05 FI Vo: Y=96 N=0	04-07-05	JCV Goodman 04-12-05	04-19-05----04-26-05 Amend; FI Vo: Y= 28 N=4		04-27-05	08-04-2005
37	02-03-05		Permits attachment of retirement account Hartnett	AE		FRS Widener 02-10-05	02-17-05 to Subcmte----						
62	02-15-05	04-08-05	Allows magistrates to purchase additional service credit Blessing - PERS	AE	D 05-11-05	FRS Widener 02-15-05	03-10-05 to Subcmte----						
66	02-15-05	OP&F: 03-09-05	Biennial Budget - Removes state subsidies from OP&F, moves municipal public safety directors to PERS-LE Calvert - OP&F, PERS	GK	AA 04-13-05	FA Calvert 02-15-05	02-16-05----03-17-05----04-06-05---- 04-05-05----04-07-05----04-08-05 Sub----04-09-05----04-10-05 Amend-- --04-12-05 Amend; FI Vo: Y=54 N=45	04-13-05	FFI Carey 04-19-05	04-19-05----04-20-05----04-21-05---- 04-26-05----04-27-05----04-28-05---- 05-03-05----05-04-05----05-05-05---- 05-10-05----05-11-05----05-17-05---- 05-18-05----05-19-05----05-20-05---- 05-23-05----05-24-05 Sub----05-25- 05----05-26-05----05-31-05 Amend-- --06-01-05 Amend; FI Vo: Y=19 N=13	06-21-05	06-30-05	06-30-2005 (E)
71	02-17-05	03-11-05	Purchase credit for inactive duty in Ohio National Guard or reserves J. Stewart - PERS	AE	AA 04-13-05	FRS Widener 02-22-05	03-03-05----03-10-05----04-21-05---- 04-28-05----06-16-05 Amend----06- 21-05Sub----12-13-06 FI Vo: Y=92 N=1	12-13-06	HHA 12-14-06 Coughlin	12-19-06 Amend; FI Vo: Y=31 N=0		12-20-06	03-30-2007
88	02-23-05		Exempts \$10,000 in state, federal, military retirement benefits from income tax Willamowski	BI	N	WM Kilbane 03-02-05	04-21-05----						
120	03-10-05	05-05-05	Increases COLA for certain retirees T. Patton - OP&F	AE	D 09-14-05	FRS Widener 03-15-05	04-21-05 to Subcmte----						
175	04-06-05		Limits salary and benefits to certain executives McGregor - All Systems			SG Buehrer 04-20-05	05-12-06----						
176	04-06-05		Regulates travel for executive staff McGregor - All Systems			SG Buehrer 04-20-05	05-12-06----						
230	05-03-05	06-07-05	Makes changes to the reemployment provisions Ujvagi- PERS, STRS, SERS, OP&F			FA Calvert 05-05-05	05-17-05----						

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	Concurrence	Eff Date
246	05-05-05		Creates a statutory form that can be used to create a power of attorney Oelslager	AE	AA 10-12-05	JUD Willamow ski 05-11-05	05-25-05----06-02-05----06-16-05---- 06-21-05FI Vo:Y=99 N=0	06-21-05	JCV Goodman 06-22-05	09-14-05----10-05-05----10-26-05 Amend----11-15-05 FI Vo: Y=32 N=0		11-16-05	03-29-2006
270	05-18-05	02-02-06	Creates special provisions for public safety officers, includes corrections officers as public safety officers Willamowski - PERS	AE	D 02-08-06	FRS Widener 05-26-05	01-12-06----						
272	05-19-05	08-23-05	Makes changes to the laws governing PERS Schneider - PERS	GK	AA 10-12-05 AA 11-15-06	FRS Widener 05-26-05	06-16-05----11-17-05----03-02-06 Sub----03-09-06 Amend----11-30-06 Sub----12-06-06 Amend; FI Vo: Y= 97 N=0	12-07-06	HHA Coughlin 12-12-06	12-13-06----12-19-06 FI Vo: Y=33 N=0			04-06-2007
286	06-01-05	06-21-05	Includes municipal park rangers and township police cadets as members of PERS-LE Willamowski - PERS	AE	D 02-08-06	FRS Widener 06-07-05	01-12-06----						
320	08-02-05		Makes changes to the laws governing SERS Schneider - SERS	GK	AA 10-12-05	FRS Widner 09-15-05	10-13-05----11-17-05----02-16-06 Amend----03-02-06----						
340	09-13-05		Authorizes HPRS to establish health care savings accounts Schneider - HPRS			FRS Widner 10-06-05	10-13-05----11-17-05----						
354	09-27-05		Requires the systems to report on investments using the global investment performance standards T. Patton - ALL SYSTEMS			SG Buehrer 10-06-05							
439	12-01-05		Adopt the provisions of Uniform Probate Code in regard to augmented estate of decedent spouse Willamowski - ALL SYSTEMS	GK	AA 03-08-06	JUD Willamow ski 12-06-05	01-19-06----01-25-06----02-02-06---- 02-09-06----						
468	01-11-06		Ohio's Best Rx Hagan			FA Calvert 01-18-06	11-14-06----11-15-06 Sub----11-28-06---- 11-29-06----12-05-06 Sub---- 12-06-06----12-12-06 FI Vo: Y=96 N=1	12-12-06	HHA Coughlin 12-13-06	12-13-06----12-14-06 FI Vo: Y=29 N=2			04-06-2007
478	01-19-06		Combines University of Toledo and Medical University of Ohio at Toledo Wagoner - PERS	BI	N	FA Calvert 01-25-06	01-24-06----01-31-06----02-14-06 FI Vo: Y=96 N=0	02-16-06	FFI Carey 02-22-06	02-28-06----03-14-06----03-15-06 FI Vo: Y=32 N=0		03-15-06	06-30-2006
506	02-07-06		Makes health savings accounts available to public employees Blessing			WM Kilbane 02-14-06	02-22-06----03-23-06----03-28-06---- 05-18-06 Sub; Amend----05-23-06 Sub----						
530	03-14-06		Budget correction bill Calvert - ALL SYSTEMS	BI	N	FA Calvert 03-15-06	03-15-16----03-16-06----03-20-06 Amend----03-22-06 Amend FI Vo: Y=92 N=1	03-23-06	FFI Carey 03-27-06	03-22-06----03-23-06----03-28-06 Amend; FI Vo: Y=30 N=3		03-29-06	3-30-2006 (E)
578	05-09-06		To authorize tax deduction for retirement income up to \$25,000 for single filers and \$35,000 for joint filers T. Patton	BI	N	WM Kilbane 05-11-06	05-18-06----						

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	Concurrence	Eff Date
616	06-15-06		To reduce income tax rate on retirement income Gibbs	BI	N	WM Kilbane 07-05-06							
655	09-12-06		To restore to the Auditor of State the duty of drawing warrants Sykes - All Systems	BI	N	SG Buehrer 11-14-06							
700	12-07-06		Requires school boards to establish alternative retirement plans Blasdel - STRS, SERS			FRS Widener 12-13-06	12-14-06----						
707	12-14-06		Creates health care fund Oelslager - STRS										
Decorative separator line													
HCR 19	06-07-05		Encourages Ohio companies and institutions to divest of interests in companies that conduct business in Sudan White			SG Buehrer 06-07-05	06-14-05----11-01-05----01-19-06---- 01-25-06 FI Vo: Y=95 N=0	01-31-06		01-31-06 FI Vo: Y=33 N=0		01-31-06	
HCR 20	09-15-05		Memorializes Congress to reject mandatory Social Security coverage for Ohio's public employees Schneider	AE	A 10-12-05	FA Calvert 09-15-05	10-24-05----						

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	Concurrence	Eff Date
9	01-24-05		Revises terrorism laws Jacobson - All Systems			JCR Jordan	03-09-05 FI Vo: Y=32 N=0	03-10-05	TPH Reinhard 03-16-05 09-13-05	04-20-05----05-04-05----05-18-05---- 05-25-05----06-15-05 Sub; Amend--- -11-15-05 Amend - 12-14-05 Amend; FI Vo: Y=69 N=23		12-14-05	04-14-2006
21	01-26-05	PERS:02-11-05	Regarding election by married or remarried retirant Hottinger - PERS, STRS, SERS, HPRS	GK	A 02-16-05	HHA Coughlin 01-27-05							
30	01-26-05		Exempts \$10,000 in state, federal, military retirement benefits from income tax Coughlin	BI	N	WME Amstutz 01-27-05							
90	03-08-05		Creates the Department of Health Care Administration Miller - All Systems	BI	N	FFI Carey 03-09-05							
91	03-08-05		Creates the Department of Health Care Administration Miller - All Systems	BI	N	FFI Carey 03-09-05							
151	05-26-05		Requires ORSC oversight of BWC investments Dann - ORSC			ICL Hottinger 05-31-05							
206	10-18-05		Establishes deferred retirement option plan (DROP) Coughlin - HPRS	GK	AA 11-16-05	HHA Coughlin 10-19-05	10-26-05----11-01-05----11-16-05 Amend----12-06-05 FI Vo: Y=33 N=0	12-08-05	FRS Widener 12-13-05	01-12-06----01-26-06----03-01-06 FI Vo: Y= 94 N=0		03-01-06	06-15-2006
251	01-11-06		Ohio's Best Rx Spada			HHA Coughlin 01-18-06	11-15-06----11-29-06 Sub; Amend--- 11-30-06 FI Vo: Y=27 N=2	12-05-06	FA Calvert 12-06-06	12-06-06---			
[Decorative separator row]													
SCR 17	06-01-05		Encourages Ohio companies and institutions to divest of interests in companies that conduct business in Sudan Jacobson			FFI Carey 06-07-05	10-25-05----10-26-05 FI Vo: Y=31 N=0	10-27-05	SG Buehrer 11-15-05				

HOUSE COMMITTEES

ANR Agriculture & Natural Resources
CC Civil & commercial Law
CL Commerce & Labor
CRJ Criminal Justice
EDE Economic Development & Environment
ED Education
 AE Alternative Education Subcommittee
EE Elections & Ethics
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HE Higher Education Subcommittee
HS Human Services Subcommittee
PSE Primary & Secondary Education
 Subcommittee
TJ Transportation & Justice Subcommittee
FRS Financial Institutions, Real Estate & Securities
RP Retirement & Pensions Subcommittee
HLT Health
 AG Aging Subcommittee
CHF Children's Health Care & Family Services
 Subcommittee
INS Insurance
JUD Judiciary
JFL Juvenile & Family Law
LGR Local & Municipal Government & Urban
 Revitalization
PUE Public Utilities and Energy
RR Rules & Reference
SG State Government
TPH Transportation, Public Safety & Homeland
 Security
WM Ways & Means

SENATE COMMITTEES

AG Agriculture
ED Education
ENE Energy & Public Utilities
ENR Environment & Natural Resources
FFI Finance & Financial Institutions
HHA Health, Human Services, & Aging
HT Highways & Transportation
ICL Insurance, Commerce & Labor
JCV Judiciary - Civil Justice
JCR Judiciary - Criminal Justice
REF Reference
RUL Rules
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

GK Glenn Kacic
AE Anne Erkman
BI Bill of Interest