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Annual Report 2012

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

129th General Assembly
January 1, 2011 – December 31, 2012

January 2013

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ANNUAL REPORT

129TH GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2012

January 2013

TABLE OF CONTENTS

	Page
Introduction	i
Systems' Investment Performance	1
Investment Performance Review (Fourth Quarter 2010, June 30, 2011)	2
Investment Performance Review (Fourth Quarter 2011, April 18, 2012)	5
Investment Performance Review (Second Quarter 2012, November 14, 2012)	8
Status of Health Care Funds	12
Reports on Enacted Pension Legislation	17
Am. Sub. H.B. 1	18
Sub. H.B. 123	19
Am. Sub. H.B. 153	22
Sub. S.B. 340	24
Sub. S.B. 341	40
Sub. S.B. 342	53
Sub. S.B. 343	72
Sub. S.B. 345	91
Pending Pension-Related Issues	99
Documents Statutorily Required of the Retirement Systems	109
Subject Index of Pension Bills Introduced	114
Status of Pension Legislation	119

Introduction

The Ohio Retirement Study Council (ORSC) is pleased to submit this report on the five state retirement systems and the fund for volunteer firefighters for the period beginning January 1, 2011 and ending December 31, 2011. This report is submitted pursuant to section 171.04(B) of the Revised Code, which requires the ORSC to *"make an annual report to the governor and the general assembly covering its evaluation and recommendations with respect to the operations of the state retirement systems and their funds"*.

The State of Ohio has a long and successful track record regarding its five statewide retirement systems. The oldest of these retirement systems is the State Teachers Retirement System (STRS), which was created in 1920 for teachers in the public schools, colleges, and universities. The Public Employees Retirement System (PERS) was created in 1935 for state employees, with local government employees added in 1938. The School Employees Retirement System (SERS) was created in 1937 for non-teaching employees of the various local school boards. The Highway Patrol Retirement System (HPRS) was created in 1941 by the withdrawal of all state troopers from PERS. The Ohio Police and Fire Pension Fund (OP&F) was created in 1967 after the abolition of 454 local police and fire relief and pension funds, many of which predated the Social Security System created in 1935 and many of which were on the verge of financial insolvency. A special retirement program administered by PERS was subsequently created in 1975 for certain law enforcement officers, including sheriffs, deputy sheriffs, township police and various others. Today the five systems have combined assets of nearly $157.6 (as of January 1, 2012) and approximately 689,578 active contributing members, 695,480 inactive members, and 407,372 beneficiaries and recipients. The February 6, 2012 issue of Pensions and Investments included a list of the top 200 public and private pension funds in the nation. Four of Ohio's five public retirement systems are listed in the top 200. PERS ranked 15th out of all public and private; STRS ranked 18th out of all public and private funds; OP&F ranked 114th; while SERS ranked 130th among all public and private pension funds.

Created in 1968, ORSC was one of the first permanent pension oversight commissions in the nation. The Council was designed to develop legislative leadership in the area of retirement pensions for public employees. It is empowered to make an impartial review of the laws governing the administration and financing of Ohio's five public retirement systems and to recommend to the General Assembly any changes it may find desirable with respect to the allowances and benefits, the sound financing of the cost of benefits, the prudent investments of funds, and the improvement of the language, structure and organization of the laws. It must report to the Governor and the General Assembly concerning its evaluation and recommendations with respect to the operations of the systems. The Council is required to study all statutory changes in the retirement laws proposed to the General Assembly and report to the General Assembly on their probable cost, actuarial implications, and desirability as a matter of public policy.

The Council evaluates the operations of the systems on a continuing basis. During the past year the Council also reviewed the retirement systems' investment performance, operating budgets, and compliance with various provisions of S.B. 133 (eff. 9-15-04). In addition, ORSC staff presented to the Council analyses of legislation and updates on administrative rules filed by the systems. The analyses of legislation always contain staff recommendations and staff makes recommendations regarding changes in proposed administrative rules as needed.

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

This report is a compilation of the evaluations and recommendations the Council made throughout the year. It provides a summary of the ORSC reports completed during 2011 and 2012, pending public retirement issues, and staff recommendations. In addition, it provides a historical record of legislative action taken by the 129th Ohio General Assembly on bills affecting PERS, STRS, SERS, OP&F, HPRS and the Volunteer Fire Fighters' Dependents Fund (VFFDF).

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

The Systems' Investment Performance section provides a summary of the investment performance reviews completed by Evaluation Associates, LLC (a subsidiary of Milliman) and Milliman, during 2011 and 2012. The full reports can be obtained from the ORSC office or on the ORSC website: www.orsc.org.

The Status of the Health Care Funds provides a summary of the major changes made to the systems' health care benefits for 2013. 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 2013.

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

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

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

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

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

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

SYSTEMS' INVESTMENT PERFORMANCE

129TH GENERAL ASSEMBLY

JANUARY 1, 2011 – DECEMBER 31, 2012

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Investment Performance Review (Fourth Quarter 2011, April 18, 2012)</u> -
This report, which was presented at April 18, 2012 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning January 1, 2002 and ending December 30, 2011. The findings of this report are summarized as follows:

- During the third and fourth quarters of 2011, the financial markets had strong swings. As a gauge of the marketplace, the Wilshire 5000 returned -4.8% and the MSCI EAFE returned -16.2% for the last two quarters of 2011. The global economic recovery appears to be underway fueled by better-than-expected corporate earnings, mostly favorable economic data and an increase in M&A activity. Clouding the global economic picture was the worsening financial condition of peripheral European countries including Ireland, Portugal and Spain. Despite persistently high U.S. unemployment, investor sentiment also improved.

- The Ohio Statewide fund returns for the six-month period ranged from -6.2% (HPRS) to -3.8% (STRS). Three of six systems outperformed their respective policy index for the six-month period. The best relative performers were PERS(DB) (-4.5%) and STRS (-3.8%), outperforming their benchmarks by 170 and 50 basis points, respectively. STRS was the best absolute performer, with a loss of -3.8% over the last two quarters, and outpacing its benchmark by 50 basis points. PERS(HC) returned -5.1% and outperformed its benchmark by 0.2%, SERS returned -4.8% and matched its benchmark, OP&F returned -3.9% and trailed its benchmark by 50 basis points. HPRS had the worst absolute and relative performance, returning -6.2%, and trailing its benchmark by 120 basis points.

- In comparison to a broad universe of other public retirement systems (the InvestorForce All Public Defined Benefit Universe), all plans ranked below the median for the six-month period ending December 31, 2011. STRS ranked in the 54th percentile, followed by OP&F which ranked in the 56th percentile. PERS(DB) ranked in the 66th percentile, SERS ranked in the 68th percentile, PERS (HC) ranked in the 76th percentile, and HPRS ranked in the 89th percentile.

- For the one-year period ending December 31, 2011, PERS DB (+0.6%) outperformed its benchmark by 150 basis points. STRS (+1.6%) outperformed its benchmark by 80 basis points. PERS HC (-0.4%) outperformed its benchmark by 30 basis points, OP&F (+2.5%) outperformed its benchmark by 10 basis points, SERS (-0.1%) matched its benchmark, and HPRS (-2.9%) underperformed its benchmark by 410 basis points. Against their peers in the InvestorForce All Public Defined Benefit Universe, two of six plans placed above the median, with OP&F placing in the 17th percentile among its peers, and STRS ranked in the 27th percentile. PERS DB ranked in the 51st percentile, SERS ranked in the 53rd percentile, PERS HC ranked in the 62nd percentile, and HPRS ranked in the 94th percentile.

- On a three-year basis, OP&F and PERS DB & HC were the best relative performers, with OP&F leading its benchmark by 110 basis points, and PERS DB & HC beating their benchmarks by 60 basis points. STRS beat its benchmark by 20 basis points, SERS matched its benchmark, and HPRS trailed its benchmark by 80 basis points. Comparing the three-year returns of the systems to the InvestorForce All Public Defined Benefit Universe, only one plan ranked below the median. OP&F ranked in the 13th percentile, PERS HC ranked in the 17th percentile and STRS ranked in the 36th percentile. The PERS DB plan ranked in the 38th percentile, HPRS ranked in the 39th percentile, and SERS ranked in the 70th percentile.

- For the five-year period, three of the six systems outpaced their respective policy benchmarks, with OP&F and PERS DB outperforming their benchmark by 100 and 30 basis points, respectively. In comparison to the InvestorForce All Public Defined Benefit Universe, OP&F (+2.7%) ranked in the 66th percentile, while PERS HC

(+2.3%) ranked in the 69th percentile. PERS DB (+1.6%), STRS (+1.4%), HPRS (+1.0%), and SERS (+0.7) all ranked in the fourth quartile.

- Over the five and ten-year periods all plans trailed their actuarial interest rate, but over the trailing three-year period, all plans were above their actuarial interest rates. The actuarial rates for the plans are as follows: PERS DB (8.0%), PERS HC (6.7%), STRS (8.0%, but recently revised down to 7.75%), OP&F (8.25%), SERS (7.75%), and HPRS (8.0%). Over the ten-year period, three of the five plans outperformed their policy benchmarks. STRS (+5.8%) exceeded its policy benchmark by 50 basis points, OP&F (+6.3%) was 60 basis points above its benchmark, PERS DB (+5.5%) was above its benchmark by 30 basis points. SERS (+4.8%) matched its benchmark, and HPRS (+5.2%) trailed its benchmark by 40 basis points. Relative to the peer group universe, OP&F ranked in the 1st percentile, STRS ranked in the 19th percentile, and PERS DB ranked in the 35th percentile. The HPRS plan ranked in the 53rd percentile, and the SERS plan ranked in the 65th percentile over the ten-year period.

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

- The following observations are based on a review of the systems' asset allocation in comparison to the InvestorForce All Public Defined Benefit Universe:
    1. The actual asset allocation of HPRS domestic equity ranked above the median plan's allocation to domestic equity (35.8%) in the InvestorForce All Public Defined Benefit Universe. The STRS actual (36.9%) and target (39.0%) allocation to domestic equities were also above the universe median. For OP&F, the actual domestic (36.3%) and target (36.9%) were above the median. The actual (24.0%) and target (22.5%) allocation of SERS, the actual (28.7%) and target (29.5%) allocation of PERS DB, as well as the actual (27.7%) and target (28.8%) allocation of PERS HC domestic equity were all below that of the median plan.
    2. Five of the six systems' actual and target asset allocations to fixed income were well below the median plan (29.5%) of the InvestorForce All Public Defined Benefit Universe. PERS HC has a target (34.0%) and actual allocation (33.6%) above the median.
    3. The median plan allocation of the InvestorForce All Public Defined Benefit Universe to non-U.S. equity as of December 31, 2011 was 12.3%. The target allocations for all plans were significantly above the median, with the actual allocations following suit.
    4. The universe median allocation to real estate of the InvestorForce All Public Defined Benefit Universe was 8.6% as of December 31, 2011. The target allocation of each of the systems, with the exception of HPRS (5.0%) and PERS HC (6.0%), is above the median allocation. The actual allocations for

PERS HC (6.4%) and HPRS (4.5%) were below the median, the actual allocation of OP&F is directly on the median at 8.6%.

5. SERS has actual (22.8%) and target (25.0%) allocations to alternatives which are well above the peer median of 13.0%. HPRS has actual (18.9%) and target (17.5%) allocations to alternatives also above the median. The remaining plans have lower target allocations to alternative assets.

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

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

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

Investment Performance Review (Second Quarter 2012, November 14, 2012) -
This report, which was presented at April 18, 2012 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning January 1, 2002 and ending June 30, 2012. The findings of this report are summarized as follows:

- During the first and second quarters of 2012, the financial markets had strong swings. As a gauge of the marketplace, the Wilshire 5000 returned 9.2% and the MSCI EAFE returned 3.0% for the two quarters ending June 30, 2012. Equity markets are still volatile, with concerns remaining about the European debt crisis, weaker economic data in the U.S. and China, and the oncoming "fiscal cliff" in the U.S. Fear of the potential breakup of the Eurozone in response to the European debt crisis still has a major impact on international markets. Unemployment in the United States remains high, but investor sentiment appears to be improving.

- The Ohio Statewide fund returns for the six-month period ranged from 5.1% (HPRS) to 6.6% (STRS). None of the six systems outperformed its respective policy index for the six-month period. The best relative performers were STRS (+6.6%) and PERS HC (+5.9%), with STRS matching its benchmark and PERS HC only trailing its benchmark by 10 basis points, respectively. STRS was the best absolute performer, with a gain of +6.6% over the last two quarters, and matching its benchmark. PERS HC returned 5.9% and trailed its benchmark by 0.1%, OP&F returned 6.5% and trailed its benchmark by 0.4%, SERS returned 5.9% and trailed its benchmark by 80 basis points. HPRS had the worst absolute performance, returning 5.1%, and trailing its benchmark by 120 basis points, while PERS DB had the worst relative performance with a return of 6.3% which trailed its benchmark by 130 basis points.

- In comparison to a broad universe of other public retirement systems (the InvestorForce All Public Defined Benefit Universe), all plans ranked above the median for the six-month period ending June 30, 2012. STRS and OP&F both ranked in the 7th percentile, followed by PERS DB which ranked in the 8th percentile. PERS HC and SERS ranked in the 17th percentile, and HPRS ranked in the 46th percentile.

- For the one-year period ending June 30, 2012, PERS DB (+1.5%) outperformed its benchmark by 60 basis points. STRS (+2.5%) outperformed its benchmark by 40 basis points. PERS HC (+0.5%) outperformed its benchmark by 10 basis points, SERS (+0.9%) trailed its benchmark by 70 basis points, OP&F (+2.3%) trailed its benchmark by 90 basis points, and HPRS (-1.3%) underperformed its benchmark by 230 basis points. Against their peers in the InvestorForce All Public Defined Benefit Universe, three of six plans placed above the median, with STRS placing in the 22nd percentile among its peers, and OP&F ranked in the 24th percentile, and PERS DB ranked in the 43rd percentile. SERS ranked in the 63rd percentile, PERS HC ranked in the 73rd percentile, and HPRS ranked in the 90th percentile.

- On a three-year basis, OP&F, STRS, and PERS HC were the best relative performers, with OP&F leading its benchmark by 90 basis points, and STRS and PERS HC beating their benchmarks by 40 basis points. SERS matched its benchmark, and PERS DB trailed its benchmark by 20 basis points. HPRS was 140 basis points behind its benchmark over the trailing three year period. Comparing the three-year returns of the systems to the InvestorForce All Public Defined Benefit Universe, only one plan ranked below the median. OP&F ranked in the 2nd percentile, STRS ranked in the 12th percentile and PERS DB ranked in the 22nd percentile. The PERS HC plan ranked in the 28th percentile, and HPRS ranked in the 56th percentile.

- For the five-year period, only one of the six systems outpaced its respective policy benchmark, with OP&F outperforming its benchmark by 60 basis points. In comparison to the InvestorForce All Public Defined Benefit Universe, PERS HC (+2.5%) ranked in the 57th percentile, while OP&F (+2.3%) ranked in the 67th percentile. PERS DB (+1.5%), STRS (+1.2%), HPRS (+0.6%), and SERS (+0.3) all ranked in the fourth quartile.

- Over the five and ten-year periods all plans trailed their actuarial interest rate, but over the trailing three-year period, all plans were above their actuarial interest rates. The actuarial rates for the plans are as follows: PERS DB (8.0%), PERS HC (6.7%), STRS (7.75%), OP&F (8.25%), SERS (7.75%), and HPRS (8.0%). Over the ten-year period, three of the five plans outperformed their policy benchmarks. STRS (+7.1%) exceeded its policy benchmark by 60 basis points, OP&F (+7.4%) was 50 basis points above its benchmark, PERS DB (+6.7%) was above its benchmark by 20 basis points. SERS (+6.0%) trailed its benchmark by 10 basis points, and HPRS (+6.0%) trailed its benchmark by 80 basis points. Relative to the peer group universe, OP&F ranked in the 4th percentile, STRS ranked in the 13th percentile, and PERS DB ranked in the 27th percentile. Both the HPRS and SERS plans ranked in the 55th percentile over the ten-year period.

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

- The following observations are based on a review of the systems' asset allocation in comparison to the InvestorForce All Public Defined Benefit Universe:

    1. The actual asset allocation of HPRS domestic equity ranked above the median plan's allocation to domestic equity (33.0%) in the InvestorForce All Public Defined Benefit Universe. The STRS actual (36.4%) and target (39.0%) allocation to domestic equities were also above the universe median. For OP&F, the actual domestic (35.5%) and target (36.9%) were above the median. The actual (24.7%) and target (22.5%) allocation of SERS, the actual (25.5%) and target (25.7%) allocation of PERS DB, as well as the actual (24.9%) and target (26.2%) allocation of PERS HC domestic equity were all below that of the median plan.
    2. Five of the six systems' actual and target asset allocations to fixed income were well below the median plan (35.0%) of the InvestorForce All Public Defined Benefit Universe. PERS HC has a target (36.0%) above the median, but an actual allocation (34.5%) slightly below the median.
    3. The median plan allocation of the InvestorForce All Public Defined Benefit Universe to non-U.S. equity as of June 30, 2012 was 13.0%. The target allocations for all plans were significantly above the median, with the actual allocations following suit.
    4. The universe median allocation to real estate of the InvestorForce All Public Defined Benefit Universe was 6.6% as of June 30, 2012. The target allocation of each of the systems, with the exception of HPRS (5.0%) and PERS HC (6.0%), is above the median allocation. The actual allocations for PERS HC (6.3%) and HPRS (4.3%) were below the median.

5. SERS has actual (23.4%) and target (25.0%) allocations to alternatives which are well above the peer median of 12.7%. HPRS has actual (18.6%) and target (17.5%) allocations to alternatives also above the median. The remaining plans have lower target allocations to alternative assets, with PERS DB actual and target allocations very close to the median.

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

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

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

STATUS OF HEALTH CARE FUNDS

129th GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2012

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

Since 1974 each system has provided some level of comprehensive hospital, medical and prescription drug coverage. In 1977, the systems were required statutorily to reimburse benefit recipients for Medicare Part B premiums (medical). Retirees who do not qualify for Medicare Part A (hospital) are provided equivalent coverage under the systems' health care plans. All employees hired on or after April 1, 1986 are required by federal law to contribute to Medicare.

Beginning in 2006, Medicare began offering a prescription drug benefit known as Medicare D. For most retirees, the prescription drug benefit provided by the systems is superior to the benefit offered by Medicare. However, low income retirees who qualify for a government subsidy for their Medicare prescription drug benefit may fare better under Medicare D so they will need to determine which drug plan is better for them.

Controlling health care costs has been and continues to be a major concern for Ohio's retirement systems. In 2011, the total retiree health care costs paid by the retirement systems were over $2.6 billion. By law, any health care costs borne by the retirement systems must be financed by employer contributions only. The retirement systems' actuaries review annually the amount of contributions required to fund vested pension benefits. Contributions in excess of what is needed to support those benefits can be allocated to health care. The following charts indicate the percentage of employer contribution each system intends to allocate to health care during 2012 and the projected solvency period for each system's health care fund.

Ohio Retirement System	**Percentage of Employer Contribution Allocated to Health Care in 2013**
OPERS	1.0%
STRS	1.0%
SERS	0.16%*
OP&F	4.69%
HPRS	1.75%

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

Projected Solvency Period for Health Care Funds	
OPERS	2023 (as of 11-1-12)
STRS	2039 (as of 1-1-12)
SERS	2020 (as of 6-30-12)
OP&F	2037 (as of 1-1-12)
HPRS	2022 (as of 12-31-11)

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, 2013.

OPERS

PREMIUMS
The only participants who will see an increase in their monthly premiums are non-Medicare participants who currently are participating in the Intermediate or Basic Plans.

OPERS will continue to reimburse retirees $96.40 each month for Medicare Part B premiums in 2013.

ELIGIBILITY
OPERS made no changes to eligibility in 2013.

BENEFITS
Beginning in 2013, OPERS will offer only one level of coverage for non-Medicare participants rather than the Enhanced, Intermediate, and Basic Plans.

The annual deduction and out-of-pocket maximums will increase for most non-Medicare eligible participants. However, they will not increase for Medicare eligible participants.

In 2013, value-based coverage will be introduced that includes lower office visit co-payments for care received from an accredited patient centered medical home and lower office visit co-payments for primary care physicians and specialists for specific chronic conditions.

The annual maximum out-of-pocket amount for prescription drugs will increase from $4,700 to $4,750 in 2013.

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

STRS

PREMIUMS
For 2013, the premium subsidy multiplier will be reduced from 2.4% to 2.3% per year of service, with a maximum subsidy of 69% of the full premium.

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

ELIGIBILITY

Beginning in 2013, eligibility for coverage will be limited for those receiving a joint and survivor benefit, annuity certain, and/or survivor benefits to those who were eligible for coverage as a dependent of the member or retiree before their death. Eligible dependents will be limited to the retiree's spouse, children under the age of 26, and sponsored dependents who are disabled adult children and/or one person age 26 or older living in the home of the retiree.

BENEFITS

Tiers 3 and 4 brand name drugs will no longer be covered for enrollees in Aetna, Medical Mutual, AultCare, and Paramount plans. The maximum annual prescription drug expense will increase to $4,750 for Medicare and non-Medicare enrollees in Aetna and Medical Mutual.

PPO service areas will be established for the Aetna Medicare Plan.

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

SERS

PREMIUMS

Effective January 7, 2013, the SERS board will have the authority to set the Medicare Part B reimbursement rate at not less than $45.50. The amount that SERS reimburses for Medicare Part B premiums in 2013 will remain at $45.50 per month.

ELIGIBILITY

SERS made no changes to its health care eligibility requirements for 2013.

BENEFITS

The Aetna HMO non-Medicare plan will not be offered in 2013. Effective January 1, 2013, the $300 annual deductible in the Aetna Medicare Plan (PPO) will apply to outpatient dialysis, diabetic supplies, outpatient laboratory services, and Medicare Part B prescription drugs.

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

OP&F

PREMIUMS

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

OP&F will continue to reimburse the basic Medicare Part B monthly premium, which is $104.90 in 2013.

ELIGIBILITY

OP&F made no changes to its health care eligibility requirements for 2013.

BENEFITS

In mid-2013 UnitedHealthcare will no longer use Medco for mail order prescriptions and instead will distribute prescriptions in-house.

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

HPRS

PREMIUMS

Current retirees' and spouses' premiums for secondary insurance will remain the same. Monthly premiums for non-Medicare eligible retirees and spouses will increase by $10 to $49 for retirees and $107 for spouses.

HPRS will continue to reimburse retirees $96.40 each month for Medicare Part B premiums in 2013.

ELIGIBILITY

HPRS made no changes to it health care eligibility requirements for 2013.

BENEFITS

Non-Medicare eligible retirees will see their deductible increased from $250 to $500 per person and the maximum out-of-pocket increased from $1,500 per family to $1,500 per person, up to $3,000 per family.

In-patient benefits will change from 100% to 80%. The Medicare Advantage plan will change to a $0 deductible, $25 office visit co-payment, $50 out-patient surgery co-payment, $100 in-patient hospital co-payment, and $2,000 co-insurance limit.

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

REPORTS ON ENACTED PENSION LEGISLATION

129th GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2012

Am. Sub. H.B. 1 – Rep. Duffey

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

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

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

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

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

Effective Date – February 18, 2011 (Emergency).

Sub. H.B. 123 – Rep. Hottinger

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

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

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

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

Staff Comments –

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

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

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

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

Sub. H.B. 123 – Rep. Hottinger

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

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

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

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

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

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

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

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

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

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

Am. Sub. H.B. 153 – Rep. Amstutz

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

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

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

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

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

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

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

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

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

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

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

Effective Date - June 30, 2011 (Emergency).

<u>Sub. S.B. 340 – Sens. Niehaus/Kearney</u>

Substitute Senate Bill (Sub. S.B.) 340 would make the following changes to the laws governing the Ohio Police and Fire Pension Fund (OP&F) in order to ensure the continued to solvency of the retirement system:

- Increase the employee contribution rate to 12.25% by 7/2/2015. (R.C. §742.31(A))

- Give the board authority to adjust the employee contribution rate, in consultation with its actuary, if necessary to preserve the fiscal integrity of the fund, following the actuarial investigation due on 11/1/2017 and each quinquennial actuarial investigation thereafter. (R.C. §742.31 (B), Section 4)

- Require employers to pay the employer contribution monthly. Employer contributions due between the effective date 1/7/2013 and 90 days after are to be remitted in 1/3 installments each on December 31, of 2013, 2014, and 2015. (R.C. §742.33, §742.34, §742.35, Section 3)

- Increase the retirement age to 52 for members who begin service on or after 7/2/2013. (R.C. §742.37 (C)(1))

- Increase the average annual salary to five years for members with less than 15 years of service (YOS) credit as of 7/2/2013. Members with 15 or more YOS credit as of 7/2/2013 the average annual salary will continue to be determined with three years of contributions. (R.C. §742.01(G), §742.37 (C)(1)-(4), §742.39(A))

- Provide an actuarially reduced retirement benefit for members who reach age 48 with 25 YOS who begin service on or after 7/2/2013. (R.C. §742.37 (C)(4))

- Give the board authority to adjust age and service retirement eligibility, in consultation with its actuary, if necessary to preserve the fiscal integrity of the fund, following the actuarial investigation due on 11/1/2017 and each quinquennial actuarial investigation thereafter. (R.C. §742.161, Section 4)

- Change "terminal pay" to include terminal pay payments before or at the time of termination and to include overtime pay that was not included the payroll period 60 days after the overtime work was performed. (R.C. §742.01 (K), §742.01 (K)(3))

- Change "salary" to include overtime pay in the payroll period for which the overtime was worked and up to 60 days after. (R.C. §742.01 (L)(1))

- Allow the Board to set definition of "salary" and "terminal pay" based on elements of the compensation provision and W2 form of the United States Internal Revenue Code (IRC), which may differ from definition of "terminal pay" in §742.01 (K)(3) and "salary" in §742.01 (L)(1). (R.C. §742.013)

Sub. S.B. 340 – Sens. Niehaus/Kearney

- Establish an anti-spiking provision by setting a salary benchmark, which caps salary increases in the member's final three years to a 10% increase per year and refunds member contributions that exceed the salary benchmark. The salary benchmark is applicable for members with 15 or more YOS as of 7/1/2013. (R.C. §742.01(G)(1)-(5), R.C. §742.012)

- Change Cost of Living Allowance (COLA) eligibility, rate, base calculation and eliminate COLA in the Deferred Retirement Option Plan (DROP) for new members on or after 7/2/2013. (R.C. §742.3716)

- Require permanent disability to receive a benefit for a heart, cardiovascular, or chronic respiratory disease and permanent partial disability in performance of their official duty to receive benefit. (R.C. §742.38 (D)(2), (D)(3))

- Allow board to waive the requirement that the disease was not documented before or at the time the member began. (R.C. §742.38 (D)(3))

- Change the DROP eligibility, member contribution accrual schedule, interest accrual requirement and eliminate the COLA in DROP for new members on or after 7/2/2013. (R.C. §742.443, §742.444, §742.3716 (E))

- Set the annual actuarial valuation of pension liability, annual health care liability and presentation of employer liability to the General Assembly to be conducted every three years. Remove the requirement for OP&F to submit a plan to comply with the 30-year amortization "in any year" the amortization period falls outside of 30 years to sync with the triennial actuarial valuation. (R.C. §171.04, §742.14, §742.16, §742.30, §742.45)

- Consider active and reserve members of the Armed Services as members of the fund for the duration of service if called to service by an Act of Congress or Executive Order by the President. (R.C. §742.01 (E))

- Change the date to vote in an election to the thirty-first day of January from the first Monday in March and first Monday in April. (R.C. §742.04)

- Clarify that any person or person's beneficiary paid any benefit payment made erroneously by the fund is subject to repayment and/or withholding from fund. (R.C. §742.64)

Background

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 Ohio Retirement Study Council (ORSC) and the standing committees of the House and Senate with primary responsibility for pension legislation a plan approved by the retirement board that reduces the funding period to no more than 30 years, along with any progress made by the board in meeting the 30-year funding period. This standard was modeled after the national standard adopted by the Governmental Accounting Standards Board for all governmental pension plans. The change

was intended to maintain inter-generational equity among taxpayers and system members by limiting the ability to fund benefit costs by extending the funding period beyond 30 years.

In 2003, the ORSC voted to have its actuary, Milliman USA, review the adequacy of the contribution rates in all five retirement systems. That report, which was updated in 2004, generally concluded that in the case of the Ohio Police and Fire Pension Fund (OP&F) and the State Teachers Retirement System (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.

Given the severe decline in investment market values since the end of fiscal year 2008 and the need to begin evaluating options to address this situation proactively, the Council approved a motion to have staff work with OP&F on December 10, 2008, on March 11, 2009, with STRS, and with the Public Employees Retirement System (PERS), School Employees Retirement System (SERS) and the State Highway Patrol Retirement System (HPRS) on April 8, 2009. All five systems, in consultation with the ORSC, developed legislative proposals that would reduce their unfunded actuarial accrued liability periods.

STRS, SERS, OP&F, and HPRS presented their board-approved funding plans at the September 9, 2009, ORSC meeting. PERS presented its board-approved plan at the December 9, 2009, ORSC meeting. Both STRS and OP&F presented updated plans in early 2011. S.B. 340 contains the OP&F board approved plan.

In 2011, the ORSC hired Pension Trustee Advisors and KMS Actuaries (PTA/KMS) to complete a review of the boards' plans and make recommendations related to pension reform. PTA/KMS presented its review at the July 11, 2012 ORSC meeting. They found that the plans are a positive step and will, generally, enable the majority of the systems to meet the goals of funding reasonable health care benefits at no increased cost to taxpayers.

Staff Comments

Employee Contributions – (R.C. §742.31, Section 4) Effective 7/2/2013, Sub. S.B. 340 would begin to phase in an increase to the employee contribution rate. The employee contribution rate would be increased to 10.75% by 7/2/2013, 11.5% by 7/2/2014, and 12.25% by 7/2/2015. Sub. S.B. 340 would allow the board, in consultation with their actuary, to increase and/or decrease the employee contribution rate in accordance with the rules adopted by the board not earlier than 11/1/2017 and thereafter, following each quinquennial actuarial investigation. The rates may be adjusted on the basis that it is necessary to preserve the fiscal integrity of the fund. Sub. S.B. 340 would delay the board's authority for 180 days after the effective date of the bill, January 7, 2013.

Sub. S.B. 340 – Sens. Niehaus/Kearney

The current employee contribution rate is 10% of a member's annual salary. The employee contribution rate increased from a rate of 6% set by House Bill (H.B.) 642 (eff. 11/5/1965) to

the current rate of 10% set by Am. Sub. H.B. 389 (eff. 9/9/1988). The employee contribution rate has changed only three other times between 1965 and the current statutory rate.

Historically, the costs of benefits have been shared between employees and employers. Compared to systems with uniformed members, OP&F employers contribute 19.5% annually on behalf of its police officers, higher than the 18.1% rate PERS Law Enforcement (LE) employers contribute annually on behalf of its officers. The State, as the sole employer in HPRS, contributes 26.5% to HPRS on behalf of its Highway Patrol members, the highest employer rate among all five retirement systems. OP&F police officers contribute 10% of annual salary, which is the same annual rate as required for HPRS members. However, PERS LE officers contribute a rate of 11.6% of annual salary.

The employee contribution rate is used in conjunction with employer contributions and investment income to finance the pension fund and health care benefits. Increasing the employee contribution rate will create a better cost balance between the employee and the employer, thus preventing an increase in state contributions while simultaneously reducing taxpayer risk. Under Sub. S.B. 340, the OP&F board would be able to increase and decrease the employee contribution rate to sustain the fiscal integrity of the fund on the basis of the five year actuarial valuation. The modification would enable OP&F to increase employee contribution rates when the fund's fiscal integrity erodes and decrease the employee contribution rate when the fiscal integrity of the fund improves. While OP&F is ultimately responsible for the pension, this reform would shift a degree of risk and responsibility to employees for financing a larger portion of their benefit based on the fund's fiscal performance.

This bill would enable the OP&F board to act without legislative approval to address funding and solvency issues. Consulting with the board's actuary and relying on the five year actuarial valuation would be prudent practice; however, Sub. S.B. 340 would not require the OP&F board to make an adjustment to the employee contribution rate necessary to meet the 30-year amortization period requirement in the actuarial valuation. Rather, the provision would merely require the OP&F board to adjust the employee contribution rate to "preserve the fund's fiscal integrity," which, therefore, wholly relies upon the OP&F board's definition and interpretation of "fiscal integrity."

The delegation of authority would provide the OP&F board with a power historically reserved for the legislature. Although the board's authority is not functional until 11/1/2017 and the bill delays the board's authority by 180 days after the effective date of 1/7/2013, the bill does not allow the ORSC to determine the appropriate division of authority between the board and the Legislature and ensure consistency among all five statewide retirement systems. Moreover, the OP&F board authority provision does not prescribe any parameters regarding the employee contribution rate and does not provide any process for members to comment or mechanism for oversight and/or transparency.

Therefore, we recommend removing the provision and study further to ensure legislative oversight of future changes or to develop with appropriate language to add safeguards to the board's ability to determine employee contributions without legislative input.

Employer Contributions – (R.C. §742.33, §742.34, §742.35, Section 3) Employers would be required to pay OP&F contributions in monthly payments under Sub. S.B. 340. The bill specifies that payment would be due on the last day of the month after the month for which police and firefighter employee contributions were withheld. Sub. S.B. 340 would transition employer contributions due between the effective date of the bill and 90 days after to be remitted to OP&F in 1/3 installments on December 31, of 2013, 2014, and 2015.

Currently, employers are required to submit the annual employer contributions under §742.33 (Police Officers) and §742.34 (Firefighters) in quarterly installments on dates set by the OP&F Board of Trustees. H.B. 642 (eff. 11/5/1965) scheduled the remittance of employer contributions to OP&F on a quarterly basis. Since 1965, the Board has coordinated the quarterly remittance of employer contributions among hundreds of employers to OP&F.

The bill's proposed change from a quarterly employer remittance schedule to a monthly employer remittance schedule is to increase the cash flow in the OP&F fund. While the bill does not change the employer contribution rate, the monthly installments would allow OP&F access to the employer contributions sooner and enable them to use the cash flow for investments and liabilities. Sub. S.B. 340 would provide OP&F employers 90 days to transition to the monthly payment schedule to prevent OP&F employers from paying on the old quarterly schedule and new monthly schedule in the same month. OP&F employers would be able to remit employer contributions for the 90-day period to OP&F in three installments due at the end of the year for years 2013, 2014, and 2015. This schedule would avoid financially burdening police and fire departments moving to the new remittance schedule.

Eligibility: Age & Service – (R.C. §742.37, §742.161 Section 4) Sub. S.B. 340 would increase the retirement age to age 52 and provide an actuarially reduced retirement benefit at age 48 with 25 YOS for members who begin service on or after 7/2/2013. Sub. S.B. 340 would allow the board, in consultation with the OP&F actuary, to increase and/or decrease the age and service requirements in accordance to the rules adopted by the board not earlier than 11/1/2017 and thereafter, following each quinquennial actuarial investigation. The age and service requirements may be adjusted on the basis that it is necessary to preserve the fiscal integrity of the fund. Sub. S.B. 340 would delay the board's authority for 180 days after the effective date of the bill, January 7, 2013.

Currently, to retire from active service for a full retirement benefit, a member may elect to retire at 48 years of age with 25 YOS. After 15 YOS, a member of the fund may retire and receive a reduced benefit calculated with a lower benefit multiplier. Pension payments do not commence until the member reaches age 48 year and 25 years have passed from the start of the member's service. Members are also eligible to retire after 15 YOS at age 62, calculated at the normal service benefit multiplier.

Sub. S.B. 340 – Sens. Niehaus/Kearney

S.B. 340	Members prior to 7/2/2013	New Members as of 7/2/2013 & after
Normal Retirement	• Age 48 with 25 or more YOS • Age 62 with 15 or more YOS	• Age 52 with 25 or more YOS • Age 62 with 15 or more YOS
Early Retirement (normal benefit reduced)	15 YOS. Pension payments not to begin until age 48 & 25 years passed since service began	15 YOS. Pension payments not to begin until age 52 & 25 years passed since service began Age 48 with 25 YOS reduced to the actuarial equivalent had the member retired at age 52

Age and service retirement eligibility has been infrequently changed since H.B. 642 (eff. 11/1/1965), which set the normal service retirement eligibility to age 52 with 25 YOS. It gave members the option to retire at age 48 with 25 YOS and receive a reduced benefit. It established an early retirement after 15 YOS, with the reduced benefit not to commence until the member reached age 52 and after 25 years had passed since the member began service. S.B. 137 (eff. 6/28/1972) allowed members to retire after 15 YOS at age 62 and receive a pension calculated at the normal service benefit multiplier. Am. Sub. H.B. 389 (eff. 9/9/1988) eliminated the reduced benefit at age 48 and lowered the normal service retirement eligibility to age 48 with 25 YOS for a full pension benefit.

Sub. S.B. 340 would increase the normal service retirement age to 52 and would offer new members an actuarially reduced retirement benefit at age 48. Under Sub. S.B. 340, the OP&F board would be authorized to make adjustments after the completion of the five year actuarial valuation in order to preserve the fiscal integrity of the fund. This provision would enable OP&F to increase retirement eligibility should the fund's fiscal integrity erode and decrease retirement eligibility should the fiscal integrity of the fund improve. Extending the retirement eligibility would provide OP&F with at least four more years of employee contributions at a higher rate, which would boost the solvency of the OP&F fund. Increasing the retirement age would also extend the DROP entry and separation age. Delaying retirement for members would permit OP&F to save on expenses for retiree health care coverage. Since employees receive health care coverage through their employer, requiring future and current members to work longer would reduce the amount of time OP&F would need to provide health care coverage for retirees.

Sub. S.B. 340 would authorize the OP&F board to address the fiscal integrity of the fund by adjusting retirement eligibility independent of legislative approval. Consulting with the board's actuary and relying on the five year actuarial valuation would be prudent practice; however, Sub. S.B. 340 neither requires the OP&F board to make adjustments to retirement eligibility on the basis of the five-year actuarial valuation nor requires adjustments on the basis of meeting the statutory 30-year amortization period. Rather, the provision is permissive, merely allowing the OP&F board to determine whether an adjustment is necessary to "preserve the fund's fiscal integrity" after the five year actuarial valuation. Sub.

Sub. S.B. 340 – Sens. Niehaus/Kearney

S.B. 340 does not define "fiscal integrity" and would permit the OP&F board to wholly craft and interpret its own definition.

The delegation of authority would provide the OP&F board with a power historically reserved for the legislature. Although the board's authority is not functional until 11/1/2017 and the bill delays the board's authority by 180 days after the effective date of 1/7/2013, the bill does not allow the ORSC to determine the appropriate division of authority between the board and the Legislature and ensure consistency among all five statewide retirement systems. Moreover, the OP&F board authority provision does not prescribe any parameters regarding the age and service eligibility and does not provide any process for members to comment or mechanism for oversight and/or transparency.

Board authority to change retirement eligibility would, indeed, have considerable consequences for the OP&F membership. Adjusting age and service eligibility to meet funding levels would have a far greater impact on an OP&F member than requiring a higher rate of employee contributions or reducing the COLA. Increasing contributions equates to requiring a member save more for retirement to ensure the viability of the pension. However, adjusting the retirement age and service credit eligibility is a unique means to address funding because it determines a member's life plan. This would create instability and uncertainty as to how long members must work to reach retirement eligibility.

The PTA/KMS Report on 30 year Plans and Pension reform noted that the OP&F plan did not satisfy both the 30-year pension funding plan and long-term health care solvency. With no room for any adverse experience, OP&F would have to take action immediately to exercise the board authority and make additional changes to the plan. Again, we note no such provision in this bill requires the OP&F board to take action with the authority granted by Sub. Sub. 340. As such, current and future members would have to work longer to finance current retirees and grandfathered members. Future decisions made by the board to increase retirement eligibility and employee contributions could create resentment among the board and between current retirees, grandfathered, non-grandfathered and future members.

Therefore, we recommend removing the board authority language and study further to ensure legislative oversight of future changes or develop with appropriate language to add safeguards to the board's ability to solely determine retirement eligibility.

Average Annual Salary; Salary Benchmark - (R.C. §742.01(G), §742.012, §742.37 (C)(1)-(4), §742.39 (A)) For all new members and members with less than 15 years of service as of 7/2/2013, Sub. S.B. 340 would calculate the average annual salary with the highest five years of salary, divided by five. The bill would continue to use three years for the average annual salary calculation for members with 15 YOS as of 7/2/2013. The calculation would apply to normal, early and reduced benefit calculations. Sub. S.B. 340 would not change the benefit multipliers used in the calculation.

For members with 15 or more YOS as of 7/2/2013, Sub. S.B. 340 would establish a salary benchmark as an anti-spiking measure that would cap salary increases in the final three years prior to a member's retirement. The bill would set the salary benchmark by averaging three years of annual salary earned for the three-year period prior to the immediate three-year period before a member's date of retirement. The average salary for the three-year period before the final three years would be limited to an annual 10% increase by multiplying the three-year average by 110% for each of the final three years. Salary that exceeds the benchmark would be refunded and would not be used in the annual average salary calculation. To date, there is no anti-spiking provision in Chapter 742.

S.B. 340 §742.01 (G)	**Members w/ 15 years or more Service as of 7/2/2013**	**New Members & Members w/ less than 15 years of service as of 7/2/2013**
Average Annual Salary Calculation	Average: Highest 3 years of salary combined & divided by 3 Salary Benchmark: Limits increases in Final 3 years to 10% increase per year	Average: Highest 5 years of salary combined & divided by 5

Sub. S.B. 137 (eff. 6/28/1972) established the average annual salary provision in §742.01, which calculated the average by combining the highest five years of compensation, divided by five to set the average annual salary. The current calculation was set by Sub. S.B. 48 (eff. 1/1/1974), which reduced the number to three years of annual compensation, combined and divided by 3 to set the annual average salary. Am. Sub. H.B. 721 (eff. 7/24/1986) substituted the term "compensation" for "salary" and added separate subsections to define which payments could be included as salary for the purpose of calculating the annual average salary. These sections were added to eliminate payments for various types of leave, holiday pay, longevity pay, deferred overtime and pay for services not within a member's scope of employment.

The bill's proposed changes to the annual average salary provision and addition of a salary benchmark is an effort to limit abnormal salary increases in the final years of a member's career. Salary spiking generally results from promotions to higher paying positions that occur at the end of a member's career. These spiked years distort a member's annual average salary. The skewed average annual salary sets a lifetime benefit that is disproportional to the member's low career contributions, which creates a fiscal deficit in the pension system. Over time, the fiscal shortfall between a member's career contributions and lifetime benefit is exacerbated. The additional two years of salary would help counterbalance salary spikes and reduce its effectiveness by about half. Limiting the final three years of salary to annual incremental increases of 10%, based upon the average of the prior three years, would limit the amount of salary recognized in the annual average salary calculation.

Increasing the years in the average to five years of salary would reduce the effects of salary spiking, but it would not prevent the practice from continuing. Second, the salary benchmark only applies to members with 15 or more YOS as of 7/2/2013 and in 10 years, this provision would be inapplicable to OP&F members. Moreover, working longer would easily neutralize the salary benchmark's effectiveness. The benchmark presumes a member's spike will occur in the final three YOS. To thwart its effects, the member need only work a couple of years longer for the abnormal increase in salary to fall within the three-year period that sets the salary average for the benchmark. The spiked salary year would inflate the average used for the salary benchmark and the 10% increase cap would be applied to the exaggerated salary benchmark and rendered ineffective.

Therefore, we recommend a contribution-based anti-spiking measure be adopted, similar to that established under Sub. S.B. 343 (OPERS, Pension Reform). We further recommend the salary benchmark provision be applied equally to all members.

Definitions – Salary, Terminal Pay, Overtime – (R.C. §742.01(K), (K)(3), (L)(1)) Sub. S.B. 340 would change the definition of "salary" to include overtime pay that is included in the payroll for the period in which the overtime worked or the payroll for any period up to 60 days after the overtime is worked. Sub. S.B. 340 would change overtime pay that is not paid prior to 60 days after the overtime work is performed to "terminal pay." The bill would allow terminal pay payments to be made before or at the time of termination. Further, the bill would allow the board to independently define what constitutes "salary" and "terminal pay." Sub. S.B. 340 would allow the board to set the definitions of "salary" and "terminal pay" on the elements of the compensation provisions in the IRC and from W2 federal income tax forms. The bill would permit the definitions to be distinctive from the statutory meaning found in §742.01 (K) & (L) of the Ohio Revised Code (O.R.C.).

Currently, "salary" includes overtime pay that is earned in the payroll period or the subsequent payroll period for which the overtime work was completed. "Salary" is defined as all compensation, wages, and other earnings paid to an employee by reason of employment. "Salary" does not include terminal pay. "Terminal pay" includes overtime pay that is not paid in the payroll period or the payroll period after the overtime work has been completed. "Terminal pay" is pay made on termination of employment for unused types of leave, such as sick, vacation, personal, and compensatory time. Pay for services rendered outside of a member's regular employment such as pay deferred for over one year in compensation to the employee for holidays worked or for longevity is also "terminal pay."

Am. Sub. H.B. 721 (eff. 7/24/1986) added the sections "terminal pay" and "salary" to classify the various types of pay members receive. "Salary" listed the types of pay that were not considered salary. On the other hand, "terminal pay" is used as the catchall, including payments and earnings not considered compensation, such as various types of leave, holiday, longevity, deferred overtime and pay for services not within a member's scope of employment. Various amendments were added to define what was not "salary" until Am. Sub. H.B. 382 (eff. 6/30/91) defined "salary" to mean all compensation, wages, and other earnings paid to an employee by reason of employment, without regard to deferred income for federal income tax purposes. "Salary" also included overtime pay that was paid to a member not later than the payroll or the payroll after the overtime was worked. Overtime paid later than the payroll or the payroll after the overtime was worked was included as "terminal pay." The bill also granted power to the board to set by rule what pay was to be included as "salary."

These provisions hold great significance because of their role in calculating the final pension benefit. A member's final pension benefit is calculated by multiplying the member's annual average salary by a pension multiplier, which is determined on the basis of a member's YOS. All pay that qualifies as "salary" would be included in determining the annual average salary. Sub. S.B. 340 expands the definition of "salary" by including overtime pay that is paid up to 60 days after the overtime work was completed. These payments would be factors in determining a member's annual average salary.

Sub. S.B. 340 would allow the OP&F board to define "salary" on the basis of W2 federal income tax forms and elements of the compensation provisions in the IRC. The bill would permit the definitions to be different from the statutory meaning held in the Ohio Revised Code (ORC). When filing federal income taxes, a tax filer must list all wages, tips and compensation as "income" on the W2 federal income tax form. "Salary" could encompass far more pay than is currently qualified depending upon which elements of compensation the board could choose from within the IRC. The ORC definition of "salary" excludes compensation outside the scope of employment, reimbursement pay, terminal pay and pay for various leave. However, if the board chose to use a broader definition of compensation, aspects of "terminal pay," such as certain overtime pay and pay for leave could be included as "salary." Using unspecified components of the federal definition, along with expanding the time to receive overtime pay used in the "salary" calculation, could expand eligible pay as "salary" used in the annual average salary calculation.

Expanding the scope of "salary" and time period for overtime pay to be included as "salary" only counteracts and frustrates the efforts of increasing the annual average salary to five years to prevent salary spiking. As noted above, when salary spiking occurs, the retirement system is forced to pay out high retirement benefits that exceed a member's low career contributions to the retirement system. Over time, the shortfall between a member's career contributions and lifetime benefit is exacerbated. Expanding the definition of "salary" to encompass more types of pay will only amplify a member's annual salary and average annual salary. Members would be able to spike salaries since more pay would be considered "salary." This is counterproductive to anti-spiking efforts and the proposed five-year annual average salary.

Therefore, we recommend removing language that gives the board authority to set the definition of "salary" and "terminal pay" and remove language increasing the time period overtime can be paid and still counted as "salary."

Cost of Living Allowance – (R.C. §742.3716) Sub. S.B. 340 would change the COLA to be the lesser of the Consumer Price Index (CPI-W) or 3% for members as of 7/2/2013 that have less than 15 YOS. The bill would keep the COLA at 3% for members that have 15 or more

YOS on or before 7/1/2013. Sub. S.B. 340 would codify the CPI-W as the index prepared by U.S. Department of Labor, the U.S. City Average for Urban Wage Earners and Clerical Workers, or a generally comparable index if the CPI-W were no longer published. The bill would require all members and current retirees to be age 55 to be eligible a COLA after receiving a pension for at least one year. But, disability recipients would remain eligible for a COLA after one year of receiving a benefit, with no age requirement.

Currently, a 3% COLA is granted to retirees that have been receiving a pension for at least one year, with no minimum age. After the first COLA is granted 12 months after the member has been receiving a pension, the pension benefit used in the first calculation of an increase remains the base for the annual increase.

H.B. 215 (eff. 11/25/69) granted the first benefit increase with an *ad hoc* adjustment for retirees and disability recipients receiving a benefit prior to 1/1/67, and reached age 65 by 1/1/70. The first increase was 10% of an eligible member's benefit. It also provided *ad hoc* adjustments for survivors prior to 12/31/1969. OP&F continued to provide *ad hoc* adjustments to the benefit of retirees, survivor and disability recipients to keep up with inflation. OP&F made *ad hoc* adjustments on a flat dollar basis until H.B. 721 (eff. 7/24/86), which granted a 3% increase in any year the CPI-W increased 3%. H.B. 365 (eff. 9/9/1996) created the COLA bank. This authorized the board to issue a COLA equal to the actual change in the CPI-W, up to 3%, and to apply any accumulation over 3% to the recipient's COLA in any year in which the percentage change in the CPI-W is less than 3%. The COLA bank was eliminated by H.B. 157 (eff. 2/1/2002) and changed the COLA to a flat 3% increase.

For the pension and health care funds, modest adjustments to the COLA would create long-term financial gains. The COLA provision is consistent with the PTA/KMS Report on 30-Year Plans and Pension Reform to the ORSC. The PTA/KMS report found that 40% of the present value of future benefits is due to currently retired and inactive members. Delaying the COLA until age 55 would save nearly $900 million and create long-term gains. However, by limiting most of the changes to future members and current members with less than 15 YOS by 7/2/2013, OP&F would miss an opportunity to maximize financial gains and would leave savings on the table. Tying the COLA to the CPI-W would make adjustments to the pension consistent with the actual rate of inflation. Historically, the CPI-W has been higher than 3% COLA, as the 30-year CPI-W is 4%. However, in the most recent 10-year experience, the COLA has been far greater than the CPI-W and retirees have been receiving a COLA higher than inflation. The COLA provisions are consistent with current and past ORSC recommendations.

We recommend including language that clarifies COLAs granted after the effective date of the bill are not vested.

Disability – (R.C. §742.38) Sub. S.B. 340 would require a member's partial disability be "permanent" to be eligible for a disability benefit. The bill would apply the permanent partial disability clause to disabilities caused by the performance of official duties and to those not caused or not incurred within the performance of a member's official duties. The bill would require a member to be permanently disabled as a result of heart disease or any cardiovascular or respiratory disease of a chronic nature to be eligible for a benefit. Sub. S.B. 340 would independently allow the board to waive the requirement that the disease was not documented by a physical examination. The board, by rule, may accept specified competent medical evidence that the disease was or was not evident prior to service with a police or fire department.

The current law states that a member can receive a partial disability award from an injury or illness incurred within a member's official duties or from an injury or illness not caused by the performance of a member's official duties. The partial disability standard is an injury or illness that must prevent the member from performing their official duties and impairs the member's earning capacity. To evaluate this standard for a disability application, a disinterested physician and vocational evaluator will examine the illness or injury in relation to member's defined occupational duties. A written report summarizing the findings and medical opinions is submitted to the Board for final determination. This standard is applicable for a member of the fund who is suffering from heart disease or any cardiovascular or respiratory disease of a chronic nature. However, the heart disease or any cardiovascular or respiratory disease of a chronic nature must not have been revealed in the physical examination required on entry to a police or fire department. The reasoning being that the condition is presumed to have developed during service if it was not detected prior to commencing service as a police officer or firefighter.

Sub. H.B. 648 (eff. 9/16/1998) adopted recommendations from the comprehensive Mercer disability study, which strengthened disability standards in OP&F. The bill required the board to adopt objective criteria to administer its disability process to provide greater uniformity throughout the retirement systems. The bill separated the disability standards from the retirement eligibility section and codified the disability rules used to administer the process in §742.38. Among the disability provisions implemented, the board adopted statewide minimum standards for physical examinations for prospective members, which included an evaluation of the existence of any heart disease or cardiovascular or respiratory disease of a chronic nature. It also carried penalties for employers that did not comply with and incorporate the standards in the physical examination. It also prescribed fines for employers that did not provide the board with the report 30 days after the prospective member's examination. This provision was adopted to assist OP&F in determining which disabilities were developed on-duty and which existed prior to service.

Sub. S.B. 340 would allow the board and the member to use other evidence in the disability application process, beyond a traditional physical examination, to prove that a member's disease was or was not present at the time of entry into a department. The bill would codify the board's ability to use different medical tests from doctors, cardiologists and respiratory specialists to determine if the member had the condition prior to service. Medical conditions often require multiple opinions to provide an accurate diagnosis, which the bill appropriate recognizes; however, expanding the types of tests and competent medical evidence for the disability application process will erode uniformity in the disability process, potentially leading to "doctor shopping" for test results. The effect of this provision would be negligible due to the fact that the board has final say in determining disability. But we find the expansion of eligible types of evidence could lead to a scenario in which the legitimacy of certain medical tests that produce conflicting evidence is challenged.

Nonetheless, Sub. S.B. 340 would strengthen the disability standard by requiring partial disabilities to also be permanent. The section defines "permanently disabled" as a condition of disability from which there is no present indication of recovery. Under the partial disability standard, a member need only suffer injury or illness, which prevents them from performing their official duties and impairs their earning capacity. By adding "permanent" to the partial disability standard, it would therefore require a member's injury or illness to be such that it prevents them from performing their duties, impairs the member's earning capacity and also have no present indication of recovery. This would set a stricter standard and if there was any indication of recovery, a member would not be eligible for a disability benefit.

Deferred Retirement Option Program – (R.C. §742.3716 (E), §742.443, §742.444) Sub. S.B. 340 would eliminate the COLA for members that elect to participate in the DROP on or after 7/2/2013. For members in the DROP prior to 7/2/2013, the bill would defer the COLA until the member was age 55 with one full YOS in the DROP. Sub. S.B. 340 would change the accrual schedule for a member that elects to participate in the DROP on or after 7/2/2013. The bill would allow a member to accrue 50% of their contributions from the start of DROP up to three years; accrue 75% for years four and five; and accrue 100% of their contributions for the years after, up to eight years. For members who elect to participate in DROP on or after 7/2/2013, Sub. S.B. 340 would increase the minimum participation time to five full years of service in DROP to receive the accrued interest on member contributions. Otherwise, the bill provides a member would forfeit the entire accrued interest if service were terminated prior to completing five full years in DROP. For members that elect to participate in the DROP prior to 7/2/2013, three full years is the minimum participation time to receive the entire accrued interest.

Currently, a DROP member is eligible to receive the flat 3% COLA after one year of receiving a pension. In DROP, 50% of a member's contributions accrue to their benefit during the first two years of participation. The member accrues 75% of their contributions in the third year of participation and 100% of contributions thereafter until separation. A member is eligible to receive all accrued interest on member contributions during DROP after three full years of participation.

The adjustments to the DROP would capture more employee contributions due to the expansion of years of reduced member accruals and due to delaying the minimum time to five years to receive the full accrual with interest. The adjustments would allow OP&F to maintain the incentives of DROP while incurring financial gains from these provisions. Eliminating the COLA from the DROP for future members, in tandem with the deferral until age 55 for current members, would increase savings to the fund.

Sub. S.B. 340 – Sens. Niehaus/Kearney

Sub. S.B. 340 would increase retirement eligibility to age 52, which would increase the entry and exit age in DROP. Under the bill, DROP members that participate for the entire duration of DROP would be age 60 by the end of service. OP&F members must maintain rigorous fitness standards and be able perform all the require duties of either a police officer or a firefighter. However, the provision raises the concern that the disability rate could still increase among older OP&F members. The physical demands of policing and firefighting are tremendous and do not become easier with age, regardless of fitness standards. Thus, close attention should paid if rates begin to rise, which would nullify any savings from requiring members to serve longer.

OP&F Reports – (R.C. §171.04, §742.14, §742.16, §742.30, §742.45) Sub. S.B. 340 would require the actuarial valuation to be completed every three years, which determines the amortization period for the pension's accrued liabilities and the accounting of the health care fund. The bill would remove the requirement that OP&F report in any year the amortization period falls outside the 30-year amortization requirement to match the triennial reporting schedule. The bill would no longer require OP&F to report biennially during the first regular session of the General Assembly (GA). Sub. S.B. 340 would allow OP&F to update the GA every three years on the status of the pension fund and employer's accrued liability.

Current law states that OP&F must conduct and submit an independent annual actuarial valuation that measures actuarial assumptions and methods, the adequacy of contribution rates to amortize the unfunded actuarial pension liability. A full accounting of the revenues, costs, liabilities and benefits of the health care is also required annually. Also if in any year, the time period to amortize the pension fund is greater than the 30-year amortization requirement, OP&F must complete and submit a new plan that can amortize the liabilities within the 30-year period. This schedule is consistent with all of Ohio's public pension funds. OP&F reports to each new GA during the first regular session to update the new assembly. The report to the GA is a presentation on the condition of the OP&F pension fund. OP&F briefs the GA on the ability to pay the employer's accrued liability and makes recommendations, after consultation with their actuary, as it considers necessary to properly fund employer liabilities.

The actuarial valuation and health care reports are vital to the sustainability of the pension fund. They provide an in depth diagnosis of the fund's actuarial assumptions, amortization period for accrued liabilities and the sustainability of the benefit structure. While pension plans must be looked at on a long-term basis, annual reports are useful to scrutinize the components of the plan to test, identify and rectify any issues. Inconsistency in a single element can upset broader assumptions upon which pensions rely. Issues that arise in any given year, such as a severe negative fiscal experience, would go unaddressed and thus would become intensified by the time the pension is evaluated. Finally, the triennial reporting cycle is inconsistent with the annual reporting cycle of the four other Ohio public pension systems.

The biennial report to the new GA in the first full session is intended to update legislators on the pension liabilities the State has guaranteed public employees. The report details the employer's contribution rate and the employer's funding policy to pay off the accrued liabilities. The GA is seated every two years and a triennial reporting cycle would bypass a full GA. Moving the report to every three years might increase efficiency for OP&F but it would undermine public transparency and the GA's ability to provide pension oversight as to the funding policy toward their accrued liabilities. Reporting to the GA to ensure appropriate funding and solvency is imperative since the State is ultimately liable for the pensions guaranteed to Ohio's public employees.

We recommend removing the provision that allows OP&F to complete the actuarial valuation every three years instead of annually. We recommend removing the requirement that OP&F report to the GA regarding their accrued liability every three years instead of every two years in the first full session of the GA.

Membership – (R.C. §742.01 (E)) Sub. S.B. 340 would allow members of the Ohio National Guard, Ohio military reserve, Ohio naval militia or a reserve component of the armed forces who are called to service by an Executive Order from the President or Act of Congress, to be considered members of the fund for the duration of active military service.

Currently, members of OP&F must contribute a percentage of annual salary to the fund or be receiving a disability or pension benefit as a result of service in a police or fire department. Persons that are separated from service in a police or fire department will remain a member of the fund for a period of 12 months provided the sum of contributions deducted from a person's salary remains on deposit with the fund.

This provision in Sub. S.B. 340 is necessary to comply with federal law. The bill authorizes service members who are called to active service to remain as "members of the fund" for the duration of their deployment. The current language would technically remove OP&F members deployed to active service for longer than 12 months. This would have unintended and adverse consequences for OP&F members called to serve their country. Sub. S.B. 340's provision recognizes that military service deployments often last longer than 12 months. This would accommodate numerous OP&F members who are also members of the armed services in the event they are deployed longer than 12 months.

Fiscal Impact – The OP&F actuary, Buck Consultants, determined that Sub. S.B. 340's proposed changes would enable the pension fund to reduce its liabilities by $3.2 billion and amortize the pension in 30 years. The pension would move from 72.8% funded position to a funded position of 76.8%. The savings in Sub. S.B. 340 would allow OP&F to contribute 10.42% to the unfunded accrued liability (UAL). On top of the changes proposed in this bill, the contribution rate to the Health Care Stabilization Fund would be reduced to 4.69% and would be projected solvent by year 2027.

The PTA/KMS report found that 40% of the present value of future benefits is due to currently retired and inactive members. Delaying the COLA until age 55 and eliminating the COLA from DROP would combine to produce the largest cost savings. According to the OP&F actuary, the COLA changes would save nearly $1.3 billion and it would continue to generate long-term gains. Prior to the passage of Sub. S.B. 340, the DROP interest rate was changed from 5% to the 10-year Treasury rate, capped at 5%. According to the OP&F actuary, the switch to the 10-year Treasury rate, currently at historic lows, has provided $17 million in savings to date.

Staff Recommendation

The staff recommends the Ohio Retirement Study Council vote to recommend that the 129th General Assembly vote to approve Sub. S.B. 340 with the following amendments:

- *Remove the provision that allows OP&F to complete the actuarial valuation every three years instead of annually. Remove the requirement that OP&F report to the General Assembly regarding their accrued liability every three years instead of every two years in the first full session;*

- *Adopt a contribution-based anti-spiking measure, similar to that established under Sub. S.B. 343 (OPERS, Pension Reform). We further recommend the salary benchmark provision be applied equally to all members;*

- *Include language that states COLAs granted after effective date of bill are not vested;*

- *Remove the board authority provisions and allow the ORSC to study further to ensure legislative oversight of future changes or to develop with appropriate language to add safeguards to the board's ability to determine employee contributions and retirement eligibility without legislative input;*

- *Remove language that gives the board authority to set the definition of "salary" and "terminal pay" and remove language increasing the time period overtime can be paid and still counted as "salary."*

At it's meeting on September 10, 2012, the Ohio Retirement Study Council voted to accept the Staff recommendations.

Effective Date

Effective January 7, 2013

Sub. S.B. 341 – Sens. Niehaus/Kearney

Sub. S.B. 341 makes the following changes to the laws governing the School Employees Retirement System (SERS) in order to ensure the continued solvency of the retirement system:

- Increase retirement eligibility for members with less than 25 Years of Service (YOS) as of 8-1-17 or those who do not pay the actuarial difference. (R.C. §§ 3309. 34, 3309.36)

- Give the board the authority to adjust retirement eligibility requirements. (R.C. §3309.34)

- Eliminate the alternative benefit calculation. (R.C. § 3309.38)

- Require a member who had been on a disability leave of absence and returns to public service for two years to purchase that service instead of receive it at no cost to the member. (R.C. §§3309.41, 3309.47)

- Make changes to the amount transferred to STRS and OPERS when a member retires from either of those systems. (R.C. §3309.35)

- Make changes to the disability program. (R.C. §§3309.35, 3309.39, 3309.392, 3309.41)

- Give the board authority to establish health care coverage. (R.C. §3309.69)

- Provide for disqualification of beneficiary if deceased or not located within 180 days. (R.C. §3309.41)

- Make changes to definition of "dependent child". (R.C. §3309.45)

- Make certain changes to board members' terms, requirements to serve on board and reimbursement. (R.C. §§3309.05, 3309.051, 3309.10)

- Make changes to certain filings that must be made regarding board elections. (R.C. §§3309.061, 3309.072, 3309.074)

- Require board's consultant to comply with global performance standards established by the Chartered Financial Analyst Institute. (R.C. §3309.15)

- Include a member's email address in the definition of "personal history record" and allow a member to request a copy of his or her own medical report or recommendations. (R.C. §§3309.22, 3309.28)

- Require the employer rather than the member to file a detailed statement of the employee's personal information and prior public employment. (R.C. §3309.28)

Sub. S.B. 341 – Sens. Niehaus/Kearney

- Change the penalty for an employer's failure to file certain reports and transmit employee contributions. (R.C. §3309.571)
- Make permissive rather than mandatory, the language requiring SERS to establish a Defined Contribution Plan. (R.C. §3309.81)
- Make the effective date of all sections except the provision that allows the board to change retirement eligibility requirements January 7, 2013. (Section 3)
- Make the effective date of the provision that allows the board to change retirement eligibility requirements 180 days after the effective date of the bill. (Section 4)
- Require the ORSC to study and make recommendations, within 90 days of the effective date of the bill, regarding the board's authority to adjust retirement eligibility requirements. (Section 5)

Background

Pursuant to Senate Bill (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 Ohio Retirement Study Council (ORSC) and the standing committees of the Ohio House of Representatives and Senate with primary responsibility for pension legislation a plan approved by the retirement board that reduces the funding period to no more than 30 years, along with any progress made by the board in meeting the 30-year funding period. This standard was modeled after the national standard adopted by the Governmental Accounting Standards Board for all governmental pension plans. The change was intended to maintain inter-generational equity among taxpayers and system members by limiting the ability to fund benefit costs by extending the funding period beyond 30 years.

In 2003, the ORSC voted to have its actuary, Milliman USA, review the adequacy of the contribution rates in all five retirement systems. That report, which was updated in 2004, generally concluded that in the case of the Ohio Police and Fire Pension Fund (OP&F) and the State Teachers Retirement System (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.

Given the severe decline in investment market values since the end of fiscal year 2008 and the need to begin evaluating options to address this situation proactively, the Council approved a motion to have staff work with OP&F on December 10, 2008, on March 11, 2009, with STRS, and with PERS, SERS, and HPRS on April 8, 2009. All five systems, in consultation with the ORSC, developed legislative proposals that would reduce their unfunded actuarial accrued liability periods.

Sub. S.B. 341 – Sens. Niehaus/Kearney

STRS, SERS, OP&F, and HPRS presented their board-approved funding plans at the September 9, 2009, ORSC meeting. PERS presented its board-approved plan at the December 9, 2009, ORSC meeting. Both STRS and OP&F presented updated plans in early 2011. Sub. S.B. 341 contains the SERS board approved plan.

In 2011, the ORSC hired Pension Trustee Advisors and KMS Actuaries (PTA/KMS) to complete a review of the boards' plans and make recommendations related to pension reform. PTA/KMS presented its review at the July 11, 2012, ORSC meeting. They found that the plans are a positive step and will, generally, enable the majority of systems to meet the 30-year maximum funding period while providing reasonable health care benefits at no increased cost to taxpayers.

Staff Comments

Retirement Eligibility – (R.C. §§ 3309.34, 3309.36, Section 5) In 2008, SERS law was amended to increase the retirement age and YOS needed for SERS members whose membership began on or after May 8, 2017 (S.B. 148; eff. 5-8-17). Sub. S.B. 341 changes retirement eligibility for all members with less than 25 YOS as of August 1, 2017. However, the bill provides a member who has less than 25 YOS as of August 1, 2017, the opportunity to retire under the current plan if the member pays the actuarial difference between the two plans.

	Current Law – Member Prior to 5-8-08	Current Law – Member On or After 5-8-08	Sub. S.B. 341
Normal Retirement (no reduction)	Age 65 with 5 or more years of service Any age with 30 or more years of service	Age 65 with 10 or more years of service Age 55 with 30 or more years of service	Age 67 with 10 or more years of service Age 57 with 30 or more years of service
Early Retirement (normal benefit reduced)	Age 60 with 5 or more years of service Age 55 with 25 or more years of service	Age 62 with 10 years of service Age 60 with 25 years of service	Age 62 with 10 years of service Age 60 with 25 years of service
Early Retirement Reduction	3-25% set by statute	Actuarially reduced from less of age 65 or age member would reach 30 YOS w/ max reductions for retirement w/ 25 YOS	Actuarially reduced from less of age 67 or age member would reach 30 YOS w/ max reductions for retirement w/ 25 YOS

The bill also increases the minimum age required to participate in an early retirement incentive plan to age 57 from age 50 for pre-5-8-08 members and age 55 for those whose membership began on or after 5-8-08. This change is consistent with the increase in the minimum retirement age.

Additionally, the bill requires the board to evaluate the retirement eligibility requirements and the actuarial reduction factors every five years instead of every 10 years.

As part of the report of the Joint Legislative Committee to Study Ohio's Public Retirement Plans (JLC) dated December 11, 1996, three of the recommendations included therein, but not acted upon by the legislature, were (1) that the normal retirement age of 65 should be increased in tandem with Social Security for PERS, STRS, and SERS, the 30-year service requirement should be increased at the same rate, and benefits prior to normal retirement age or service should be reduced; (2) the normal retirement age in the uniformed employee systems should be increased from 48 to 52 with a four-year phase-in and benefits prior to normal retirement age should be reduced; and (3) the statutory reduction rates for early retirement should be repealed and reduction rates for early retirement should be determined on an actuarial basis in all five systems. These recommendations were made in response to the 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.

The above provisions are generally consistent with the recommendations from the 1996 JLC report, the 2004 Milliman report, and the 2012 PTA/KMS report.

As part of the board's requirement to evaluate its retirement eligibility requirements every five years, the bill would give the board the authority to adjust the eligibility requirements if the board's actuary determines that an adjustment is necessary to ensure the system meets the 30-year amortization period required by statute. The bill would set no limits nor provide for any legislative oversight of the changes, which is a cause for concern.

Current law provides the board with certain discretionary powers. For example, the board has discretion to set the employee contribution rate within a limited range of 8–10%. Any increase above 10% requires legislative approval. This gives the board the ability to make some changes within a set of legislatively-approved parameters. It also provides for transparency by ensuring public hearings and the opportunity for public input during the legislative process if the board wants to make changes outside of the established parameters. Without a statutory range, it would be difficult for a member to know what his or her eligibility for retirement could be. Not only is there decreased transparency caused by this provision, there is less of an opportunity for members to weigh in prior to changes as there is no requirement the board hold public hearings.

Another example in current law is the board's authority to establish eligibility for health care coverage. However, health care coverage is different than a pension benefit because health care is a discretionary benefit as opposed to the mandatory nature of the pension obligation. The board needs the flexibility to manage its health care program due to the fact that pensions, by statute, must be funded first and the board is able to fund health care only with money not needed for pensions. Further, the system communicates to its members that they should not have the expectation they will receive health care coverage. There are certain restraints on this provision such as the current requirement that the board reimburse Medicare Part B recipients $45.50 for the monthly premium (Sub. S.B. 341 changes this provision to allow the board to set the rate at not less than $45.50).

While this board authority change gives the board increased authority in one area, it serves to limit their authority in other areas. This is because increasing the retirement eligibility requirements is only one way for the system to comply with the statutorily required 30-year funding period. Other options include decreasing the benefit formula, decreasing or eliminating the Cost of Living Adjustment (COLA), increasing employee and/or employer contribution rates. However, this provision would make increasing retirement eligibility requirements the only option available if the system's actuary determines the funding period exceeds 30 years.

The expanded board authority must be considered in light of the authority given to the boards of the other four statewide retirement systems. The other pension reform bills pending in the legislature provide different board authority for each system. S.B. 340 gives the OP&F board the authority to increase employee contributions and retirement eligibility. S.B. 342 gives the STRS board the authority to make changes to retirement eligibility and the COLA. S.B. 343, on the other hand, gives the OPERS board no authority to make adjustments. Finally, S.B. 345 gives the HPRS board the authority to increase employee contributions within a range of 10-14% and they could increase the COLA up to a maximum of 3%.

The substitute version of the bill requires the ORSC to study and make recommendations, within 90 days of the effective date of the bill, regarding the board's authority to adjust retirement eligibility requirements. This will allow the Council to determine the appropriate division of authority between the board and the Legislature and ensure consistency among all five statewide retirement systems. It also delays the effective date of this section until 180 days after the bill's effective date, which would allow time to implement any ORSC recommended changes.

Alternative Benefit Calculation (R.C. §3309.38) The bill eliminates the commuted service calculation, which is an alternative to the final average salary method of calculating a retirement allowance. This method calculated the benefit as equaling an annuity equal to the employee's accumulated contributions, plus a pension of an equivalent amount, plus an additional amount if the member has prior service, plus $180 for service prior to 10-1-1956 if the member had 10 or more years of service.

Additionally, the bill removes an obsolete provision that allowed a member to receive an additional $40 for each year of prior service.

Purchase of Service Credit – (R.C. §§3309.41, 3309.47) Sub. S.B. 341 allows a member who returns to public service for two years after having received a disability benefit to receive up to two years of service credit free of charge for the period of the disability leave.

If the member was on disability leave more than two years, the member may purchase up to five years of that time by paying both the employee and employer contribution rates in effect at the time the disability benefit commenced, multiplied by the member's annual disability benefit, plus compound interest at a rate established by the board. Current law provides that the member receives full service credit for the entire period of disability at no cost.

Members of SERS are eligible to purchase the following additional types of credit:

Type of Service	Current Purchase Price
Exempted service in OPERS, STRS, or SERS (R.C. §3309.01)	Member salary for 12 months preceding purchase application multiplied by (x) rate established by board
Out-of-state (federal, state, or local) public or private school service and in-state private school service (up to 5 years) (R.C. §3309.31(A))	Member contribution for first year of full-time Ohio service following termination of service to be purchased, plus interest
Out-of-state and federal service that would otherwise be covered by one of the Ohio pension funds; service covered under a municipal retirement system (R.C. §3309.31(B),(C))	Member contribution for first year of full-time Ohio service following termination of service to be purchased, plus interest
Service as school board member (member must retire within90 days after payment) (R.C. §3309.311)	Member pays full actuarial liability resulting from purchase of credit
Early retirement incentive plan (up to 5 years) (R.C. §3309.33)	Employer pays amount equal to full actuarial liability resulting from the purchase of service
Leave of absence; employer failed to deduct member contribution (R.C. §3309.47)	Contributions member would have paid for period of service; employer pays contributions, plus interest
Service while on state temporary disability leave program (R.C. §3309.471)	Member contribution made by employee for first 3 months; member contribution made by employer thereafter
Employer failed to deduct member contributions for employee age 65 or older (R.C. §3309.48)	No cost to member

This bill does not change the purchase price for any of these types of service credit.

Sub. S.B. 341 – Sens. Niehaus/Kearney

In 2007, the ORSC asked its actuary, Milliman, Inc. to complete a report on the cost of purchasing service credit. The report, entitled *Report Regarding Service Purchases Experience of the Five Ohio Retirement Systems During FY Ending 2005* was presented at the March 14, 2007, ORSC meeting. The report revealed that the retirement systems subsidized the purchase of credit in nearly every case in 2005. This was true even for service credit for which the member was required to pay the full actuarial cost. The actuarial cost of service is dependent upon the member's final average salary, years of service, and age at retirement. None of these factors are known until a member retires. Therefore, the true actuarial cost of purchasing service can be known only at retirement. 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.

The purchase of credit creates two types of additional liabilities: pension and health care. Although pension benefits are set by statute and become vested once a member retires, health care is discretionary and, therefore, the additional health care liability will fluctuate as changes are made to the health care plan. As Milliman noted in the report, health care liabilities created by the purchase of service could be eliminated if the purchased service did not count toward eligibility for or the amount of health care benefits.

In response to that report, staff recommended, and the Council approved at the 9-12-2007 ORSC meeting that:

1. The purchase price for all types of service should be the full actuarial liability resulting from the purchase of service credit, except as prohibited by federal law, and members should be required to retire within 90 days of purchasing service.
    - The rationale behind this change would end the current practice whereby all members of the system subsidize a member's purchase of service credit. It is also consistent with recent legislative changes that have required members to pay more of the additional actuarial liability resulting from the purchase of service credit.
2. Purchased credit should be prohibited from being counted for purposes of health care eligibility or subsidy.
    - As noted in the Milliman report, this would eliminate the additional health care liabilities created by the purchase of credit. This could be done by legislation or administrative rule.

This bill is inconsistent with those recommendations because it would not require the member to pay the full additional liability resulting from the purchase of any other type of service credit. *Therefore, we recommend that the bill be amended to require the member to pay the full additional liability resulting from the purchase of all types of service credit and to require the member to retire within 90 days of purchasing the service.*

Disability – (R.C. §§3309.35, 3309.39, 3309.392, 3309.41) The bill keeps the standard for determining whether a member is eligible for disability as whether the member is mentally or physically incapable of performing the duties of the position the member held at the time the disabling condition began or of a position with similar duties. This is known as the “own occupation” standard. The bill changes from “own occupation” to “any occupation” the termination standard for members whose benefit effective date is on or after the effective date of the bill or have been receiving disability benefits for three or more years (up to maximum five years if continued treatment through active case management). The definition of “any occupation” is that the employee is not capable of gainful employment that would replace 75% of Final Average Salary (FAS), that could reasonably be found in the employee’s regional job market, and for which the employee is qualified by experience, education and station in life.

Further, the bill requires the disability recipient to agree to any recommended vocational rehabilitation in addition to the current requirement for additional medical treatment in order to continue receiving the benefit.

Sub. S.B. 341 limits an employer’s duty to reinstate a member to their former job to three years after the disability, *except if the member is on continued treatment, then up to a maximum of five years*. Current law considers a member receiving disability to be on a leave of absence for up to five years and the employer is required to reinstate the member during that time if the member is no longer disabled. Members whose benefit effective date was before the effective date of the bill, would continue to be considered on leave of absence for up to five years.

The bill changes the effective date of a disability benefit to the later of the last day for which compensation was paid or the date on which the member’s most recent application for a disability benefit was filed. Current law provides for the effective date to be the later of the last day for which compensation was paid or the date on which the member was first incapacitated by the disabling condition.

The bill mandates that a member who is granted a disability benefit on or after the effective date of the bill apply within 90 days of the disability benefit being granted for Social Security Disability Insurance (SSDI) if eligible. If the member does not apply, the benefit would be suspended.

The bill excludes disabilities that were the result of a voluntary commission of a felony.

Additionally, in the case of a member who has service credit in SERS and STRS and/or OPERS, the bill provides that the retirement system that will pay the benefit (i.e., the system in which the member had the most YOS) is the system that will determine whether the member qualifies for a disability benefit.

Coordination of Benefits with STRS and OPERS - (R.C. §3309.35) Historically, public employees with service credit in any of the non-uniform systems (OPERS, STRS, SERS) have been able to coordinate their service credit and receive a benefit from the system in which they have earned the most service credit. The coordination occurs at retirement and the system from which the member retires receives twice the member’s accumulated contributions from the other non-uniform system(s) in which the member has earned service credit. This allows for complete portability of service among the non-uniform system.

The bill changes the amount of money transferred to the non-uniform system paying the benefit from a non-uniform system in which the member has earned service credit. Under the bill, the system paying the benefit receives from the system in which service credit was earned the following amount: (1) the amount contributed by the member, or in the case of service credit purchased, the amount paid by the member, that is attributable to the year of service; (2) an amount equal to the lesser of the employer's contributions made on behalf of the member or the amount that would have been contributed by the employer for the service had the member been a member of the system paying the benefit at the time the credit was earn; (3) if applicable, an amount equal to the amount paid on behalf of the member by an employer under R.C. §145.483 (delinquent contributions) and (4) interest compounded annually at the lesser of the actuarial assumption rate of SERS or the system transferring money.

Health Care – (R.C. §3309.69) The bill gives the board the authority to establish eligibility for health care coverage and would clarify that SERS is not required to provide health care coverage. Additionally, the bill authorizes the board to set the reimbursement for the monthly Medicare Part B premium at not less than $45.50. Current law sets the reimbursement for the monthly Medicare Part B premium at $45.50.

Beneficiaries – (R.C. §3309.44) Sub. S.B. 341 provides for the disqualification of a beneficiary if the beneficiary is deceased or is not located within 180 days and would provide that the person next in order of precedence qualifies.

Survivor Benefits – (R.C. §3309.45) The bill changes the requirements for a child to receive survivor benefits for all survivor benefits beginning on or after the effective date of the bill. The new requirements would be the child has never been married and either is under age 19 or, regardless of age, is adjudged physically or mentally incompetent if the incompetence existed prior to the member's death and prior to the child attaining age 19. The requirements for a child who began receiving survivor benefits before the effective date of the bill would remain the same – under age 18 or under age 22 if the child is in school and completing at least two-thirds of the full time requirements or, regardless of age, is adjudged physically or mentally incompetent if the incompetence existed prior to the member's death and prior to the child attaining age 18 or 22 if in school.

Board Members - R.C. §§3309.05, 3309.051, 3309.10) Sub. S.B. 341 provides that any board member remains a member of the board until the member's term ends or the date the member's successor take office, whichever is later. Current law applies only to the investment experts appointed to the board and allows them to remain on the board until a successor is appointed or 60 days, whichever occurs first.

Sub. S.B. 341 – Sens. Niehaus/Kearney

The bill also requires each board member to complete an orientation program within 90 days of beginning board service. Current law requires only newly elected members and individuals appointed to fill a vacancy to complete an orientation program.

Additionally, the bill includes appointed board members in the current prohibition against serving on the board if the member has plead guilty to or been convicted of a violation of R.C. §§102.02 (duty to file ethics disclosure statement), 102.03 (revolving door), 102.04 (compensation or services received other than from employer), 2921.02 (briber), 2921.11 (perjury), 2921.13 (falsification), 2921.31 (obstructing official business), 2921.41 (theft in office), 2921.42, (having unlawful interest in public contract), 2921.43 (soliciting or receiving improper compensation), or 2921.44 (dereliction of duty).

Sub. S.B. 341 also provides that no board member shall be subject to disciplinary action by an employer for an absence from the member's regular employment for service to the board.

It also requires the system to reimburse the board member's employer for any compensation the employer paid to the member for service to the board. Current law requires the system to reimburse the member for any loss of compensation.

Board Elections – (R.C. §§, 3309.061, 3309.072, 3309.074) Sub. S.B. 341 requires any candidate for the board who receives contributions or in-kind contributions of $1,000 or more or who has expenditures of $1,000 or more to file a report with the Secretary of State and to include receipts for expenditures over $25. Currently, candidates must file with the Secretary of State regardless of the amount of contributions they receive and must include a receipt for all expenditures.

Additionally, the bill adds the requirement that each individual, partnership, or other entity that makes an independent expenditure in connection with the candidate's efforts to be elected to file a report with the Secretary of State detailing the expenditures. The report must be filed within 38 days of the candidate taking office.

Sub. S.B. 341 limits the amount of time an elections complaint may be filed to two years after the act or failure to act occurred, except if it was not discovered within the two year period, the complaint must be filed within one year of discovery.

Investments – (R.C. §3309.15) The bill requires the person with whom the board contracts to manage or invest the funds to comply with the global performance standards established by the Chartered Financial Analyst Institute or a successor organization when reporting on the performance of investments.

Records (R.C. §§3309.22, 3309.28) The bill includes a member's email address in the definition of "personal history record" and would allow the board to make records available in printed or electronic formal.

Additionally, it allows an individual to request, in writing, a copy of his or her own medical report or recommendations. Current law makes those records available only to the personal physician, attorney, or authorized agent of the individual concerned and to the board assigned physician.

Reports – (R.C. §3309.28) Sub. S.B. 341 requires the employer rather than the employee to file with the system a detailed statement of the employee's personal information and prior public employment. Additionally, the bill would repeal the penalty (withholding of salary) for an employee's failure to submit the required information.

Employer Penalties – (R.C. §3309.571) The bill changes the penalty for an employer's failure to transmit employee contributions or any amounts due to the Employer's Trust Fund from 6% per year to $100 per day for each day the employer fails to transmit the amount. Additionally, the bill creates penalties for the employer's failure to submit, complete, or correct any payroll information or other report required, except the initial employment record, $100 per day for each day the employer does not submit, complete, or correct the report, up to a maximum of $1,500. In the case of an employer who does not submit the required initial employment record, the bill would establish a penalty of $50 per record for each month the record is not filed, up to a maximum of $300.

Defined Contribution (DC) Plan (R.C. §3309.81) - The bill makes the current language that requires SERS to establish a DC plan discretionary. In 2001, SERS was required to establish an alternative DC plan (S.B. 270; eff. 4-21-00). Alternative 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). These were in response to a staff recommendation included in the JLC final report "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." No alternative DC plan has been established in SERS to date.

According to SERS staff, the SERS board commissioned The Segal Company to statistically verify member interest and identify the costs of implementing a defined contribution plan in 2002. Segal surveyed 10,000 SERS members who had less than five years of service and would be eligible for the DC plan. They found that 1% of new SERS members were interested in a DC option based solely on their own investments and 89% of new members preferred a guaranteed retirement. However, there appeared to be considerable interest in a hybrid plan that combined features of a DB and DC plan (46%). Segal completely outsourced the development and maintenance of the option. According to Segal this would require about $1 million in start-up costs and $1.3 million annually to operate. In February 2003, the SERS board decided that it was not in the best interest of its members to develop a DC option; however, the board requested that staff revisit the studies at a later time, and in the interim, request a language change making the current statute permissive rather than mandatory.

Sub. S.B. 341 – Sens. Niehaus/Kearney

Anti-Spiking Provision – Sub. S.B. 341 does not include a provision limiting the ability of a member to spike their final average salary. Spiking can occur when a member works the majority of his or her public career in a lower paid position, then a few years prior to retirement, the member receives a considerable salary increase by either taking a different job or substantially increasing the number of hours worked. The member's final average salary is then increased out of proportion to the salary he or she received during the majority of their career. An anti-spiking provision is particularly needed in light of the fact that Sub. S.B. 341 does not increase the number of years of service used to determine final average salary. *Therefore, we recommend that the bill be amended to include an anti-spiking provision.*

This would be consistent with the Joint Legislative Committee to Study Public Pensions recommendation made in 1996 to limit disproportional increases in salary prior to retirement. STRS is currently the only retirement system that has a percentage limit on salary increases (H.B. 180; eff. 10-29-91), however, both S.B. 340 (OP&F) and S.B. 343 (OPERS) include anti-spiking provisions.

Cost of Living Allowance (COLA) – Sub. S.B. 341 does not make changes to the COLA. S.B. 343 (OPERS) would provide that any COLA granted after the effective date of that bill are not vested. Currently there is no consensus as to whether COLAs are a vested benefit once granted. This clarification would prevent any future challenge regarding whether COLAs are vested. *Therefore, we recommend that Sub. S.B. 341 be amended to state that COLAs granted after the effective date of the bill are not vested.*

Effective Date – (Sections 3, 4) The effective date of all sections except R.C. §3307.34 (A)(2)(b), which allows the board to change retirement eligibility requirements, would be January 7, 2013. R.C. §3307.34 (A)(2)(b) is effective 180 days after the effective date of the bill.

Ohio Retirement Study Council - (Section 5) The bill requires the ORSC to study and make recommendations regarding the board's authority to adjust retirement eligibility requirements. The ORSC is required to submit its findings and recommendations to the Senate President and Speaker of the House within 90 days of the bill's effective date.

Fiscal Analysis

As of 6-30-11 the funding period for SERS was 28 years. According to the SERS actuary, Cavanaugh Macdonald, Sub. S.B. 341 would reduce the unfunded actuarial liability by an estimated $10.8 million and the employer normal cost by $15.4 million for a total estimated annual savings of approximately $26.2 million.

Additionally, the actuary reviewed Sub. S.B. 341's impact on the solvency of the health care fund. Based on the proposed changes, the actuary found that the 1.47% employer contribution rate going to fund health care is expected to be available for the 2012 fiscal year. They expect the allocation to health care to drop for fiscal year 2013 due to the continued smoothing in of asset losses, but if all future actuarial assumptions are met and if the health care fund continues to receive the 1.5% employer surcharge, the health care fund is expected to remain solvent indefinitely.

Staff Recommendation

The staff recommendation is that the Ohio Retirement Study Council recommend that the 129th General Assembly approve Sub. Sub. S.B. 341 with the adoption of the following amendments:

1. *That the member be required to pay the full additional liability resulting from the purchase of all types of service credit and to require the member to retire within 90 days of purchasing the service;*
2. *To include an anti-spiking provision; and*
3. *To state that COLAs granted after the effective date of the bill are not vested.*

The Ohio Retirement Study Council voted at its meeting of September 10, 2012 to accept staff's recommendations.

Effective Date

January 7, 2013; certain sections effective later.

Sub. S.B. 342 – Sens. Niehaus/Kearney

Sub. S.B. 342 makes the following changes to the laws governing the State Teachers Retirement System (STRS) in order to ensure the continued solvency of the retirement system:

- Increase the employee contribution rate from the current range of 8-10% to a maximum of 14%. (R.C. §3307.26)

- Change the retirement eligibility for members who retire on or after 8-1-15 and give the board the authority to change retirement eligibility. (R.C. §3307.58)

- Change the benefit accrual rate for members with a retirement date on or after 8-1-15. (R.C. §3307.58)

- Include in the definition of "teacher" any person having a teaching license and performing services that are funded under R.C. §3317.06 without regard to whether the services are performed in a public school and whether the person is employed under a contract with a third party. (R.C. §3307.01)

- Increase from three to five the number of years used to determine final average salary (FAS) for benefits beginning on or after 8-1-15. (R.C. §3307.501)

- Make changes to the Cost of Living Allowance (COLA) for current and future retirees and give the board the authority to establish the COLA amount. (R.C. §3307.67, Section 7)

- Require members to pay the full actuarial liability created by purchasing service credit in most cases. (R.C. §§3307.54, 3307.70, 3307.701, 3307.73, 3307.74, 3307.741 3307.751, 3307.76, 3307.77, 3307.771, 3307.78)

- Eliminate the early retirement incentive program effective 7-31-14. (R.C. §3307.54)

- Change the amount transferred to the Ohio Public Employees Retirement System (OPERS) or the School Employees Retirement System (SERS) when STRS members retire from either of those systems. (R.C. §§3307.57, 3307.751)

- Provide for interest and matching funds on any contributions that were made to restore previously refunded service credit if the member terminates services and takes another refund and prohibit a member who returned to employment after receiving a disability benefit and then elects to take a refund of contributions from eligibility for enhanced refund. (R.C. §3307.562)

- Make changes to the disability provisions. (R.C. §§3307.48, 3307.57, 3307.58, 3307.59, 3307.62)

<u>Sub. S.B. 342 – Sens. Niehaus/Kearney</u>

- Create a separate "health care fund;" make reimbursement of Medicare Part B monthly premium and access to long-term health care discretionary instead of mandatory; allow the board to set the Medicare Part B reimbursement rate within a specific range. (R.C. §§3307.14, 3307.143, 3307.39, 3307.391)

- Allow the system to suspend a benefit under specific circumstances. (R.C. §§3307.42)

- Make changes to the re-employment provisions for retirees. (R.C. §§3307.35, 3307.351, 3307.352)

- Make changes to eligibility provisions for survivor benefits for active members. (R.C. §3307.66)

- Require a member who designates two or more beneficiaries to specify the percentage each is to receive. (R.C. §§3307.562, 3307.60)

- Make changes to the Defined Contribution Plan. (R.C. §§3307.25, 3307.84)

- Make changes to requirement to serve on board; require board to take certain actions; allow board to appoint additional members to audit committee. (R.C. §§3307.04, 3307.044, 3307.061)

- Include a member's email address in the definition of "personal history record" and prohibit releasing medical reports to the individual concerned. (R.C. §3307.20)

- Allow for the recovery of overpayments. (R.C. §3307.47)

- Exclude certain payments from compensation. (R.C. §3307.01)

- Require the ORSC to study and make recommendations, within 90 days of the effective date of the bill, regarding the board's authority to reduce the employee contribution rate to less than 14%, adjust retirement eligibility requirements, and adjust the COLA. (Section 6)

- Delay the effective date for the bill until January 7, 2013, with the following exceptions: the provisions regarding the board's authority to reduce the employee contribution rate to less than 14% for compensation earned on or after 7-1-13, adjust retirement eligibility requirements and adjust the COLA would be delayed an additional 180 days after the bill's effective date and the provision repealing the retirement incentive plans would be delayed until July 31, 2014. (Sections 3, 4, 5)

Sub. S.B. 342 – Sens. Niehaus/Kearney

Background
Pursuant to Senate Bill (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 Ohio Retirement Study Council (ORSC) and the standing committees of the Ohio House of Representatives and Senate with primary responsibility for pension legislation a plan approved by the retirement board that reduces the funding period to no more than 30 years, along with any progress made by the board in meeting the 30-year funding period. This standard was modeled after the national standard adopted by the Governmental Accounting Standards Board for all governmental pension plans. The change was intended to maintain inter-generational equity among taxpayers and system members by limiting the ability to fund benefit costs by extending the funding period beyond 30 years.

In 2003, the ORSC voted to have its actuary, Milliman USA, review the adequacy of the contribution rates in all five retirement systems. That report, which was updated in 2004, generally concluded that in the case of the Ohio Police and Fire Pension fund (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.

Given the severe decline in investment market values since the end of fiscal year 2008 and the need to begin evaluating options to address this situation proactively, the Council approved a motion to have staff work with OP&F on December 10, 2008, on March 11, 2009 with STRS, and on April 8, 2009 with PERS, SERS, and HPRS. All five systems, in consultation with the ORSC, developed legislative proposals that would reduce their unfunded actuarial accrued liability periods

STRS, SERS, OP&F, and HPRS presented their board-approved funding plans at the September 9, 2009 ORSC meeting. PERS presented its board-approved plan at the December 9, 2009 ORSC meeting. Both STRS and OP&F presented updated plans in early 2011. Sub. S.B. 342 contains the STRS board approved plan.

In 2011, the ORSC hired Pension Trustee Advisors and KMS Actuaries (PTA/KMS) to complete a review of the boards' plans and make recommendations related to pension reform. PTA/KMS presented its review at the July 11, 2012 ORSC meeting. They found that the plans are a major positive step and generally meet the goals of funding the systems within the 30-year maximum period while providing reasonable health care benefits at no increased cost to taxpayers.

Staff Comments

Contributions – (R.C. §3307.26) Sub. S.B. 342 increases the employee contribution rate from the current range of 8-10% to a maximum of 14% based on the following schedule:

Sub. S.B. 342 – Sens. Niehaus/Kearney

Date Compensation Earned	Employee Contribution Rate
Not later than 6-30-13	10%
7-1-13 to 6-30-14	11%
7-1-14 to 6-30-15	12%
7-1-15 to 6-30-16	13%
On or after 7-1-16	14%

The bill allows the board to reduce the employee contribution rate on or after 7-1-17 if the board's actuary determines in its annual actuarial valuation or any evaluation required by statute that a reduction in the rate would not materially impair the fiscal integrity of the retirement system.

This change is generally consistent with the 2012 PTA/KMS report and the 2004 Milliman report.

Retirement Eligibility – (R.C. §3307.58) The bill changes the retirement eligibility for members who retire on or after 8-1-15.

Current Law	Sub. S.B. 342
Normal age and service: 30 Years of Service (YOS) at any age or Age 65 w/ 5 YOS.	**Normal age and service:** Age 65 w/ 5 years of qualifying service* OR Before 8-1-15: 30 YOS at any age 8-1-15 to 7-31-17: 31 YOS at any age 8-1-17 to 7-31-19: 32 YOS at any age 8-1-19 to 7-31-21: 33 YOS at any age 8-1-21 to 7-31-23: 34 YOS at any age 8-1-23 to 7-31-26: 35 YOS at any age 8-1-26 and after: Age 60 w/ 35 YOS
Early retirement (reduced benefit): Age 55 w/ 25 YOS or Age 60 w/ 5 YOS.	**Early retirement (reduced benefit):** Age 60 w/ 5 years of qualifying service* OR Before 8-1-15: Age 55 w/ 25 YOS 8-1-15 to 7-31-17: Age 55 w/ 26 YOS or 30 YOS at any age 8-1-17 to 7-31-19: Age 55 w/ 27 YOS or 30 YOS at any age 8-1-19 to 7-31-21: Age 55 w/ 28 YOS or 30 YOS at any age 8-1-21 to 7-31-23: Age 55 w/ 29 YOS or 30 YOS at any age 8-1-23 and after: 30 YOS at any age

*Qualifying service is defined as service for which contributions were made to STRS, PERS, or SERS, credit restored under STRS, PERS, or SERS, and credit transferred to STRS from OP&F, HPRS, or the Cincinnati Retirement System (CRS).

Sub. S.B. 342 – Sens. Niehaus/Kearney

The bill provides that the normal benefit for members who retire prior to normal age and service retirement eligibility on or after 8-1-15 would be reduced to the actuarial equivalent of the member's normal age and service retirement allowance, as determined by the board's actuary. Current law provides for the benefit to be reduced based on statutory schedule that has no correlation between the reduction factors and the actuarial impact of early retirement.

As part of the report of the Joint Legislative Committee to Study Ohio's Public Retirement Plans (JLC) dated December 11, 1996, three of the recommendations included therein, but not acted upon by the legislature, were: (1) that the normal retirement age of 65 should be increased in tandem with Social Security for PERS, STRS, and SERS, the 30-year service requirement should be increased at the same rate, and benefits prior to normal retirement age or service should be reduced; (2) the normal retirement age in the uniformed employee systems should be increased from 48 to 52 with a four-year phase-in and benefits prior to normal retirement age should be reduced; and (3) the statutory reduction rates for early retirement should be repealed and reduction rates for early retirement should be determined on an actuarial basis in all five systems.

These recommendations were made in response to the 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.

The provisions of Sub. S.B. 342 that increase retirement eligibility are generally consistent with the recommendations from the 1996 JLC report, the 2004 Milliman report, and the 2012 PTA/KMS report.

Further, the bill allows the board to adjust the retirement eligibility requirements if the board's actuary finds as part of the annual actuarial valuation or any other statutorily required evaluations, that an adjustment does not materially impair the fiscal integrity of the retirement system or is necessary to preserve the fiscal integrity of the system. The bill sets no limits nor provides for any legislative oversight of the changes, which is a cause for concern.

Current law provides the board with certain discretionary powers. For example, the board has the discretion to set the employee contribution rate within a limited range of 8–10%. Any increase above 10% requires legislative approval. The board also has the authority to increase the employer contribution rate up to a maximum of 14%. This gives the board the ability to make some changes within a set of legislatively-approved parameters. It also provides for transparency by ensuring public hearings and the opportunity for public input during the legislative process if the board wants to make changes outside of the established parameters. Without a statutory range, it would be difficult for a member to know what his or her eligibility for retirement could be. Not only is there decreased transparency caused by this provision, there is less of an opportunity for members to weigh in prior to changes as there is no requirement the board hold public hearings.

<u>Sub. S.B. 342 – Sens. Niehaus/Kearney</u>

Another example in current law is the board authority to establish eligibility for health care coverage. However, health care coverage is different than a pension benefit because health care is a discretionary benefit as opposed to the mandatory nature of the pension obligation. The board needs the flexibility to manage its health care program due to the fact that pensions, by statute, must be funded first and the board is able to fund health care only with money not needed for pensions. Further, the system communicates to its members that they should not have the expectation they will receive health care coverage. There are, however, certain restraints on this such as the current requirement that the amount the board reimburses Medicare Part B recipients for the monthly premium must be within a range specified in statute.

While this board authority change gives the board increased authority in one area, it serves to limit their authority in other areas. This is because increasing the retirement eligibility requirements is only one way for the system to comply with the statutorily required 30-year funding period. Other options include decreasing the benefit formula, decreasing or eliminating the COLA, increasing employee and/or employer contribution rates. However, this provision would make increasing retirement eligibility requirements the only option available if the system's actuary determines the funding period exceeds 30 years.

The expanded board authority must be considered in light of the authority given to the boards of the other four statewide retirement systems. The other pension reform bills pending in the legislature provide different board authority for each system. S.B. 340 gives the OP&F board the authority to increase employee contributions and retirement eligibility. S.B. 341 gives the SERS board the authority only to make changes to retirement eligibility. S.B. 343, on the other hand, gives the OPERS board no authority to make adjustments. Finally, S.B. 345 gives the HPRS board the authority to increase employee contributions within a range of 10-14% and they could increase the COLA up to a maximum of 3%.

The substitute version of the bill requires the ORSC to study and make recommendations, within 90 days of the effective date of the bill, regarding the board's authority to adjust retirement eligibility requirements. This will allow the Council to determine the appropriate division of authority between the board and the Legislature and ensure consistency among all five statewide retirement systems. It also delays the effective date of this section until 180 days after the bill's effective date, which would allow time to implement any ORSC recommended changes.

<u>Benefit Accrual Rate</u> – (R.C. §3307.58) The benefit accrual rate changes under this bill for members with a retirement date on or after 8-1-15.

Sub. S.B. 342 – Sens. Niehaus/Kearney

<table>
<tr><th>Current law and
Member with retirement effective date
8-1-13 to 7-31-15*</th><th>Sub. S.B. 342
(Member with retirement date on or
after 8-1-15)</th></tr>
<tr><td>Members w/ less than 35 YOS: 2.2 x FAS x first 30 YOS; plus
YOS x %
31 2.5
32 2.6
33 2.7
34 2.8

Member with 35 or more YOS: 2.5% x first 30 YOS; plus
YOS x %
31 2.5
32 2.6
33 2.7
34 2.8
35 2.9
36 3.0
37 3.1
38 3.2
39 3.3</td><td>2.2% x FAS x YOS</td></tr>
</table>

*Members whose retirement effective date is prior to 8-1-13 would be able to include service credit that was given for time while they were on disability and for credit transferred from OP&F or HPRS in the YOS eligible for the enhanced benefits.

For example, a member who retires under current law with 35 YOS and FAS of $40,000 would earn an annual benefit of $35,400 [(2.5% x 30 YOS, + 2.5% +2.6% +2.7% + 2.8% +2.9%) x $40,000). A member who retires with 35 YOS and FAS of $40,000 under the new formula in Sub. S.B. 342 would earn a benefit of $30,800 (2.2% x 30 x $40,000).

This change is generally consistent with the 2012 PTA/KMS and 2004 Milliman reports.

The bill eliminates the $86 minimum benefit calculation for each year of service and the alternative commuted service calculation effective 7-1-13. The commuted service calculation provides the retiree with a benefit of (1) an annuity with a reserve equal to the member's accumulated contributions; (2) a pension of an equal amount; (3) an additional pension of $40 multiplied by the number of years of prior and military service; and (4) an additional basic pension of $180 if the member had at least 10 years of service as of 10-1-1956. Generally, the final average formula as detailed above provides the highest benefit.

The bill provides that a member who is age 60 with 5 or more years of Ohio service credit or is age 55 with 25 or more years of Ohio service credit or has 30 or more years of Ohio service credit will have their benefit calculated pursuant to current law. The member's benefit would be the greater of the amount the member would have received if the member had retired effective 7-1-15 or the amount calculated under the new formula as of the date the member retires.

Membership – (R.C. §3307.01) Sub. S.B. 342 includes in the definition of "teacher" any person having a teaching license and performing services that are funded under R.C. §3317.06 (provides textbooks, services, and educational equipment to students at nonpublic schools) without regard to whether the services are performed in a public school and whether the person is employed under a contract with a third party.

The bill excludes from the definitions of "membership" and "contributor" the surviving spouse of a member or retirant if the surviving spouse's only connection to the system is a STRS Defined Contribution (DC) account.

Final Average Salary (FAS) – (R.C. §3307.501) Current law defines FAS as the sum of 3 full calendar years of contributing service in which the member's earnable salary was highest divided by 3. The bill increases from 3 to 5 the number of years used to determine final average salary for benefits beginning on or after 8-1-15. Current law would apply for all benefits that begin before 8-1-15. This change is generally consistent with the 2012 PTA/KMS and 2004 Milliman reports.

Cost of Living Allowance (COLA) - (R.C. §3307.67, Section 7) The bill eliminates the current annual 3% COLA retirees receive after receiving benefits for one year. Instead, the COLA would be reduced to 2% on or after 8-1-13. Further, the bill requires all retirees whose benefit begins on or after 8-1-13 to receive a benefit for 60 months before becoming eligible for a COLA. The exception to this is for a retiree whose benefit was immediately preceded by a disability benefit granted prior to that date that had been terminated. It also suspends the COLA during the period 7-1-13 through 6-30-14 to persons granted an allowance or benefit before 7-1-13. The bill provides no COLA increase on any allowance or benefit granted on 7-1-13 until 7-1-15. The COLA was last changed in 2002 from the lesser of the change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) or 3% to a flat 3% annual COLA (H.B. 157; eff. 2-1-02)

This change is generally consistent with the 2012 PTA/KMS and 2004 Milliman reports.

The bill gives the board the authority to adjust the COLA if the board's actuary, in the annual actuarial valuation or any other statutorily required evaluations, determines than an adjustment does not materially impair the fiscal integrity of the retirement system or is necessary to preserve the fiscal integrity of the system. The bill gives the board the authority to adjust the COLA if the board's actuary, in the annual actuarial valuation or any other statutorily required evaluations, determines than an adjustment does not materially impair the fiscal integrity of the retirement system or is necessary to preserve the fiscal integrity of the system. The bill does not limit the amount of the increase. Although the ORSC would be required to study this authority pursuant to Section 6 of the bill, *we recommend that the board authority to adjust the COLA be limited up to a maximum of 3%.*

Additionally, the bill states the intent of the General Assembly and its findings regarding the need to change the COLA for all members and retirees. Those findings include the fact that current funding for the Defined Benefit (DB) plan is inadequate to pay benefits in the future and will eventually be unable to pay benefits if changes are not made. It would make clear that the intent of the General Assembly is to recognize, among other things, that no member has a legitimate expectation of any particular future COLA or payment of future COLAs at any particular time under Ohio law and that COLAs were never meant to undermine the solvency of the DB plan or put at risk the benefit payments to current and future retirees.

Purchase of Service Credit - (R.C. §§3307.54, 3307.70, 3307.701, 3307.73, 3307.74, 3307.741 3307.751, 3307.76, 3307.77, 3307.771, 3307.78) Sub. S.B. 342 changes the purchase price for a number of types of service credit for purchases that will not be completed until on or after 1-1-14. The current purchase price would be used for all purchases completed not later than 12-31-13 or if the member is purchasing the credit through payroll deduction on the effective date of the bill, if at least one deduction has been made. If the member certified the service to be purchased with STRS by 12-31-13, the member has until 6-30-14 to complete the purchase at the current price.

Type of Service	Current Purchase Price	Purchase Price Under Sub. S.B. 342
Exempted service in PERS, STRS, or SERS (R.C. §3307.73)	Member salary for 12 months preceding purchase application x rate established by board	100% of the additional liability
Out-of-state (federal, state, or local) public or private teaching service and in-state private teaching service; out-of-state and federal service that would otherwise be covered by one of the Ohio pension funds; service covered under a municipal retirement system in this state [up to 5 years] (R.C. §3307.74)	Member contribution for first year of full-time Ohio service following termination of service to be purchased, plus interest For members who establish membership on or after 7/1/89 or for members who have purchasable service that began on or after 7/1/89, cost is determined by the board at not less than 50% of the additional liability	100% of the additional liability
Military service that does not interrupt employment (R.C. §3307.751)	Member rate in effect when military service began multiplied by (x) salary for first year of full-time Ohio service following termination of military	100% of the additional liability

Type of Service	Current Purchase Price	Purchase Price Under Sub. S.B. 342
	service, plus interest For members who establish membership on or after 7/1/89 or for members who have purchasable service that began on or after 7/1/89, cost is determined by the board at not less than 50% of the additional liability	
Purchase of service from PERS or SERS (R.C. §3307.76)	Determined by the board at not less than 50% of the additional liability	100% of the additional liability
Leave of absence [when paid within the year of the leave, up to 2 years] (R.C. §3307.77)	Contributions member would have paid at rate in effect at time of leave	Contributions member would have paid at rate in effect at time of leave, plus compound interest at rate determined by board, unless paid during leave. (eff. 1-7-13)
Resignation due to pregnancy prior to 7/1/82 [up to 2 years] (R.C. §3307.771)	Member rate in effect at time absence began x salary for first year of full-time Ohio service following termination of absence, plus interest.	100% of the additional liability

The bill requires the board to adopt procedures to be followed when a member who is using payroll deduction to purchase service credit terminates service with that employer. The procedure would need to allow for the member to pay the balance of the cost in a single payment.

Sub. S.B. 342 also prohibits the purchase of out-of-state/Ohio municipal retirement covered service if that service was used for a benefit that was already paid and for 5 or more years in a DC plan if the contributions made to that DC plan were paid to the member or the member is not entitled to be paid those contributions. This is consistent with current law, which prohibits the purchase of this credit if it is used toward the calculation of another benefit, except Social Security.

The bill allows a member to purchase a total of up to five years of credit for military service that interrupted teaching rather than five years of credit for each period of interrupted service. It also allows a member participating in the STRS combined plan to purchase credit while on leave of absence.

Sub. S.B. 342 – Sens. Niehaus/Kearney

Under the bill, survivors of active members able to obtain only credit in CRS, OP&F, or HPRS if the deceased member had service credit in any of those systems. Current law allows survivors to purchase any service credit the member would have been eligible to purchase had the member not died. Additionally, it ends the presumption that a member who dies with more than 29 years of service but less than 30 years of service has 30 years of service, effective 7-1-15.

Additionally, the bill eliminates the provision that allows employers to establish an early retirement incentive (ERI) program for employees, effective 7-31-14. Current law allows employers to establish an ERI and purchase a maximum of five years of service for a participating employee by paying the full actuarial liability that results from the purchase of service. Furthermore, under the bill, members would no longer be able to purchase out-of-state similar service as a teacher, out-of-state similar service as a public employee, and in-state or out-of-state private teaching service.

In 2007, the ORSC asked its actuary, Milliman, Inc., to complete a report on the cost of purchasing service credit. The report, entitled *Report Regarding Service Purchases Experience of the Five Ohio Retirement Systems During FY Ending 2005,* was presented at the March 14, 2007, ORSC meeting. The report revealed that the retirement systems subsidized the purchase of credit in nearly every case in 2005. This was true even for service credit for which the member was required to pay the full actuarial cost. The actuarial cost of service is dependent upon the member's final average salary, years of service, and age at retirement. None of these factors are known until a member retires. Therefore, the true actuarial cost of purchasing service can be known only at retirement. 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.

The purchase of credit creates two types of additional liabilities: pension and health care. Although pension benefits are set by statute and become vested once a member retires, health care is discretionary and, therefore, the additional health care liability will fluctuate as changes are made to the health care plan. As Milliman noted in the report, health care liabilities created by the purchase of service credit could be eliminated if the purchased service credit did not count toward eligibility for or the amount of health care benefits.

In response to that report, staff recommended and the Council approved at the 9-12-2007 ORSC meeting that:

1. The purchase price for all types of service should be the full actuarial liability resulting from the purchase of service credit, except as prohibited by federal law, and members should be required to retire within 90 days of purchasing service.
    - The rationale behind this change would end the current practice whereby all members of the system subsidize an individual member's purchase of service credit. It is also consistent with recent legislative changes that have required

members to pay more of the additional actuarial liability resulting from the purchase of service credit.

2Purchased credit should be prohibited from being counted for purposes of health care eligibility or subsidy.

- As noted in the Milliman report, this would eliminate the additional health care liabilities created by the purchase of credit. This could be done via legislation or administrative rule.

This bill is consistent with those recommendations because it would require the member to pay the full additional liability resulting from the purchase. However, it does not require the member to retire within 90 days of purchasing the service nor does it address whether purchased credit may be used toward health care eligibility or subsidy. *Therefore, we recommend that the bill be amended to require the member to retire within 90 days of purchasing the credit and prohibit the credit from being counted for purposes of health care eligibility or subsidy.*

Coordination of Benefits with PERS and SERS - (R.C. §§3307.57, 3307.751) Historically, public employees with service credit in any of the non-uniform systems (OPERS, STRS, SERS) have been able to coordinate their service credit and receive a benefit from the system in which they have earned the most service credit. The coordination occurs at retirement and the system from which the member retires receives twice the member's accumulated contributions from the other non-uniform system(s) in which the member has earned service credit. This allows for complete portability of service among the non-uniform system.

Sub. S.B. 342 changes the amount of money transferred to the non-uniform system paying the benefit from a non-uniform system in which the member has earned service credit. Under the bill, the system paying the benefit receives from the system in which service credit was earned the following amount: (1) the amount contributed by the member, or in the case of service credit purchased, the amount paid by the member that is attributable to the year of service; (2) an amount equal to the lesser of the employer's contributions made on behalf of the member or the amount that would have been contributed by the employer for the service had the member been a member of the system paying the benefit at the time the credit was earned; (3) if applicable, an amount equal to the amount paid on behalf of the member by an employer under R.C. §145.483 (delinquent contributions); and (4) interest compounded annually at the lesser of the actuarial assumption rate of STRS or the other system(s) transferring amounts,

The bill allows military service credit purchased under OP&F, HPRS, or CRS to be used upon retirement if the coordination of benefits provision is used. It also defines "actuarial assumption rate" as the investment rate of return assumed for projecting assets in the STRS DB plan.

Refund of Contributions – (R.C. §3307.562) The bill provides for interest and matching funds on any contributions that were made to restore previously refunded service credit if the member terminates services and takes another refund. The bill also provides that a member who returned to employment after receiving a disability benefit and then elects to take a refund of contributions is not eligible for interest or matching funds on the contributions being withdrawn. Current law limits the ineligibility to receive interest and matching funds to the beneficiaries, survivors, or estate of a deceased disability benefit recipient.

Disability – (R.C. §§3307.48, 3307.57, 3307.58, 3307.59, 3307.62) The bill provides that only "qualifying service credit" can be used to determine whether a member is eligible for a disability benefit. Qualifying service is defined as service for which contributions were made to STRS, PERS, or SERS, credit restored under STRS, PERS, or SERS, and credit transferred to STRS from OP&F, HPRS, or the CRS. It alsos provide the same disability coverage provision for members of the STRS combined plan as received by members of the STRS DB plan.

Members who first earn service credit on or after 7-1-13 will need to have 10 years of qualifying service to be eligible for a disability benefit. All other members would remain under the current provision requiring five years of qualifying service. Furthermore, members who first earn service credit on or after 7-1-13 will have one year rather than the current two years from the date contributing service terminated to apply for a disability benefit.

Additionally, the bill states that a disability benefit recipient whose benefit terminates because of age is not eligible to receive any further disability benefit. It also clarifies the benefit amount for a disability recipient who applies for an age and service benefit after their disability terminates because of age by stating that the benefit is adjusted based on the plan of payment the member selects (e.g., joint and survivor annuity).

Sub. S.B. 342 gives the board the authority to require additional examinations of a disability benefit recipient as part of the annual medical examination if the board's physician determines additional information is needed. It also requires the board to give notice to any disability benefit recipient whose benefit will be terminated and, at the request of the recipient, provide a hearing on the matter.

The bill requires the termination of a disability benefit if the recipient performs any teaching service in Ohio or elsewhere. Currently, a disability benefit recipient may not become employed as a teacher in any public or private school. The board would need to notify the recipient of the termination and the recipient may, within 30 days after notice is sent, submit information specifying he or she did not perform teaching services. If the board determines the benefit was incorrectly terminated, the benefit would be reinstated, along with any missed payments. The board's decision is final. If the recipient becomes employed as a teacher while receiving a disability benefit, the recipient must repay the benefit received from the beginning of employment. Current law requires the employer to repay the amount.

Current law allows a member who returns to work after receiving a disability benefit to receive service credit for the period of time they were on disability. Effective 7-1-13, Sub. S.B. 342 will limit the credit that a disability recipient who returns to work may receive. Credit would be limited to the lesser of the years of contributing service following termination of the disability benefit or five years. For example, if a member received disability benefits for three years then returned to work for two additional years, the member would get credit for only two years. Current law contains no limit.

The bill provides for an increase in the retirement benefit of a disability benefit recipient whose disability benefit is terminated and the member then begins receiving an age and service retirement benefit. The retirement benefit would be increased by any COLAs granted while the member was receiving the disability benefit.

The bill also provides that a minimum of three physicians rather than only three will review the examiner's report of a disability applicant whose application is rejected.

Additionally, in the case of a member who has service credit in STRS and SERS and/or OPERS, the bill provides that the retirement system that will pay the benefit (i.e., the system in which the member had the most YOS) is the system that will determine whether the member qualifies for a disability benefit.

Health Care (R.C. §§3307.14, 3307.143, 3307.39, 3307.391) The bill creates a separate "health care fund" into which the employer contributions allocated to health care would be accumulated and from which health care coverage would be paid. If the board discontinues providing health care coverage, the bill would require the board to transfer all surplus funds in the health care fund to the employers that have contributed to the fund, in a fair and appropriate manner.

Sub. S.B. 342 permits rather than require the board to reimburse retirees for the monthly Medicare Part B premium. It also allows the board to set the reimbursement rate for the monthly Medicare Part B premium at not less than $29.90 but not more than 90% of the basic premium and not more than the amount paid by the recipient. Further, it allows the board to require the recipient to certify the amount the recipient pays for the monthly premium. Current law requires the board to use a formula for determining the reimbursement by multiplying YOS by a percentage to be determined by the board, not to exceed 90%.

The bill changes from mandatory to discretionary the provision allowing the board to provide access to a long-term health care program.

Suspension/Termination of Benefit – (R.C. §§3307.42) The bill allows the system to suspend a benefit under two specific circumstances: (1) the system has good cause to believe that the person receiving benefits is incapacitated and no other person has authority to act or receive benefits on the person's behalf or (2) the system learns that the person receiving benefits is missing and there is no satisfactory evidence that the person is alive and entitle to receive benefits. The benefits would resume on presentation of evidence that the person is no longer incapacitated or is alive and entitled to receive benefits. The suspended benefit of a missing person would be terminated upon presentation of a decree of presumed death.

Sub. S.B. 342 – Sens. Niehaus/Kearney

Re-employed Retirees – (R.C. §§3307.35, 3307.351, 3307.352) Sub. S.B. 342 includes DC benefit recipients and alternative retirement plan benefit recipients under R.C. Chapter 3305. as "other system retirants" for purposes of public re-employment of a public retiree; therefore, they would be subject to the two-month waiting period for re-employment.

The bill clarifies that the benefit forfeited when a retiree returns to work within the two-month waiting period is equal to the retiree's single life annuity. For example, if a member selects a joint and survivor annuity upon retirement (which provides a reduced benefit for the member's life and for the life of the survivor) and then is reemployed within two months, the amount the re-employed retiree forfeits would be equal to the amount the member would have received if he or she had selected a single life annuity.

Additionally, Sub. S.B. 342 allows an STRS member who also is employed in one or more positions covered by the other statewide retirement systems to retire from the position covered by the other retirement system and remain working under STRS if the annual compensation for the position from which the member is retiring is greater than the annual compensation for any of the positions at which the member is still employed. This provision also includes retirants under the STRS DC plan. Current law allows a member of STRS who holds more than one position covered by STRS or another system to retire under STRS and remain employed in their other job. This provision is consistent with current law.

The bill adds the requirement that in order to retire from one position and continue working in another position covered by STRS as of 7-1-14, the member must have continuously held those positions for at least 12 consecutive months immediately prior to retirement. Currently, a member could get a lower paying job just prior to retirement and then retire from STRS, thereby bypassing the requirement that a retiree wait two months before returning to work or else forfeit two months of their benefit.

For re-employed retirees who request a refund prior to age 65, the bill allows the board to set the date the refund will be paid, but it cannot be earlier than the later of the first day of the month following termination of employment or 12 months since the last refund of contributions (if applicable).

Survivor Benefits - (R.C. §3307.66) The bill requires that for a surviving spouse to receive survivor benefits because he or she is physically or mentally incompetent, the spouse must have been adjudged physically or mentally incompetent at the time of the member's death and has remained continuously incompetent. There is no requirement under current law regarding when the determination is made.

Additionally, the bill changes the qualifications for a surviving child to receive a survivor's benefit. Under the bill, the child must be never married, as opposed to the current requirement of being unmarried. The child must also be either (1) under age 18 (as opposed to age 18 in current law), (2) under age 22 (as opposed to age 22 in current law) and is in school and completing at least two-thirds of the full time requirements, or (3) any age if adjudged physically or mentally incompetent, if the person became incompetent prior to age

18 or prior to age 22 if in school and completing at least two-thirds of the full time requirements and has remained continuously incompetent (current law has no requirement regarding when the determination is made).

Sub. S.B. 342 allows only qualifying service credit to be used when determining whether survivor benefits may be granted, regardless of when membership began. It also requires all new members as of 7-1-13 to have at least five years of qualifying service and to have died not later than one year after the date contributing service ended in order for the member's spouse to be eligible for survivor benefits. Current law requires members to have at least one and one-half years of Ohio service credit with at least one-quarter of Ohio contributing service within the two and one-half years before death. The bill allows a survivor to be eligible if the member was receiving, within one year prior to the date of death, a disability benefit from STRS and was contributing under STRS, PERS, or SERS at the time of death. The survivor also would be eligible if the member was receiving a disability benefit at the time of death.

The bill provides for an increase in the survivor benefit if, at the time of death, the member was receiving a disability benefit from STRS. The increase would be the percentage equal to the total of any COLA increases the member received, plus any additional amounts the member received while on disability. If eligibility for a benefit is established more than one year after the member's death, the increase is limited to the percentage equal to the total of any COLA increases the member received, plus any additional amounts the member received while on disability that would have been paid had the benefit begun in the year in which the member died.

Additionally, the bill changes the effective date of the benefit based on when the application is received. If the application is received within one year after the date of the member's death, the benefits would begin on the first day of the month following the date of death. If the application is received later than one year after the date of the member's death, the benefits would begin on the first day of the month immediately following receipt of the application. Termination of benefits would be effective on the first day of the month following the day the person ceases to be a qualified survivor. Currently, all survivor benefits begin the first day of the month following the day the person becomes a qualified survivor.

Under Sub. S.B. 342 a survivor benefit no longer terminates during a survivor's active military service.

Beneficiaries – (R.C. §§3307.562, 3307.60) The bill specifies that a member may designate two or more beneficiaries. The bill further requires that a member who designates two or more beneficiaries on or after 7-1-13 must specify the percentage of the benefit each beneficiary is to receive. However, if the member does not specify the percentage, the benefit will be divided equally among the beneficiaries. If a beneficiary dies, his or her amount will be divided among the remaining beneficiaries based on their initial percentage.

<u>Sub. S.B. 342 – Sens. Niehaus/Kearney</u>

Sub. S.B. 342 requires the beneficiary designation form of an annuitant to be received by the board prior to the annuitant's death in order for a beneficiary to receive any unpaid amounts due the annuitant. Current law requires the form to be filed with the board and does not specify when it must be filed. If the annuitant has no beneficiary, the system may pay an amount not exceeding the cost of the annuitant's burial expenses to the person responsible for the burial expenses upon the death of the annuitant.

The bill allows a retirant who selected a plan of payment that allowed him or her to name between two and four beneficiaries to cancel the portion of the payment going to a specific beneficiary if that beneficiary dies or if their marriage ends and the beneficiary consents or the court orders the cancellation.

Additionally, the bill provides that when a retirant changes the plan of payment due to marriage or remarriage, they may add only the new spouse as a beneficiary and it requires the application to be received by the board before the retirant's death. However, if there are already four beneficiaries that must be retained because of a court order or the payment to any beneficiary under the court order would be reduced, the new spouse may not be added.

Under the bill, a member who is receiving a benefit under a plan that includes payments to a former spouse pursuant to a court order may elect a new plan of payment without consent of the former spouse if the new plan will not affect payments to the former spouse. Current law requires the former spouse to consent regardless of the effect of the change.

<u>Defined Contribution Plan</u> – (R.C. §§3307.25, 3307.84) The bill eliminates the automatic reversion of a DC plan member to the DB plan if the participant does not make an election. Current law requires a member who elected to contribute to the DC plan to make another election upon five years of service if they want to continue contributing to the DC plan. A member who fails to make an election automatically reverts to the DB plan. Instead, the bill would allow the member to elect the DB upon five years of service, but if the member makes no election, the original DC election remains.

It also makes an STRS member who had previously made an election to cease participation in the DC plan ineligible to make another election. Currently, all new employees have 180 days to make an election to participate in the DC plan except employees who are already members of the STRS DB plan or an alternative retirement plan under R.C. Chapter §3305., or a reemployed public retiree.

Additionally, Sub. S.B. 342 permits rather than require the board to transfer a portion of the employer contributions made on behalf of DC plan participants to the account used to fund the DB plan. This amount is known as the mitigating rate. It also allows the board to decide when to have the actuarial study done to determine whether a transfer is necessary and to determine when the change in the mitigating rate takes effect. Current law requires the report to be done annually and the actuary determines what the rate should be. That rate then becomes effective on the first day of the month following the actuarial study that was reported to the board.

Sub. S.B. 342 – Sens. Niehaus/Kearney

Board – (R.C. §§3307.04, 3307.044, 3307.061) Sub. S.B. 342 specifically gives the board the authority to take all appropriate action to avoid payment by the system or its members of federal or state income taxes on contributions to the system and to comply with any plan qualification requirements. Additionally, the bill allows the board to appoint additional members to the board's audit committee along with the current statutorily required retiree, contributing, and ex officio members.

The bill includes appointed board members in the current prohibition against serving on the board if the member has plead guilty to or been convicted of a violation of R.C. §§102.02 (duty to file ethics disclosure statement), 102.03 (revolving door), 102.04 (compensation or services received other than from employer), 2921.02 (briber), 2921.11 (perjury), 2921.13 (falsification), 2921.31 (obstructing official business), 2921.41 (theft in office), 2921.42, (having unlawful interest in public contract), 2921.43 (soliciting or receiving improper compensation), or 2921.44 (dereliction of duty).

Records – (R.C. §3307.20) The bill includes a member's email address in the definition of "personal history record." It also includes a former member who is receiving a benefit from the STRS DC plan as a "retirant" for purposes of R.C. §3307.20 (records section). Sub. S.B. 342 would maintain current law that allows for copies of medical reports or recommendations to be made available to the personal physician, attorney, or authorized agent of the individual concerned; however, it adds a prohibition against releasing those reports or recommendations to the individual concerned and they would not be considered a medical record generated and maintained by a health care provider in the process of establishing a therapeutic relationship.

Overpayments – (R.C. §3307.47) The bill allows for the recovery of overpayments made by STRS to a former spouse or child support enforcement agency, a survivor, a beneficiary, or to any person including a third party on the person's behalf for health care overpayments or any other payments.

Ohio Retirement Study Council - (Section 6) The bill requires the ORSC to study and make recommendations regarding the board's authority to reduce the employee contribution rate to less than 14% for compensation earned on or after 7-1-17, adjust retirement eligibility requirements and adjust the COLA. The ORSC is required to submit its findings and recommendations to the Senate President and Speaker of the House within 90 days of the bill's effective date.

Miscellaneous – (R.C. §3307.01) The bill excludea from compensation payments made for vacation pay that covers the same time period for which other salary, compensation or benefits that were paid under OPERS or SERS law. Current law excludes those items only if they were paid under STRS law.

Additionally, the bill excludea from compensation any amount paid by the employer as a retroactive payment of earnings, damages, or back pay pursuant to a court order, court-adopted settlement agreement, or other settlement agreement unless the system receives the following: (1) employee and employer contributions, plus compounded interest at a rate determined by the board, on amounts paid under the order or agreement and (2) [if applicable] employee and employer contributions, plus compound interest at a rate determined by the board, on amounts the board determines the teacher was improperly paid.

Effective Date - (Sections 3, 4, 5) The effective date for the bill is delayed until January 7, 2013, with the following exceptions: the provisions regarding the board's authority to reduce the employee contribution rate to less than 14% for compensation earned on or after 7-1-13, adjust retirement eligibility requirements and adjust the COLA are delayed an additional 180 days after the bill's effective date and the provision repealing the retirement incentive plans is delayed until July 31, 2014.

Fiscal Impact
According to the STRS actuary, PricewaterhouseCoopers, the board approved plan included in Sub. S.B. 342 would reduce the funding period from infinity to 36 years. The actuary stated that the funding period based on the plan will decrease to 21 years by July 1, 2014, *if* STRS earns a compounded 7.75% annual rate of return and all other assumptions are met.

Staff Recommendations
The staff recommendation is that the Ohio Retirement Study Council vote to recommend that the 129th General Assembly vote to approve Sub. S.B. 342 with the following amendment:

1. *That the board authority to adjust the COLA be limited up to a maximum of 3% and*
2. *That for purchases of service credit, the member be required to retire within 90 days of purchasing the credit and prohibit the credit from being counted for purposes of health care eligibility or subsidy.*

The Ohio Retirement Study Council voted at its meeting of September 10, 2012 to accept staff's recommendations.

Effective Date
January 7, 2013; certain provisions effective later.

Sub. S.B. 343 – Sens. Niehaus/Kearney

Sub. S.B. 343 would make the following changes to the laws governing the Ohio Public Employees Retirement System (OPERS) in order to ensure the continued solvency of the retirement system:

- Increase the retirement eligibility for members who are more than five years away from retirement as of the effective date of the bill. (R.C. §§145.32, 145.33. 145.332)

- Change the benefit accrual rate for members in the State and Local Divisions of OPERS who are more than 10 years away from retirement or have less than 20 years of service (YOS) as of the effective date of the bill and repeals alternative benefit calculations. (R.C. §§145.33, 145.34)

- Increase from three to five the number of years used to determine final average salary (FAS) for who are more than 10 years away from retirement or have less than 20 YOS as of the effective date of the bill. (R.C. §§145.01, 145.017)

- Change the cost of living allowance (COLA) for all members who retire on or after the effective date of the bill to a 3% COLA for the first five years after the effective date of the bill, the lesser of the actual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) or 3% and specify they are not vested. (R.C. §§145.323, 145.561, 145.95)

- Increase the minimum earnable monthly salary from $250 to $600. (R.C. 145.016)

- Implement the Contribution Based Benefit Cap (CBBC), which would limit, in certain instances, the benefit a retiree could receive. (R.C. §145.333)

- Require members to pay 100% of the additional liability resulting from the purchase of service credit for most types of credit. (R.C. §§ 145. 20, 145.201, 145.29, 145.452)

- Change the amount transferred among OPERS, the State Teachers Retirement System (STRS), and the School Employees Retirement System (SERS) when a member retires with service credit in more than one of those systems. (R.C. §§145.37, 3307.57, 3309.35)

- Change the amount transferred to OPERS from the Ohio Police and Fire Pension Fund (OP&F), the Highway Patrol Retirement System (HPRS), and the Cincinnati Retirement System (CRS) upon retirement in OPERS of a member with service in one of those systems; require the member to retire within 90 days of transfer. (R.C. §§145. 295, 145.2911, 145.2912, 145.2913)

- Change the additional amount a member who has five or more years of service receives when taking a refund of contributions by allowing the board to determine the additional amount by rule. (R.C. §145.401)

Sub. S.B. 343 – Sens. Niehaus/Kearney

- Establish a five-year limit for individuals to initiate a request for membership determination. (R.C. §§145.036, 145.037, 145.038)

- Limit retroactive benefit payments for inactive members and members coordinating benefits with STRS and/or SERS to within 90 days of application. (R.C. §§145.32(E), 145.57(B))

- Remove the term "prior service" from the Revised Code and allow members who earned service credit in the OPERS Defined Contribution (DC) plan to have that credit count as "contributing service" in the OPERS Defined Benefit (DB) plan if they elect to switch plans. (R.C. §145.01)

- Allow up to five years of service earned in the regular OPERS division and the Public Safety (PS) division to be used toward a benefit in the Law Enforcement (LE) division if the member elects to either have the amount of non-LE service credit earned reduced so there is no additional liability to the system or if the member pays the additional liability. (R.C. §145.2914)

- Make changes to the DC Plan. (R.C. §§145.19, 145.191, 145.193, 145.194, 145.195, 145.813, 145.814, 145.82, 145.83 145.87)

- Make changes to the disability program. (R.C. §145.35, 145.36, 145.362, 145.363, 145.37)

- Make changes to the amount a re-employed retiree and their survivor receive upon termination of employment or death prior to termination of employment. (R.C. §§145.38, 145.383, 145.384)

- Authorize the termination of a disability benefit of a member who pleads guilty to or is convicted of a specified offense committed while serving in a position of honor, trust, or profit if the disabling condition arose out of the commission of the offense the member was convicted of or plead guilty to. (R.C. §§145.574, 2329.66, 2901.431, 2929.194)

- Make changes to health care provisions and Medicare Part B premium reimbursement. (R.C. §§145.58, 145.584.)

- Make changes to board members' terms and requirements to serve on board. (R.C. §§145.04, 145.041, 145.05, 145.057, 145.06)

- Reduce and simplify the number plans of payments a retiree can select. (R.C. §145.46)

- Make changes to the additional annuity program. (R.C. §145.64)

Sub. S.B. 343 – Sens. Niehaus/Kearney

- Allow the board to offer health care coverage to Deferred Compensation employees. (R.C. §145.09)

- Require any action brought against the system, the board, or it officers, employee, or members in their official capacities to be brought in the Franklin County Court of Common Pleas. (R.C. §145.101)

- Allow for transfers among the various funds in the system. (R.C. §§145.23, 145.43, 145.54)

- Allow board records to be made available in printed or electronic format and would allow the board to maintain records in either form. It also would allow the board to provide information requested by Social Security Administration, Medicare, Medicaid, Ohio Deferred Compensation, OP&F, SERS, STRS, and HPRS. (R.C. §145.27)

- Allow the board to establish one uniform beneficiary designation form that could be used for all plans in which the member has contributions when a member dies before retiring. (R.C. §145.431)

- Change the interest rate charged on delinquent contributions from a rate set by the board to the assumed actuarial rate of interest. (R.C. §145.483)

- Allow the system to adjust an allowance or benefit if and error occurs in calculating the allowance or benefit. It also would allow the system to recover money that was paid erroneously to a third party. (R.C. §145.563)

- Provide that a change in a retirement benefit that results from the death of a beneficiary would take effect the month following the date of death instead of the month following the notice of death. (R.C. §145.64)

- Delete obsolete provisions regarding past credit and benefit increases. (R.C. §§145.02, 145.292, 145.321, 145.322, 145.324, 145.326, 145.327, 145.328, 145.329, 145.3210, 145.3211, 145.3212, 145.3213, 145.332, 145.42, 145.44, 145.461, 145.462)

- Require the ORSC to study and make recommendations, within 90 days of the effective date of the bill, regarding the board's authority to modify age and years of service requirements for retirement eligibility, cost of living adjustments and employee contribution rates. (Section 7)

- Establish the effective date of the bill as January 7, 2013. (Section 6)

Sub. S.B. 343 – Sens. Niehaus/Kearney

Background

Pursuant to Senate Bill (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 Ohio Retirement Study Council (ORSC) and the standing committees of the Ohio House of Representatives and Senate with primary responsibility for pension legislation a plan approved by the retirement board that reduces the funding period to no more than 30 years, along with any progress made by the board in meeting the 30-year funding period. This standard was modeled after the national standard adopted by the Governmental Accounting Standards Board for all governmental pension plans. The change was intended to maintain inter-generational equity among taxpayers and system members by limiting the ability to fund benefit costs by extending the funding period beyond 30 years.

In 2003, the ORSC voted to have its actuary, Milliman USA, review the adequacy of the contribution rates in all five retirement systems. That report, which was updated in 2004, generally concluded that in the case of the Ohio Police and Fire Pension Fund (OP&F) and the State Teachers Retirement System (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.

Given the severe decline in investment market values since the end of fiscal year 2008 and the need to begin evaluating options to address this situation proactively, the Council approved a motion to have staff work with OP&F on December 10, 2008, on March 11, 2009, with STRS, and with OPERS, the School Employees Retirement System (SERS), and the Highway Patrol Retirement System (HPRS) on April 8, 2009. All five systems, in consultation with the ORSC, developed legislative proposals that would reduce their unfunded actuarial accrued liability periods.

STRS, SERS, OP&F, and HPRS presented their board-approved funding plans at the September 9, 2009, ORSC meeting. PERS presented its board-approved plan at the December 9, 2009, ORSC meeting. Both STRS and OP&F presented updated plans in early 2011. S.B. 343 contains the OPERS board approved plan.

In 2011, the ORSC hired Pension Trustee Advisors and KMS Actuaries (PTA/KMS) to complete a review of the boards' plans and make recommendations related to pension reform. PTA/KMS presented its review at the July 11, 2012, ORSC meeting. They found that the plans are a positive step and will, generally, enable the majority of the systems to meet the 30-year maximum funding period while providing reasonable health care benefits at no increased cost to taxpayers.

Staff Comments

Sub. S.B. 343 – Sens. Niehaus/Kearney

Phase-in of Changes - (R.C. §145.32) S.B. 343 would divide members into three groups and the effect of the bill's provisions would be determined based on which group the member is in. The following chart explains the determining factors for each group:

Group A	Group B	Group C
Must be eligible to retire within 5 years after effective date of bill.	Must be eligible to retire within 10 years after effective date of bill OR have 20 YOS prior to effective date.	All other members and employees hired after the effective date of the legislation.

The bill specifies that purchased service credit could be used to determine eligibility under Groups A and B only if the purchase is completed within five years for Group A or 10 years for Group B and the member was a member on the effective date or obtains credit under R.C. §145.483 (employer delinquent contributions). Additionally, it would provide that service credit includes credit for previous service under OP&F, HPRS, and CRS.

Retirement Eligibility - (R.C. §§145.32, 145.33. 145.332) S.B. 343 would increase the retirement eligibility for members in Groups B and C.

State and Local Division		
Current Law and Group A	**Group B**	**Group C**
Normal age and service: 30 YOS at any age or Age 65 w/ 5 YOS. Early retirement (reduced benefit): Age 55 w/ 25 YOS or Age 60 w/ 5 YOS.	Normal age and service: Age 52 w/ 31 YOS or any age w/ 32 YOS or Age 66 w/ 5 YOS. Early retirement (reduced benefit): Age 55 w/ 25 YOS or Age 60 w/ 5 YOS.	Normal age and service: Age 55 w/ 32 YOS or Age 67 w/ 5 YOS. Early retirement (reduced benefit): Age 57 w/ 25 YOS or Age 62 w/ 5 YOS.

Law Enforcement Division		
Current Law and Group A	**Group B**	**Group C**
Normal age and service: Age 48 w/ 25 YOS or age 62 w/ 15 YOS. Early retirement (reduced benefit): Not Applicable	Normal age and service: Age 50 w/ 25 YOS or Age 64 w/ 15 YOS. Early retirement (reduced benefit): Age 48 w/ 25 YOS or Age 52 w/ 15 YOS.	Normal age and service: Age 52 w/ 25 YOS or Age 64 w/ 15 YOS. Early retirement (reduced benefit): Age 48 w/ 25 YOS or Age 52 w/ 15 YOS.

Sub. S.B. 343 – Sens. Niehaus/Kearney

Public Safety Division		
Current Law and Group A	**Group B**	**Group C**
Normal age and service: Age 52 w/ 25 YOS <u>or</u> Age 62 w/ 15 YOS. Early retirement (reduced benefit): Age 48 w/ 25 YOS <u>or</u> Age 52 w/ 15 YOS.	Normal age and service: Age 54 w/ 25 YOS <u>or</u> Age 64 w/ 15 YOS. Early retirement (reduced benefit): Age 48 w/ 25 YOS <u>or</u> Age 52 w/ 15 YOS.	Normal age and service: Age 56 w/ 25 YOS <u>or</u> Age 64 w/ 15 YOS. Early retirement (reduced benefit): Age 52 w/ 25 YOS <u>or</u> Age 56 w/ 15 YOS.

The bill would provide that the normal benefit for members in Group B would be reduced by a percentage determined by the board's actuary for each year the member retires before whichever of the following occurs first: attaining age 66, attaining age 52 with 31 YOS, or earning 32 YOS. Members in Group C would have their benefit reduced by a percentage determined by the board's actuary for each year the member retires before whichever of the following occurs first: attaining age 67, or attaining age 55 with 32 YOS.

Current law provides for the benefit to be reduced based on statutory schedule that has no correlation between the reduction factors and the actuarial impact of early retirement.

As part of the report of the Joint Legislative Committee to Study Ohio's Public Retirement Plans (JLC) dated December 11, 1996, three of the recommendations included therein, but not acted upon by the legislature, were (1) that the normal retirement age of 65 should be increased in tandem with Social Security for PERS, STRS, and SERS, the 30-year service requirement should be increased at the same rate, and benefits prior to normal retirement age or service should be reduced; (2) the normal retirement age in the uniformed employee systems should be increased from 48 to 52 with a four-year phase-in and benefits prior to normal retirement age should be reduced; and (3) the statutory reduction rates for early retirement should be repealed and reduction rates for early retirement should be determined on an actuarial basis in all five systems. These recommendations were made in response to the 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.

The provisions of S.B. 343 are generally consistent with the JLC report, the 2004 Milliman report, and the 2012 PTA/KMS report.

<u>Benefit Accrual Rate</u> (R.C. 145.33) - The benefit accrual rate would be changed for Group C in the State and Local Divisions of OPERS. The benefit accrual rate for the Law Enforcement and Public Safety Divisions would not be changed. The table below illustrates the change in the benefit accrual rate.

Sub. S.B. 343 – Sens. Niehaus/Kearney

Current Law and Groups A & B	Group C
State/Local: 2.2% x FAS x 1st 30 YOS, plus 2.5% x FAS x YOS over 30.	State/Local: 2.2% x FAS x 1st 35 YOS, plus 2.5% x YOS over 35.

Under current law a member retiring with 35 YOS and $40,000 FAS would earn an annual benefit equal to $31,400 [(66% x $40,000) + (12.5% x $40,000)]. A member with 35 YOS and $40,000 FAS who retires under the formula proposed by S.B. 343 would earn an annual benefit equal to $30,800.

Alternative Benefit Calculation (R.C. §§145.33, 145.34) – The bill would eliminate the alternative benefit calculations. Current law provides alternative benefit calculations of (1) $86 for each year of service and (2) a benefit consisting of an annuity equal to the member's accumulated contribution, plus a pension of an equal amount, plus an additional pension if the member qualifies for prior service.

Final Average Salary (FAS) – (R.C. §§145.01, 145.017) Current law defines FAS as the sum of three full calendar years of contributing service in which the member's earnable salary was highest divided by three. The bill would increase the number of years used to determine FAS from three to five years for members in Group C. FAS for Groups A and B would continue to be determined using the member's three highest salary years.

This change is generally consistent with the 2004 Milliman report and the 2012 PTA/KMS report.

Cost of Living Allowance (COLA) - (R.C. §§145.323, 145.561, 145.95) – The bill would change the annual COLA provided to all members who retire on or after the effective date of the bill. Current law provides that retirees receive a 3% COLA annually. S.B. 343 would provide a 3% COLA for the first five years after the effective date of the bill, then the COLA would be the lesser of the actual change in the CPI-W or 3%. Current retirees would not be affected by the change and would continue to receive a flat 3% COLA annually. The COLA was last changed in 2002 from the lesser of the change in the CPI-W or 3% to a flat 3% annual COLA (H.B. 157; eff. 2-1-01).

Furthermore, the bill would specify that COLAs granted to members who retire on or after the effective date of the bill are not vested.

This change is consistent with the 2012 report of PTA/KMS and the 2004 Milliman report.

Minimum Monthly Salary - (R.C. 145.016) S.B. 343 would increase the minimum monthly salary needed to accrue one month of service credit. Under current law, members earning $250 per month ($3,000 annually) receive one full month of service credit. Effective January 1, 2014, a member would be required to earn $600 per month to earn one full month of service credit. The minimum monthly salary for each year after 2014 would be the sum of the prior year's amount and the prior year's amount multiplied by the average percentage increase, if any, made to the compensation of township trustees made in the prior year. Service for any month in which the member earned less than the minimum salary would be prorated by dividing the member's actual salary by the minimum monthly salary.

The current minimum monthly salary threshold of $250 was adopted in 1984 when the Legislature increased it from $150 (H.B. 232; eff. 2-16-84). Since 1984 the CPI-W has increased 120.5% through December 31, 2004. In today's terms that equals $551.26. Additionally, the 2012 minimum hourly wage in Ohio is $7.70. A minimum wage earner would meet the minimum monthly threshold of $250 after working approximately 32.5 hours. An employee earning the minimum wage and working 40 hours per week would earn $16,016 annually or $1,334.67 monthly.

With the current minimum monthly threshold, part-time public employees have achieved eligibility for both pension (service, disability, survivor) and health care benefits at an accelerated rate over the years, which poses a significant concern with respect to funding these benefits, especially health care costs which, as a percent of payroll, are disproportionate to earnings. Moreover, the minimum monthly threshold exacerbates the actuarial funding problems related to spiking "final average salary," whereby a member can work part-time for 27 years and take a full-time job with a higher salary for three years prior to retirement, leaving the retirement system with an actuarial unfunded liability on the pension side of the equation and an inequitable funding problem on the health care side of the equation vis-a-vis the member who works full-time and contributes on a full-time salary for 30 years. Although S.B. 343 addresses the spiking issue and increases the number of years used in calculating final average salary, those changes address only the pension portion of the benefit.

We understand that the originally proposed increase of $1,000 would largely affect certain elected officials whose salary is set in statute, such as township trustees and election officials. The minimum monthly threshold was lowered to $600 in response to their concerns. This raises an additional issue that elected officials can purchase an additional 35% of their elected service credit. S.B. 343 would increase the purchase price to 100% of the additional liability, but again, this is only the pension liability. If the additional credit is used toward eligibility for or subsidy of health care benefits, this would create additional liabilities that ultimately are subsidized by other members.

Anti-Spiking Provision – (R.C. §145.333) S.B. 343 would implement the Contribution Based Benefit Cap (CBBC), which would limit, in certain instances, the benefit a retiree could receive. Prior to determining a retiree's benefit, the system would be required to (1) determine the value of the member's accumulated contributions, with interest compounded at a rate approved by the board; (2) determine the amount of a single life annuity that is the actuarial equivalent of that amount; and (3) multiply the annuity amount by the CBBC factor, which would be determined by the system's actuary. If the member's normal benefit would exceed the CBBC, the member's benefit would be reduced to equal the CBBC. The bill would that members in Group A would not have their benefit reduced by more than 5% of the member's single life annuity before the application of the CBBC unless during any full month of service, the member's earnable salary was less than $1,000.

This provision is intended to prevent spiking of final average salary, which can occur when a member works the majority of their public career in a lower paid position, then a few years prior to retirement, the member receives a considerable salary increase. The member's final average salary is then increased out of proportion to the salary he or she received during the majority of their career. The CBBC is designed so it would not impact members who receive typical salary increases and promotions throughout their careers.

This is consistent with the JLC recommendation made in 1996 to limit disproportional increases in salary prior to retirement. STRS is currently the only retirement system that has a percentage limit on salary increases (H.B. 180; eff. 10-29-91).

Purchase of Service Credit - (R.C. §§ 145. 20, 145.201, 145.29, 145.294, 145.452, Section 4, Section 8) S.B. 343 would change the purchase price for a number of types of service credit.

Type of Service	Current Purchase Price	Purchase Price Under S.B. 343
Service while on Workers' Compensation (up to 3 years) (R.C. §145.2915)	No cost to member	Member pays employee contributions that would have been paid, plus interest; employer pays employer contributions that would have been paid, plus interest at rate determined by board
In-term increase in salary for elected officials Constitutionally barred from receiving increase (R.C. §145.2916)	Employee contributions on the additional salary official would have otherwise been eligible to receive, plus interest if paid at later date	Member pays employee and employer contributions on the salary the official would have otherwise been eligible to receive (the employer contribution is excluded from the definition of "earnable salary")
Prior service for elected officials (R.C. §145.20)	Member rate in effect at time of payment x salary for period of service, plus interest	100% of the additional liability
Additional 35% service for elected officials and certain appointed officials (R.C. §145.201)	Member rate in effect at time of payment x salary for period of service x 2	100% of the additional liability

Exempted service (R.C. §145.28)	Member salary for 12 months preceding purchase x rate established by board (currently 20%)	100% of the additional liability
Service while on leave of absence or resignation due to pregnancy (R.C. §145.291)	Member rate in effect at time of payment x salary prior to leave, plus interest	100% of the additional liability
Credit for service between 1/1/1935 and date of becoming member (R.C. §145.292)	Member rate in effect at time of payment x salary for period of service, plus interest	100% of the additional liability
Out-of-state, federal, or service covered under municipal retirement system in Ohio (R.C. §145.293)	Member contribution for first year of full-time Ohio service following termination of service to be purchased, plus interest	100% of the additional liability
Employee prevented from making contributions due to injury, illness, or other approved reason (R.C. §145.47(G))	Contributions that would have been paid (payment must be made within one year)	100% of the additional liability

The board would also be authorized to establish rules regarding payment plans for the cost of purchasing or restoring credit.

The new purchase price would be applicable to all purchases initiated six months or longer after the bill's effective date. Additionally, it would prohibit a member who has already begun payroll deductions for the purchase of service credit from initiating a new purchase for the same type of credit. The purchase would be required to be completed within five years and six months after the effective date of the bill and it would state that the change in the cost of service credit does not express an intent to increase the cost for certain military service.

Sub. S.B. 343 also would the provision that specifies how full-time service is determined for board and commission members who purchase the additional 35% service credit. Current law states that the service is considered full-time if full-time service is required by law or if the Director of Administrative Services determines that the position is full-time. The bill would allow the board to determine by rule what constitutes full-time or part-time service for this provision.

The bill also would allow a surviving spouse to continue any service credit purchase the member initiated. A purchase of credit would be considered to be "initiated" if the member made one or more payments. Current law allows a surviving spouse to initiate a purchase of service credit.

Sub. S.B. 343 – Sens. Niehaus/Kearney

In 2007, the ORSC asked its actuary, Milliman, Inc., to complete a report on the cost of purchasing service credit. The report, entitled *Report Regarding Service Purchases Experience of the Five Ohio Retirement Systems During FY Ending 2005* was presented at the March 14, 2007 ORSC meeting. The report revealed that the retirement systems subsidized the purchase of credit in nearly every case in 2005. This was true even for service credit for which the member was required to pay the full actuarial cost. The actuarial cost of service is dependent upon the member's final average salary, years of service, and age at retirement. None of these factors are known until a member retires. Therefore, the true actuarial cost of purchasing service can be known only at retirement. 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.

The purchase of credit creates two types of additional liabilities: pension and health care. Although pension benefits are set by statute and become vested once a member retires, health care is discretionary and, therefore, the additional health care liability will fluctuate as changes are made to the health care plan. As Milliman noted in the report, health care liabilities created by the purchase of service could be eliminated if the purchased service did not count toward eligibility for or the amount of health care benefits.

In response to that report, staff recommended, and the Council approved at the 9/12/2007 ORSC meeting that

3. The purchase price for all types of service should be the full actuarial liability resulting from the purchase of service credit, except as prohibited by federal law, and members should be required to retire within 90 days of purchasing service.
    - The rationale behind this change would end the current practice whereby all members of the system subsidize a member's purchase of service credit. It is also consistent with recent legislative changes that have required members to pay more of the additional actuarial liability resulting from the purchase of service credit.
4. Purchased credit should be prohibited from being counted for purposes of health care eligibility or subsidy.
    - As noted in the Milliman report, this would eliminate the additional health care liabilities created by the purchase of credit. This could be done by legislation or administrative rule.

This bill is consistent with those recommendations because it would require the member to pay the full additional liability resulting from the purchase and it would allow the board to establish rules regarding whether purchased credit may be used toward health care eligibility or subsidy. However, it does not require the member to retire within 90 days of purchasing the service. *Therefore, we recommend that the bill be amended to require the member to retire within 90 days of purchasing the credit.*

S.B. 343 would clarify that R.C. §145.30 applies only to military service that occurred prior to 10-13-94 (the adoption of the Federal Uniformed Services Employment and

Reemployment Rights Act of 1994). This section grants up to 10 years of service credit for military service that interrupted public employment. Additionally, the bill would allow the board to require payment for this credit and states that if the board chooses to require payment for this credit, the credit would be granted only if payment is made and it would allow the member to purchase only part of the credit. Additionally, the bill would eliminate the prohibition against purchasing military service credit if the credit is used toward another retirement benefit (i.e., a military benefit). (R.C. §§145.30, 145.301)

Coordination of Benefits with STRS and SERS – (R.C. §§145.37, 3307.57, 3309.35) Historically, public employees with service credit in any of the non-uniform systems (OPERS, STRS, SERS) have been able to coordinate their service credit and receive a benefit from the system in which they have earned the most service credit. The coordination occurs at retirement and the system from which the member retires receives twice the member's accumulated contributions from the other non-uniform system(s) in which the member has earned service credit. This allows for complete portability of service among the non-uniform system.

The bill would change the amount of money transferred to the non-uniform system paying the benefit from a non-uniform system in which the member has earned service credit. Under the bill, the system paying the benefit would receive from the system in which service credit was earned the following amount: (1) the amount contributed by the member, or in the case of service credit purchased, the amount paid by the member, that is attributable to the year of service; (2) an amount equal to the lesser of the employer's contributions made on behalf of the member or the amount that would have been contributed by the employer for the service had the member been a member of the system paying the benefit at the time the credit was earn; (3) if applicable, an amount equal to the amount paid on behalf of the member by an employer under R.C. §145.483 (delinquent contributions); and (4) interest compounded annually at the lesser of actuarial assumption rate of OPERS or the system transferring money.

Transfers from OP&F, HPRS, or Cincinnati Retirement System (CRS) - (R.C. §§145.295, 145.2911, 145.2912, 145.2913) The bill would limit the transfer or restoration of service credit from OP&F, HPRS, and CRS in two ways: (1) the member must be eligible with or without the credit to retire or receive a disability and (2) member must agree to retire or go on disability within 90 days. If the member does not retire/go on disability within 90 days, OPERS would withdraw the credit.

This provision is generally consistent with the Council's position on the purchase of service credit.

Refund of Contributions – (R.C. §145.401) S.B. 343 would change the additional amount a member who has five or more YOS receives when taking a refund of contributions by allowing the board to determine the additional amount by rule. Current law sets the amount in statute for a member with five or more YOS as an additional 33% and for a member with

10 or more YOS as an additional 66%. It would also include purchased military service and restored credit as credit eligible for the enhanced refund.

Membership Determination - (R.C. §§145.036, 145.037, 145.038) The bill would require employers to submit to the system a list of all individuals who provided personal services at any time during the preceding calendar year but did not contribute to the system because they were considered independent contractors. The list must be submitted to the systems on or before January 31 of each year. If there is any doubt as to the individual's status as an independent contractor, the employer is required to make a written request to the board for determination of whether the individual is a public employee. The board's determination is final.

The bill would require a public employer who employs an individual classified as an independent contractor on or before the effective date of the bill to send notice and the appropriate form to the individual that they have the right to seek a determination as to whether he or she should have been classified as a public employee rather than an independent contractor. This must be done within 60 days of the bill's effective date. It also would allow an individual who was classified as an independent contractor on or before the effective date of the bill to request a determination of the board as to his or her employment status. The board would have 30 days to respond to the request. This request must be made within one year of the effective date of the bill.

We note a technical change that should be made on line 4365 regarding when an application must be made. The bill states that "if the recipient's application for a disability benefit was received by the system *before* the effective date of this amendment, or if *after* that date…" [emphasis added]. *We recommend the words "on or" should be added to line 4413 before "after."*

For individuals who begin employment on or after the effective date of the bill and are classified as independent contractors, the employer is required to inform the individual within 30 days of employment that the employer considers the employee to be an independent contractor and the employee is required to acknowledge that classification in writing. The individual would have five years from the date personal services first began to initiate a request for membership determination. The only exceptions to this five-year limit would be if the individual demonstrates that he or she was physically or mentally incapacitate or the employer did not obtain or failed to retain the written acknowledgement.

Retroactive Benefit Payments - (R.C. §§145.32(E), 145.57(B)) The bill would limit retroactive benefit payments for inactive members and members coordinating benefits with STRS and/or SERS to within 90 days of application. Current law provides that a retirement benefit is effective the first day of the month following the later of (1) the last day compensation was paid or (2) the member's attaining the minimum age or service eligibility. This change would add a third limit of 90 days prior to receipt by the board of a member's completed application for retirement.

Sub. S.B. 343 – Sens. Niehaus/Kearney

Service Credit (R.C. §§145.01, 145.2914) - The bill would remove the term "prior service" from the Revised Code. "Prior service" is defined as service as a public employee rendered prior to 1935.

The bill would allow members who earned service credit in the OPERS DC plan to have that credit count as "contributing service" in the OPERS Defined Benefit (DB) plan if they elect to switch plans.

The bill would allow up to five years of service earned in the regular OPERS division and the PS division to be used toward a benefit in the LE division if the member elects to either have the amount of non-LE service credit earned reduced so there is no additional liability to the system or if the member pays the additional liability. Current law does not provide for the option of receiving reduced credit.

S.B. 343 also would allow the board to treat service as a public safety officer as service as a law enforcement officer if fewer than 1% of the system's members are contributing as public safety officers. If this occurs, the contribution rate for public safety officers will be the same rate charged to law enforcement officers. (R.C. §§145.332, 145.49)

Defined Contribution Plan – (R.C. §§145.19, 145.191, 145.193, 145.194, 145.195, 145.23, 145.813, 145.814, 145.82, 145.83 145.87, 145.88, 145.97) – The bill would prohibit a new employee from electing to participate in the OPERS DC plan if the employee had previously elected to participate in the OPERS DB plan. Likewise, a new employee would be prohibited from electing to participate in the OPERS DB plan if the employee had previously elected to participate in the OPERS DC plan. Current law allows any member with less than five YOS to make an election between the two plans. However, the bill would allow a member who terminates employment and receives a refund of contributions to make an election upon reemployment.

S.B. 343 would require any member who participates in the DC plan and later becomes employed as an OPERS PS or LE officer to cease making contributions to the DC plan and contribute to the DB plan instead. Any credit already earned in the DC plan may be credited to the DB plan. This is necessary because OPERS LE officers and PS officers are not eligible to elect to participate in the DC plan.

The bill would also allow members who have participated in both the DB and DC plans to combine YOS in order to be eligible for retirement and would allow the board to adopt rules specifying how DB credit may be converted to DC credit.

Additionally, the bill would permit, rather than require, OPERS to transfer a portion of employer contributions made on behalf of DC plan participants to the account used to fund the DB plan. This amount is known as the mitigating rate. It would also authorize the board rather than the actuary to determine whether there should be a transfer of funds to mitigate any negative impact upon the DB plan as a result of participants electing the DC plan.

Sub. S.B. 343 – Sens. Niehaus/Kearney

Disability – (R.C. §145.35, 145.36, 145.362, 145.363, 145.37) The bill would keep the standard for determining whether a member is eligible for disability as whether the member is mentally or physically incapable of performing the duties of the position the member held at the time the disabling condition began or of a position with similar duties. This is known as the "own occupation" standard. The bill would change from "own occupation" to "any occupation" the termination standard for members whose disability application was received by the system on or after the effective date of the bill, have been receiving disability benefits for three or more years (up to maximum five years if continued treatment through active case management), and who were not working as an LE or PS officer when the disability occurred. The definition of "any occupation" is that the employee is not capable of gainful employment that would replace 75% of FAS, that could reasonably be found in the employee's regional job market, and for which the employee is qualified by experience, education and station in life.

Members whose disability application was received by the system before the effective date of the bill, or who on or after that date had been receiving disability benefits for less than three years, or who was employed as an LE officer when the disability occurred would remain subject to the "own occupation" standard.

We note that at the end of line 4364, the words "on or" were inadvertently excluded in regard to excluding certain members from the new standard. *Therefore, we recommend that the words "on or" be added in regard to clarifying that the "own occupation" standard would apply to members who had been receiving a benefit for less than three years on or after the bill's effective date.*

S.B. 343 would limit an employer's duty to reinstate a member to their former job to three years after the disability, *except if member is on continued treatment, then up to maximum five-year period*. Current law considers a member receiving disability to be on a leave of absence for up to five years and the employer is required to reinstate the member during that time if the member is no longer disabled. Members whose disability application was received by the system before the effective date of the bill, would continue to be considered on leave of absence for up to five years.

The bill also would prohibit post-separation eligibility for a disability benefit unless the disability began during employment or if it is work-related and becomes evident within two years of separation from employment.

The bill would mandate that a member apply within 90 days of the disability benefit being granted for Social Security Disability Insurance (SSDI) if eligible. If the member does not apply, the benefit would be suspended. The member's annual disability benefit would be reduced if the disability benefit and SSDI exceeds the recipient's CPI-adjusted FAS. The offset would not apply to those who maintained an OPERS-covered job and a Social Security-covered job simultaneously for at least five years prior to the disability. Neither of these provisions would apply to OPERS LE or PS officers.

Sub. S.B. 343 – Sens. Niehaus/Kearney

The bill would eliminate free credit for time while receiving disability, but would allow the member to purchase up to five years of disability credit. The board could charge up to the full additional liability to purchase.

Additionally, in the case of a member who has service credit in OPERS and STRS and/or SERS, the bill would provide that the retirement system that will pay the benefit (i.e., the system in which the member had the most YOS) is the system that will determine whether the member qualifies for a disability benefit.

The bill would exclude disabilities that were the result of a voluntary commission of a felony or elective cosmetic surgery other than reconstructive surgery.

The bill would allow the board to specify by rule circumstances under which a disability benefit recipient is not required to be reexamined each year.

S.B. 343 would change the applicable age for disability benefit recipients in Group C to transition to a retirement benefit from age 60 to 62. The age for Groups A and B would remain 60.

Re-employed Retiree – (R.C. §§145.38, 145.383, 145.384) The bill would change the lump sum payment made to the survivor of a re-employed retiree who dies while working and is under the age of 65 to equal the retiree's contributions, plus interest. Current law provides the survivor receives that amount plus a portion of the employer contribution as determined by the board. This change is consistent with what a re-employed retiree would receive as a lump sum payment prior to age 65.

The bill would change the interest credited to a re-employed retiree's account from an amount determined by the system's actuary, to an amount determined by the board.

Forfeiture of Benefit - (R.C. §§145.574, 2329.66, 2901.431, 2929.194) The bill would authorize the termination of a disability benefit of a member who pleads guilty to or is convicted of a specified offense committed while serving in a position of honor, trust, or profit if the disabling condition arose out of the commission of the offense the member was convicted of or to which the member plead guilty. This language was included in H.B. 123 (eff. 7-29-11). *Therefore, we recommend that this language be removed from the bill.*

Health Care – (R.C. §145.58) The bill would give the board the authority to establish eligibility for health care coverage. Current law sets eligibility for health care coverage at 10 years of specific types of service credit. Additionally, the bill would make it a first degree misdemeanor (falsification 2921.13) to make a false statement in order to receive health care benefits from the system. Any person convicted of falsification would be ineligible for health care coverage provided by OPERS.

Additionally, the bill would remove the minimum monthly amount of $96.40 that the board must reimburse for Medicare Part B.

Sub. S.B. 343 – Sens. Niehaus/Kearney

The bill also would change the current requirement that OPERS pay one-half of the premium for a spouse or surviving spouse who is age 65 but not eligible for Medicare Part A coverage (hospital). The bill would allow the board to pay a portion of the premium instead of requiring they pay half.

Board Changes – (R.C. §§145.04, 145.041, 145.05, 145.057, 145.06) - S.B. 343 would provide that any appointed board member remains a member of the board until the member's term ends or the date the member's successor take office, whichever is later. Current law provides for the appointed board member to remain on the board until a successor is appointed or 60 days, whichever occurs first.

The bill would also require each board member to complete an orientation program within 90 days of beginning board service. Current law requires only newly elected members and individuals appointed to fill a vacancy to complete an orientation program.

The bill would include appointed board members in the current prohibition against serving on the board if the member has plead guilty to or been convicted of a violation of R.C. §§102.02 (duty to file ethics disclosure statement), 102.03 (revolving door), 102.04 (compensation or services received other than from employer), 2921.02 (briber), 2921.11 (perjury), 2921.13 (falsification), 2921.31 (obstructing official business), 2921.41 (theft in office), 2921.42, (having unlawful interest in public contract), 2921.43 (soliciting or receiving improper compensation), or 2921.44 (dereliction of duty).

S.B. 343 would also add a provision stating that if an employee member of the board is no longer employed in the group the member represents, that office is considered vacant.

Plan of Payment – (R.C. §§145.46, 145.64) The bill would reduce and simplify the number plans of payments a retiree can select. Furthermore, it would name the plans "single life," "joint live," and multiple life" instead of referring to them by letter. The bill removes reference to "surviving spouse" and replaces it with "designated beneficiary." It would also allow a retiree to have two, three, or four surviving beneficiaries rather than only one.

Additional Annuity Program – (R.C. §145.64) The bill would provide for a refund of contributions if the contributor begins to receive a benefit from STRS or SERS. Additionally, the bill would require the application for a benefit from this program to be filed before filing for a retirement benefit (money purchase for a re-employed retiree). If the application is not filed prior, the contributor is eligible for only a refund of contributions rather than an annuity.

Miscellaneous – The bill would allow the board to offer health care coverage to Deferred Compensation employees. (R.C. §145.09)

The bill would require any action brought against the system, the board, or it officers, employee, or members in their official capacities to be brought in the Franklin County Court of Common Pleas. (R.C. §145.101)

Sub. S.B. 343 – Sens. Niehaus/Kearney

S.B. 343 would allow accumulated contributions that were forfeited because they were never claimed by the member, member's estate, or member's beneficiary to either remain in the employees savings fund or be transferred to the income fund, rather than requiring them to be transferred to the income fund. The bill would also allow the system to credit employer contributions for DC plan members to either the employer's accumulation fund or to the defined contribution fund; allow DC benefits to be paid from the annuity and pension reserve fund if reserves have been transferred there for that purpose. (R.C. §§145.23, 145.43)

The bill would allow board records to be made available in printed or electronic format and would allow the board to maintain records in either form. It also would allow the board to provide information requested by Social Security Administration, Medicare, Medicaid, Ohio Deferred Compensation, OP&F, SERS, STRS, and HPRS. (R.C. §145.27)

For members who have contributed to more than one plan, the bill would allow the board to establish one uniform beneficiary designation form that could be used for all plans in which the member has contributions when a member dies before retiring. (R.C. §145.431)

The bill would change the interest rate charged on delinquent contributions from a rate set by the board to the assumed actuarial rate of interest. (R.C. §145.483)

The bill would allow the system to adjust an allowance or benefit if an error occurs in calculating the allowance or benefit. It also would allow the system to recover money that was paid erroneously to a third party. (R.C. §145.563)

The bill would allow for the transfer of money from the employer's accumulation fund if the amount in the expense fund is not sufficient to cover the administrative expenses for the coming year. Current law allows the board to apportion the needed amount among contributors, up to $3 per contributor. (R.C. §145.54)

The bill would provide that a change in a retirement benefit that results from the death of a beneficiary would take effect the month following the date of death instead of the month following the notice of death. (R.C. §145.64)

The bill would delete obsolete provisions regarding past credit and benefit increases. (R.C. §§145.02, 145.292, 145.321, 145.322, 145.324, 145.326, 145.327, 145.328, 145.329, 145.3210, 145.3211, 145.3212, 145.3213, 145.332, 145.42, 145.44, 145.461, 145.462)

Ohio Retirement Study Council - (Section 7) The bill would require the ORSC to study and make recommendations regarding the board's authority to modify age and years of service requirements for retirement eligibility, cost of living adjustments and employee contribution rates. The ORSC would be required to submit its findings and recommendations to the Senate President and Speaker of the House within 90 days of the bill's effective date.

Effective Date – (Section 6) The bill would establish the effective date of the bill as January 7, 2013.

Sub. S.B. 343 – Sens. Niehaus/Kearney

Fiscal Impact

According to the OPERS actuary, Gabriel Roeder Smith & Company, S.B. 343 would decrease the actuarial accrued liabilities by nearly $4.1 billion. The amortization period would decrease by 13.63 years to 10.43 years. If the amount of contributions allocated to health care is increased to 4%, the amortization period would decrease by 7.59 years to 16.47 years. Both scenarios result in a funding period well below the maximum allowable 30-year period.

Staff Recommendation

The staff recommendation is that the Ohio Retirement Study Council vote to recommend that the 129th General Assembly vote to approve S.B. 343 with the following amendments:

1. *That the words "on or" be added to line 4413 before "after" in regard to clarifying that the "own occupation" standard would apply to members who had been receiving a benefit for less than three years on or after the bill's effective date;*
2. *Require the member to retire within 90 days of purchasing the credit;*
3. *Remove the language regarding forfeiture of benefit because it was included in H.B. 123 (eff. 7-29-11). (R.C. §§145.574, 2329.66, 2901.431, 2929.194)*

The Ohio Retirement Study Council voted at its meeting of September 10, 2012 to accept staff's recommendations.

Effective Date

January 7, 2013

Sub. S.B. 345 – Sens. Niehaus/Kearney

Substitute Senate Bill (Sub. S.B.) 345 would make the following changes to the laws governing the State Highway Patrol Retirement System (HPRS) in order to ensure the continued to solvency of the retirement system:

- Set the final average salary (FAS) to five years, effective January 1, 2015. (R.C. §5505.01 (M), Section 3)
- Make changes to the Deferred Retirement Option Plan (DROP). (R.C. §5505.03 (B), (C) (1), §5505.54(B)(1)(a), (b))
- Give the board the authority to adjust the employee contribution rate between 10-14% of a member's salary. (R.C. §5505.15 (A)(1))
- Delay the board authority to increase and/or decrease the employee contribution rate for 180 days after effective date of the bill and require ORSC to study and make recommendations within 90 days after effective date of the bill, January 7, 2013. (R.C. §5505.15(A)(1), Section 3, Section 4)
- Increase the eligibility age to 60 to receive a Cost of Living Allowance (COLA) for retirees effective January 7, 2013. (R.C. §5505.174 (A)(2))
- Eliminate the annual 3% COLA except for benefit recipients receiving benefits at or below 185% of the federal poverty limit for a family of two. (R.C. §5505.174 (B)(1)(a))
- Give the board the authority to set the COLA between 0% and 3% based on annual actuarial valuation for all other benefit recipients. (R.C. §5505.174 (B)(1)(b))
- Clarify eligibility for medical coverage is under Part B of the Medicare program established under Title XVIII of the Social Security Amendments of 1965, 79 Stat. 301 (1965). (R.C. §5505.28 (B))

Background

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 Ohio Retirement Study Council (ORSC) and the standing committees of the House and Senate with primary responsibility for pension legislation a plan approved by the retirement board that reduces the funding period to no more than 30 years, along with any progress made by the board in meeting the 30-year funding period. This standard was modeled after the national standard adopted by the Governmental Accounting Standards Board for all governmental pension plans. The change was intended to maintain inter-generational equity among taxpayers and system members by limiting the ability to fund benefit costs by extending the funding period beyond 30 years.

In 2003, the ORSC voted to have its actuary, Milliman USA, review the adequacy of the contribution rates in all five retirement systems. That report, which was updated in 2004, generally concluded that in the case of the Ohio Police and Fire Pension Fund (OP&F) and the State Teachers Retirement System (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.

Given the severe decline in investment market values since the end of fiscal year 2008 and the need to begin evaluating options to address this situation proactively, the Council approved a motion to have staff work with OP&F on December 10, 2008, on March 11, 2009, with STRS, and with the Public Employees Retirement System (PERS), School Employees Retirement System (SERS) and the State Highway Patrol Retirement System (HPRS) on April 8, 2009. All five systems, in consultation with the ORSC, developed legislative proposals that would reduce their unfunded actuarial accrued liability periods.

STRS, SERS, OP&F, and HPRS presented their board-approved funding plans at the September 9, 2009, ORSC meeting. PERS presented its board-approved plan at the December 9, 2009, ORSC meeting. Both STRS and OP&F presented updated plans in early 2011. S.B. 345 contains the HPRS board approved plan.

In 2011, the ORSC hired Pension Trustee Advisors and KMS Actuaries (PTA/KMS) to complete a review of the boards' plans and make recommendations related to pension reform. PTA/KMS presented its review at the July 11, 2012 ORSC meeting. They found that the plans are a positive step and will, generally, enable the majority of the systems to meet the goals of funding reasonable health care benefits at no increased cost to taxpayers.

Staff Comments

Final Average Salary – (R.C. §5505.01 (M)(1), (2), Section 3) Effective January 1, 2015, the bill would change the final average salary (FAS) to the highest five years of salary. This bill would add two years to the current law, which states the FAS is the total of the highest three years of salary.

House Bill (H.B.) 840 (eff. 1/1/1966) established the FAS as the average of a member's highest five years of consecutive or non-consecutive years of salary, divided by five. If a member had less than five years of service, the FAS would be calculated on the average of the annual rates of salary paid during one's total years of contributing service. Since H.B. 1050 (eff. 9/30/1974), the FAS calculation has used the highest three years of annual salary.

HPRS uses the FAS to determine the member's final retirement benefit. At the end of a member's service, HPRS adds the member's highest three years annual salary of consecutive or non-consecutive service and divides the total by three to reach final average salary. The bill would allow HPRS to add a member's five highest years of salary, divided by five, to reach the final average salary.

Sub. S.B. 345 – Sens. Niehaus/Kearney

The PTA/KMS report recommended reducing a member's benefit by increasing the FAS. Increasing the FAS would work to reduce the unfunded actuarial accrued liability and member's actuarial accrued liability. The report calculated the FAS increase will moderately reduce benefits by 4% and will minimize the impact of salary spiking by approximately half.

Salary spiking generally results from promotions to higher paying positions that occur at the end of a member's career. These years skew a member's FAS by averaging only the highest years of salary, which are disproportional to the member's career average. HPRS is forced to pay out high retirement benefits that exceed the member's low career contributions to the system, thus creating a fiscal deficit in the pension system. Over time, the fiscal shortfall between a member's career contributions and lifetime benefit is exacerbated. The inclusion of two additional years of salary would provide some counterbalance to abnormal increases in salary. However, increasing the FAS to five years does not eliminate the ability of a member to spike their FAS, even though overtime is not calculated into a HPRS member's salary.

Therefore, we recommend that HPRS adopt and include an anti-spiking provision for the FAS.

Employee Contributions – (R.C. §5505.15 (A)(1), Section 3, Section 4) Sub. S.B. 345 would set the HPRS employee contribution rate to a range between 10% and 14% of annual salary. The HPRS board, in consultation with its actuary, may increase and/or decrease the employee contribution rate as it considers necessary to meet the 30-year amortization period as determined by the annual actuarial valuation. This would change the current employee contribution rate, which is set at 10% of annual salary. The bill delays the board's authority for 180 days after the effective date, January 7, 2013. The bill would require the ORSC to study and make recommendations regarding the board's authority to adjust the employee contribution rate to the General Assembly within 90 days of the effective date of the bill.

Over the years, the employee contribution rate has been adjusted to meet funding obligations. The employee contribution rate has ranged from as low 5%, as established by H.B. 1 (eff. 10/1/1953), to a rate as high as 10.5%, set by Am. Sub. H.B. 346 (eff. 11/2/1989). The employee contribution rate was set at the current 10% rate by Sub. H.B. 373 (eff. 3/24/2003).

Historically, the costs of benefits have been shared between employees and employers. The State, as the sole employer in HPRS, contributes 26.5% to HPRS, the highest employer rate among all five retirement systems. Compared to systems with uniformed officers, OP&F employers contribute 19.5% annually on behalf of its police officers, while PERS Law Enforcement (LE) employers contribute 18.1% annually on behalf of its officers. HPRS's employees contribute 10% of annual salary, which is the same annual rate as required for police officers in OP&F. However, PERS LE officers contribute a rate of 11.6% of annual salary.

Increasing the employee contribution rate will create a better cost balance between the employee and the employer, thus preventing an increase in state contributions while simultaneously reducing taxpayer risk. Under Sub. S.B. 345, the HPRS board would be able to determine the employee contribution rate, between 10% and 14%, the exact percentage to be based on the HPRS annual actuarial valuation required by R.C. §5505.12. While HPRS is ultimately responsible for providing the pension, the employee would bear more risk and responsibility for financing the benefit on the basis of the fund's annual performance.

This bill would enable the HPRS board to act without legislative approval to address funding and solvency issues. The modification would enable HPRS to increase rates when the funding position declines and decrease the employee contribution rate when the funding position improves. However, Sub. S.B. 345 would limit the power of the HPRS board to adjust employee contributions within a range of 10%-14% of annual salary. The employee contribution rate range would be codified in statute, thus providing the employee with a safeguard. The bill would prevent arbitrary increases or decreases in the employee contribution rate by requiring board action to be based on meeting the 30-year amortization period in the annual actuarial valuation. The employee contribution rate range in Sub. S.B. 345 is consistent with the SERS, PERS, and STRS law, which permit those respective boards to adjust employee contribution rates within a range of 8%-10% of annual salary.

Sub. S.B. 345 would delay the board's authority for 180 days after the effective date 1/7/2013. The bill would require the ORSC to study and make recommendations, within 90 days after 1/7/2013, regarding the board's authority to adjust the employee contribution rates. This would allow the Council to determine the appropriate division of authority between the board and the Legislature and ensure consistency among all five statewide retirement systems.

We do note, however, an inconsistency in the language of the current law regarding the employer contribution rate. When H. B. 1, (eff. 10/16/2009) set the HPRS employer contribution rate to 26.5% from the total salaries paid by contributing members in §5505.15 (B), the prior language setting the employer contribution rate at no more than three times the employee contribution rate was not removed. Therefore, while merely technical, the current law does contain a conflict as to what is the employer contribution rate at HPRS.

Therefore, we recommend a technical amendment that removes the language allowing the employer contribution rate to be set at three times the employee contribution rate. This was inadvertently not deleted in §5505.15 (B) when the employer contribution rate was capped at 26.5% during the 127^{th} G.A.

Deferred Retirement Option Program (DROP) – (R.C. §5505.54 (B)) Sub. S.B. 345 would change the DROP program by directing DROP member contributions over 10% to accrue to the employer fund. DROP members would continue to make contributions identical to normal service employees, but only 10% of the member's contributions would accrue to the member's direct benefit.

Currently, an employee participating in DROP contributes 10% of his/her salary to HPRS. The entire 10% is placed into that employee's savings fund and, upon separation from DROP and meeting the service and age requirements, the member receives all of his/her accrued contributions with interest. Employer contributions go to the employer's accumulation fund while the member is in DROP and all of those contributions are credited to HPRS.

Am. S.B. 206 (eff. 6/6/2006) created DROP in HPRS. Participation in DROP is limited to members that are otherwise eligible for normal service retirement and younger than age 58. Although technically considered retired, the member continues to be employed until age 60, or for a period no longer than eight years. During DROP, the member's monthly service retirement benefit is credited to a tax deferred account, along with annual compound interest at a rate specified by the board. 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 his/her monthly service retirement benefit earned from his/her normal service. While participating in the DROP, the member does not earn any additional service credit, is not eligible to purchase any service credit, and is not eligible for any health care benefits under HPRS (including the member's spouse and dependents). For purposes of board elections, the member is eligible to vote for the retirant member of the HPRS board.

Under Sub. S.B. 345, the HPRS board would be able to determine the rate of annual salary DROP members would contribute between 10% and 14%, the exact percentage to be based on the HPRS annual actuarial valuation required by R.C. §5505.12. The proposed changes would prevent an increase in state contributions while simultaneously reducing taxpayer risk by applying the employee contribution rate range to the DROP and capping a DROP member's accrual of contributions to 10% of annual salary. DROP members would share the same risk as active service employees and responsibility for financing their benefit on basis of the fund's annual performance. Directing DROP member contributions in excess of 10% to the employer's fund would result in financial gains to the HPRS fund.

By capping the DROP member's contribution accrual at 10% of annual salary, the DROP becomes a less attractive option. If the employee contribution rate were set higher than 10%, the employee could, conceivably, accrue more by working in their current position than by participating in the DROP. An active service employee accrues, and would continue to accrue, all of his/her employee contributions in active service in addition to salary increases. However, under S.B. 345 a DROP member could only accrue a maximum of 10% of his/her contributions.

Cost of Living Allowance (COLA) – (R.C. §5505.174 (A)(1), Section 3) Sub. S.B. 345 would eliminate the annual 3% COLA and would permit the HPRS board to set a COLA that is not to exceed 3% or to not grant a COLA at all. Sub. S.B. 345 would grant the HPRS board the authority to adjust the COLA rate within a range of 0% and 3%; the exact percentage would be based on the HPRS annual actuarial valuation required by R.C. §5505.12, but not to exceed federal limits established by the Internal Revenue Service.

Sub. S.B. 345 would also alter the eligibility for future pension benefit recipients to receive a COLA. Under Sub. S.B. 345, a retiree in HPRS whose pension effective date is on or after January 7, 2013, would be eligible for a COLA at 60 years of age and older and who has been receiving a pension for at least 12 months. A member whose pension date is prior to January 7, 2013, and has been receiving a pension for more than 12 months would remain eligible for a COLA at 53 years of age. The bill would also keep the annual 3% COLA for current pension benefit recipients ages 65 years and older who are currently receiving a pension not greater than 185% of the federal poverty level for a family of two. This exception would maintain the current 3% COLA for the oldest living recipients, which annually receive the lowest benefits.

Currently, an annual 3% COLA is granted to all eligible HPRS pension recipients. A member is eligible for a COLA at 53 years of age or older and who has been receiving a pension at least 12 months. Benefit recipients receiving survivor benefits are eligible for the COLA after receiving benefits for at least 12 months. Disability benefit recipients are also eligible for the COLA after receiving benefits for at least 60 months or age 53, whichever comes first.

Initially, COLA eligibility was reserved for retirees 62 years and older who had been receiving a pension for at least 12 months. The COLA was established by S.B. 133 (eff. 11/18/1981), which set the COLA to match to the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). For increases in the CPI-W above 3%, H.B. 10 (eff. 5/6/1988) created a COLA bank to accumulate the excess and apply it in succeeding years to set the COLA. The COLA bank was eliminated by H.B. 157 (eff. 2/1/2002), which untied the COLA from the CPI-W and replaced the provision with an annual 3% COLA.

Similar to the provision setting the employee contribution rate range, Sub. S.B. 345 would allow the HPRS board to issue a COLA in consultation with their actuary and only on the basis of the 30-year amortization period in the annual actuarial valuation. This adjustment would eliminate the adverse experience of the annual 3% COLA, which provided increased payments for retirees without considering the actual experience of the funds. Thus, in years when the actuarial experience underperformed, the difference between investment income and COLA outlays created a large deficit.

Rather than issuing a COLA on a reoccurring basis, Sub. S.B. 345 would permit the HPRS board to set the COLA on the basis of the fund's financial health. If the annual actuarial valuation report determined the fund increased, the board would have the authority to issue a COLA if, in consultation with their actuary, it would be fiscally feasible. On the contrary, if the annual actuarial valuation determined the fund decreased and fell out of the 30-year amortization period, the board would have the authority to not issue any COLA.

Sub. S.B. 345 would address the shift in retirement and life expectancy demographics by increasing the eligibility age to receive a COLA. Retirees among all systems are living longer and while retirees of uniformed systems have shorter life expectancies compared to non-uniformed retirees, uniformed members retire at an earlier age and are eligible for more COLA increases.

Sub. S.B. 345 – Sens. Niehaus/Kearney

Sub. S.B. 345 would maintain important public policies by not changing the COLA eligibility for its lowest pension recipients, which are typically HPRS's oldest retirees. This exception recognizes the limitations of recipients that lack the same ability to provide for their own retirement security as other retirees. By preserving the annual 3% COLA for the lowest wage earners, the bill would continue to adjust retirement income to match inflation and attempt to provide retirement security for its oldest retirees.

The COLA provision is consistent with the PTA/KMS Report on 30-Year Plans and Pension Reform to the ORSC. The report found that 48% of the present value of future benefits is due to currently retired and inactive members. For the pension and health care funds, modest adjustments to the COLA would create long-term financial gains. The report recommended that the HPRS board have the authority, within limitations, to adjust the COLA without being subject to the legislative process. As fiduciaries, the board is charged with the fiduciary duty of acting in the best interests of the pension system. The bill's proposed authority to adjust the COLA without the legislature's approval would allow the board to address funding issues without delay.

Sub. S.B. 345 is inconsistent with the prior ORSC recommendation to match the COLA with the CPI-W, not to exceed 3%. Historically, the CPI-W has been higher than the 3% COLA, as the 30-year CPI-W is 4%. However, in the last 10-year experience the COLA has been far greater than the CPI-W and retirees have been receiving a COLA higher than inflation. We find that tying the COLA to the HPRS's funded status is a reasonable accommodation.

The authority granted to the HPRS board to adjust the COLA within a statutorily set range combined is sufficient. The bill would give the HPRS board the authority to make adjustments to the system, but would simultaneously provide necessary safeguards. The HPRS board would also have the authority to not issue a COLA. Though it is not specifically stated within Sub. S.B. 345, HPRS's authority to change the COLA annually or whether to ever grant a COLA, implies the COLA is not a vested benefit. This is consistent with the ORSC position.

We recommend that Sub. S.B. 345 be amended to include language to clarify that the COLAs granted after the effective date of the bill are not a legally vested benefit.

Fiscal Impact

According to the HPRS actuary, Gabriel, Roeder, Smith & Co., increasing employee contributions to 14% in conjunction with reducing the COLA would create an additional 6.02% of pay that could be used to bring the amortization period for the pension's unfunded accrued liability (UAL) within the 30-year amortization requirement or extend the solvency period of the health care fund. The retirement systems have three sources of revenue to fund the level of benefits guaranteed by statute: (1) member contributions; (2) employer contributions; and (3) investment income. Addressing one measure independently of another would not completely address the major funding issues. However, increasing employee contributions while simultaneously reducing the COLA and increasing the FAS would enable HPRS to move the amortization period within the statutorily required 30-year funding period.

Sub. S.B. 345 – Sens. Niehaus/Kearney

These adjustments are projected to decrease the UAL by more than $87 million, reduce the employer's normal cost by roughly 7% and move the amortization period to 29.94 years.

Staff Recommendation
The staff recommends the Ohio Retirement Study Council vote to recommend that the 129th General Assembly vote to approve Sub. S.B. 345 with the following amendments:

- *Amend the reference in §5505.54 (B)(1), line 389, "division (A) of section 5505.15" to "division (A)(1) of section 5505.15";*

- *That the language allowing the HPRS board to establish the employer contribution rate at no more than three times the employee contribution rate be deleted;*

- *That language clarifying that the COLAs granted after the effective date of the bill are not a legally vested benefit;*

- *That the bill be amended to include an anti-spiking provision for the FAS.*

At its meeting on September 10, 2012, the Ohio Retirement Study Council voted to accept the Staff recommendations.

Effective Date
January 7, 2013

PENDING PENSION-RELATED ISSUES

129th GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2012

The ORSC staff keeps legislators abreast of relevant public retirement issues and of prior recommendations that have been made but not acted upon by the legislature. There remain a number of issues and recommendations that continue to warrant legislative consideration. What follows is a brief summary of each issue and of action taken by the legislature, if any, in 2011 and 2012. Further background and detail is available through the ORSC website www.orsc.org.

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

Pursuant to S.B. 82 (eff. 12-6-1996), each retirement system whose funding period exceeds 30 years in any given year is required to submit to the ORSC and the standing committees of the house and senate with primary responsibility for pension legislation a plan approved by the retirement board that reduces the funding period to no more than 30 years, along with any progress made by the board in meeting the 30-year funding period. This standard was modeled after the national standard adopted by the Governmental Accounting Standards Board for all governmental pension plans. The change was intended to maintain inter-generational equity among taxpayers and system members by limiting the ability to fund benefit costs by extending the funding period beyond 30 years. The following table summarizes the funding period and funded ratio of each retirement system as reported in its last actuarial valuation[1]:

Retirement System	Funding Period	Funded Ratio
PERS	30	77.4%
STRS	36.4	64.0%
SERS	30	62.83%
OP&F	Infinite	63.1%
HPRS	Infinite	59.5%

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

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

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

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

STRS, SERS, OP&F, and HPRS presented their board-approved funding plans at the September 9, 2009 ORSC meeting. PERS presented its board-approved plan at the December 9, 2009 ORSC meeting. Failure to implement a viable plan that will reduce the funding period to no more than 30 years, as certified by the retirement system's actuary, could be potentially very costly in the long run with the gradual disfunding of these retirement systems.

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

S.B. 340, S.B. 341, S.B. 342, S.B. 343, S.B. 345 were enacted this session and contain the board approved plans. (eff. 1-7-13)

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

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

- "That the normal retirement age be increased in the uniformed employee systems from 48 to 52 with a four-year phase-in and that benefits be reduced prior to normal retirement age." S.B. 340 would increase the retirement age to 52 for members of OP&F hired after 7-2-13.

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

  S.B. 148 (eff. 5-14-08) increased the normal retirement age to 67 and the minimum number of years of service new members of SERS need to be eligible for retirement from 5 to 10. S.B. 341 makes these changes applicable to all SERS members. S.B. 342 includes a minimum retirement age of 60 for STRS members and increases the number of years of service needed to retire from 30 to 35 at age 60. S.B. 343 includes a minimum retirement age of 55 for OPERS members and increases the number of years of service needed to retire at age 55 from 30 to 32.

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

  S.B. 148 (eff. 5-14-08) changed the reduction factors for new members opting for early retirement. The reduced benefit is based on actuarial factors. S.B. 341 makes this change applicable to all SERS members; S.B. 342 makes it applicable to all STRS members; S.B. 343 makes it applicable to all OPERS members; S.B. 340 makes it applicable to OP&F members eligible for early retirement.

- "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.)

  S.B. 343 limits salary increases for OPERS members by basing the benefit on the contributions the member has made. S.B. 340 sets a salary benchmark for OP&F member with 15 or more years of service.

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

• “That non-law enforcement service credit be excluded for purposes of determining eligibility for service retirement under PFDPF.” (H.B. 648 (eff. 9-16-98) requires members who establish membership in OP&F on or after 9-16-98 to pay the difference between both the employee and employer contributions that were made and the employee and employer contributions that would have been made had the member rendered the service in OP&F, plus annual compound interest thereon. Members who do not pay the difference receive pro-rated credit for their non-law enforcement service.)

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

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

According to SERS staff, the SERS board commissioned The Segal Company to statistically verify member interest and identify the costs of implementing a defined contribution plan in 2002. Segal surveyed 10,000 SERS members who had less than five years of service and would be eligible for the DC plan. They found that 1% of new SERS members were interested in a DC option based solely on their own investments and 89% of new members preferred a guaranteed retirement. However, there appeared to be considerable interest in a hybrid plan that combined features of a DB and DC plan (46%). Segal completely outsourced the development and maintenance of the option. According to Segal this would require about $1 million in start-up costs and $1.3 million annually to operate. In February 2003, the SERS board decided that it was not in the best interest of its members to develop a DC option; however, the board requested that staff revisit the studies at a later time, and in the interim, request a language change making the current statute permissive rather than mandatory. S.B. 341 amended SERS law to make the establishment of a defined contribution plan permissive rather than mandatory.

Contributing Service Credit in PERS - H.B. 232 (eff. 2-16-84) increased the minimum amount of earnable salary required per month from $150 to $250 to receive one month’s credit in OPERS. An OPERS member who earns $250 per month for twelve consecutive months ($3,000) is granted one year of service credit. This raises the public policy issue of whether the minimum monthly salary amount used to determine service credit in PERS should be increased and indexed to annual wage inflation. S.B. 343 increases the minimum monthly salary required to receive one month’s credit in OPERS from $250 to $600, increased based on increases in the compensation of township trustees. This provision is effective 1-1-14.

Deferred Retirement Option Plans (DROP) - Popular throughout the country, these plans are intended to encourage members to continue working beyond normal retirement and are often designed to be cost-neutral to the retirement system. Generally, participation in a DROP is limited to members who are eligible for normal service retirement. The member continues to be employed for some defined period, such as three to eight years, during which period the member's monthly service retirement benefit is credited to the member's DROP account, along with annual compound interest at some specified rate. Upon termination of employment, the member receives a lump sum distribution of the member's DROP account or some alternative distribution thereof, and begins receiving a monthly service retirement benefit based on the member's final average salary and service credit calculated at the time the member elects participation in the DROP. S.B. 134 (eff. 7-23-02) granted the OP&F board the authority to establish a DROP for its members. A recent review of OP&F's DROP revealed that 85% of members who do not retire when first eligible for retirement elect to participate in the DROP. In the analysis of S.B. 134, the ORSC staff raised the public policy issue of whether the other four retirement boards should be granted similar authority to establish DROPs for their respective memberships. S.B. 206 (eff. 6/15/06) established a DROP for members of S.B. 340 increased the minimum participation period for OP&F members from 3 to 5 years and also eliminated COLA for DROP members who begin participating on or after 7-2-13 and reduces the percentage of member contributions that is credited to DROP accruals for members who begin DROP on or after 7-2-12. S.B. 345 amended the law for DROP participants in HPRS to allocate any employee contributions in excess of 10% to the Employer's Accumulation Fund instead of the Employee's Savings Fund.

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.

<u>Reemployment Provisions</u> - There continues to be legislative interest in the reemployment provisions of the Ohio retirement systems that allow members who have been retired for at least two months to return to public employment while continuing to receive their pension. H.B. 84 (eff. 7 31-01) requires elected officials who retire and are reelected or appointed to the same office from which they retired to notify the board of elections or appointing authority of their retirement in order to continue receiving their pension. H.B. 95 (eff. 6-30-03) included language that requires a hearing before certain retirants can be reemployed and changes the deadline for elected officials to file notice of intent to retire and run for reelection to the same office. H.B. 202 would limit the retirement benefit of a reemployed retiree, while H.B. 388 would suspend the retirement benefit of a reemployed retiree during the period of reemployment. Neither bill was enacted.

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

<u>Annual 3% COLA</u> - In its analysis of H.B. 157 (eff. 2-1-02), which provides for an annual 3% COLA in all five retirement systems, regardless of the actual percentage change in the CPI-W, the ORSC staff recommended against the COLA changes under the bill and suggested that "any additional resources of these retirement systems be allocated to the provision of discretionary retiree health care benefits that are neither taxable nor subject to the Social Security offset and/or the provision of ad hoc increases, such as a "purchasing parity" adjustment of some target ratio of either 75% or 85%, to retirees whose benefits have been eroded the most by inflation over the years." The ORSC rejected the staff recommendation and recommended instead that the legislature approve H.B. 157. Between 1992 and 2006, the CPI-W has increased by less than 3% in 12 of those years. S.B. 343 changes the COLA for future OPERS retirees to the lesser of the actual change in the CPI-W or 3%. S.B. 342 defers the COLA for new retirees and then reduces it to 2% for all retirees effective 8-1-13. S.B. 340 defers the COLA for current and future OP&F retirees and then changes the COLA to the lesser of the actual change in the CPI-W or 3%. S.B. 345 defers the COLA for all benefit recipients whose pension is effective on or after 1-7-13 and gives the board the authority to determine the COLA.

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

1. Offsets should affect the following benefits:

    a. Periodic Wage Replacement Benefits;

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

    c. Cost of living adjustments.

2. Offset should not affect lump sum scheduled benefits.

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

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

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

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

Mandatory Social Security - The State of Ohio has a long and successful record of opposing mandatory Social Security coverage for its public employees. This issue continues to resurface in the context of various Social Security reform proposals as a means of generating additional revenues which are estimated to extend the solvency of Social Security by a mere two years.

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

Purchase of Service Credit – Pursuant to the ORSC's request, Milliman, Inc. completed a report on the cost of purchasing service credit this year. The report noted that with regard to health care benefits, if they are reduced in the future, some of the additional health liabilities could be eliminated. Additionally, if service purchases did not count toward eligibility for or the amount of health care benefits, then the additional health care liabilities would be eliminated. The report revealed that the retirement systems subsidized the purchase of credit in nearly every case in 2005. This was true even for service credit for which the member was required to pay the full actuarial cost. This report raised the public policy issue of whether a member's purchase of service credit should be subsidized by the retirement system. ORSC staff made the following recommendations, which the Council approved: (1) The purchase price for all types of service should be the full actuarial liability resulting from the purchase of service credit, except as prohibited by federal law, and members should be required to retire within 90 days of purchasing service and (2) purchased credit should be prohibited from being counted for purposes of health care eligibility or subsidy. S.B. 343 and S.B. 342 require members of OPERS and STRS, respectively, to pay the full actuarial liability for the purchase of most types of service credit.

Independent Legal Counsel – The ORSC contracted with Independent Fiduciary Services to complete fiduciary audits of STRS and OP&F. These reports were completed in 2006. One of the recommendations was that Ohio law should be amended to authorize the retirement systems' boards to retain independent outside legal counsel without the prior approval of the State Attorney General. This recommendation has not been acted upon.

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

<u>"Bad Boy" Provisions</u> - Currently, Ohio public pension laws permit the withholding of retirement benefits as restitution to the governmental unit for theft in public office and to the victim of certain sex offenses committed in the context of public employment. In 2008, forfeiture of a benefit from a public retirement system based on conviction of a specified felony while serving in a position of honor, trust, or profit was allowed in 2008 (S.B. 3; eff. 5-13-08). There continues to be legislative interest to expand these "bad boy" provisions to include other offenses. H.B. 123 (eff. 7-29-11), was enacted this session and authorized the termination of a disability benefit of a member who pleads guilty to or is convicted of a specified offense committed while serving in a position of honor, trust, or profit if the disabling condition arose out of the commission of the offense the member was convicted of or plead guilty to. S.B. 343 contains a provision that extends to all members the current provision that allows forfeiture of a disability benefit granted if the disability was caused by the commission of a felony.

DOCUMENTS STATUTORILY REQUIRED OF THE RETIREMENT SYSTEMS

129th GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2012

The retirement systems are required by statute to submit various documents to the ORSC to assist the Council in its evaluation of the systems. The following is a listing of each report the retirement systems are required to submit to the ORSC along with a brief summary of the contents of the report. Copies of the reports can be obtained at the ORSC office.

Annual Actuarial Valuation - (R.C. §§145.22(A), 742.14(A), 3307.51(A), 3309.21(A), 5505.12(A)) This annual report is an actuarial valuation of the pension assets, liabilities, and funding requirements of the retirement systems. The report must include (1) a summary of the benefit provisions evaluated; (2) a summary of the census data and financial information used in the valuation; (3) a description of the actuarial assumptions, actuarial cost method, and asset valuation method used in the valuation, including a statement of the assumed rate of payroll growth and assumed rate of growth or decline in the number of members contributing to the retirement system; (4) a summary of findings that includes a statement of the actuarial accrued pension liabilities and unfunded actuarial accrued pension liabilities; a schedule showing the effect of any changes in the benefit provisions, actuarial assumptions, or cost methods since the last annual actuarial valuation; and (6) a statement of whether contributions to the retirement system are expected to be sufficient to satisfy the funding objectives established by the board.

The actuarial valuation must be submitted annually to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation. PERS must submit theirs by September 1, OP&F must submit theirs by November 1, STRS must submit theirs by January 1, SERS must submit theirs by May 1, and HPRS must submit theirs by July 1 following the year for which the valuation was made.

Annual Report on Health Care - (R.C. §§145.22(E), 742.14(E), 3307.51(E), 3309.21(E), 5505.12(E)) This report provides a full accounting of the revenues and costs relating to health care benefits. The report must include (1) a description of the statutory authority for the benefits provided; (2) a summary of the benefits; (3) a summary of the eligibility requirements for the benefits; (4) a statement of the number of participants eligible for the benefits; (5) a description of the accounting, asset valuation, and funding method used to provide the benefits; (6) a statement of the net assets available for the provision of the benefits as of the last day of the fiscal year; (7) a statement of any changes in the net assets available for the provision of benefits, including participant and employer contributions, net investment income, administrative expenses, and benefits provided to participants, as of the last day of the fiscal year; (8) for the last six consecutive fiscal years, a schedule of the net assets available for the benefits, the annual cost of benefits, administrative expenses incurred, and annual employer contributions allocated for the provision of benefits; (9) a description of any significant changes that affect the comparability of the report required under this division; and (10) a statement of the amount paid for Medicare Part B reimbursement.

The report on health care must be submitted annually to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation. PERS, OP&F, and HPRS must submit theirs by June 30, whereas STRS and SERS must submit theirs by December 31, following the year for which the report was made.

Quinquennial Evaluation - (R.C. §§145.22(B), 742.14(C), 3307.51(B), 3309.21(B), 5505.12(B)) This report must be completed at least once every five years. It is an actuarial investigation of the mortality, service, and other experience of the members, retirants, contributors, and beneficiaries of the system to update the actuarial assumptions used in the actuarial valuation. The report must include (1) a summary of relevant decrement and economic assumption experience observed over the period of the investigation; (2) recommended changes in actuarial assumptions to be used in subsequent actuarial valuations; (3) a measurement of the financial effect of the recommended changes in actuarial assumptions.

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

Annual Report on Disability Experience - (R.C. §§145.351, 742.381, 3307.513, 3309.391, 5505.181) The report details the preceding fiscal year of the disability retirement experience of each employer. The report must specify the total number of disability applications submitted, the status of each application as of the last day of the fiscal year, total applications granted or denied, and the percentage of disability benefit recipients to the total number of the employer's employees who are members of the public employees retirement system.

The report on the disability experience must be submitted to the Governor, the ORSC, and the chairpersons of the standing committees and subcommittees of the Senate and House of Representatives with primary responsibility for retirement legislation.

30-Year Funding Period - (R.C. §§145.221, 742.16, 3307.512, 3309.211, 5505.121) This report is required if the system's funding period exceeds thirty years. The report must include the number of years needed to amortize the unfunded actuarial accrued pension liability as determined by the annual actuarial valuation and a plan approved by the board that indicates how the board will reduce the amortization period of unfunded actuarial accrued liability to not more than thirty years. The report submitted by OP&F must also include whether the board has made any progress toward meeting the 30-year amortization period.

The report on the thirty-year funding period must be submitted to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation not later than ninety days after the retirement system board receives the actuarial valuation in which the funding period exceeds thirty years.

Actuarial Analysis of Legislation - (R.C. §§145.22(D), 742.14(D), 3307.51(D), 3309.21(D), 5505.12(D)) These reports are required when any introduced legislation is expected to have a measurable financial impact on the retirement system. The actuarial analysis must include (1) a summary of the statutory changes that are being evaluated; (2) a description of or reference to the actuarial assumptions and actuarial cost method used in the report; (3) a description of the participant group or groups included in the report; (4) a statement of the financial impact of the legislation, including the resulting increase, if any, in the employer normal cost percentage; the increase, if any, in actuarial accrued liabilities; and the per cent of payroll that would be required to amortize the increase in actuarial accrued liabilities as a level per cent of covered payroll for all active members over a period not to exceed thirty years; (5) a statement of whether the scheduled contributions to the system after the proposed change is enacted are expected to be sufficient to satisfy the funding objectives established by the board.

The actuarial analysis must be submitted to the ORSC, the Legislative Service Commission, and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation within sixty days from the date of introduction of the legislation.

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

Budgets – (R.C. §§145.092, 742.102, 3307.041, 3309.041, 5505.062) Each retirement system is required to submit to the ORSC its proposed operating budget, along with the administrative budget for the board, for the next immediate fiscal year at least sixty days before adoption of the budget.

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

Audit Committee Report – (R.C. §§145.095, 742.105, 3307.044, 3309.044, 5505.111) Each retirement system is required annually to submit to the ORSC a report of the actions taken by its Audit Committee.

Rules - The systems are required to submit to the ORSC a copy of the full text, rule summary, and fiscal analysis of each rule they file with the Joint Committee on Agency Rule Review pursuant to R.C. §111.15.

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

SUBJECT INDEX OF PENSION BILLS INTRODUCED

129TH GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2012

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
Appropriations
Beneficiaries
Benefits
Board Elections
Board Members
Contributions
Death Benefit Fund
Deferred Retirement Option Plan (DROP)
Defined Contribution Plan
Disability
Early Retirement Incentive Plan
Health Care
Investments
Judicial Orders
Legal Actions
Membership
Ohio Retirement Study Council
Penalties
Records
Reemployment
Reports
Salary
Service Credit
Survivors
Taxation

Additional Annuity Program
Refund of contributions – OPERS – SB 343*

Appropriations
Subsidies – OP&F – HB 153*

Beneficiaries
Death of – OPERS – SB 343*
Designation of – STRS – SB 342*
Designation form – OPERS – SB 343*
Number of – STRS – SB 342*
Remarriage – STRS – SB 342*

Benefits
Accrual of – OPERS, STRS, SERS, OPF – HB 69; OPERS- SB 343*; STRS - SB 342*; SERS – SB 341*
Adjustment – OPERS – SB 343*
Cost of Living – OPERS, STRS, OPF, HPRS – HB 69; OPERS – SB 343*; STRS – SB 342*; OPF – SB 340*; HPRS – SB 345*
Eligibility – OPERS, STRS, SERS, OPF – HB 69; OPERS – SB 343*; STRS – SB 342*; SERS – SB 341* - OPF – SB 340*
Final average salary – OPERS – SB 343*; STRS – SB 342*; OPF – SB 340*; HPRS – SB 345*
Forfeiture of – ALL SYSTEMS - HB 123*; HB323; SB 20; OPERS – SB 343*
Plan of payment – OPERS - SB 343*
Recovery of overpayment – STRS – SB 342*; OPF – SB 340*
Retroactive – OPERS – HB 69, SB 343*
Spiking- OPERS – SB 343*; OPF – SB 340*
Suspension of – STRS – SB 342*

*Enacted

Board Authority
Adjust COLA – STRS – SB 342*; HPRS – SB 345*
Adjust employee contribution rate – STRS – SB 342*; OPF – SB 340*; HPRS – SB 345*
Adjust retirement eligibility - STRS – SB 342*; SERS – SB 341* - OPF – SB 340*
Health care criteria – OPERS – SB 343*; SERS – SB 341*

Board Elections
Campaign finance reporting – SERS – SB 341*
Filing complaint – SERS – SB 341*

Board Members
Appointed member term – OPERS – SB 343*; SERS – SB 341*
Ineligibility – OPERS – SB 343*; STRS – SB 342*; SERS – SB 341*
Internal audit committee – STRS – SB 342*
Orientation - OPERS – SB 343*; SERS – SB 341*
Reimbursement – SERS – SB 341*
Vacant seat - OPERS – SB 343*; STRS – SB 342*; SERS – SB 341*

Contributions
Employee rate – STRS, OPF, HPRS – HB 69; STRS – SB 342*; OPF – SB 340*; HPRS – SB 345*
Employer remittance – OPF – SB 340*
Mitigating rate – OPERS – HB 69
Prohibit employer pickup – ALL SYSTEMS – SB 5
Refund of – OPERS – SB 343*; STRS – SB 342*

Death Benefit Fund
Probation officers – OPF – SB 110

Deferred Retirement Option Plan
Contribution to – OPF, HPRS – HB 69; OPF – SB 340*; HPRS – SB 345*
Cost of Living – OPF – SB 340*
Eliminate – OPF, HPRS - HB 202
Interest credited to – OPF – HB 69
Minimum period – OPF – HB 69; OPF – SB 340*

Defined Contribution Plan
Combine service with DB – OPERS – SB 343*
Election – OPERS – SB 343*; STRS – SB 342*
Mitigating rate – OPERS – SB 343*; STRS – SB 342*
Permissive – SERS – SB 341*

Disability
Eligibility – OPERS – SB 343*; STRS – SB 342*; SERS – SB 341*
On-duty presumptions – OPF – HB 346

*Enacted

Program changes – OPERS – HB 69, SB 343*; STRS – SB 342*; SERS – SB 341*; OPF – SB 340*
Reinstatement – OPERS – SB 343*; SERS – SB 341*
Social Security application – OPERS – SB 343*; SERS – SB 341*

Early Retirement Incentive Plan
Eliminate – STRS – SB 342*

Health Care
Allocation of contribution – OPERS, SERS, OPF, HPRS – HB 69
Deferred compensation board – OPERS – SB 343*
Health care fund created – STRS – SB 342*
Medicare Part A – OPERS – SB 343*
Medicare Part B reimbursement – OPERS – SB 343*; STRS – SB 342*; SERS – SB 341*
Overpayments – OPERS – SB 343*

Investments
Manager compliance – SERS – SB 341*
Judicial Orders
Compliance – ALL SYSTEMS – SB 214

Legal Actions
Filing of – OPERS – SB 343*

Membership
Determination – OPERS – HB 69, SB 343*
JobsOhio exempt – OPERS – HB 1*
Nonpublic school – STRS – SB 342*
Public safety officers – PERS LE – SB 343*

Ohio Retirement Study Council
Studies – STRS – SB 342*; SERS – SB 341*; HPRS – SB 345*

Penalties
Employer failure to transmit contributions – SERS – SB 342*

Records
Data sharing – OPERS – SB 343*
Format – OPERS – SB 343*; SERS – SB 341*
Information release – STRS – SB 342*; SERS – SB 341*
Personal history – STRS – SB 342*; SERS – SB 341*

Reemployment
Continuing employment – STRS – SB 342*
Defined contribution participant – STRS – SB 342*

*Enacted

Interest – OPERS – SB 343*
Lump payment – OPERS – SB 343*
Limit benefit during – ALL SYSTEMS – HB 202
Suspend benefit during – ALL SYSTEMS – HB 388
Waiting Period – STRS – SB 342*

Reports
Actuarial valuation – OPF – SB 340*
Original liability – OPF – SB 340*

Salary
Definition – STRS – SB 342*; OP&F – SB 340*
Final average salary – OPERS, STRS, OPF, HPRS – HB 69
Minimum earnable salary – OPERS – SB 343*

Service Credit
Inter-system transfer – OPERS – HB 69, SB 343*; STRS – SB 342*; SERS – SB 341*
Purchase of - ALL SYSTEMS – HB 69; OPERS – SB 343*; STRS – SB 342*; - SERS – SB 341*

Survivors
COLA – STRS – SB 342*
Eligibility – STRS – SB 342*; SERS – SB 341*
Disqualification – SERS – SB 341*

Taxation
Exempt certain retirement benefits – HB 239

*Enacted

STATUS OF PENSION LEGISLATION

129th GENERAL ASSEMBLY

JANUARY 1, 2011 - DECEMBER 31, 2012

HOUSE BILLS

HSE BILL	INTRO	Actuarial Received	Subject, Sponsor, and System	Cont Pers	ORSC Pos	Hse Cmte	Testimony – Reported Out – Floor Vote	INTRO SEN	Sen Cmte	Testimony – Reported Out – Floor Vote	Conf Cmte	Concur-rence	Eff Date
1	1-11-11		JobsOhio: exempts from PERS membership Duffey - PERS			1-11-11 SGE Mecklen-borg	1-25-11 Sub----1-26-11 Amend ----2-1-11 Fl Vo: Y=59 N=37	2-2-11	2-8-11 FIN Widener	2-8-11----2-9-11----2-15-11----2-16-11 Amend; Fl Vo: Y=31 N=2		2-16-11 Y=60 N=35	2-18-2011 (E)
69	2-1-11	PERS: 3-30-11 HPRS: 3-1-11 STRS: 3-15-11	Pension corrections Wachtmann – ALL SYSTEMS	GK		2-1-11 HA Wacht-mann 2-2-11 RP Schuring	2-2-11----2-9-11--- 2-16-11----2-22-11----2-23-11----3-1-11----3-2-11----3-8-11----3-9-11----3-16-11---3-22-11---3-23-11----						
123	2-24-11		BWC budget; forfeiture of disability benefit based on conviction for certain felonies Hottinger – ALL SYSTEMS			3-1-11 INS Hottinger Referred 3-16-11 FA Amstutz	3-1-11----3-8-11----3-22-11----3-23-11 Fl Vo: Y=96 N=0	3-24-11	3-29-11 ICL Bacon	3-29-11----3-30-11----4-5-11 Amend----4-6-11 Sub; Fl Vo: Y=28 N=4		4-13-11 Y=94 N=3	4-25-2011 (E)
153	3-15-11		Biennial Budget Amstutz – ALL SYSTEMS			3-15-11 FA Amstutz	3-16-11----3-17-11----3-21-11----3-22-11----3-23-11----3-29-11----4-12-11----4-13-11----4-14-11----4-15-11----4-28-11 Sub----4-29-11----5-3-11----5-5-11 Amend; Fl Vo: Y=50 N=40	5-10-11	5-17-11 FIN Widener	5-3-11----5-4-11----5-5-11----5-10-11----5-11-11----5-17-11----5-18-11----5-19-11----5-24-11----5-31-11 Sub----6-2-11----6-7-11 Amend----6-8-11 Fl Vo: Y=23 N=10	6-28-11	Refused 6-8-11 Y= 0 N=98	6-30-2011 (E)
202	4-12-11	PERS:6-21-11 SERS: 7-11-11	Limits retirement benefit of re-employed retiree and eliminates DROP Hollington – AL SYSTEMS			4-13-11 HA Wacht-mann							
239	5-24-11		Exempt certain retirement pay from taxation Stautberg	BI		5-25-11 HA Wacth-mann	1-25-12----2-28-12-----4-18-12----4-25-12----12-4-12						
323	9-13-11		Forfeiture of benefits based on conviction of certain felonies Dovilla, Anielski – ALL SYSTEMS	AE	AA	9-14-11 CRJ Slaby	09-27-11----11-16-11----1-18-12----1-25-12 –Amended						
346	10-12-11		Changes disability presumptions Yuko – OP&F			11-9-11 INS Yuko	11-29-11-----						
388	12/1/11	PERS 2.23.12	Suspend, during the period of employment, the retirement benefit of a public retirement system retiree who returns to public employment. Damschroder, Thompson, Pelanda….ALL SYSTEMS			12-6-11 HA Damschr oder	11-28-12------						

SENATE BILLS

SEN BILL	INTRO	Actuarial Received	Subject, Sponsor, and System	Cont Pers	ORSC Pos	Sen Cmte	Testimony – Reported Out – Floor Vote	INTRO HSE	Hse Cmte	Testimony – Reported Out – Floor Vote	Conf Cmte	Concu r- rence	Eff Date
3	2-1-11	PERS: 3-30-11	Pension Corrections Faber – ALL SYSTEMS	GK		2-2-11 GOR Coley	2-22-11 Sub----3-24-11---						
5	2-1-11		Makes changes to collective bargaining; prohibits employer pickup of contributions Jones - ALL SYSTEMS			2-2-11 ICL Bacon	2-9-11 Sub----2-15-11----2-17-11 Amend----2-22-11----3-1-11---3-2-11 Amend; Fl Vo: Y=17 N=16	3-3-11	3-7-11 CL Uecker	3-8-11----3-9-11----3-10-11---3-14-11----3-16-11----3-17-11----3-29-11 Sub; Amend----3-30-11 Fl Vo: Y=53 N=44		3-31-11 Y=53 N=44	7-1-11 (Repeal ed by Referen dum 11-8-11)
20	2-1-11	PERS: 4-14-11	Forfeiture of disability benefits based on conviction of certain felonies Grendell – ALL SYSTEMS *Amended into H.B. 123	AE		2-2-11 GOR Coley	2-17-11---2-22-11----3-3-11 Amend----						
110	3-8-11		Includes probation officers in Death Benefit Fund Wilson – OP&F			3-9-11 HHA Oelslage r							
214	9-6-11		Modifies when system must comply with order for restitution Burke – ALL SYSTEMS			9-20-11 GOR Coley							
340	5-7-12	OP&F 12-12-12	Pension Reform – Changes to plan including contribution rates, benefit eligibility, formulas, COLA, DROP accruals and disability benefits. NIEHAUS, KEARNEY – OP&F	CM	AC	5-8-12 ICL Bacon	5-8-12----5-9-12---5-15-12 Amend----5-16-12 FL Vote: Y=30 N=3	5-17-12	5-23-12 HA Wachtma nn	8-8-12---8-14-12---8-15-12---8-21-12---8-22-12---8-28-12---8-29-12---9-5-12 Sub. Amend---9-10-12 ---9-12-12 R---FL Vote: Y=94 N=0		9-12-12 Y=32 N=0	1-7-2013
341	5-7-12	SERS 6-5-12	Pension Reform – Changes to plan including retirement eligibility, benefit formula, service credit purchases and disability benefits. NIEHAUS, KEARNEY - SERS	AE	AC	5-8-12 ICL Bacon	5-8-12----5-9-12---5-15-12 Amend----5-16-12 Fl Vote: Y=33 N=0	5-17-12	5-23-12 HA Wachtma nn	8-8-12---8-14-12---8-15-12---8-21-12---8-22-12---8-28-12---8-29-12---9-5-12 Sub. Amend---9-10-12 ---9-12-12-R--- FL Vote: Y=93 N=0		9-12-12 Y=32 N=0	1-7-2013
342	5-7-12	STRS 5-14-12	Pension Reform – Changes to plan including contribution rates, benefit eligibility, benefit formulas, COLA, and disability benefits. NIEHAUS, KEARNEY --STRS	AE	AC	5-8-12 ICL Bacon	5-8-12----5-9-12---5-15-12 Amend----5-16-12 Fl Vote: Y=31 N=2	5-17-12	5-23-12 HA Wachtma nn	8-8-12---8-14-12---8-15-12---8-21-12---8-22-12---8-28-12---8-29-12---9-5-12 Sub. Amend---9-10-12 ---9-12-12 R---- FL Vote: Y=92 N=1		9-12-12 Y=32 N=0	1-7-2013
343	5-7-12	PERS 6-18-12	Pension Reform – Changes to plan including contribution rates, benefit eligibility, benefit formulas, COLA, service credit purchases and disability benefits. NIEHAUS, KEARNEY -- PERS	AE	AC	5-8-12 ICL Bacon	5-8-12----5-9-12---5-15-12 Amend----5-16-12 Fl Vote: Y=33 N=0	5-17-12	5-23-12 HA Wachtma nn	8-8-12---8-14-12---8-15-12---8-21-12---8-22-12---8-28-12---8-29-12---9-5-12 Sub. Amend---9-10-12 ---9-12-12-R--- FL Vote Y=93 N=0:		9-12-12 Y=32 N=0	1-7-2013
345	5-15-12	HPRS 6-30-12	Pension Reform – Changes to plan including contribution rates, benefit eligibility, benefit formulas, COLA, service credit purchases and disability benefits. NIEHAUS, KEARNEY -- HPRS	CM	AC	5-15-12 ICL Bacon	5-15-12----5-22-12---5-23-12------5-23-12 Fl Vote: Y= 31 N=0	6-12-12	6-12-12 HA Wachtma nn	8-8-12---8-14-12---8-15-12---8-21-12---8-22-12---8-28-12---8-29-12---9-5-12 Sub. Amend---9-10-12 ---9-12-12-R--- FL Vote: Y=94 N=0		9-12-12 Y=32 N=0	1-7-2013

HOUSE COMMITTEES

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

SENATE COMMITTEES

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

LEGISLATIVE ACTION

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

ORSC POSITION

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

ORSC CONTACT PERSON

AE	Anne Erkman
CM	Christopher Moses
BI	Bill of Interest