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Annual Report 2008

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

127th General Assembly
January 1, 2007 – December 31, 2008

January 2009

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ANNUAL REPORT

THE 127TH GENERAL ASSEMBLY

JANUARY 1, 2007 - DECEMBER 31, 2008

January 2009

TABLE OF CONTENTS

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, 2007 and ending December 31, 2008. 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 1944 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.

The systems are governed by independent boards whose members have a fiduciary obligation to the members and retirees. There are 11 members of the PERS board: 5 employee members elected by the membership; 2 retiree members elected by service and disability retirees; 2 investment experts (1 appointed by the Governor and 1 appointed jointly by the Speaker of the House and Senate President); the Treasurer of State's Investment designee; and the Director of Administrative Services. The STRS board is composed of 11 members as well: 5 employee members elected by the membership and disability retirees; 2 retiree members elected by service retirees; 2 investment experts (1 appointed by the Governor and 1 appointed jointly by the Speaker of the House and Senate President); the Treasurer of State's Investment designee; and the Superintendent of Public Instruction. Both the SERS and OP&F boards are comprised of the following 9 members: 4 employee members elected by the membership (in the case of OP&F 2 active firefighters and 2 active police officers); 2 retiree members elected by service and disability retirees (in the case of OP&F 1 is a retired police officer and 1 is a retired firefighter); 2 investment experts (1 appointed by the Governor and 1 appointed jointly by the Speaker of the House and Senate President); and the Treasurer of State's Investment designee. HPRS' board is comprised of the following 11 members: 5 employee members elected by the membership; 2 retiree members elected by service and disability retirees; 2 investment experts (1 appointed by the Governor and 1 appointed jointly by the Speaker of the House and Senate President); the Treasurer of State's Investment designee; and the Superintendent of the State Highway Patrol.

As of January 1, 2008 the five systems had combined assets of over $186 billion and approximately 716,000 active contributing members, 608,000 inactive members, and 374,000 beneficiaries and recipients. The January 26, 2009 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 19th (down from 14th the prior year) out of all public and private; STRS ranked 17th (up from 18th) out of all public and private funds; OP&F ranked 110th (down from 109th); while SERS ranked 119th (down from 114th) among all public and private pension funds. The funding periods for the systems range from a low of 14 years for PERS to infinite for OP&F. STRS has a funding period of 26.1; HPRS is at 27 years; SERS' funding period is 29.

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 2007 and 2008, pending public retirement issues, and staff recommendations. In addition, it provides a historical record of legislative action taken by the 127th 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; Actuarial Reviews; Reports on Enacted Pension Legislation; Pending Pension-

Related Issues; Documents Submitted by the Retirement Systems; Subject Index of Pension Bills Introduced; and Status of Pension Legislation.

The Systems' Investment Performance section provides a summary of the investment performance reviews completed by Evaluation Associates, LLC (a subsidiary of Milliman), during 2007 and 2008. 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' discretionary health care benefits for 2008 and 2009. 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 2009.

The Actuarial Reviews section provides a summary of the actuarial reviews completed by the ORSC actuary, Milliman, during 2007 and 2008. The full reports can be obtained from the ORSC office or on the ORSC website.

The Reports on Enacted Pension Legislation section provides a detailed examination of each pension bill enacted into law during the 127th Ohio General Assembly, including the name of the principal sponsor, a description of its contents, its fiscal impact, the ORSC position and its effective date. The reports are intended to give the reader an awareness and understanding of all substantive changes 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

THE 127TH GENERAL ASSEMBLY

JANUARY 1, 2007 – DECEMBER 31, 2008

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 2007 and 2008:

Investment Performance Review (Fourth Quarter 2006), June 13, 2007 -
This report, which was presented at the June 20, 2007 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning January 1, 1996 and ending December 31, 2006. The findings of this report are summarized as follows:

- In the six months ending December 31, 2006, the systems experienced solid performance results, due primarily to strong equity market returns. The range of returns for the six months goes from a low of 8.89% (PERS HC) to a high of 12.06% (STRS). Given the PERS HC appropriately higher allocation to fixed income, it is expected that these results would trail the others in a rising equity market. The five retirement plans' returns ranged from 9.83% (HPRS) to 12.06% (STRS).

- Three of the systems lagged their respective policies for the six-month period, one matched the policy return and two outperformed. The two outperformers were STRS and PERS DB. These two outperformed by 88 and 11 basis points respectively. PERS HC matched their benchmark. OP&F had the largest lag of 32 basis points, HPRS trailed 20 basis points behind their index and SERS lagged by 8 basis points. On a calendar year basis, four of the systems outperformed their benchmarks, with STRS generating the largest outperformance at 104 basis points. The two laggards were HPRS (32 basis points behind) and PERS DB (trailing by 29 basis points).

- From a universe comparison perspective, all systems with the exception of HPRS ranked above the median public retirement system in a broad universe of such funds (the Mellon All Public Fund Universe) for six months ending December 31, 2006. The top-performing fund for the six months was STRS (top percentile). The other funds ranged from the 12th percentile (PERS DB) to the 56th percentile (HPRS).

- For the calendar year 2006, all of the systems with the exception of HPRS were above median versus the Mellon All Public Fund Total Fund Universe. HPRS ranked just below median at the 52nd percentile; STRS was the leader ranking in the 4th percentile.

- Over the trailing three-year period, only HPRS has underperformed its policy benchmark, by 27 basis points: 11.27% vs. 11.54%. STRS has the strongest annualized three-year return of 14.05%, ahead of their benchmarks by 127 basis points. It is worth noting that STRS has the highest equity allocation in their benchmark (67.0%), which included the highest allocation to international equities (25.0%). Their policy allocation to fixed income is also the lowest of the group at 20.5%. The strong performance of equities, and especially international equities has been beneficial to the plan. For the three-year period PERS DB, (+12.23%), SERS

(+12.59%), and OP&F (+12.74%) have returns that are tightly clustered; all three have outperformed their benchmark for the period.

- Relative to the Mellon All Public Fund Universe, four of the five systems are above median for three years with HPRS the exception (63rd percentile). STRS has the best relative performance (6th percentile), followed by OP&F (23rd), SERS (26th), and PERS DB (41st).

- For the trailing five-year period, all systems have outperformed their respective policy benchmarks. STRS (+10.24%) and OP&F (+10.04%) ranked in the second quartile, while PERS DB (+9.61%) performed at the median of the Mellon All Public Total Fund Universe. HPRS (+9.53%, third quartile) and SERS (9.18%, third quartile) had the weakest relative returns. The fact that all systems beat their benchmark is noteworthy.

- Over the trailing ten-year period, OP&F, PERS DB, SERS, and STRS are exceeding their actuarial interest rate. HPRS has lagged their actuarial rate. In comparison to the systems' respective policy benchmarks over the past ten years, SERS and STRS outperformed, OP&F effectively matched their benchmark, while HPRS and PERS DB trailed for the period.

- During the seven years EAI has been reviewing the results of the systems on behalf of the Council, the asset allocation targets have tended to converge. Current targets are very close to each other. The obvious exception is PERS HC. It is important to note that they have a lower actuarial interest rate target than the others, at 6.5%. 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. There were still some important differences in target allocations in the 1990's, which impact the longer-term return series.

- The following observations grow out of EAI's review of the systems' asset allocation:

    1. The systems' actual and target allocation to domestic equity rank above the total public fund median plan's allocation to domestic equity (39.91%) in the Mellon Total Public Fund Universe. The same is true of the public funds over $1 billion universe. It is noteworthy that the median universe allocation to domestic equities has dropped by almost 1% over the past six months.

    2. The systems' actual and target asset allocation to fixed income fall below the total public fund median plan's exposure to fixed income (26.21%). This median is down by almost 1.5% in the six months since the last report.

    3. There is a 20.30% allocation to international equity amongst the total public fund universe. HPRS is below that both in actual (11.36%) and target (15.00%) allocation. All other systems have an actual allocation higher than

the median. SERS and HPRS were two exceptions, as they set their international equity target allocations to 16.00% and 15.00%, respectively.

4. All five of the retirement systems' asset allocation targets to real estate rank above the median plan's allocation to real estate (6.02%), and four of the five have an actual allocation above median. OP&F is the exception, with an actual allocation of 4.44% versus a target of 8.00%. SERS has the largest actual real estate allocation at 9.93% and the largest target allocation of 10.00%.

5. There is a 5.44% allocation to alternative investments amongst the total public fund universe. HPRS has the largest actual (9.16%) and target (10.00%) allocation. All other systems have actual allocations ranging between 1.97% and 2.98%.

<u>Investment Performance Review (Second Quarter 2007), November 14, 2007</u> – This report, which was presented at the November 14, 2007 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning July 1, 1997 and ending June 30, 2007. The findings of this report are summarized as follows:

- The systems benefited from strong equity markets, both domestically and abroad, during the six months ending June 30, 2007, producing very favorable single digit returns. The range of returns for the six-month period was from a high of +8.48% (OP&F) to a low of +4.75% (PERS HC).

- All five systems outpaced their respective policy indexes for the six-month period. OP&F led its policy index by the largest amount, 123 basis points, and was followed by SERS, which led its target by 121 basis points. STRS' policy index return was the top performer for the six- month period (+7.46%) largely due to a higher overall equity allocation and a higher alternatives policy target return. The PERS HC policy index had the lowest return for the six-month period, due to its higher allocation to fixed income. Fixed income produced only low single digit returns for the six-month period.

- In comparison to a broad universe of other public retirement systems (the Mellon All Public Total Fund Universe), all plans ranked above median for the period ending June 30, 2007. OP&F ranked in the first quartile (13th percentile), while the other systems ranged from the 25th percentile (SERS) to the 43rd percentile (PERS DB).

- For the one-year period ending June 30, 2007, all of the systems except HPRS led their respective policy index returns and outpaced the median of the Mellon All Public Total Fund Universe, producing rankings in the 5th, 10th, 19th, 29th, and 47th percentiles (STRS, OP&F, SERS, PERS DB, and HPRS, respectively.

- On a three-year basis, only HPRS has lagged its policy index, trailing by 33 basis points. Over the same time period, SERS has led is policy benchmark by the largest amount (121 basis points) followed by STRS (118 basis points), PERS DB (56 basis points) and OP&F (57 basis points).

- Comparing the three-year returns of the systems to the Mellon All Public Total Fund Universe, STRS ranked in the 8th percentile followed by OP&F, SERS, and PERS DB, which ranked in the 19th, 22nd, and 36th percentiles, respectively. HPRS ranked in the 59th percentile, which is slightly below median.

- For the five-year period, all systems have outpaced their respective policy benchmarks with STRS producing the largest level of outperformance at 101 basis points. In comparison to the Mellon All Public Total Fund Universe, STRS (+13.17%) and OP&F (+12.80%) ranked in the first quartile, PERS DB (+12.27%), and SERS (+12.09%) ranked in the second quartile, and HPRS (+11.76%) ranked just below median in the third quartile.

- Over the longer-term, ten-year period, HPRS is the only system trailing its actuarial interest rate. When compared to each system's respective policy benchmark over the last ten years, STRS, SERS, and OP&F exceed the return of their policy benchmark while PERS DB and HPRS trailed for the same period.

- During the eight years that EAI has been reviewing the results of the systems on behalf of the Council, the asset allocation targets have become more similar and 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 6.5%. The retirement plans all have actuarial returns 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. Recent changes to asset allocation policy by HPRS, and more recently SERS, will likely cause some comparison differences in the near future as SERS has significantly lowered it domestic equity allocation, adding to international equity and alternatives, while HPRS has lowered fixed income and added to alternatives. Additionally, longer-term comparisons are more problematic as there were still some important differences in target allocations in the 1990's, which impact the longer term return series. In the end, while peer comparisons can be a useful exercise, comparisons to the plans' policy index should be the primary comparison tool.

- With a full ten years of data now available since the formal adoption of the "prudent person rule," it is a useful exercise to examine the relative performance of the systems versus the peer group of public fund plans over that period. Tracking relative performance for the ten-year period, where all of the plans ranked below the median of the peer universe, to more recent 1,2,3,4, and 5 year periods, where the majority of the systems are consistently ranking in the first or second quartile of the peer universe, should give validity to the concept that a larger investment opportunity set and increased portfolio diversification are favorable for performance.

- The following observations are based on a review of the systems' asset allocation in comparison to two public fund universes: the total universe of public funds and the universe of public funds in excess of $1 billion.

  1. The actual and target asset allocation of PERS DB, STRS, OP&F, and HPRS to domestic equity rank above the median plan's allocation to domestic equity (40.58%) in the Mellon All Public Total Fund Universe. The actual (30.43%) and target (29.00%) allocation of SERS to domestic equity is below that of the median plan. The same holds true when the systems are compared to the median (38.73%) of the Mellon Billion Dollar Public Total Fund Universe.

  2. The systems' actual and target asset allocation to fixed income are below the median plan (26.52%) of the Mellon All Public Total Fund Universe.

  3. There are some differences in the target allocations of the systems to international equity. The median plan allocation of the Mellon All Public Total Fund Universe as of June 30, 2007 was 21.09%. The target allocations of STRS and SERS are higher at 25% and 29%, respectively. The target allocations of PERS DB and OP&F approximate the median at 20% and the HPRS target allocation is below at 15%. It is worth noting that each of the plans is maintaining an allocation to international equity that is marginally higher than stated targets. This allocation has been beneficial, as these markets have produced double-digit returns over the past six months.

  4. The universe median allocation to real estate was 5.40%. While the target allocation of each of the systems is above the median allocation, all plans except PERS DB and HPRS are maintaining a current allocation below their respective targets.

  5. SERS and HPRS both have current target allocations to alternatives that are above the peer median of 6.30%. The remaining plans have lower target allocations to alternative assets.

<u>Investment Performance Review (Fourth Quarter 2007), April 9, 2008</u> –
This report, which was presented at the April 9, 2008 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning January 1, 1998 and ending December 31, 2007. The findings of this report are summarized as follows:

- A variety of issues plagued the U.S. economy over the second half of 2007 making it a very difficult market for investors. The presence of liquidity constraints, the fall out of the subprime lending crisis, high oil prices, the housing slump, and increased default rates contributed to market volatility. Domestic equity markets were the hardest hit through year end as few opportunities were present given the volatile market conditions while international developed equity markets experienced mixed results. Fixed income opportunities were prevalent as investors sought higher quality investments. As a result, the systems benefited from positive absolute performance results in fixed income, international equity, and alternatives ending the year in positive territory. The range of returns for the six-month period was from a high of +2.06% (PERS HC) to a low of +0.48% (HPRS).

- Relative performance results proved to be a mixed bag over the six month period as two of the five systems were able to outpace their respective policy indexes while all other plans could not keep pace. STRS led its policy index by the largest amount, 46 basis points, while OP&F led by a modest 6 basis points. The PERS HC policy index return was the top performer for the six-month period (+2.92%) largely due to a higher fixed income allocation and lower equity exposure. The HPRS policy index had the lowest return for the six-month period, due to its higher allocation to equity, which lagged other asset classes over the period.

- In comparison to a broad universe of other public retirement systems (the Mellon All Public Total Fund Universe), three of the five plans ranked above median for the period ending December 31, 2007. STRS, OP&F, and PERS DB ranked in the second quartile, more specifically the 31st, 34th, and 43rd percentile, respectively while the other systems ranged from the 54th percentile (SERS) to the 84th percentile (HPRS).

- For the one-year period ending December 31, 2007, all of the systems, with the exception of HPRS, let their respective policy index returns and outpaced the median of the Mellon All Public Total Fund Universe, producing rankings in the 16th, 22nd, 26th, 39th, and 61st percentiles (OP&F, STRS, SERS, PERS DB, and HPRS, respectively).

- On a three-year basis, the only plan to lag its policy index was HPRS, trailing by 47 basis points. Over the same time period, STRS has led its policy benchmark by the largest amount (110 basis points) followed by SERS (76 basis points), OP&F (61 basis points) and PERS DB (37 basis points).

- Comparing the three-year returns of the systems to the Mellon All Public Total Fund Universe, STRS ranked in the 7th percentile followed by OP&F, SERS, and PERS DB, which ranked in the 16th, 16th, and 33rd percentiles, respectively. HPRS ranked just below median, in the 55th percentile.

- For the five-year period, all systems have outpaced their respective policy benchmarks with the exception of HPRS, which just missed the index return by 9 basis points. STRS produced the most impressive results outpacing the index by 118 basis points over that time period. In comparison to the Mellon All Public Total Fund Universe, STRS (+15.14%) and OP&F (+14.62%) ranked in the first quartile, PERS DB (+14.07%) and SERS (+13.97%) ranked in the second quartile, and HPRS (+13.17%) ranked just below median in the third quartile.

- Ten-year performance results versus the policy benchmarks and the Mellon All Public Total Fund Universes are similar with STRS producing the best relative results and placing above median and HPRS lagging both indicators, ranking in the fourth quartile. It is concerning that HPRS has lagged the target benchmark over the period by 195 basis points. Attribution results over the longer-term time periods indicate that manager selection/performance in the HPRS plan has been problematic while asset allocation has been favorable. ORSC should consider a review of the manager search and selection procedures currently in place at HPRS to determine if the process could be improved or better implemented. Another alternative is for the Plan to consider using index funds to implement the asset allocation strategy, particularly when there are asset classes that can be easily and efficiently accessed through index funds.

- Over the longer-term, ten-year period, STRS and SERS led their respective actuarial interest rates while the remaining plans could not keep pace. When compared to each system's respective policy benchmark over the last ten years, STRS, SERS, and OP&F exceeded the return of their policy benchmarks while PERS-DB and HPRS trailed for the same period.

- During the nine years that we have been reviewing the results of the systems on behalf of the Council, the asset allocation targets became more similar and were 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 by HPRS and SERS will likely cause some comparison differences in the near future as SERS has significantly lowered its domestic equity allocation, adding to international equity and alternatives while HPRS has lowered fixed income and added to alternatives. Additionally, longer-term comparisons are more problematic as there were still some important differences in target allocations in the 1990's, which impact the longer-term return series. In the end, while peer comparisons can be a useful exercise, comparisons to the plans' policy index should be the primary comparison tool.

- With a full ten years of data now available since the formal adoption of the "prudent person rule," it is a useful exercise to examine the relative performance of the systems versus the peer group of public fund plans over that period. Tracking relative performance for the ten-year period, where all of the plans ranked below the median of the peer universe, to more recent 1, 2, 3, 4, and 5 year periods, where the majority of the systems are consistently ranking in the first or second quartile of the peer universe, should give validity to the concept that a larger investment opportunity set and increased portfolio diversification are favorable for performance.

- The report included a comparison of 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:

    1. The actual and target asset allocation of PERS DB, STRS, OP&F, and HPRS to domestic equity rank above the median plan's allocation to

domestic equity (37.58%) in the Mellon All Public Total Fund Universe. The actual (28.46%) and target (29.00%) allocation of SERS to domestic equity is below that of the median plan. The same holds true when the systems are compared to the median (37.46%) of the Mellon Billion Dollar Public Total Fund Universe.

2. The systems' actual and target asset allocation to fixed income are below the median plan (27.78%) of the Mellon All Public Total Fund Universe.

3. There are some differences in the target allocations of the systems to international equity. The median plan allocation of the Mellon All Public Total Fund Universe as of December 31, 2007 was 18.84%. The target allocations of STRS and SERS are higher at 25% and 29%, respectively. The target allocations of PERS DB and OP&F approximate the median at 20% and the HPRS target allocation is below at 15%. It is worth noting that each of the plans is maintaining an allocation to international equity that is marginally higher than state targets. This allocation has been beneficial, as these markets have produced strong absolute results over the shorter and longer-term periods.

4. The All Public universe median allocation to real estate was 4.79% as of December 31st. While the target allocation of each of the systems is above the median allocation, all plans except STRS and OP&F are maintaining a current allocation below their respective targets.

5. While all system plans have actual and target allocations dedicated to alternatives, HPRS has the largest actual (15.33%) and target (15%) allocation to the asset class, well above that of the peer median at 6.16%. The remaining plans have lower target actual allocations to alternative assets.

- Overall, EAI believes this report provides the ORSC with a consolidated source of valuable information to assist in its oversight of the five Ohio Statewide pension funds and ensure that investment policies are consistently and 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.

<u>Investment Performance Review (Second Quarter 2008), November 12, 2008</u> – This report, which was presented at the November 12, 2008 ORSC meeting, reflects the investment performance for all five retirement systems over the ten-year period beginning July 1, 1998 and ending June 30, 2008. The findings of this report are summarized as follows:

- A variety of negative issues continued to unfold in the U.S. economy over the first half of 2008 making it a very difficult market for investors. Sustained weakness in the housing market, contraction in the manufacturing sector, rising unemployment and renewed inflation concerns from rising energy and food prices, coupled with the fallout of the subprime lending crisis contributed to market volatility. The past two quarters produced mixed investment results for the major asset classes. Domestic and international equity (developed and emerging) markets experienced double digit losses in the first half of 2008. Fixed income markets posted positive returns despite rising interest rates across the yield curve in the second quarter of 2008. Real estate also posted positive results in the first half of 2008.

- As a result of the poor capital market environment, all of the systems posted negative returns in the first half of 2008. Returns for the six-month period ranged from -4.69% (PERS HC) to -7.28% (STRS).

- For the six-month period, the PERS (HC) policy index return was the top performer (-3.60%), primarily due to a higher fixed income allocation and lower equity allocation than the other plans. The HPRS policy index had the lowest return for the six- month period (-8.37%), primarily due to its relatively low allocation to fixed income, which outperformed other asset classes over this period.

- With respect to performance relative to policy benchmarks for the six-month period, four of the systems essentially met or outperformed their policy benchmarks, and one underperformed its policy benchmark. HPRS outperformed its policy index by the largest amount (160 basis points), while STRS slightly underperformed by 7 basis points, and PERS (HC) underperformed its benchmark by 109 basis points.

- In comparison to a broad universe of other public retirement systems (the Mellon All Public Total Fund Universe), all five DB plans ranked below the median plan for the six-month period ending June 30, 2008. More specifically, OP&F ranked 52^{nd}, SERS ranked 76^{th}, HPRS ranked 79^{th}, PERS (DB) ranked 83^{rd}, and STRS ranked 89^{th}.

- For the one-year period ending June 30, 2008, STRS, OP&F, and HPRS outperformed their policy benchmark, while PERS and SERS underperformed their benchmarks. Relative to their peer groups, only OP&F outperformed the median of the Mellon All Public Total Fund Universe. More specifically, OP&F ranked 40^{th}, SERS ranked 69^{th}, PERS (DB) ranked 70^{th}, STRS ranked 71^{st}, and HPRS ranked in the 83^{rd} percentile.

- On a three-year basis, all plans posted strong returns and all plans, except PERS (HC), outperformed their respective policy benchmarks. Over this three-year time period, STRS and OP&F outperformed their benchmarks by 98 basis points, SERS outperformed by 83 basis points, HPRS outperformed by 75 basis points, and PERS (DB) outperformed by 45 basis points. PERS (HC) underperformed its benchmark by 37 basis points.

- Comparing the three-year returns of the systems to the Mellon All Public Total Fund Universe, STRS ranked in the 33rd percentile, followed by OP&F (34th), SERS (40th), PERS DB (54th), and HPRS (61st).

- For the five-year period, all systems outperformed their actuarial interest rates and respective policy benchmarks. STRS produced the best results and outperformed its policy benchmark by 103 basis points. In comparison to the Mellon All Public Total Fund Universe, STRS (+11.40%) and OP&F (+11.20%), SERS (+10.49%) and PERS DB (+10.35%) ranked in the second quartile, and HPRS (+9.57%) ranked in the third quartile of the peer group.

- Over the ten-year period, all systems underperformed their respective actuarial interest rates. Relative to their respective policy benchmarks, SERS, STRS, and OP&F outperformed their policy benchmarks, HPRS essentially met its policy benchmark, and PERS (DB) underperformed its benchmark. For the ten-year period, performance results versus the Mellon All Public Total Fund Universes are mixed. STRS ranked in the 50th percentile, OP&F (52nd), SERS (72nd), PERS DB (74th), and HPRS (99th).

- 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.

- The following observations are based on a review of the systems' asset allocation compared to those peer universes:

    1. The actual and target asset allocation of PERS (DB), STRS, OP&F, and HPRS to domestic equity are higher than the median plan's allocation to domestic equity (36.71%) in the Mellon All Public Total Fund Universe. The actual (26.52%) and target (29.00%) allocation of SERS to domestic equity is below that of the median plan. The same holds true when the systems are compared to the median (34.81%) of the Mellon Billion Dollar Public Total Fund Universe.
    2. There are notable differences in the target allocations of the systems to international equity. The median plan allocation of the Mellon All Public Total Fund Universe as of June 30, 2008 was 18.57% (and 20.16% of the Mellon Billion Dollar Public Total Fund Universe). The target allocations of STRS and SERS are higher than the median at 25% and 29%, respectively. The target allocations of PERS (DB) and OP&F approximate the median at 20% and the HPRS target allocation is lower than the median at 15%.

    3. The systems' actual and target asset allocation to fixed income are lower than the median plan (27.18%) of the Mellon All Public Total Fund Universe. In particular, HPRS has the lowest target asset allocation to fixed income

(15.00%). The same holds true when the systems are compared to the median (26.68%) of the Mellon Billion Dollar Public Total Fund Universe.

4. The Mellon All Public Total Fund Universe median allocation to real estate was 5.76% as of June 30, 2008. All plans except HPRS (1.48% actual and 5.00% target) have actual and target allocations significantly above the median plan allocation to real estate.

5. While all system plans have actual and target allocations dedicated to alternative investments, HPRS has the largest actual (18.54%) and target (15.00%) allocation, well above that of the Mellon All Public Total Fund Universe peer median at 5.80% (and 8.39% of the Mellon Billion Dollar Public Total Fund Universe). The other plans have lower target and actual allocations to alternative investments.

- EAI believes the investment reports have provided the ORSC with a consolidated source of information to assist in its oversight of the five Ohio Statewide public pension funds. These reports have provided important high level information to enable the ORSC to evaluate the performance of the plans, and to better understand the impact of the plans' investment policy, and the effectiveness of the implementation of those policies, on total investment performance. In other words, have the investment policies, and the implementation of those policies, met the objectives of the plans? The ORSC now has 10 years of performance data under the prudent person guidelines. In order to further assist in the oversight duties of the ORSC, EAI will evaluate the performance of the plans in a more comprehensive and thorough manner in future reports.

STATUS OF HEALTH CARE FUNDS

THE 127th GENERAL ASSEMBLY

JANUARY 1, 2007 - DECEMBER 31, 2008

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 2007, the total retiree health care costs paid by the retirement systems were over $2.1 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 2009 and the projected solvency period for each system's health care fund.

Ohio Retirement System	**Percentage of Employer Contribution Allocated to Health Care in 2009**
PERS	7.00%*
STRS	1.00%
SERS	4.16%**
OP&F	6.75%
HPRS	5.50%

*This amount will be reviewed by the board and may be revised during the first quarter of 2009.
**Does not include employer health care surcharge of up to 1.5% of total active member payroll.

Projected Solvency Period for Health Care Funds	
PERS (as of 12/31/07)	2038
STRS (as 1/1/08)	2022-2026*
SERS (as of 6/30/08)	2019
OP&F (as of 1/1/08)	2032
HPRS (as of 12/31/08)	2025

*The solvency period ranges between 14-18 years depending on the discount rate: 5.5% under GASB assuming no plan for fully funding; 8% assuming a plan for fully funding.

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 for 2008 and 2009.

PERS

PREMIUMS

2008: Premiums for Kaiser HMO and AultCare PPO plans have increased 3% and 2.7% respectively and also feature increases in the amount of deductibles, out-of-pocket maximums and/or coinsurance.

PERS will continue to reimburse the basic Medicare Part B monthly premium, which is $96.40 in 2008.

2009: S.B. 267 was enacted this session and allows the PERS board to set the reimbursement rate for the Medicare Part B premium. However, the board may not set the reimbursement amount lower than $96.40. PERS will continue to reimburse the basic Medicare Part B monthly premium, which remains $96.40 in 2009.

ELIGIBILITY

2008: PERS made no changes to its health care eligibility requirements for 2008.

2009: PERS made no changes to its health care eligibility requirements for 2009.

BENEFITS

2008: PERS will offer Aetna Medicare Open Plan to Medicare-eligible retirees and their covered, Medicare-eligible spouses in 2008. It is a private-fee-for-service Medicare Advantage plan. Retirees who are Medicare-eligible and currently participating in the Aetna Enhanced plan will automatically be enrolled in the Aetna Medicare Open Plan for 2008.

The co-payment for generic prescription drugs under the Enhanced Plan will decrease from $5 to $3 for a 30-day supply while the co-payment for formulary brand drugs will increase from $10 to $15 for a 30-day supply. Prices for a 90-day supply will remain at 3 times the 30-day supply price.

Express Scripts will replace Medco as the pharmacy benefits manager effective April 1, 2008.

2009: Effective October 1, 2008, retirees participating in the Aetna Medicare Open Plan will have access to a free membership at all fitness facilities within the Aetna Fitness Network.

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

STRS

PREMIUMS

2008: The STRS board continued its policy of providing a premium subsidy of 2.5% per year of service, up to 75% for benefit recipients and providing access to spouses and dependents at 100% of the rate. 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.

2009: The board created the Health Care Assistance Plan for survivors and beneficiaries who are no longer eligible for subsidized health care due to the five-year subsidization limit after the retiree's death. Beginning 1-1-09, eligible beneficiaries will include all beneficiaries of retired teachers with 25 years of more of service and all survivors of disabled and active teachers. The annual family income limit for the program is $23,800 and a household liquid asset limit of $23,800, which does not include the beneficiary's home.

The STRS board will continue its policy of providing a premium subsidy of 2.5% per year of service, up to 75% for benefit recipients and providing access to spouses and dependents at 100% of the rate. 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

2008: STRS made no changes to its health care eligibility requirements for 2008.

2009: Effective 1-1-09, STRS non-Medicare eligible retirees who are reemployed in a public or private position will be required to receive their primary health care coverage from their employer if the employer offers it.

BENEFITS

2008: Enrollees in the Aetna and Medical Mutual Plus and Basic Plans and the Paramount health care plans will be able to buy over-the-counter Prilosec at retail for a $5 co-payment with a doctor's prescription in 2008. Further, co-payments for all other tiers of proton pump inhibitors will be increased in 2008 to $25/$50/$75 at retail and $65/$125/$190 through mail order. These plans will also begin offering a voluntary pill-splitting program for certain generic drugs. This program allows a doctor to prescribe half the number of pills for a double-strength medication and the enrollee splits the pill. Enrollees will be charged only half of the normal co-payment. Additionally, Express Scripts will now be the pharmacy benefits manager for Aetna, Medical Mutual, and Paramount health care plans in lieu of Caremark.

The STRS board enhanced the Basic Plan offered by Aetna and Medical Mutual by increasing the prescription drug maximum annual benefit from $5,000 to $10,000 for 2008.

2009: Effective 8-1-08 and continuing into 2009, $0 co-payment for designated Medicare Part B-covered drugs will be offered through Express Scripts.

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

SERS

PREMIUMS

2008: The board adopted several changes to the premiums for new service and disability retirees who retire on or after January 1, 2008. These changes are intended to extend the life of the health care fund. There are three major changes:

1. Years of service for premium purposes will be based on the number of years a member was paid for at least 740 hours.
2. To receive any premium subsidy, a retiree must have been eligible for insurance from their school employer at the time they retire.
3. The percentage of premium paid by the retiree is based on qualified years of service, and will increase for retiring members with less than 35 years.

The premium rates for SERS retirees with Medicare Parts A and B will decrease in 2008, whereas the premiums for retirees without Medicare, with the exception of AultCare health plan, will increase in 2008. The rates for spouses will increase and they will be based upon the retiree's years of qualified service.

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

2009: The board rescinded the rule basing years of service for premium purposes on the number of years a member was paid for at least 740 hours. Instead, SERS will require employers to start reporting the hours paid each month.

Effective 8-1-08 and continuing into 2009, retirees must have been eligible for their employer's health insurance at the time employment ends in order to be eligible for any premium subsidy.

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

ELIGIBILITY

2008: SERS made no changes to its health care eligibility requirements for 2008.

2009: SERS made no changes to its health care eligibility requirements for 2009.

BENEFITS

2008: The board adopted Medicare Advantage plans for those with Medicare Part A for 2008. These plans replace traditional Medicare. SERS will pay the insurance companies a monthly premium for each Medicare retiree and spouse.

Express Scripts will replace Medco as the pharmacy benefits manager.

2009: The board combined members of the Aetna and Medical Mutual Medicare plans into one group that will be covered by Aetna.

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

OP&F

PREMIUMS

2008: 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 $96.40 in 2008.

2009: The percentage of the subsidy for health care premiums will remain the same in 2009, however increases in the dollar amount of the premium will increase the dollar amount retirees will be required to pay.

S.B. 267 was enacted this session and allows the OP&F board to set the reimbursement rate for the Medicare Part B premium. However, the board may not set the reimbursement amount lower than $96.40. OP&F will continue to reimburse the basic Medicare Part B monthly premium, which remains at $96.40 in 2009.

ELIGIBILITY

2008: Healthcare coverage through OP&F for members and their dependents who are age 65 or older and enrolled in both Medicare Part A and Part B will terminate December 31, 2007. However, these retirees have the option of enrolling in the AARP Health Care Options Medicare Supplement Plan and will continue to be covered by the OP&F-sponsored pharmacy plan.

2009: OP&F made no changes to its health care eligibility for 2009.

<u>BENEFITS</u>

2008: Effective in 2008, UnitedHealthcare will administer all health care, pharmacy, dental, and vision benefits.

Under the new UnitedHealthcare Pharmacy plan, prescription medications will no longer be categorized by generic, preferred, and nonpreferred. Instead, they will be categorized by three tiers depending on the co-payment level.

2009: OP&F will continue to offer one plan through UnitedHealthcare.

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

<u>HPRS</u>

<u>PREMIUMS</u>

2008: Monthly premiums for dental coverage will increase for spouse and child(ren) from $42.18 to $43.02 and child(ren) only from $18.51 to $18.88 effective January 1, 2008. The premium for spouse only remains $17.51. HPRS will continue to pay the full premium to cover retirees. HPRS will continue to reimburse the basic Medicare Part B monthly premium, which is $96.40 for 2008.

2009: Monthly premiums for vision coverage will increase from $5.54 to $5.60 for spouse and from $9.42 to $9.53 for children; or children only from $3.88 to $3.92, effective 8-1-08. Monthly premiums for dental coverage will also change effective 1-1-09 through 12-31-10. Monthly premiums for spouse coverage will increase to $18.47; spouse and children coverage will be $45.83; and children only will be $18.37.

Retirees and surviving spouses who use HPRS as a primary provider will pay a premium of $25 per month. Retirees and surviving spouses who use HPRS as a secondary provider will pay $10 per month in premiums. The monthly premium for a non-Medicare eligible spouse remains at $80. These changes became effective 7-1-08 and will continue into 2009.

HPRS will continue to reimburse the basic Medicare Part B monthly premium, which is $96.40 for 2009.

ELIGIBILITY

2008: Effective January 1, 2008, surviving spouses who are not eligible for Medicare and who are working and have medical coverage available through their employers will be required to obtain their primary medical coverage through that employer.

2009: HPRS made no changes to eligibility for 2009.

BENEFITS

2008: HPRS made no benefit changes to its health care plan for 2008.

2009: HPRS introduced a Wellness Program effective 7-1-08 that will continue into 2009. Under the Wellness Program retirees and dependents who are covered under HPRS' health care plan may access a Comprehensive Wellness Examination, vascular scanning, virtual colonoscopy.

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

ACTUARIAL REVIEWS

THE 127th GENERAL ASSEMBLY

JANUARY 1, 2007 - DECEMBER 31, 2008

<u>Report Regarding Service Purchases Experience of the Five Ohio Retirement Systems During FY Ending 2005 - March 14, 2007</u> - This report was presented at the March 14, 2007 ORSC meeting. The goal of the report was to tabulate and compare the effect of the purchase of service credit on each system. In order to do so, each system calculated the additional actuarial liabilities attributable to the service purchases based on their actuarial assumptions and methods for their regular annual actuarial valuation. PERS, HPRS, and OP&F used calendar year 2005, whereas STRS and SERS used fiscal year July 2004 through June 2005.

The additional pension liabilities shown in the report reflect statutorily mandated benefits. The health care liabilities reflect discretionary benefits, except to the extent that Medicare Part B premium reimbursements are included. 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 following table summarizes Milliman's findings:

	Total Increase in Actuarial Accrued Liabilities	**Total Amount Paid**	**Total Increase in Unfunded Actuarial Accrued Liabilities**	**Total Percent of Increase in UAAL Covered by Amount Paid**
PERS	$272,191,566	$54,942,240	$217,249,326	20.2%
STRS	$212,261,987	$48,914,164	$163,347,823	23.0%
SERS	$28,820,268	$7,927,910	$20,892,358	27.5%
OP&F	$28,478,297	$9,440,096	$19,038,201	33.1%
HPRS	$1,612,409	$546,834	$1,065,575	33.9%

Staff made the following recommendations in response to the report:

1. <u>Recommendation</u>: 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.
   <u>Rationale</u>: 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. <u>Recommendation</u>: Purchased credit should be prohibited from being counted for purposes of health care eligibility or subsidy.
   <u>Rationale</u>: 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.

The Ohio Retirement Study Council voted to approve staff's recommendations regarding the purchase of service credit at its meeting of September 12, 2007.

REPORTS ON ENACTED PENSION LEGISLATION

THE 127th GENERAL ASSEMBLY

JANUARY 1, 2007 - DECEMBER 31, 2008

Am. Sub. H.B. 119 – Rep. Dolan

Am. Sub. H.B. 119 generally makes operating appropriations for the biennium beginning July 1, 2007 and ending June 30, 2009 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 08	Fiscal Year 09
GRF 090-524 Police and Fire Disability Pension Fund	$14,000	$12,000

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

Appropriation Item	Fiscal Year 08	Fiscal Year 09
GRF 090-534 Police and Fire Ad Hoc Cost of Living	$140,000	$130,000

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 08	Fiscal Year 09
GRF 090-554 Police and Fire Survivor Benefits	$910,000	$865,000

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 08	Fiscal Year 09
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.

Additionally, the bill adds science, technology, engineering, and mathematics schools established under Revised Code Chapter 3326. to the definition of "employer" for the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS). Further, the bill states that payments made to STRS and SERS shall be deducted from the amount allocated under R.C. §3326.33. Am. Sub. H.B. 119 provided for the establishment and operations of independent public science, technology, engineering, and mathematics schools.

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

Effective Date - June 30, 2007 (Emergency); the sections pertaining to STRS and SERS are effective September 29, 2007.

Am. Sub. H.B. 420 – Rep. Brinkman

Am. Sub. H.B. 420 generally promotes transparency with respect to state spending, state real property management, and state program effectiveness. This analysis describes only the provisions of the bill that relate to the Ohio public retirement systems. This bill states that the cost of an early retirement incentive plan established by a county or a county agency is an allowable use of federal funds provided that more than 15% of the agency's employees do not participate.

Fiscal Impact – This bill does not have a fiscal impact on PERS.

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

Effective Date – December 30, 2008 (emergency)

Am. Sub. H.B. 562 – Rep. Hottinger

Am. Sub. H.B. 562 generally makes operating appropriations for the remainder of the biennium ending June 30, 2009. This analysis describes only the provisions of the bill that relate to the Ohio public retirement systems.

The bill requires the board of the Ohio Police and Fire Pension Fund (OP&F) to develop a policy to divest of investments in companies with scrutinized business operations in Iran and Sudan when divestiture would be prudent and consistent with the board's fiduciary duty.

The bill also revises the penalties assessed against employers who fail to timely transmit employee retirement contributions or the required contribution reports to the Public Employees Retirement System (PERS). Under current law, PERS is required to impose a penalty equal to 5% of the total amount due in a reporting period if the employee contributions or report were received later than 30 days after the end of the reporting period, plus interest if the fine is not paid within three months. The bill changes the penalty to the following sliding scale:

- 1% of the total due if the report or contributions are 1–10 days late;
- 2.5% of the total amount due if the report or contributions are 11-30 days late;
- 5% of the total amount due if the report or contributions are 31 or more days late.

The bill gives the PERS board the authority to adopt rules establishing different penalties as long as those amounts do not exceed the statutory limits.

The bill also requires PERS to recalculate in accordance with the terms of this bill any penalty an employer incurred between April 1, 2006 and the day before the effective date of this bill.

Fiscal Impact – The bill has no fiscal impact on the systems.

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

Effective Date – June 6, 2008 (emergency)

<u>Sub. S.B. 3 – Sen. Faber</u>

Sub. S.B. 3 would make the following changes:

- Require a member of 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), the Highway Patrol Retirement System (HPRS), or the Cincinnati Retirement System (CRS), or a participant in an Alternative Retirement Plan for higher education employees (ARP) who pleads guilty to or is convicted of a specified offense committed while serving in a position of honor, trust, or profit to forfeit the right to any benefit other than the member's accumulated contributions.[1]

  Under current law, a public employee's retirement or disability benefit cannot be forfeited for employee misconduct.

- Prohibit a person from serving as a retirement system lobbyist if the person is convicted of or pleads guilty to committing any of the following felony offenses after the effective date of the bill:
  - bribery, intimidation, retaliation, theft in office, having an unlawful interest in a public contract, engaging in a pattern of corrupt activity;
  - any of the following if the person committed the violation while the person was serving in a public office and the violation was related to the duties of the person's public office or to the person's actions as a public official: tampering with records, intimidation of attorney, victim, or witness in a criminal case, perjury, tampering with evidence, obstructing official business, obstructing justice;
  - a violation of an existing or former municipal ordnance or law of this or any other state or the United States that is substantially equivalent to any of the above listed violations;
  - a conspiracy to commit any of the above listed violations.

- Give the Inspector General the authority to investigate the management and operation of the Office of the Attorney General to determine whether misconduct or wrongful acts or omissions have been committed or are being committed by the Attorney General or by present or former employees of or contractors with the Office of the Attorney General.

<u>Staff Comments</u> – Under the bill, a member of PERS, STRS, SERS, OP&F, HPRS, or CRS or a participant in an ARP who pleads guilty to or is convicted of a specified felony while serving in a position of honor, trust, or profit would forfeit the right to a pension, annuity, allowance, or any other benefit other than the member's accumulated contributions. If the convicted person is a reemployed retiree, the retiree would be eligible only for a refund of the

[1] The bill also contains provisions regarding the restoration of rights and privileges of persons convicted of certain criminal offenses. This analysis covers only those provisions relating to the public retirement systems.

person's contributions. These provisions apply when the crime was committed on or after the effective date of the bill.
The offenses specified in the bill are the following:

- Bribery (R.C. §2921.02);
- Engaging in a pattern of corrupt activity (R.C. §2923.32);
- Theft in office - third degree felony (R.C. §2921.41);
- A violation of an existing or former municipal ordinance or law of this or any other state or the United States that is substantially equivalent to any violation listed above; and
- A conspiracy to commit, attempt to commit, or complicity in committing any violation listed above.

"Accumulated contributions" generally refers to the employee's contributions plus interest, any amounts the employee paid to purchase service credit, and any additional voluntary contributions the employee has made to the retirement system.

"Position of honor, trust, or profit" is defined 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.

When charges are filed alleging that a person committed an offense specified in the bill while serving in a position of honor, trust, or profit, the prosecutor who has been assigned the case must provide written notice to the retirement system of which the person is a member or the alternative retirement in which the person is a participant, whichever is applicable.

Once the system receives notice that the member has been charged with any of the specified offenses, the system is prohibited from (1) making any payment of the member's accumulated contributions prior to the day the system receives a court copy of the journal entry of the member's sentence if the member is convicted of or pleads guilty to the charge and forfeiture is ordered or the day the system receives final disposition of the charge if the charge is dismissed, the person is found not guilty or not guilty by reason of insanity and (2) processing any application for a refund prior to the final disposition of the charge.

If a member is sentenced for an offense specified in the bill while serving in a position of honor, trust, or profit, the court is required to order the forfeiture to the public retirement system or alternative retirement plan in which the offender was a member or participant of the right to a retirement allowance, pension, disability benefit, or other right or benefit, other than payment of the offender's accumulated contributions. The court is required to send a copy of the journal entry imposing sentence to the appropriate retirement system or alternative retirement plan in which the offender was a member or participant.

The bill would allow the offender to request a hearing prior to sentencing to determine whether there is good cause for the forfeiture order not to be issued. If the court finds there is good cause for the forfeiture order not to be issued, the court shall not issue the forfeiture order.

The retirement system or alternative retirement plan in which the offender was a member or participant must comply with the order at the time the member or contributor applies for payment of his or her accumulated contributions. If a person who is ordered to forfeit his or her pension receives a refund of contributions, the person is barred from restoring the refunded service credit.

Sub. S.B. 3 raises a significant public policy issue: should employee misconduct affect the receipt of public retirement benefits. Current law generally provides that public retirement benefits are assignable or subject to attachment or other legal process only in the following cases:

- Restitution for theft in public office pursuant to a court withholding order;
- Restitution for certain sex offenses committed in the context of the offender's public employment;
- Payment of spousal support and child support pursuant to a court withholding order; and
- Payment to a former spouse pursuant to a division of property order.

This anti-assignment/alienation requirement has been recognized not only in Ohio's public retirement laws, but also under the Employee Retirement Income Security Act (ERISA) as applied to private pension plans. Therefore, Ohio law currently affords public sector employees the same protection as the federal law gives private sector employees with respect to retirement benefits.

The principal reason behind the statutory provisions exempting retirement benefits from legal process except in a limited number of circumstances is that society has an interest in ensuring that an adequate source of income exists for the support of members who are unable to earn income due to age or disability and that a source of income exists for the support of their dependents. This societal interest in securing these sources of income has historically outweighed other competing interests. It is important to note that public employees do not contribute to Social Security and, therefore, rely solely on the benefit provided by the public retirement system for retirement income. If the benefit is forfeited, the member and spouse could be in a position where they would have no source of retirement income.

This bill limits the list of offenses to egregious breaches of the public trust. Like the restitution provisions, the offenses for which a benefit may be forfeited must be committed in the context of the offender's public employment.

<u>Sub. S.B. 3 – Sen. Faber</u>

Under the provisions of the bill, the forfeiture is triggered when the member withdraws his or her contributions. Therefore, if a member who otherwise would have been eligible to receive a benefit dies prior to applying for a refund, the member's spouse and dependents would still be eligible for survivor benefits. Current law provides that a member who is married at the time the member applies for a refund and is eligible for age and service retirement must obtain the written consent of his or her spouse before receiving a refund. Because a member subject to forfeiture would not be eligible for a benefit, this provision would not apply. *We recommend that the bill be amended to require written consent from the spouse of a married offender who would have been eligible for age and service retirement but for the forfeiture order*. This would provide additional protection to an innocent spouse and dependents.

We note there is a typo in line 1270, which would require a technical amendment. The code section should be "3307.372" not "3307.732."

<u>Fiscal Impact</u> – According to the PERS actuary, Gabriel Roeder Smith & Company, there was no data available upon which to make a detailed actuarial analysis. However, it is their opinion that the bill would have no measurable financial impact on the system.

According to the SERS actuary, Buck Consultants, the number of affected members would be a very small percentage of the total membership, thus having almost no measurable impact on valuation results, given the magnitude of SERS' overall liabilities.

According to the STRS actuary, Buck Consultants, the proposed legislation would affect too few members for there to be a measurable impact on the actuarial liabilities. Their conclusion is that the funded ratio and funding period would not change.

According to the OP&F actuary, Buck Consultants, the proposed legislation would affect too few members for there to be a measurable impact on the actuarial liabilities. Their conclusion is that the funded ratio and funding period would not change.

According to HPRS, it is their actuary's opinion, Gabriel Roeder Smith & Company, that any actuarial impact that might occur would be negligible due to the limited application of the bill.

<u>ORSC Position</u> – At its meeting of May 22, 2007, the Ohio Retirement Study Council voted to recommend that the 127th Ohio General Assembly approve Sub. S.B. 3 upon the adoption of the following amendments:

- An amendment to require written consent from the spouse of a married offender who would have been eligible for age and service retirement but for the forfeiture order. *(This amendment was adopted by the House State Government and Elections Committee on 5-13-08)*
- A technical amendment to correct the code section reference in line 1270. *(This amendment was included in the Act.)*

<u>Effective Date</u> – May 13, 2008 (Emergency)

Sub. S.B. 148 – Sen. Faber

Sub. S.B. 148 would make the following changes to the laws governing the School Employees Retirement System (SERS):

- Change the eligibility requirements for retirement.
- Require new members to attain age 55 in order to participate in an early retirement incentive plan.
- Change the money purchase benefit calculation.
- Change the early retirement reduction factors.

Staff Comments - Sub. S.B. 148 would apply only to members who establish membership on or after the effective date of the bill; current members would continue to be subject to the current retirement provisions.

The bill would increase the retirement age and the minimum number of years of service new members need to be eligible for retirement. Under the bill, new members would be eligible for normal age and service retirement with no reduction in benefit if the member is age 55 with 30 years of service or age 65 with 10 years of service. The member would be eligible for early retirement with reduced benefits at age 62 with 10 years of service or at age 60 with 25 years of service.

Members who established membership before the effective date of the bill would be subject to current law, which provides that members are eligible for normal retirement if they are age 65 with 5 years of service or at any age with 30 years of service. Members are eligible for early retirement with a reduced benefit if they are age 60 with 5 years of service or age 55 with 25 years of service. Any member with less than five years of service is eligible only for a refund of contributions upon separation from employment.[2]

The bill would also require the SERS actuary to review the retirement eligibility requirements at least once every 10 years.

	Current Law	Sub. S.B. 148
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
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

[2] SERS is the only non-uniformed retirement system that does not provide interest upon the refund of a member's contributions.

Sub. S.B. 148 – Sen. Faber

The bill would also increase the minimum age required to participate in an early retirement incentive plan. In order to be eligible to participate in an early retirement incentive plan, the bill would require new members to be at least 55 years old. Current law, which would apply to members who established membership before the effective date of the bill, allows members to participate in an early retirement incentive plan offered by their employers upon attaining age 50. This change is consistent with the additional requirement in the bill that a member must be at least 55 years old to retire.

The bill would also change the way a benefit is calculated. The Revised Code provides three ways to calculate a retirement benefit: (1) final average salary related; (2) flat dollar related; and (3) money purchase benefit. The member receives the greater of these. In most cases, the member receives the final average salary related benefit because it provides the greatest benefit.

The final average salary related benefit is calculated by multiplying the member's final average salary[3] by the member's years of service by 2.2% for the first 30 years of service, plus 2.5% for each year of service over 30. The flat dollar related benefit is calculated by multiplying the member's years of service by $86. The money purchase benefit is calculated by adding the member's accumulated contribution, plus a matching amount of employer contributions, plus $40 for each year of prior service credit[4], plus $180 for members with 10 or more years of service accumulated prior to October 1, 1956. Sub. S.B. 148 would change the way the money purchase benefit is calculated for members whose membership is established on or after the effective date of the bill. The new money purchase benefit would be calculated by adding the member's accumulated contributions plus a matching amount of employer contributions.

Sub. S.B. 148 would change the reduction for new members opting for early retirement with a reduced benefit. These factors have not been changed for any of the non-uniformed retirement systems since 1976. Currently, there is no correlation between the reduction factors and the actuarial impact of early retirement. If a member retires early, the normal benefit is reduced based on the following statutory schedule:

Attained Age	or	Years of Ohio Service Credit	Percent of Base Amount
58		25	75%
59		26	80%
60		27	85%
61			88%
		28	90%
62			91%
63			94%

[3] "Final Average Salary" is the average of the member's three highest years of compensation.
[4] "Prior Service" means service rendered prior to September 1, 1937.

Sub. S.B. 148 – Sen. Faber

Attained Age	or	Years of Ohio Service Credit	Percent of Base Amount
		29	95%
64			97%
65		30 or more	100%

The bill would provide that the normal benefit for new members who retire prior to normal age and service retirement eligibility would be reduced to the actuarial equivalent of the member's normal age and service retirement allowance, as determined by the board's actuary. However, the bill provides some protection for members with at least 25 years of service. If the member has between 25 and 29 years of service, the benefit would not be actuarially reduced below the following percentages:

Years of Service Credit	Percent of Base Amount
25	75%
26	80%
27	85%
28	90%
29	95%

The bill would also require the SERS board to have its actuary evaluate the actuarial equivalents at least once every 10 years to determine their appropriateness and adjust them based on the actuary's recommendation.

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. 148 are generally consistent with these recommendations.

Although this bill affects only SERS, it raises a public policy issue of whether similar changes should be made to the retirement eligibility and early retirement reduction rate provisions of the other four retirement systems. This is particularly true for the retirement

Sub. S.B. 148 – Sen. Faber

eligibility provisions for PERS, STRS, and SERS, which currently are the same and, when changes have been made, have been amended simultaneously for at least the past 48 years.

Fiscal Impact – According to the SERS actuary, Buck Consultants, the bill would reduce the system's unfunded liabilities. The actuary estimates that the unfunded actuarial accrued liability will be reduced by $3 million after the first year of implementation. After all active participants have been replaced with new hires, the actuary estimates SERS will have a $513 million decrease in its unfunded actuarial accrued liability.

ORSC Position - At its meeting of May 22, 2007, the Ohio Retirement Study Council voted to recommend that the 127th General Assembly approve Sub. S.B. 148.

Effective Date – May 14, 2008

Am. Sub. S.B. 267 – Sen. Faber

Am. Sub. S.B. 267 makes the following changes to the special law enforcement division of the Public Employees Retirement System (PERS-LE):[5]

- Authorizes the PERS board to set the employee contribution rate for "law enforcement officers" who are eligible to retire at age 48.[6] Initially, this rate would be set at a rate that is not more than one percent (1%) of the rate set by the board for "public safety officers" who are eligible to retire at age 52 (currently, 10.1%) under existing law.[7] Thereafter, the rate could not be set at more than two percent (2%) of such rate. Currently, the employee contribution rate for law enforcement officers is fixed by statute at 10.1% of earnable salary; the rate for public safety officers is fixed by the board at 10.1% effective January 1, 2008. (R.C. §145.49)

- Authorizes the PERS board to adopt rules permitting law enforcement officers and public safety officers under the PERS-LE division to convert up to five years of service credit under the state or local government divisions of PERS to qualify for benefits under the PERS-LE division, provided the officer pays one hundred percent (100%) of the additional liability resulting from the service credit conversion. Currently, law enforcement officers and public safety officers with service credit under the state or local government divisions of PERS may do one of the following: (1) combine all service credit to qualify for benefits under the state and local government division of PERS; *or* (2) use service credit as a law enforcement officer or public safety officer to qualify for benefits under the appropriate PERS-LE division and use all other service credit to qualify for a benefit consisting of a single life annuity with a reserve equal to the member's accumulated contributions for such state or local government service plus a matching amount from employer contributions. (R.C. §145.2914)

- Improves the language, structure and organization of the laws governing the PERS-LE division (R.C. §§145.01, 145.19, 145.191, 145.33, 145.35)

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[5] Under the PERS-LE division, normal age and service retirement (full benefits) for law enforcement officers is age 48 with 25 years of service. Normal age and service retirement for public safety officers is age 52 with 25 years of service; however, public safety officers may retire on reduced benefits as early as age 48 with 25 years of service.

[6] "Law enforcement officers" include sheriffs as well as deputy sheriffs, township police and other officers whose primary duties are to preserve the peace, protect life and property, and enforce the laws within their jurisdiction.

[7] "Public safety officers" include Hamilton County municipal court bailiffs as well as deputy sheriffs, township police and other officers whose primary duties are *other than* to preserve the peace, protect life and property, and enforce the laws within their jurisdiction.

<u>Am. Sub. S.B. 267 – Sen. Faber</u>

As amended in the House and concurred to by the Senate, the bill includes the following additional provisions:

- Excludes municipal public safety directors from participation in PERS-LE, except for those serving at any time during the period from September 29, 2005 to the effective date of the bill. Under the bill, they would return to participation in the regular PERS program for local government employees (R.C. §§145.01, 145.33);

- Authorizes the PERS and Ohio Police and Fire Pension Fund (OP&F) boards to determine the reimbursement amount for the monthly Medicare Part B premium, provided such reimbursement shall not be less than $96.40 per month (current Medicare Part B premium in 2008 and 2009) nor exceed the amount actually paid by the recipient for Medicare Part B coverage. Currently, the law requires the PERS and OP&F board to reimburse eligible recipients the full amount of the Medicare Part B monthly premium which generally increases annually (R.C. §§145.58, 742.45);

- Makes drug agents and investigators of the bureau of criminal identification and investigation eligible for benefits under the Ohio Public Safety Officers Death Benefit Fund (R.C. §742.63).

<u>Staff Comments</u> - Since the creation of the PERS-LE division in 1975, the PERS board has been authorized to establish separate contribution rates for employees and employers covered under the PERS-LE division in light of the earlier retirement and higher benefit provisions under that division when compared to the regular PERS division for state and local government employees. When H.B. 416 (eff. 1-1-01) lowered the normal retirement age from 52 to 48 for sheriffs, deputy sheriffs and township police to create parity with their counterparts in OP&F and HPRS, the PERS actuary estimated that this change would require these officers to contribute an additional 1.1% on top of the then-existing 9% employee contribution rate to cover the additional liabilities of the bill for a total of 10.1%. This rate was fixed by statute which was then amended in H.B. 535 (eff. 4-1-01) to provide that the rate shall equal the sum of 1.1% and the rate established by the board for all other officers covered under the PERS-LE division who remained eligible for normal age and service retirement at 52. One year later, H.B. 158 (eff. 2-1-02) expanded the lower retirement age to include all officers covered under the PERS-LE division whose primary duties are to preserve the peace, protect life and property, and enforce the laws within their jurisdiction, and once again fixed the rate by statute at 10.1%. All other officers whose primary duties are other than those described immediately above remained eligible for normal age and service retirement at age 52 with 25 years of service, and continued to contribute at the lesser rate of 9% established by the PERS board.

Since 2006 the employee and employer contribution rates have been increased over time as part of the PERS health care preservation plan, except for the 10.1% rate fixed by statute for those eligible to retire at age 48 under the PERS-LE division. Contributions for state and local government employees have increased from 8.5% to 10.0%; contribution rates for public safety officers who are eligible to retire at age 52 under the PERS-LE division have also increased from 9.0% to 10.1% - the same rate contributed by those law enforcement officers who are eligible to retire at age 48 under the PERS-LE division. S.B. 267 would authorize the PERS board to make a commensurate increase in the employee contribution rate for law enforcement officers who are eligible to retire at age 48 under the PERS-LE division as part of the PERS health care preservation plan. Moreover, it would restore the original intent and agreement underlying the legislative enactment of the age 48 provisions under the PERS-LE division that such additional cost be borne by employees eligible to retire at age 48 through higher contribution rates than those eligible to retire at age 52. Furthermore, it would restore equitable treatment in the amounts contributed by public safety officers who are eligible to retire at age 52 and law enforcement officers who are eligible to retire at age 48 under the PERS-LE division based upon the actuarial costs of benefits provided to these two distinct groups; that is, those eligible to retire at age 48 should contribute more than those eligible to retire at age 52 to reflect the higher cost of the age 48 provisions.

Allowing law enforcement officers and public safety officers under the PERS-LE division to convert up to five years of service credit under the state or local government divisions of PERS to qualify for benefits under the PERS-LE division, provided the officer pays one hundred percent (100%) of the additional liability resulting from the service credit conversion, is generally consistent with a recent recommendation adopted by the ORSC at its meeting of September 12, 2007 relative to service credit purchases:

> Recommendation: 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 language in the bill should be amended to require the member to retire within 90 days of the service credit conversion pursuant to the above recommendation adopted by the ORSC. This 90-day provision is consistent with existing law governing early retirement incentive buy-outs and is necessary because the true actuarial cost can only be known at the time of actual retirement.

Fiscal Impact – According to the PERS actuary, Gabriel Roeder Smith & Company, the latest actuarial valuation as of December 31, 2006 showed that the present contribution rate schedule for PERS in total, meaning the state, local and law enforcement divisions combined, is sufficient to amortize unfunded liabilities over a 26 year period. However, the same valuation also showed that the present contribution rate schedule for the PERS-LE division is insufficient to amortize the unfunded liabilities for law enforcement officers and public safety officers when viewed on a stand-alone basis. Assuming that employee contribution rates for public safety officers and law enforcement officers are increased to 11% and 12%, respectively, effective January 1, 2009, the funding period for the PERS-LE division is expected to be under 30 years in the actuarial valuation for the period ending December 31, 2009. This would occur provided that investment performance is reasonably in line with actuarial assumptions and that there are no other major sources of actuarial losses.

Am. Sub. S.B. 267 – Sen. Faber

ORSC Position – The Ohio Retirement Study Council voted at its March 12, 2008 meeting to recommend that the 127th Ohio General Assembly approve S.B. 267 upon the adoption of an amendment that would require public safety officers or law enforcement officers to retire within 90 days of any service credit conversion which is consistent with the recommendations adopted by the ORSC relative to service credit purchases. (The amendment was adopted by the Ohio General Assembly.)

Effective Date – March 24, 2009

PENDING PENSION-RELATED ISSUES

THE 127th GENERAL ASSEMBLY

JANUARY 1, 2007 - DECEMBER 31, 2008

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 2008 and 2009. Further background and detail is available through the ORSC website www.orsc.org.

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

The last semi-annual investment review required by law and presented at the ORSC meeting on November 12, 2008 indicates that over the ten-year period, all systems underperformed their respective actuarial interest rates.

Pursuant to S.B. 82 (eff. 12-6-1996), each retirement system whose funding period exceeds 30 years in any given year is required to submit to the ORSC and the standing committees of the house and senate with primary responsibility for pension legislation a plan approved by the retirement board that reduces the funding period to no more than 30 years, along with any progress made by the board in meeting the 30-year funding period. The following table summarizes the funding period and funded ratio of each retirement system as reported in its last actuarial valuation[8]:

Retirement System	Funding Period	Funded Ratio
PERS	14	96.3%
STRS	26.1	83.0%
SERS	29	80.0%
OP&F	**Infinity**	**81.7%**
HPRS	27	80.9%

Milliman prepared actuarial reports on all five retirement systems for the ORSC in 2003 and updated in 2004. These reports generally concluded that in the case of OP&F and STRS one or more of the following actions would need to occur to achieve compliance with the 30-year funding requirement: contribution limits increased; mandated pension benefits reduced; state subsidies provided; and/or contributions reallocated from discretionary health care benefits to mandated pension benefits. Since then, subsequent actuarial valuations for OP&F, including the latest, indicate that no progress has been made in meeting the 30-year funding period. The most recent valuation for STRS, on the other hand, shows that STRS has reduced its funding period from 47.2 years as of 6/30/06 to 26.1 years as of 6/30/07. The long-term funding of retiree health care benefits remains problematic, however.

[8] The most recent actuarial valuations for PERS, OP&F, and HPRS are as of 12/31/07; STRS and SERS as of 6/30/07.

In the case of OP&F, the actuarial valuation report as of 1/1/08 indicates that, based upon the current allocation of statutory contribution rates between mandated pension benefits and discretionary health insurance benefits, the unfunded actuarial accrued liability has an infinite funding period as previously reported in each of the four prior valuation reports; that is, the unfunded actuarial accrued liability for mandated pension benefits is expected to grow indefinitely into the future, gradually disfunding the retirement system. The unfunded actuarial accrued liability in OP&F dropped from $2.83 to $2.5 billion while the funded ratio increased from 78.2% to 81.7%.

At the time Milliman reviewed the adequacy of the contribution rates in OP&F, they 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 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.

Numerous options have been presented or come up in discussion with respect to the actuarial reports prepared by Milliman as well as the 30-year funding reports prepared by STRS and OP&F for the ORSC on reducing the funding period to no more than 30 years. Included among these options are the following: increasing the retirement age and/or service requirements; increasing the employee contribution limits; increasing the employer contribution limits; requiring members to pay 100% of the actuarial liability created by some or all service credit purchases; limiting the COLA to the lesser of 3% or the actual percentage change in the CPI-W; capping the reimbursement for Medicare Part B premiums; making the retirement systems' health care coverage secondary for reemployed retirants; and reducing/discontinuing the employer contribution allocation to discretionary health care benefits. The following table shows the 2009 contribution rates for each retirement system and the maximum rates permitted by current statute:

Retirement System	Current Contribution Rate	Maximum Rate by Statute
PERS		
state - employee	10%	10%
state - employer	14%	14%
local - employee	10%	10%
local - employer	14%	14%
law enforcement - employee	10.10%	2% higher than rate for public safety officers[+]
law enforcement - employer	17.87%	18.10%

Retirement System	Current Contribution Rate	Maximum Rate by Statute
public safety - employee **public safety - employer**	10.10% 17.87%	Set by PERS board 18.10%
STRS **employee** **employer**	 10% 14%	 10% 14%
SERS **employee** **employer***	 10% 14%	 10% 14%
OP&F **police - employee** **police - employer** **fire - employee** **fire - employer**	 10% 19.50% 10% 24%	 10% 19.50% 10% 24%
HPRS **employee** **employer**	 10% 26.50%**	 10% 30%

+Effective 3-24-09.
*Excludes employer surcharge.
** Effective 7-1-09.

These options would require legislation or a change in board policy. Failure to implement a viable plan that will reduce the funding period to no more than 30 years, as certified by the retirement system's actuary, could be potentially very costly in the long run with the gradual disfunding of these retirement systems.

At its December 10, 2008 meeting, the ORSC voted to have staff work with OP&F to develop a proposal that would reduce OP&F's funding period to the maximum 30 years under S.B. 82.

Cost and Funding of Retiree Discretionary Health Care Benefits - Faced with double-digit increases for the foreseeable future, particularly in the area of prescription drugs, all of the retirement systems face significant challenges of controlling costs while maintaining meaningful coverage. Contributing factors to the double-digit increases include: the advent of "baby boomer" retirements, improved life expectancy of retirees, higher drug utilization, advances in medical technology, direct consumer advertising, and the general declining ratio of active members to retirees. The significant investment losses experienced from March 2000 to March 2003 and those suffered in the current recession 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. S.B. 148, enacted this session (eff. 5-14-08), establishes a minimum retirement age of 55 with 30 years of service, increases the minimum number of years of service needed to retire to 10, as well as increasing the age at which a member is eligible for early retirement to 62 with 10 years of service or 60 with 25 years of service. H.B. 315, which also was introduced this session, would establish a dedicated stream of funding for health care benefits for STRS.

<u>Joint Legislative Committee to Study Ohio's Public Retirement Plans</u> - 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."

• "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. 5-14-8) increases the retirement age and the minimum number of years of service new members of SERS would need to be eligible for retirement.

• "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 also changes the reduction factors for new members of SERS opting for early retirement. The reduced benefit would be based on actuarial factors under this bill.

• "That disproportionate increases in salary prior to retirement be limited to a maximum percentage for purposes of determining final average salary in PERS, SERS, PFDPF and HPRS unless such increase results from employment with another employer or promotion to a position previously held by another employee." (H.B. 180 (eff. 10-29-91) established a percentage limit in STRS.)

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

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

• "That Medicare Part B reimbursements be capped in PERS, PFDPF (OP&F) and HPRS." H.B. 648 (eff. 9-16-98) established a minimum reimbursement rate of $29.90 per month as well as a maximum monthly reimbursement rate as determined by the STRS board, not to exceed 90% of the Medicare Part B monthly premium in STRS and gave the HPRS board the authority to establish the reimbursement rate; S.B. 270 (eff. 4-9-01) established the monthly reimbursement rate at $45.50 in SERS. S.B. 267 (Eff. 3-24-09) gives the PERS and OP&F boards the authority to limit the monthly reimbursement to no less than $96.40. (The Medicare Part B premium for 2008 and 2009 is $96.40 per month.)

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

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. However, there has been no such request this session.

H.B. 645, introduced this session, would require new members of all five retirement systems to join a defined contribution plan rather than the traditional defined contribution plan.

Contributing Service Credit in PERS - H.B. 232 (eff. 2-16-84) increased the minimum amount of earnable salary required per month from $150 to $250 to receive one month's credit in PERS. A PERS member who earns $250 per month for twelve consecutive months ($3,000) is granted one year of service credit. This raises the public policy issue of whether the minimum monthly salary amount used to determine service credit in PERS should be increased and indexed to annual wage inflation.

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 HPRS last year.

"Bad Boy" Provisions - Currently, Ohio public pension laws permit the withholding of retirement benefits as restitution to the governmental unit for theft in public office and to the victim of certain sex offenses committed in the context of public employment. There continues to be legislative interest to expand these "bad boy" provisions to include other offenses. S.B. 3 and H.B. 8 were introduced this session and both would affect a member's ability to receive a benefit upon conviction of certain specified crimes. S.B. 3 was enacted and became effective on 5-13-08.

University of Akron Non-Teaching Employees - With the single exception of the University of Akron, all non-teaching employees of Ohio's state universities are members of PERS. Employees of the University of Akron are currently members of SERS. In the interest of maintaining parity in retirement benefits, there continues to be some legislative interest to transfer these employees from SERS to PERS. The ORSC actuary provided several options to address the actuarial impact upon both retirement systems of such a transfer in its report Transfer of University of Akron Active Members from SERS to PERS dated March 11, 2002. Based upon that report, the ORSC staff recommended "the transfer of the University of Akron non-teaching employees from SERS to the PERS state division in order to provide uniform benefits and representation for all non-teaching employees at state universities, provided:

1. PERS receives from SERS an amount equal to the member's actuarial accrued liability to the extent funded by SERS under the third option described above which would minimize any actuarial loss to PERS and have no actuarial gain or loss to SERS;

2. PERS serves as a pass-through or conduit for health care contributions received from the University of Akron (A PERS employer after enactment) to pay SERS for the net cost of providing health care benefits to University of Akron retirees still remaining in SERS until the last University of Akron retiree ceases to be covered under the SERS health care plan. This is consistent with the current pay-as-you-go financing of retiree health care benefits in all five retirement systems, and would hold SERS harmless as well as avoid any windfall to PERS on account of the proposed transfer; and

3. The current differential in the contribution rates under SERS and PERS, including the employer health care surcharge, remains payable by the University of Akron and its non teaching employees for 25 years (the current funding period under SERS), with the excess in contributions used to provide a supplemental contribution to SERS. This is consistent employees who elect the alternative defined contribution plan, and would mitigate any adverse impact upon the SERS health care plan and would eliminate any perceived financial incentive for potential groups of employers and employees to "shop" among the state retirement systems for benefits. In the alternative, the University of Akron makes a lump sum payment to SERS that is the actuarial equivalent of the above supplemental contribution payable over 25 years as determined by the SERS actuary and reviewed by the ORSC."

The ORSC did not take any action upon the staff recommendation.

Reemployment Provisions - There continues to be legislative interest in the reemployment provisions of the Ohio retirement systems that allow members who have been retired for at least two months to return to public employment while continuing to receive their pension. H.B. 84 (eff. 7 31-01) requires elected officials who retire and are reelected or appointed to the same office from which they retired to notify the board of elections or appointing authority of their retirement in order to continue receiving their pension. H.B. 95 (eff. 6-30-03) 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. 240, introduced this session, would limit public employers' ability to hire certain administrative employees to work at the same position from which they retired. Sub. H.B. 270, also introduced this session, would require retirees to forfeit their entire benefit during reemployment if they return to work before the end of the two-month waiting period.

Health Care for Reemployed Retirees - 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 both the OP&F and HPRS boards amended their health care policies relative to reemployed retirees. In OP&F, reemployed retirees who are eligible for health care coverage through their employer must pay the full premium cost should they choose to enroll in the OP&F health care plan. In HPRS, reemployed retirees who are not eligible for Medicare must receive their primary health care coverage through their employer, if available; the HPRS health care coverage becomes secondary. This raises a public policy issue of whether similar requirements should be adopted in the other state retirement systems with respect to reemployed retirants. Moreover, it raises a public policy issue of whether such requirements should include reemployment with a private employer that provides health insurance coverage as well. The STRS board recently adopted a rule, which becomes effective January 2009, that requires reemployed retirees to receive health care coverage from their public or private employer if the employer offers health care.

Annual 3% COLA - In its analysis of H.B. 157 (eff. 2-1-02), which provides for an annual 3% COLA in all five retirement systems, regardless of the actual percentage change in the CPI-W, the ORSC staff recommended against the COLA changes under the bill and suggested that "any additional resources of these retirement systems be allocated to the provision of discretionary retiree health care benefits that are neither taxable nor subject to the Social Security offset and/or the provision of ad hoc increases, such as a "purchasing parity" adjustment of some target ratio of either 75% or 85%, to retirees whose benefits have been eroded the most by inflation over the years." The ORSC rejected the staff recommendation and recommended instead that the legislature approve H.B. 157. Between 1992 and 2008, the CPI-W has increased by less than 3% in 13 of those years.

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. H.B. 600, introduced this session, would change the purchase price to 100% of the actuarial liability for a number of types of service credit for PERS.

DOCUMENTS STATUTORILY REQUIRED OF THE RETIREMENT SYSTEMS

THE 127th GENERAL ASSEMBLY

JANUARY 1, 2007 - DECEMBER 31, 2008

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 Discretionary 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.

OP&F submitted its quinquennial evaluation covering the years 2002-2006 in December 2007.

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.

In 2007, the funding period at STRS and OP&F exceeded the statutory maximum of thirty years. STRS submitted its report to the Council at the April 18, 2007 ORSC meeting. OP&F presented its report to the Council at the May 9, 2007 ORSC meeting.

In 2008, the funding period for OP&F remained above the statutory maximum of thirty years. The Council voted at its December 10, 2008 meeting to have staff work with OP&F to develop a proposal that would reduce OP&F's funding period to the maximum allowed under S.B. 82. Staff was directed to review legislative and internal options.

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.

The systems presented their reports at the October 10, 2007 and the December 12, 2008 ORSC meetings.

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 2008 at the May 9, 2007 ORSC meeting. PERS, OP&F, and HPRS submitted their budgets for calendar year 2008 at the November 14, 2007 ORSC meeting. STRS and SERS presented their proposed operating budgets for fiscal year 2009 at the May 14, 2008 ORSC meeting; PERS, OP&F, and HPRS submitted their proposed budgets for calendar year 2009 at the November 12, 2008 meeting.

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

Deferred Retirement Option Plan Neutrality Report – (R.C. §742.14(F)) OP&F is required to submit a report, at least once every five years, examining the financial impact on OP&F of offering the DROP to its members. OP&F submitted its first report of this kind on May 7, 2008.

SUBJECT INDEX OF PENSION BILLS INTRODUCED

THE 127TH GENERAL ASSEMBLY

JANUARY 1, 2007 - DECEMBER 31, 2008

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
Date of payment – PERS – H.B. 270
Refund of deposits – PERS – HB 270
Retirement from one position – PERS – HB 270

Age and Service
Age 55 with 30 YOS – SERS – SB 148*
Increase minimum YOS – SERS - SB 148*
Early retirement eligibility – SERS - SB 148*

Alternative Retirement Plan
Public school employees – SERS – HB 152
Public school teachers – STRS – HB 152

Appropriations
Subsidies – OP&F – HB 119*

Benefit Options
Additional annuity – PERS – HB 270
Change due to death, effective date – PERS – HB 270
Death/divorce of beneficiary – STRS – HB 270

Benefits
Forfeiture of upon conviction or guilty plea – ALL SYSTEMS – SB 3*, HB 8
Forfeiture of upon reemployment – PERS, STRS, SERS, OP&F – HB 270
Recalculation prohibited – PERS – HB 270
Refunds – STRS – HB 270

Boards
Election of chair – OPF – HB 479
Terms – STRS – HB 270

*Enacted

Contributions
Employer pickup plan – ALL SYSTEMS – HB 270
Employee rate – STRS – HB 315; PERS-LE – S.B. 267*
Employer rate – STRS – HB 315
Penalties – PERS – HB 562*

Death Benefit Fund
BCI&I investigators – OP&F – HB 609; HB 613; SB 267*
BCI&I special agents – OPF – HB 609; HB 613; SB 267*

Deferred Retirement Option Plan (DROP)
Authorized – PERS, STRS, SERS – HB 270

Defined Contribution Plan
Automatic change from – STRS – HB 270
New members participate in – ALL SYSTEMS – HB 645
Reemployment waiting period – STRS – HB 270

Disability
Cancer on-duty presumption – OPF – HB 432
Defined contribution participant – STRS – HB 270

Early Retirement Incentives
Analysis of – PERS – HB 574
Federal Funding – PERS – HB 420*
Judges – PERS – HB 173

Funds
Employees' Savings Fund, unclaimed – PERS – HB 270

Health Care
Coordination of coverage – STRS – HB 270
Health Care Fund established – STRS – HB 315
Medicare Part B reimbursement cap – OPF – HB 628 - PERS, OPF – SB 267*
Permissive – STRS – HB 270
Office of pharmaceutical purchasing coordination – ALL SYSTEMS – HB 456
Recover overpayments – PERS – HB 270

Investments
Divestment from Iran – ALL SYSTEMS – HB 151; OPF - HB 562*
Divestment from Sudan – ALL SYSTEMS – HB 151, SB 161; OPF – HB 562*

*Enacted

Membership
Public safety officer – S.B. 267*
Science, technology, engineering, and mathematic school employees – SERS, SERS – HB 119*

Reemployment
Administrative employee – PERS, STRS, SERS, OP&F – HB 240
Early retirement incentive participant – PERS – HB 574
Same position – PERS, STRS, SERS, OP&F – HB 240, HB 270
Waiting period – STRS - HB 270

Retirement System Lobbyist
Prohibition against serving as – ALL SYSTEMS – SB 3*

Salary
Limited for certain reemployment – PERS, STRS, SERS, OP&F – HB 240

Service Credit
Board of elections, purchase additional credit – PERS – HB 558
Convert to law enforcement – PERS-LE – SB 267*
Credit for part-time service – OPF – HB 628
Full actuarial cost for purchase – PERS – HB 600
Leave of absence – STRS – HB 270
Military – STRS – HB 270
Municipal zoo or zoological society – PERS – HB 600
Prior service – PERS – HB 600
Prior teaching – STRS – HB 270
Refund of amount paid – OPF – HB 628
Survivor's right to purchase – PERS – HB 600
United States Employment Service – PERS – HB 600

Taxation
Exempt from personal income tax – SB 191; HB 433
Exempt military pensions – SB 19; HB 372*

Technical
Mental retardation/developmental disabilities – PERS – HB 620; HB 621

*Enacted

STATUS OF PENSION LEGISLATION

127th GENERAL ASSEMBLY

JANUARY 1, 2007 - DECEMBER 31, 2008

OHIO RETIREMENT STUDY COUNCIL

STATUS OF PENSION LEGISLATION

127TH GENERAL ASSEMBLY

JANUARY 1, 2007 – DECEMBER 31, 2008

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
8	02-20-07	PERS:03-19-07 SERS:04-10-07 STRS:04-11-07 OP&F:04-12-07 HPRS:05-17-07	Forfeiture of retirement benefit based on felony conviction R. Hagan – ALL SYSTEMS	AE	AA 06-13-07	SGE Daniels 02-21-07	03-01-07----03-15-07----03-22-07----05-24-07----05-30-07----06-07-07 Sub----06-14-07 Fl Vo: Y=93 N=3	06-19-07	JRC Grendell 06-20-07				
119	02-20-07		Biennial Budget Dolan – OP&F	BI	N	FA Dolan 03-21-07	03-28-07----03-29-07----04-03-07----04-04-07----04-05-07----04-10-07----04-11-07----04-12-07----04-13-07----04-17-07----04-18-07----04-19-07----04-27-07----04-29-07----05-01-07 Amend; Fl Vo: Y=797 N=0	05-01-07	FFI Carey 05-02-07	05-02-07----05-08-07----05-09-07----05-10-07----05-11-07----05-15-07----05-16-07----05-17-07----05-18-07----05-22-07----05-23-07----05-24-07----05-29-07----05-30-07----05-31-07----06-01-07----06-05-07----06-06-07----06-07-07----06-08-07----06-12-07 Amend----06-13-07 Amend; Fl Vo: Y=33 N=0	06-20-07	06-27-07	06-30-07 (E)
151	04-12-07		Prohibit public investors from investing in companies that do business with Iran and Sudan and require divestiture Mandel, Jones – ALL SYSTEMS	GK	AD 05-09-07 D 05-22-07	FRS Widener 04-17-07 RR Husted 06-13-07	04-19-07----04-25-07----05-03-07----05-10-07----05-17-07----05-24-07----05-30-07 Amend----06-05-07 Informally passed----06-07-07----06-13-07 Re-referred----						
152	04-17-07	SERS:06-15-07	Require school boards to establish alternative retirement plans Widener – STRS, SERS	GK	D 09-12-07	FRS Widener 04-25-07	05-17-07----06-14-07----06-21-07----06-27-07----						
173	04-24-07	06-18-07	Requires ERI plan to be offered to certain judges whose positions are abolished Seitz - PERS	AE		JUD 04-25-07 Blessing RR Husted 06-12-08	05-31-07----06-06-07----06-13-07----06-21-07----04-24-08----05-01-08----05-08-08----05-14-08 Sub; Amend----05-22-08----06-10-08----06-12-08 Re-referred						
240	05-29-07	PERS:08-10-07 STRS:08-03-07 SERS:07-17-07 OP&F:08-10-07	Reemployment of an administrative employee Goodwin – PERS, STRS, SERS, OP&F	AE	D 10-10-07	FRS Widener 06-12-07	06-21-07----06-27-07----10-30-07----						
270	06-19-07	PERS:09-10-07 STRS:09-27-07 SERS:08-13-07 OP&F:08-21-07	Reemployment of a retiree in same position Schneider – PERS, STRS, SERS, OP&F	AE	AA 10-10-07	FRS Widener 06-21-07	10-30-07----12-05-07 Sub----01-31-08 ----05-22-08 Sub----						
315	09-18-07		Creates Health Care Fund Oelslager - STRS	GK		FRS Widener 09-27-07							
372	10-30-07		Exempts military pensions from Ohio income tax R. McGregor, Ujvagi	BI	N	IHV Reinhard 11-01-07	10-31-07----11-07-07 Amend; Fl Vo: Y=96 N=1	11-08-07	WME Amstutz 11-14-07	11-14-07----12-05-07----12-11-07----12-12-07 Amend; Fl Vo: Y=28 N=0		12-12-07	03-24-08
420	12-21-07		Regarding cost of early retirement plan established by county Brinkman – PERS	BI	N	SGE Daniels 01-03-08	01-24-08----01-31-08----02-07-08----04-10-08----05-06-08 Fl Vo: Y=94 N=0	05-08-08	FFI Carey 05-13-08	05-23-08----11-12-08----11-13-08----11-18-08----11-19-08 Sub; Amend----12-02-08 Fl Vo: Y=30 N=-0		12-17-08	12-30-08 (E)
431	01-15-08	04-01-08	Changes on-duty disability presumptions Patton	AE		CL Brinkman 01-24-08	02-19-08----03-11-08----04-01-08----						
433	01-15-08		Exempts up to $10,000 in state and federal retirement benefits from income tax Zehringer	BI	N	WM Gibbs 01-24-08	01-30-08----						
456	01-29-08		Creates office of pharmaceutical purchasing coordination	AE		HAA Raussen 01-31-08	02-06-08----02-20-08----03-05-08----03-12-08----03-26-08----04-02-08----04-09-08----						

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
			Raussen – ALL SYSTEMS										
479	02-14-08		Election of board chair Evans, Foley – OP&F	GK		FRS Widener 02-21-08							
558	05-15-08	09-24-08	Board of elections members purchase additional credit Batchelder - PERS	AE		FRS Widener 05-20-08							
562	05-19-08		Budget corrections; Iran/ Sudan divestment policy; employer penalty Hottinger – OP&F, PERS	GK		FA Hottinger 05-20-08	05-22-08----05-22-08 Amend; Flo Vo: Y=94 N=2---06-10-08 Conf Cmte Rpt Fl Vo: Y=90 N=3	05-23-08	FFI Carey 05-27-08	05-23-08----05-27-08 Sub----05-28-08 Amend; Fl Vo: Y=32 N=0---06-10-08 Conf Cmte Rpt Fl Vo: Y=33 N=0	06-05-08	CR 05-29-08	06-24-08 (E)
574	05-22-08	09-24-08	Regarding early retirement incentive plans Combs - PERS	AE		FRS Widener 05-27-08							
600	07-17-08	09-24-08	Makes changes to purchase of service credit provisions Wachtmann - PERS	AE	AA 12-10-08	FRS Widener 11-13-08							
609	08-18-08		Makes BCI agents eligible for death benefit Patton – OP&F	BI		FRS Widener 11-13-08							
613	08-28-08		Makes BCI agents eligible for death benefit J. McGregor – OP&F	BI		FRS Widener 11-13-08							
620	09-17-08		Changes name of Department of Mental Retardation and Developmental Disabilities J. Stewart – PERS	BI		HLT Wacht-mann 11-13-08							
621	09-17-08		Changes name of county boards of mental retardation and developmental disabilities J. Stewart – PERS	BI		HLT Wacht-mann 11-13-08							
628	10-27-08		Changes calculation of Medicare B reimbursement, allows for refund of purchased service Bacon – OP&F	GK		FRS Widener 11-13-08							
645	11-25-08		Requires new members to participate in a defined contribution plan Wolpert – ALL SYSTEMS	GK		FRS Widener 12-02-08							

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	Concur-rence	Eff Date
3	02-20-07	PERS:03-19-07 SERS:04-10-07 STRS:04-11-07 OP&F:04-12-07 HPRS:05-17-07	Forfeiture of retirement benefit based on felony conviction. Faber – ALL SYSTEMS	AE	AA 05-22-07	JCR Grendell 02-27-07	02-28-07----03-21-07----03-28-07----05-16-07 Sub; Fl Vo: Y=32 N=0	05-17-07	SGE Daniels 05-23-07	06-07-07----06-14-07----05-08-08----05-13-08 Amend; Fl Vo: Y=83 N=13		05-13-08	05-13-08
19	2-20-07		Exempts military pensions from Ohio income tax Cates	BI	N	WME Amstutz 02-27-07	03-07-07----06-20-07----11-14-07----						
148	04-19-07	SERS:04-30-07	Revise retirement eligibility requirements. Faber - SERS	AE	A 05-22-07	HHA Coughlin 04-24-07	05-02-07----05-09-07 Sub----05-16-07----05-30-07 Amend---10-24-07 Fl Vo: Y= 31 N=2	10-25-07	FRS Widener 11-01-07	12-05-07----12-12-07----01-16-08----01-29-08 Fl Vo: Y=88 N=2			05-14-08
161	05-03-07	PERS:07-05-07 SERS:07-11-07	Prohibit public investors from investing in companies that do business with Sudan and require divestiture Jacobson – ALL SYSTEMS	GK		FFI Carey 05-08-07							
191	06-26-07		Exempt local, state, and federal employee and military retirement benefits from personal income tax Coughlin	BI	N	WME Amstutz 06-27-07							
194	06-27-07		Create Department of Health Care Administration R. Miller – ALL SYSTEMS	BI	N	FFI Carey 10-02-07							
267	12-18-07		Creates public safety officers; Faber - PERS	GK	AA 03-12-08	HHA Coughlin 01-09-08	01-23-08----01-30-08----02-06-08----04-02-08 Amend----04-08-09 Fl Vo: Y=32 N=0	04-09-08	FRS Widener 04-10-08	04-30-07----11-18-08 Amend----12-03-08 Amend; Fl Vo: Y=85 N=0		12-09-08	3-24-09

HOUSE COMMITTEES

ANR	Agriculture & Natural Resources
AE	Alternative Energy
CC	Civil & Commercial Law
CL	Commerce & Labor
CRJ	Criminal Justice
EDE	Economic Development & Environment
ED	Education
FA	Finance & Appropriations
AD	Agriculture & Development Subcommittee
HE	Higher Education Subcommittee
HS	Human Services Subcommittee
PSE	Primary & Secondary Education Subcommittee
TJ	Transportation & Justice Subcommittee
FRS	Financial Institutions, Real Estate & Securities
HLT	Health
HAA	Healthcare Access and Affordability
IHV	Infrastructure, Homeland Security & Veterans Affairs
INS	Insurance
JUD	Judiciary
JFL	Juvenile & Family Law
LGR	Local & Municipal Government & Urban Revitalization
PU	Public Utilities
RR	Rules & Reference
SGE	State Government & Elections
WM	Ways & Means

SENATE COMMITTEES

AG	Agriculture
ED	Education
ENE	Energy & Public Utilities
ENR	Environment & Natural Resources
FFI	Finance & Financial Institutions
HHA	Health, Human Services & Aging
HT	Highways & Transportation
ICL	Insurance, Commerce & Labor
JCV	Judiciary - Civil Justice
JCR	Judiciary - Criminal Justice
REF	Reference
RUL	Rules
SLV	State & Local Government & Veterans Affairs
WME	Ways & Means & Economic Development

LEGISLATIVE ACTION

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

ORSC POSITION

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

ORSC CONTACT PERSON

GK	Glenn Kacic
AE	Anne Erkman
BI	Bill of Interest