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To: Governor Mike DeWine  
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Members of the Ohio Retirement Study Council  
LSC Director Wendy Zhan

From: Bethany Rhodes, Director/General Counsel

Date: March 26, 2021

Subject: 2020 ORSC Annual Report

Since 1968, and pursuant to Revised Code 171.04, the Ohio Retirement Study Council has submitted an annual report to the Governor and the General Assembly covering its evaluations and recommendations regarding the five state retirement systems. ORSC staff is pleased to submit this year's report on the Evaluations and Recommendations Regarding the Operations of the State Retirement Systems. The staff report includes information on the systems' investment performance, status of health care funds, actuarial reviews of the systems, fiduciary reports, progress on achieving 30-year funding, reports on enacted pension legislation, pending pension-related issues, a subject index of pension bills introduced, and a status sheet for pension legislation as of December 31, 2020.



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# *Annual Report*

## *2020*

### Evaluations and Recommendations Regarding the Operations of the State Retirement Systems

133<sup>rd</sup> General Assembly

January 1, 2020 – December 31, 2020

Issued March 26, 2021

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Dr. Carl Roark, State Highway Patrol Retirement System  
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**DIRECTOR**

Bethany Rhodes

ANNUAL REPORT  
THE 133<sup>rd</sup> GENERAL ASSEMBLY  
JANUARY 1, 2020 - DECEMBER 31, 2020

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## Introduction

The Ohio Retirement Study Council (ORSC) staff is pleased to submit this report on the five public state retirement systems and the fund for volunteer firefighters for the period beginning January 1, 2020, and ending December 31, 2020. This report is submitted pursuant to section 171.04(B) of the Ohio 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.”

As of January 1, 2020, the five systems have combined assets of approximately \$218 billion with approximately 675,000 active contributing members, 1,080,000 inactive members, and 485,000 beneficiaries and recipients. The State of Ohio has a long tradition of providing retirement benefits to public employees. These benefits are held in trust and managed by the five systems and funded through employer and employee contributions and investment earnings on those contributions.

Ohio’s five public state retirement systems are the State Teachers Retirement System (STRS), created in 1920 for teachers in public schools, colleges, and universities; the Public Employees Retirement System (PERS), created in 1935 for state employees and expanded in 1938 to cover local government employees; the School Employees Retirement System (SERS), created in 1937 for non-teaching school employees; the State Highway Patrol Retirement System (HPRS), created in 1944 by the withdrawal of all state troopers from PERS; and the Ohio Police and Fire Pension Fund (OP&F), created in 1967 after the abolition of 454 local police and fire relief and pension funds, many of which were on the verge of financial insolvency because of a routine disregard of the financial consequence of benefit increases.

As a direct result of the collapse of local police and fire pension funds, the ORSC was created in 1968 to assist the state legislature, governor, and other public officials in the formation of sound public pension policy and is one of the oldest public oversight councils in the country. The general purpose of the Council is to advise and inform the state legislature on all matters relating to the benefits, funding, investment, and administration of the five public retirement systems in Ohio.

Legislators are accustomed to working in two-year budgetary cycles, whereas decisions about public pension plans typically involve significant long-term costs such as 30-year pension obligations. If not made prudently and with foresight, such decisions can threaten the stability of state and local government budgets years after those obligations are made and result in serious inter-generational inequity through reduced benefits or higher taxes.

The Council is required 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.<sup>1</sup> 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 reviewed the retirement systems' operating budgets and administrative rules. In addition, the ORSC staff has continued a digitization project to preserve records in the Council's possession, monitored legislation introduced in the General Assembly that would affect the state retirement systems, and continued a multi-year project to standardize the reports provided by the systems to the General Assembly and Council.

This report is a compilation of the evaluations and recommendations the Council made throughout 2020. It provides a summary of the ORSC reports and staff activities completed during 2020, pending public retirement issues, and staff recommendations. In addition, it provides a historical record of legislative action taken during the 133<sup>rd</sup> Ohio General Assembly on bills affecting PERS, STRS, SERS, OP&F, HPRS, the Ohio Public Safety Officers Death Benefit Fund and the Volunteer Fire Fighters' Dependents Fund (VFFDF).

Further detail on any topic listed in this report is available in the ORSC office or online at [www.orsc.org](http://www.orsc.org).

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<sup>1</sup> R.C. 171.04.

30-YEAR FUNDING PLANS  
 THE 133<sup>rd</sup> GENERAL ASSEMBLY  
 JANUARY 1, 2020 – DECEMBER 31, 2020

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 Ohio 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.<sup>2</sup> This 30-year amortization refers to the amount of time the respective system would need to pay off all currently accrued but unfunded benefits. 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 current benefit costs by extending the funding period beyond 30 years. **Actuarial reports issued in 2020 indicate that all systems remain within the 30-year time frame for the sixth year in a row.** The actuarial reports are as of December 31, 2019, for PERS, OP&F, and HPRS and June 30, 2020, for STRS and SERS.

Ohio is unique in requiring its state retirement systems to pay off all unfunded liabilities over a 30-year period. Lacking such a requirement, many other retirement systems across the country tend to focus on funded ratio. While the funded ratio is an important component in understanding the financial health of a retirement system, the ratio is a reflection of a system’s funding at a *particular moment in time*, given certain actuarial assumptions. A funded ratio is less able to express the trajectory of a system through time, if all current conditions and actuarial assumptions remain stable. The funded ratio and the years of unfunded liabilities, therefore, are top-line numbers that express different things:

- 1) The **funded ratio** provides the current ratio of the systems assets versus their existing liabilities under current actuarial assumptions; and
- 2) The **years of unfunded liabilities** estimates the amount of time, given the retirement system’s current plan design and actuarial assumptions, to reach a 100% ratio.

The following table summarizes the funding period and funded ratio of each retirement system as reported in its last actuarial valuation. It also provides the return assumption underlying these valuation figures, with higher rates meaning the system relies on stronger returns to fund its liabilities:

	Years of Unfunded Liabilities	Funded Ratio	Assumed Rate of Return
PERS	23	79.5%	7.20%
OP&F	28	69.7%	8.00%
STRS	14.9	77.4%	7.45%
SERS	24	71.5%	7.50%
HPRS	30	67.9%	7.25%

<sup>2</sup> R.C. 145.221, 742.16, 3307.512, 3309.211, and 5505.121.

## SYSTEMS' INVESTMENT PERFORMANCE

July 1, 2019 – June 30, 2020

The ORSC is required to conduct a semiannual review of the policies, objectives, and criteria of the systems' investment programs.<sup>3</sup> RVK is the Council's investment performance consultant. While there is a wealth of information in the analyses, this report details only the rolling 1-, 5-, and 10-year performance experiences, and comments from RVK.

### Investment Performance Summary (July 1, 2019 - December 31, 2019)

The following summarizes the report received by the ORSC staff and reflects the investment performance for all six funds<sup>4</sup> for the period ending December 31, 2019. The findings of this report are briefly summarized as follows:

- All of the retirement system portfolios had positive results for the one-year period ending December 31, 2019; net of fees, five of the funds outperformed their policy benchmarks in that same period, with STRS slightly lagging their benchmark.
- Over the trailing five-year period, PERS, STRS, and SERS have achieved their actuarial interest rate (the actuarial rate is the investment return target used by the systems' actuaries to determine its capacity to fully fund future benefits). Net of fees, PERS returned 7.62% (vs. 7.20% actuarial rate), STRS 8.22% (vs. 7.45%), OP&F 7.54% (vs. 8.00%), SERS 8.00% (vs. 7.50%), and HPRS 6.45% (vs. 7.25%).
- Over the trailing ten-year period, all of the funds have achieved their actuarial interest rate. Net of fees, PERS returned 8.75% (vs. 7.50% actuarial rate), STRS 9.34% (vs. 7.45%), OP&F 9.21% (vs. 8.00%), SERS 8.57% (vs. 7.20%), and HPRS 7.79% (vs. 7.25%). During the same period, PERS, OP&F, and SERS exceeded their fund benchmarks. STRS and HPRS trailed their fund benchmarks.

To summarize RVK comments:

1) Currently, all the funds are diversified across multiple asset classes and exhibit characteristics of prudent investment diversification. RVK further noted that the determination of a fund's asset allocation is the single most important investment decision and is a major determinant of long-term return and the volatility risk of asset values. Creating a diversified portfolio of asset classes enables the investor to achieve a potentially higher rate of return while minimizing the volatility of the portfolio. A fund following a smoother, less

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<sup>3</sup> R.C. 171.04.

<sup>4</sup> The PERS health care portfolio (designated "PERS HC" by RVK) is tracked separately from the PERS pension benefit funds (designated as "PERS DB" or "PERS").



volatile path compounds value at a faster rate. RVK advised the ORSC to not assume that all the funds should have the same asset allocation. Differences in their liabilities, funding status, the risk tolerance of their fiduciaries and other factors will likely produce legitimate differences in asset allocation. They advised the Council and retirement system boards to monitor changes in asset allocation over time.

2) While the report focuses on recent information in return and risk taken at each of the funds, RVK strongly encouraged the Council to focus on the 3- and 5- year risk and return results to better gauge the stewardship of pension assets.

#### **Investment Performance Summary (January 1, 2020 – June 30, 2020)**

The following summarizes the report received by the ORSC staff and reflects the investment performance for all six funds<sup>5</sup> for the period ending June 30, 2020. The findings of this report are briefly summarized as follows:

- With the exception of OP&F, all of the retirement system portfolios had positive results for the one-year period ending June 30, 2020. OP&F, STRS, and SERS underperformed their policy benchmarks for the same period.
- Over the trailing five-year period, no funds have exceeded their actuarial interest rate (the actuarial rate is the investment return target used by the systems' actuaries to determine its capacity to fully fund future benefits. Net of fees, PERS returned 6.19% (vs. 7.20% actuarial rate), PERS-HC 5.21% (vs. 6.00%), STRS 6.76% (vs. 7.45%), OP&F 5.54% (vs. 8.00%), SERS 6.58% (vs. 7.50%), and HPRS 5.13% (vs. 7.25%).
- Over the trailing ten-year period, all of the funds have achieved their actuarial interest rate. Net of fees, PERS returned 8.61% (vs. 7.50% actuarial rate), PERS-HC 7.37% (vs. 6.00%), STRS 9.25% (vs. 7.45%), OP&F 8.84% (vs. 8.00%), SERS 8.55% (vs. 7.50%), and HPRS 7.60% (vs. 7.25%). During the same period, all of the funds except STRS and HPRS exceeded their fund benchmarks.

RVK made the same summary comments as during the previous performance analysis:

1) Currently all the funds are diversified across multiple asset classes and exhibit characteristics of prudent investment diversification. RVK further noted that the determination of a fund's asset allocation is the single most important investment decision and is a major determinant of long-term return and the volatility risk of asset values. Creating a diversified portfolio of asset classes enables the investor to achieve a potentially higher rate of return while minimizing the volatility of the portfolio. A fund following a smoother, less volatile path compounds value at a faster rate. RVK advised the ORSC to not assume that all the funds should have the same asset allocation. Differences in their liabilities, funding status,

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<sup>5</sup> The PERS health care portfolio (designated "PERS HC" by RVK) is tracked separately from the PERS pension benefit funds (designated as "PERS DB" or "PERS").

the risk tolerance of their fiduciaries and other factors will likely produce legitimate differences in asset allocation. They advised the Council and system boards to monitor changes in asset allocation over time.

2) While the report focuses on recent information in return and risk taken at each of the funds, RVK strongly encouraged the Council to focus on the 3- and 5- year risk and return results to better gauge the stewardship of pension assets.

STATUS OF HEALTH CARE FUNDS  
THE 133<sup>rd</sup> GENERAL ASSEMBLY  
JANUARY 1, 2020 - DECEMBER 31, 2020

In 1974, the five public retirement boards were given broad discretionary authority to provide health care coverage to retirees and their dependents. Unlike pension benefits, which are vested on retirement, health care benefits are not a vested right under Ohio's public pension laws. Therefore, the courts have determined that 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<sup>6</sup> 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 by law to reimburse benefit recipients for Medicare Part B premiums (medical). Pension reform provided greater latitude to the respective Boards on Medicare Part B premiums, and as a result, since 2017, neither PERS nor HPRS provide a reimbursement. Additionally, retirees who do not qualify for Medicare Part A (hospital) are provided equivalent coverage under the systems' health care plans or are provided access through a Medicare Connector. All employees hired on or after April 1, 1986, are required by federal law to contribute to Medicare and will therefore not require this equivalent coverage. Employees hired before that date were not required to contribute to Medicare. Additionally, as of 2019 OP&F does not provide insurance coverage, instead providing a stipend to retirees to purchase health care through a health care exchange.

Beginning in 2006, Medicare began offering a prescription drug benefit known as Medicare Part D. Low income retirees who qualify for a government subsidy for their Medicare prescription drug benefit may fare better under Medicare Part D than the systems' plans. These low income retirees will need to determine which prescription 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 calendar year 2019, the total cost of providing retiree health care was approximately \$11.5 billion. As employee contributions are used solely to fund pension benefits under federal and state law, any discretionary health care costs borne by the retirement systems must be financed by excess employer contributions only; the systems are not permitted to use any employee contributions for health care.<sup>7</sup>

The retirement systems' actuaries annually review the amount of contributions required to fund vested pension benefits. Employer contributions in excess of what is needed to support those benefits can be allocated to health care. Each year the retirement systems review their health care plans and make adjustments as needed. The following chart indicates

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<sup>6</sup> Ohio Association of Public School Employees, et al. v. School Employees Retirement System Board, et al. (2004).

<sup>7</sup> R.C. 145.47, 26 U.S.C. 401(a), and 26 U.S.C. 401(h).

the percentage of employer contributions each system allocated to health care during 2019 and the projected solvency period for each system's health care fund.

<b>Ohio Retirement System</b>	<b>Percentage of Employer Contribution Allocated to Health Care in 2020</b>	<b>Projected Solvency Period for Health Care Funds (as of 2018)</b>
PERS	0.00%	2042
STRS	0.00%	Indefinite**
SERS	0.00%*	2054
OP&F	0.50%	2038
HPRS	0.00%	2030

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

\*\*"Indefinite" means that funding will last beyond 100 years if all assumptions are met.

REPORTS ON ENACTED PENSION LEGISLATION  
THE 133<sup>rd</sup> GENERAL ASSEMBLY  
JANUARY 1, 2019 - DECEMBER 31, 2020

**H.B. 166 (Biennial Budget Bill)**

The biennial budget bill included provisions relating to the administration of the health benefits provided to death benefit fund recipients authorized under S.B. 296 of the 132<sup>nd</sup> General Assembly.

*ORSC Position* Because the changes related only to the administration of these previously approved benefits, there was no ORSC review needed.

*Effective Date* July 18, 2019

**H.B. 197 (COVID-19 Emergency)**

H.B. 197 provided emergency measures related to the COVID-19 pandemic. H.B. 197 provided temporary remote meeting options to the retirement systems, option to delay Board elections, and removal of certain re-employment penalties.

*ORSC Position* As an emergency measure, ORSC did not provide a recommendation prior to the enactment of H.B. 197.

*Effective Date* March 27, 2020

**H.B. 308 (Post-Traumatic Stress Disorder Fund)**

H.B. 308 creates the PTSD Fund in the state treasury and requires OP&F to study the actuarial requirements of the fund.

*ORSC position* Because the fund does not currently affect OP&F or ORSC, ORSC did not take a position on H.B. 308.

*Effective Date* April 21, 2021

**H.B. 404 (Extension of COVID-19 Emergency)**

H.B. 404 extended certain emergency measures related to the COVID-19 pandemic. H.B. 404 extended remote meeting options for the retirement systems and removed certain re-employment penalties.

*ORSC position* No ORSC review was required for H.B. 404

*Effective Date* November 22, 2020

**H.B. 442 (Teacher licensure requirements)**

H.B. 442 modified the teacher licensure requirements for certain teacher support positions in schools. H.B. 442 included conforming changes to ensure that the positions remained in STRS as necessary.

*ORSC position* Because H.B. 442 did not affect members of the retirement system, it did not receive ORSC review

*Effective date* April 12, 2021

PENDING PENSION-RELATED ISSUES AND RECOMMENDATIONS  
THE 133<sup>rd</sup> GENERAL ASSEMBLY  
JANUARY 1, 2019 - DECEMBER 31, 2020

The ORSC staff keeps legislators aware 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. At its September 2014 meeting, the ORSC asked its staff to update these recommendations that have not been acted on. The list was presented and accepted at its November 2014 meeting. What follows is a brief summary of each issue and of action taken by the legislature or the ORSC, if any, in the 133<sup>rd</sup> General Assembly.

**Community School Employees in STRS and SERS**

Amendments to Am. Sub. H.B. 2 and Sub. H.B. 340 provided that certain community school employees would contribute to Social Security rather than STRS or SERS, and certain existing community school employees already contributing to both STRS and SERS would continue to dually contribute. ORSC staff issued a memo on November 2, 2015, discussing the issue and noted that determination of these individuals is a matter unresolved by the IRS and that Ohio's Section 218 Agreement does not permit dual contribution to Social Security and a state retirement system. ORSC staff remarked that, depending on IRS eventual determination, additional changes to Am. Sub. H.B. 2 and Sub. H.B. 340 in the future may be required.

**Triennially Reporting of Valuations**

Pension reform during the 129<sup>th</sup> General Assembly included a modification of the timing of certain reports issued by OP&F. One modification required triennial valuations by OP&F, rather than annual.<sup>8</sup> The ORSC recommended during pension reform that this provision remain annual, as it is for the other four retirement systems, an opinion concurred upon by independent consultants and again supported by the Council during the 130<sup>th</sup> General Assembly. No action has been taken by the General Assembly to revert the requirement to an annual valuation report. However, because of concern expressed by Council members at the September 12, 2013, ORSC meeting, OP&F Director John Gallagher indicated that OP&F would continue to supply annual valuation reports to the Council. The ORSC staff continue to support a statutory change to require such reporting.

**Board Authority**

A component of pension reform in the 129<sup>th</sup> General Assembly was the authority of OP&F, SERS, STRS, and HPRS to independently adjust the plan design features of their respective retirement system. Pension reform required the ORSC to review that authority. At the April 9, 2013, ORSC meeting, the ORSC recommended that the board authority provisions be modified in the following ways: 1) Any plan design change receive actuarial

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<sup>8</sup> R.C. 742.14(A).

review; 2) Any plan design change receive review and prior-approval by the ORSC; 3) The board authority provisions be standardized and consistent among the systems; and 4) That objective, measurable standards be established to determine when a board is authorized to make or propose plan design adjustments.

There has been no further action on this recommendation. Subsequent to pension reform, further authority has been granted to SERS to adjust COLA in Am. Sub. H.B. 49 of the 132<sup>nd</sup> General Assembly. The ORSC disapproved of permitting the SERS Board to provide a COLA above CPI.

### **Ad Hoc Report on Disability Experience of Law Enforcement/Report Standardization Project**

In November of 2012, Representative Schuring requested that ORSC staff provide an accounting of the disability experience of the law enforcement divisions, with recommendations to improve its functionality. ORSC staff issued a report in November 2014. The ORSC took no action on the report, but did ask staff to suggest a process to standardize all reports provided by the retirement systems to the Council. At its December 11, 2014, meeting, the ORSC modified then accepted a staff plan to standardize a number of reports. ORSC staff have completed the standardization of four reports (the Iran/Sudan Divestiture Report, Internal Audit Report, Budget Report, and Annual Health Care Report) and are continuing the standardization project. The final report to be standardized is the Annual Disability Report.

### **Actuarial Funding of Pension Benefits**

There are generally three sources of revenue for the public retirement systems to fund, on an actuarial basis, their defined benefit plans: (1) employee contributions; (2) employer contributions; and (3) investment earnings. Investment earnings are typically the largest source of revenue for the five public retirement systems, funding up to 75% of the benefits paid. Therefore, the experience of a retirement system meeting its actuarial interest rate is essential to funding promised benefits. The actuarial interest rate is the rate of return the retirement system uses in anticipating sufficient funding levels in the future. Two points of data reviewed by ORSC staff are the experience of the systems in meeting their rate over a 10-year period and the statutorily required analysis of the adequacy of contribution rates for OP&F.

***10-year actuarial interest rates*** The most recent semi-annual investment review required by law as of June 30, 2020, indicated that over the trailing ten-year period, all of the funds have achieved their actuarial interest rate.

The success of a system in meeting its long term actuarial interest rate is one of the most closely monitored data points by the Council, but it is not the sole determining factor of adequate pension funding.

***Adequacy of OP&F contribution rates*** The ORSC is required to conduct an annual study on the adequacy of contribution rates of OP&F.<sup>9</sup> The 2019 study was reviewed at the February 13, 2020, ORSC meeting. In that report, PTA/KMS concurred that OP&F was

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<sup>9</sup> R.C. 742.311.



within the statutory 30-year period. The report did note that this was in part possible as very little funding is being made for any health care expenses, potentially jeopardizing the solvency of the health care fund. They also noted that, with future actuarial changes and the 30-year period may not be met in the future and that further modifications may be necessary.

### **Cost and Funding of Retiree Health Care Benefits**

All of the retirement systems face significant challenges controlling health care costs while maintaining meaningful coverage. The significant investment losses experienced from March 2000 to March 2003 as well as during the recession of 2008-2009 have exacerbated the health care funding problem; the retirement systems must first fund guaranteed pension benefits, which has required a reduction in the amount allocated to discretionary retiree health care benefits. The early retirement ages for many public employees create an additional challenge for each retirement system's health care program.

### **Remove 13<sup>th</sup> Check Authority in STRS**

R.C. 3307.671 permits the STRS Board to provide a supplemental benefit to retirees. This has often been referred to as the "13<sup>th</sup> check." The repeal of this section was initially advocated in 1996 under the "Joint Legislative Committee to Study Ohio's Public Retirement Plans"<sup>10</sup> and ORSC staff continue to support its immediate removal from the Ohio Revised Code.

STRS does not currently provide this supplemental benefit.

### **Update Past Studies Relative to Disparity of Employer Rates in OP&F**

Employer contribution rates for police and firefighters are established in statute. Police employers are required to contribute an amount equal to 19.50% of salary, while firefighter employers are required to contribute 24%. In its annual study on the adequacy of contribution rates, ORSC's previous actuary, Milliman, recommended a blending and equalizing of those rates at a weighted average of 21.5%.<sup>11</sup> Their position was that without equalizing the rates, firefighters are in part subsidizing the benefits of police officers. Previous funding plans proposed by OP&F have also proposed equalizing the rates. At its September 2012 meeting, Rep. Schuring requested that the ORSC provide an update on this policy issue.

PTA/KMS again reviewed the allocation rates in its 2020 annual adequacy report and concurred that it could be argued that firefighter employers are paying a larger share of the unfunded liability than are police employers. PTA/KMS did not propose a blended rate.

### **Reemployment Provisions**

There continues to be legislative interest in the re-employment provisions of the five public retirement systems that allow members who have been retired to return to public

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<sup>10</sup> 1996 Joint Legislative Committee to Study Ohio's Public Retirement Plans, chaired by Sen. Cooper Snyder and Rep. Dale Van Vyven.

<sup>11</sup> Milliman USA letter to ORSC dated June 6, 2002.

employment while continuing to receive their pension. Recommendations have varied depending on if the re-employment resulted from a “retired-rehired” process, in which the member retired and then was rehired in the exact same position, versus so-called “double-dipping,” where the member retires and returns to employment in a new capacity (for instance, a teacher retiring to become a state legislator). In the past, the Council has recommended that the re-employment provisions be standardized and more robust penalties be issued for “retired-rehired” situations, rather than establishing a uniform prohibition of re-employment.

### **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 for Social Security. The General Assembly has consistently opposed efforts to require Social Security participation.

### **Purchase of Service Credit**

Pursuant to the ORSC’s request, Milliman completed a report on the cost of purchasing service credit in 2007. 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 or 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.

Pension reform has largely eliminated this subsidization. Any additional purchases requiring subsidization that were inadvertently excluded should be reviewed to determine if they should likewise be modified.

### **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 Ohio Attorney General. This recommendation has not been acted upon but was reaffirmed by the ORSC at its November 2014 meeting and also supported in the PERS fiduciary audit conducted by Aon in 2019. However, in its 2017 fiduciary audit of SERS, Funston found that this structure did “not appear to be causing problems.”

### **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. ORSC reaffirmed this position at its November 2014 meeting.

Subsequent to the reaffirmation of this position, two additional consultants, Funston (2017 fiduciary audit of SERS) and Aon (2019 fiduciary audit of PERS), found that the model used in Ohio results in higher costs and complexity for, respectively, SERS and PERS custodial services and recommended that SERS and PERS be provided authority to contract directly with a single global custodial bank.

### **Review of Policy Framework for Pensions**

During its 2012 review, PTA/KMS stated that “a well-defined public policy acts as a standard against which any proposal can be fairly analyzed.” They found that the current ORSC policy statement appeared to be dated, incomplete, and on occasion, inconsistent with current practices and provisions. From existing files, it appears the ORSC “Principles Governing Pensions” has not been amended since its adoption in 1978.

PTA/KMS recommended that the ORSC consider updating this policy framework. This recommendation has not been acted upon but was reaffirmed by the ORSC at its November 2014 meeting.

### **Implement a Declining 30-year Funding Policy**

PTA/KMS recommended in its 2012 review that the 30-year funding policy be modified to provide that it is an absolute funding limit rather than a minimum standard. They recommended a removal of the 30-year funding period as an objective in favor of the establishment of a declining 30-year period that aims for a funding period of 15-20 years.<sup>12</sup>

At its February 2015 meeting, the STRS Board adopted a closed 30-year funding period beginning July 1, 2015 (meaning that in 30 years, STRS liabilities would be fully funded). The SERS funding policy has advocated for a closed 30-year funding period since 1998. PERS, OP&F, and HPRS do not have a closed 30-year funding policy.

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<sup>12</sup> Forna, Bournival, and Schrader, 36.

DOCUMENTS STATUTORILY REQUIRED OF THE RETIREMENT SYSTEMS  
THE 133<sup>rd</sup> GENERAL ASSEMBLY  
JANUARY 1, 2020 - DECEMBER 31, 2020

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 very brief summary of the contents of the report. Copies of completed reports can be obtained at the ORSC office and the ORSC website ([www.orsc.org](http://www.orsc.org)).

**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. With the exception of OP&F, which requires triennial valuations, 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. These reports were timely issued.

**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 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. These reports were timely issued.

**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, retirees, contributors, and beneficiaries of the system to update the actuarial assumptions used in the actuarial valuation. 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. HPRS submitted a quinquennial evaluation in 2020.

**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 respective 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 House of Representatives and Senate with primary responsibility for retirement legislation. These reports were timely issued.

**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 30 years. The report must include 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 30 years. The report on the 30-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 90 days after the retirement system board receives the actuarial valuation in which the funding period exceeds 30 years. No 30-year plans were required in 2020.

**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 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. No actuarial analyses were required in 2020.

**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 60 days before adoption of the budget. The budgets were timely submitted.

**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. These reports were timely issued.

**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. The systems rules were reviewed in 2020 and any concerns were resolved through ORSC meetings.

**Divestment of Assets in Iran and Sudan**

Section 707.20 of H.B. 562 of the 127<sup>th</sup> General Assembly required OP&F to establish a policy for the identification of businesses in which the fund has direct or indirect holdings that are engaged in scrutinized activities in Iran or Sudan and a policy to divest those holdings. OP&F has continued to report on those efforts and, as of January 2020, had reduced the market value of those holdings by 99.68%. The other retirement systems have voluntarily developed a policy of divestiture of holdings of companies conducting business in Iran and Sudan.

DOCUMENTS STATUTORILY REQUIRED OF THE ORSC  
THE 133<sup>rd</sup> GENERAL ASSEMBLY  
JANUARY 1, 2020 - DECEMBER 31, 2020

The ORSC is required by statute to issue various reports. The following is a listing of each report that ORSC is required to complete along with a very brief summary of the contents of the report. Copies of completed reports can be obtained at the ORSC office or the ORSC website (www.orsc.org).

**Investment Performance** (R.C. 171.04(D))

The ORSC is required to semiannually review the policies, objectives, and criteria of the retirement systems' investment programs, including a review of asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, relative volatility, and performance evaluation guidelines. **ORSC's consultant (RVK) provided these reviews to the ORSC in 2020.**

**10-Year Actuarial Review** (R.C. 171.04(E))

The ORSC is required, at least once every 10 years, to complete an actuarial review of the actuarial valuation and quinquennial actuarial investigation of the retirement systems, including a review of the actuarial assumptions and methods, the data underlying the valuations and investigations, and the adequacy of each system's employee and employer contribution rates to amortize its unfunded liability.

**No actuarial reports were completed in 2020.**

**10-Year Fiduciary Performance Audit** (R.C. 171.04(F))

The ORSC is required, at least once every 10 years, to complete a fiduciary performance audit of each retirement system. **No fiduciary reports were completed in 2020.**

**Annual Review of OP&F Contribution Rates** (R.C. 742.311)

The ORSC is required, annually, to review the adequacy of employer and employee contribution rates under OP&F and make recommendations on the proper financing of the benefits of the Fund. **The 2019 report was submitted in February of 2020.**

**ORSC Annual Budget** (R.C. 171.05)

The ORSC is required, annually, to submit a budget of its expenses. **The ORSC budget was submitted and approved in June of 2020.**

**ORSC Annual Report** (R.C. 171.04)

The ORSC is required, annually, to submit a report on its evaluation and recommendations regarding the state retirement systems. **The 2019 report was submitted in March 2020.**

STATUS OF PENSION LEGISLATION  
THE 133<sup>rd</sup> GENERAL ASSEMBLY  
JANUARY 1, 2019 - DECEMBER 31, 2020

**HOUSE BILLS**

<u>H. Bill</u>	<u>H. Int.</u>	<u>Actuarial Received</u>	<u>Short Title</u>	<u>ORSC Pos.</u>	<u>H. Cmt</u>	<u>Reported Out - Floor Vote</u>	<u>Sen. Int.</u>	<u>Sen. Cmt</u>	<u>Reported Out - Floor Vote</u>	<u>Conf Cmt</u>	<u>Con.</u>	<u>Eff Date</u>
<u>HB 46</u>	<u>2/12/19</u>	-	<u>Establish the Ohio State Government Expenditure Database</u>	-	<u>SLG</u>	<u>10/2/19</u>	<u>10/7/19</u>	<u>GG</u>	<u>12/9/20-12/17/20</u>	-	-	-
<u>HB 166</u>	<u>3/25/19</u>	-	<u>Operating Budget</u>	-	<u>FIN</u>	<u>5/9/19</u>	<u>5/13/19</u>	<u>FIN</u>	<u>6/20/19</u>	<u>6/20/19</u>	<u>7/17/19</u>	<u>7/18/19</u>
<u>HB 197</u>	<u>4/11/19</u>	-	<u>COVID-19 Emergency measures (Powell, Merrin)</u>	-	<u>WM</u>	<u>10/30/19</u>	<u>11/4/19</u>	<u>WM</u>	<u>3/25/20</u> <u>*E*</u>	-	<u>3/25/20</u> <u>*E*</u>	<u>3/27/20</u>
<u>HB 236</u>	<u>5/6/19</u>	-	<u>To add hospital police officers to the definition of peace officer.</u>	-	<u>TPS</u>	<u>6/26/19</u>	<u>6/27/19</u>	<u>IUD</u>	-	-	-	-
<u>HB 308</u>	<u>6/28/19</u>		<u>Concerns workers' compensation and disability retirement for PTSD (Patton)</u>		<u>INS</u>	<u>2/12/20</u>	<u>2/14/20</u>	<u>GG</u>	<u>Sub bill 12/17/20</u>		<u>12/22/20</u>	<u>4/21/21</u>
<u>HB 326</u>	<u>8/28/19</u>	-	<u>Permits certain PERS and SERS</u>	-	<u>INS</u>	-	-	-	-	-	-	-



<u>HB</u> <u>404</u>	<u>11/12/19</u>	-	<u>member to</u> <u>continue</u> <u>receiving a</u> <u>disability</u> <u>benefit</u> <u>during a term</u> <u>in office</u>	<u>N/A</u>	<u>HED</u>	<u>5/13/2020</u>	<u>5/15/20</u>	<u>GG</u>	<u>11/18/20</u>	-	<u>11/19/20</u>	<u>11/22/20</u>	
<u>HB</u> <u>442</u>	<u>12/9/19</u>	-	<u>Teacher</u> <u>licensure</u> <u>requirements</u>	<u>N/A</u>	<u>CL</u>	<u>6/4/20-</u> <u>6/9/20</u>	<u>6/10/20</u>	<u>TCW</u>	<u>12/17/20-</u> <u>12/18/20</u>	-	<u>12/22/20</u>	<u>4/12/21</u>	
<u>HB</u> <u>462</u>	<u>1/2/20</u>	-	<u>Regards</u> <u>health care</u> <u>for public</u> <u>safety/law</u> <u>enforce. PERS</u> <u>retirees</u> <u>(Ghanbari)</u>	-	<u>INS</u>	-	-	-	-	-	-	-	
<u>HB</u> <u>514</u>	<u>2/19/20</u>	-	<u>Require state</u> <u>retirement</u> <u>systems to</u> <u>broadcast</u> <u>board</u> <u>meetings</u> <u>(Kelly.</u> <u>Ghanbari)</u>	-	<u>FIS</u>	-	-	-	-	-	-	-	
<u>HB</u> <u>515</u>	<u>2/19/20</u>	-	<u>Require state</u> <u>retirement</u>	-	<u>FIS</u>	-	-	-	-	-	-	-	

HB <u>516</u>	<u>2/19/20</u>	-	systems boards to disclose certain info (Kelly Ghanbari) Regards state retirement system doing business with prior officer (Kelly Ghanbari)	-	FIS	-	-	-	-	-	-	-	-	-
HB <u>530</u>	<u>3/3/20</u>	-	Regards state retirement system fiduciary duties/fees/party (Grendell)	-	FIS	-	-	-	-	-	-	-	-	-
HB <u>542</u>	<u>3/11/20</u>	-	Revise OP&F disability determination procedures (Carfagna Cera) Amended info SB 277 (12/1/2020)	-	FIS	-	-	-	-	-	-	-	-	-
HB <u>556</u>	<u>3/16/20</u>	-	Provide benefits for first responders with PTSD	-	INS	-	-	-	-	-	-	-	-	-

<u>HB</u> <u>608</u>	<u>4/10/20</u>	-	(Lang. Antani)	-	SLG	-	-	-	-	-	-	-	-	-	-
			Change peace officer/firefighter certification during COVID-19 (Crossman)												
<u>HB</u> <u>652</u>	<u>5/19/20</u>	-	Make certain pension related information confidential (Galonski)	-	CVI	-	-	-	-	-	-	-	-	-	-
			Volunteer Firefighter Benefit Study Committee (Rogers, Hoops)												
<u>HB</u> <u>752</u>	<u>9/13/20</u>	-		-		-	-	-	-	-	-	-	-	-	-

**SENATE BILLS**

<u>S. Bill</u>	<u>S. Int.</u>	<u>Actuarial Received</u>	<u>Subject, Sponsor, and System</u>	<u>ORSC Pos</u>	<u>S. Cmt</u>	<u>Reported Out - Floor Vote</u>	<u>H. Int.</u>	<u>H. Cmt</u>	<u>Reported Out - Floor Vote</u>	<u>Con. Cmt.</u>	<u>Con</u>	<u>Eff Date</u>
<u>SB</u> <u>10</u>	<u>2/12/19</u>	-	Expand penalty for theft in office/resstitut	-	<u>GOR</u>	<u>3/13/19</u>	<u>3/19/19</u>	CRJ; Referred to CRJ	<u>5/19/20-6/9/20</u>	<u>12/17/20</u>	-	-

			ion for audit costs						on 10/29 /19				
<u>SB 135</u>	<u>4/25/19</u>	-	Automatic enrollment in deferred compensation program.	<u>GG</u>	-	-	-	-	-		-	-	-
<u>SB 277</u>	<u>2/11/20</u>	-	Pooled Collateral (later OPF disability: Schuring)	<u>INF</u>	-	6/3/20	6/9/20	FIS	<u>12/2/20-</u> <u>12/17/20</u>	-	-	-	-

**HOUSE COMMITTEES**

AGE Aging & Long-Term Care  
 AGD Agriculture & Rural Development  
 AVS Armed Services & Veterans Affairs  
 CVJ Civil Justice  
 CL Commerce & Labor  
 COM Criminal Justice  
 Economic & Workforce  
 EWD Development  
 ENR Energy & Natural Resources  
 FED Federalism  
 FIN Finance  
 FIS Financial Institutions  
 HEA Health  
 HED Higher Education  
 INS Insurance  
 PSE Primary & Secondary Education  
 PU Public Utilities  
 RR Rules & Reference  
 SLG State & Local Government  
 TPS Transportation & Public Safety  
 WM Ways & Means

RR Rules & Reference  
 TCW Trans., Com., & Workforce  
 WM Ways & Means

**ORSC POSITION**

A Approved  
 D Disapproved  
 AA Approved with Amendment  
 AD Action Deferred  
 N/A No Action Required

**LEGISLATIVE ACTION**

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

**SENATE COMMITTEES**

AG Agriculture and Natural Resources  
 ED Education  
 ENR Energy & Public Utilities  
 FIN Finance  
 GG General Government & Agency Rev  
 HHM Health, Human Services, & Medicaid  
 INF Insurance & Financial Institutions  
 JUD Judiciary  
 LSV Loc. Gov., Pub Safety, Vet Affairs  
 HED Higher Education