

**Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, Ohio 43215**

Minutes

September 12, 2013

The meeting was called to order by Chairman Wachtmann at approximately 9:25 a.m. in room 313, the Statehouse, Columbus, Ohio.

The following members attended the meeting:

Voting members

David Burke
Shannon Jones
Charleta B. Tavaras
Dan Ramos
Kirk Schuring
Lynn Wachtmann
Lora Miller
Seth Morgan

Non-voting members

Mark Atkeson
Karen Carraher
John Gallagher
Lisa Morris
Mike Nehf
Kari Hertel

Absent

Staff

Bethany Rhodes
Jeff Bernard
Ashley Wilson

There being a quorum present, Chairman Wachtmann asked that the minutes of the previous meeting be approved. Without objection the minutes were approved.

Chairman Wachtmann asked Ms. Rhodes to discuss the Milliman actuarial contract. She explained that the current actuarial contract had expired June 30, 2013), and requested the Council either extend the contract or begin the bidding process. She noted that for the purpose of doing business for this fiscal year (ending June 30, 2014), it would be expedient to extend the contract rather than bid it out.

Rep. Schuring motioned for an extension of the current Milliman actuarial contract through the fiscal year. Vice Chair Jones seconded the motion.

The Council voted on the motion. A roll call vote was taken and the motion passed 8-0.

YES: Chairman Wachtmann
Ms. Miller
Rep. Schuring

Vice-Chair Jones
Mr. Morgan
Sen. Tavares

Sen. Burke
Rep. Ramos

Sen. Jones asked why there were two different contracts (one for actuarial services and another for investment services). Chairman Wachtmann said that he didn't recall the reason, but that these contracts should be looked at in the future to make sure all is in order and makes good sense. Rep. Schuring noted the impending end of the calendar year and suggested a sub-committee should be put together very soon to look at contracts in general.

Sen. Tavares asked for clarification on whether the contract was extended to the end of the calendar year or the fiscal year. It was clarified that the extension was for the fiscal year. She noted that ORSC needed to take a look at all its contracts and not leave it up to the vendor to make ORSC aware of expiration dates. Director Rhodes concurred, but she also explained the difficulty of finding all the contracts due to the poor filing system previously in place at ORSC, remarking that it was necessary to contact the Office of the Attorney General to locate a lease agreement that should have been easily accessible in the ORSC office.

Sen. Jones requested that as part of the larger conversation regarding actuarial contracts, the Council needed to evaluate the use of two different contracts for actuarial and investment reports. Chairman Wachtmann established a sub-committee to review ORSC contracts and asked Rep. Schuring to serve as chair and Sen. Jones, Ms. Miller, Rep. Ramos, and Sen. Tavares to serve as sub-committee members.

Chairman Wachtmann asked Mr. Fornia and Ms. Bournival from Pension Trustee Advisors/KMS Actuaries to review their actuarial report on the 30-year funding status of OP&F.

Mr. Fornia reviewed the report, noting that OP&F funding period is 44 years and does not meet the 30-year funding standard required by statute. He mentioned that all Ohio systems have historically employed a smoothing method, a method by which investment returns that are positive or negative are more gradually included over a period of some years. Mr. Fornia said this method is more consistent with pension actuarial analyses. However, in their February report, Mr. Fornia found that OP&F instead utilized a market valuation of assets, a process that only utilizes the current year's investment returns and assumes returns for the remainder of that current year. Mr. Fornia detailed his recommendations to ensure more consistent reporting by the systems to ORSC and ways to ensure funding of the systems.

Rep. Schuring asked if smoothing assets was a widely used standard in other pension systems. Mr. Fornia said it was, and that roughly 20% of the country's pension systems

use methods other than smoothing. Rep. Schuring asked if smoothing of losses from the market crash were still occurring with OP&F. Mr. Fornia said that those losses were still being smoothed, but also noted that recent positive years were also being smoothed. Rep. Schuring then clarified that smoothing is a standard used to avoid knee-jerk reactions. Mr. Fornia responded that it was.

Rep. Schuring then asked, hypothetically, what would be necessary to achieve a 6% reduction and get OP&F back to a 30-year funding period. Mr. Fornia stated that the easiest and least painful way would be through a COLA modification. He stated that it could be reduced from 3% to 2% and it would make a huge difference to the system's finances. Rep. Schuring asked that, should OP&F funding improve, could it then be increased back to 3%. Mr. Fornia said that it could, if the investment returns justified it. Mr. Fornia then stated that there are basically two possibilities: investments are better than we anticipate or investments are worse than we anticipate. He stated that it is always easier to adjust to provide better benefits because of good returns than the alternative.

Rep. Schuring asked what returns would be necessary to reach 30-year funding. Mr. Fornia said that 11.5% returns would work. Rep. Schuring stated that he would like to see some specific options to get to 30, including contribution increases or higher returns. He stated that everyone is trying to protect active and retirees and make sure we are on a path to get there, but he wants to see a specific path to 30.

Vice Chair Jones noted there are two questions: 1) process by which we know to take action and, 2) what are our options. She stated that she wants to focus on how we know there is a problem. She asked Mr. Fornia if OP&F always used the smoothing method until now. Mr. Fornia responded that they had, and that he was unaware of a time that they used a mid-year market valuation, although because they were at infinity for so long it may not have mattered. Vice Chair Jones noted her concern that she doesn't want an argument about policy changes based on a standard that is or is not legitimate. She rather wants a process to get to an agreement that things must be done or not.

Chairman Wachtmann said that there is a reason that the systems have always used smoothing. He asked Mr. Fornia what OP&F's status would be if they randomly chose a 2008 date. Mr. Fornia said they would be at infinity. Chairman Wachtmann asked if this is why we smooth, as otherwise we would have made disastrous changes. Mr. Fornia said yes, smoothing eliminates those wide fluctuations. The Chairman asked where OP&F is currently if using the standard smoothed method. Mr. Fornia responded that they would be at 44 years. Chairman Wachtmann asked what type of health care an OP&F retiree could expect in 15 years. Mr. Fornia said that under the current plan they would not offer any health care but would presumably make the changes necessary to extend it.

Director Gallagher stated that OP&F has no intention of abandoning the smoothing method. He stated that OP&F is at 30 years using a market valuation. He asked Mr.

Fornia if it's true that GASB standards will prohibit smoothing in the years ahead. Mr. Fornia responded that GASB will indeed not permit smoothing in their financial reports, but that he would continue to recommend that the systems use smoothing for actuarial purposes. Mr. Gallagher stated that the OP&F Board created a well-rounded plan that that he believes will be compliant. He stated that they have had positive actuarial gains from disability. He asked Mr. Fornia if he would stand by his recommendation that we wait for the November valuation when all aspects of S.B. 340 are in effect. Mr. Fornia clarified that all of the assumptions from S.B. 340 were included in the PTA/KMS report. Mr. Gallagher responded no; Mr. Fornia responded back yes they were included and that they did not pretend that 340 did not occur in their report.

Chairman Wachtmann stated that further questions and responses must be made through the Chair.

Sen. Tavares clarified a change in S.B. 340 and asked if Mr. Fornia would recommend giving the Board discretion to get to 30. Mr. Fornia said yes, but that this was a political decision. Sen. Tavares referred back to Mr. Fornia's report and asked why his recommendation was for the systems to present an annual report as opposed to the triennial report mandated in S.B. 340. Mr. Fornia explained that three years was simply too long. Chairman Wachtmann clarified that the Council had recommended annual reporting. Sen. Tavares specified the need for each system to have authority to more quickly adjust so employees and retirees do not have drastic changes. Sen. Tavares also asked if the other systems used the smoothing method. Chairman Wachtmann asked each director to answer for their system. Directors Carraher, Nehf, Morris, and Atkeson all said that their systems do use the four year smoothing method, although Mr. Nehf mentioned that STRS in its most recent analysis used both methods to determine what could be done to reach 30-years amortization.

Rep. Ramos mentioned that S.B. 340 has been in effect only a few months and asked what the harm would be in waiting until 2017 to see the results from this plan and get a better sense of their statuses. Mr. Fornia said that if returns are good, they will be at 30 years, and there will be no harm. However, they were on the edge, and if they wait and returns are not in line with expectations, they will have given benefits today that will be from the pockets of future members. Rep. Ramos mentioned that OP&F has gone from infinity to 44 years, what reason do we have to think that it will be worse in a few years. He continued on to say he doesn't want to cause harm with further changes. He disagreed with Mr. Fornia that it would be easy to roll back reductions. He asked Mr. Fornia how much a risk he thought it was to wait. Mr. Fornia responded that at even 8% returns (rather than anticipated 8.25%) it could be bad for members. He again stated that a reduction of the COLA from 3% to 2% would help a lot. He continued to note that the other systems comparably situated have taken much more dramatic reductions, and OP&F has as of yet avoided those choices. Rep. Ramos asked when we would know that OP&F is hitting its mark. Mr. Fornia said that markets are unpredictable, but that most actuaries believe 8.25% is optimistic.

Mr. Morgan clarified that the systems are built on the idea of continuity and perpetuity. Mr. Fornia responded that yes this is the case. Mr. Morgan asked Mr. Fornia what would happen if the system stopped today; what benefits would be available. Mr. Fornia said he did not have that information available. Mr. Morgan stated that he does not believe we are being honest to members and that the system is short on its obligations. Mr. Morgan asked if the Council could request an annual report instead of the triennial report and if Mr. Fornia's recommendation of a fixed 30-year date could be required by the Council.

Chairman Wachtmann said that the Council did have the authority to request an annual report from the systems. Mr. Morgan then asked about the 30-year plan. Ms. Rhodes explained that under Ohio law, if OP&F discovers they are out of compliance with the 30 year requirement in the November valuation, they then have 90 days to submit a board approved plan indicating how the board plans to reduce the amortization period and whether they've made any progress in meeting the 30 year period; however, the plan doesn't have to necessarily present actual plan design changes in order to do so. She explained that ORSC can request anything but there is little consequence for non-compliance.

Sen. Tavares said that if the Council were to request the annual reports, then it should be done in a time that would allow each system to budget for those reports. Chairman Wachtmann reminded the Council that up until S.B. 340, each system did report annually.

Rep. Ramos clarified that there was nothing in S.B. 340 that would actively prevent an annual report. Mr. Gallagher stated that OP&F will continue to report annually. Chairman Wachtmann asked Director Gallagher if it was his intension to present a plan that brings OP&F into compliance with the 30-year funding standard. Director Gallagher said that he is waiting on the actuarial report from the actuary at OP&F. If that report says OP&F is not within the 30 years, then the system will present a plan.

Vice Chair Jones said that the Council does not have the standards to evaluate the systems clearly set forth. She requested that the standards and criteria be clearly set forth. Rep. Schuring made a motion that all the systems will use the smoothing method when submitting reports to the ORSC. Chairman Wachtmann seconded.

Rep. Ramos said that other methods should be allowed and not prohibited by this motion. Rep. Schuring noted that the smoothing method would be the Council's standard. However, if the systems wanted to add more information using other methods in their reports, they could do that, but the smoothing method would be the Council's standard. Sen. Tavares noted that she was uncomfortable with the motion knowing that standards with the pension industry are changing (i.e. GASB will be changing their methods in the coming months). Chairman Wachtmann noted that the motion only confirms what the Council has always done in the past, then asking Mr. Fornia whether

he thought the Council should change because of GASB. Mr. Fonia agreed with the Chairman and said that the smoothing method is what he would recommend. Rep. Schuring said that the smoothing method is the generally accepted standard, but the Council could always change in the future. Sen. Burke asked to clarify if the motion was for the systems to adopt the smoothing method or for the Council to adopt the smoothing method. It was clarified that all reports submitted to the Council were required to use the smoothing method. Sen. Tavares said that the systems could include other measurements in their own reports, but when reporting to the ORSC, they must use the smoothing method.

The Council voted on the motion. A roll call vote was taken and the motion passed 8-0.

YES: Chairman Wachtmann	Vice-Chair Jones	Sen. Burke
Ms. Miller	Mr. Morgan	Rep. Ramos
Rep. Schuring	Sen. Tavares	

Chairmann Wachtmann asked Director Carraher to review the annual actuarial valuation report for OPERS.

(Rep. Ramos, Mr. Morgan, and Director Gallagher left the room at approx. 10:55.)

Director Carraher reviewed the report and noted that OPERS was at 26 years for unfunded liabilities with an increase to healthcare allocations. Without that health care increase, they would be at 14 years.

Chairmann Wachtmann changed the order of the agenda to allow for the members' schedules. He then asked Mr. Bernard to discuss OP&F rule 742-3-05.

(Rep. Ramos, Mr. Morgan, and Director Gallagher returned at approx. 11:00)

Mr. Bernard explained that he had been in contact with Mary Beth Foley at OP&F since May when he expressed concern about the rule. OP&F declined to adjust the rule at that time. In May, the rule was approved by JCARR prior to the Council reviewing it. At that time, the Council passed a motion instructing the Council staff and OP&F work to adjust the rule to come to an amicable solution. The OP&F Board requested a written statutory supported response which Mr. Bernard delivered in July. The Board responded in September and declined to adjust the rule. David Witner, OP&F Chairman, said the item is on the agenda for this month's board meeting. Chairmann Wachtmann asked him what he thought the board's decision might be. Mr. Witner said that he thought "they were getting there." Chairman Wachtmann thanked Mr. Witner and noted that Mr. Witner did have some influence on the upcoming vote.

(Chairman Wachtmann, Rep. Schuring, Sen. Tavares, and Mr. Morgan left the meeting at approx. 11:15)

Vice Chair Jones asked Director Atkeson to review the annual actuarial valuation report for HPRS. Director Atkeson reviewed the report and noted that HPRS is now in compliance with the funding requirements of the ORSC. He also asked for consideration from the Council on his belief that a fixed 30 year date would be impossible to meet. There were no questions from the Council. Vice Chair Jones thanked Director Atkeson.

Vice Chair Jones moved to the next item on the agenda which were the rules. She asked Mr. Bernard for his report. Mr. Bernard reviewed the rules and said that they complied with statute. Vice Chair Jones thanked Mr. Bernard.

Vice Chair Jones asked Director Rhodes if there was any old or new business. There was none.

The next meeting was announced for October 10, 2013, at 9 a.m.

The meeting adjourned at approximately 11:15.

Date approved

Lynn Wachtmann, Chair

Secretary

Shannon Jones, Vice Chair