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LSC Director Mark Flanders

From: Bethany Rhodes, Director/General Counsel 

Date: March 30, 2015

Subject: 2014 ORSC Annual Report

Since 1968, and pursuant to Revised Code 171.04, the Ohio Retirement Study Council has submitted an annual report to the Governor and the General Assembly covering its evaluation and recommendations regarding the five state retirement systems. ORSC staff is pleased to submit this year's report on the Evaluations and Recommendations Regarding the Operations of the State Retirement Systems. The staff report includes information on the systems' investment performance, status of health care funds, actuarial reviews of the systems, fiduciary reports, progress on achieving 30-year funding, reports on enacted pension legislation, pending pension-related issues, a subject index of pension bills introduced, and a status sheet for pension legislation as of December 31, 2014.

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Mike Nehf, *STRS*

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Annual Report *2014*

Evaluations and Recommendations Regarding the Operations of the State Retirement Systems

130th General Assembly
January 1, 2014 – December 31, 2014

Issued March 30, 2015

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ANNUAL REPORT
THE 130TH GENERAL ASSEMBLY
JANUARY 1, 2014 - DECEMBER 31, 2014

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Introduction

The Ohio Retirement Study Council (ORSC) staff is pleased to submit this report on the five public state retirement systems and the fund for volunteer firefighters for the period beginning January 1, 2014, and ending December 31, 2014. This report also contains information from the entire 130th General Assembly. 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.”

As of January 1, 2014, the five systems have combined assets of approximately \$187 billion with approximately 680,000 active contributing members, 746,000 inactive members, and 432,000 beneficiaries and recipients. The State of Ohio has a long tradition of providing retirement benefits to public employees. These benefits are managed by the five systems and funded through employer and employee contributions and earnings on those contributions.

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

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

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

The Council is required to make an impartial review of the laws governing the administration and financing of Ohio’s five public retirement systems and to recommend to the General Assembly any changes it may find desirable with respect to the allowances and benefits, the sound financing of the cost of benefits, the prudent investments of funds, and the improvement of the language, structure, and organization of the laws.¹ It must report to the Governor and the General Assembly concerning its evaluation and recommendations with

¹ R.C. 171.04.

respect to the operations of the systems. The Council is required to study all statutory changes in the retirement laws proposed to the General Assembly and report to the General Assembly on their probable cost, actuarial implications, and desirability as a matter of public policy.

The Council evaluates the operations of the systems on a continuing basis. During the past year the Council reviewed the retirement systems' investment performance, operating budgets, and administrative rules. In addition, the ORSC staff has continued a digitization project to preserve records in the Council's possession, completed an ad hoc analysis of disability experience in the uniformed retirement plans, issued a report required by H.B. 483 on mitigating rates under STRS, SERS, and PERS, and monitored legislation introduced in the General Assembly that would affect the state retirement systems.

This report is a compilation of the evaluations and recommendations the Council made throughout 2014. It provides a summary of the ORSC reports and staff activities completed during 2014, pending public retirement issues, and staff recommendations. In addition, it provides a historical record of legislative action taken during the 130th Ohio General Assembly on bills affecting PERS, STRS, SERS, OP&F, SHPRS and the Volunteer Fire Fighters' Dependents Fund (VFFDF).

Further detail on any topic listed in this report is available in the ORSC office.

SYSTEMS' INVESTMENT PERFORMANCE

July 1, 2013 – December 31, 2013

The ORSC is required to conduct a semiannual review of the policies, objectives, and criteria of the systems' investment programs.² The ORSC began the year with a contract with Milliman to conduct these investment reviews and the reports were submitted to the Governor and General Assembly. Beginning in 2015, these analyses will be completed by RVK. While there is a wealth of information in the analyses, this report details only the first half of the 6-month experience, rolling 10-year experience, 1-year experience as of the first half of the year, and allocation comments from Milliman.

Investment Performance Summary (June 30, 2013 - December 31, 2013) -

The following summarizes the report received by the ORSC at its May 8, 2014, meeting and reflects the investment performance for all six funds³ over the six-month period ending December 31, 2013. The findings of this report are briefly summarized as follows:

- All six retirement system portfolios had positive results for the six months ending December 31, 2013, with all but STRS outperforming their policy benchmarks.⁴
- Over the trailing ten-year period, only STRS has exceeded their actuarial interest rate with 7.9% return versus an actuarial rate of 7.75% (the actuarial rate is the investment return target used by the systems' actuaries to determine its capacity to fully fund future benefits). PERS DB trailed with 7.3% compared to 8.0% actuarial rate. SERS had a return of 7.0% compared to 7.75%, OP&F was close with a return of 8.1% compared to 8.25%, and SHPRS trailed their actuarial rate, 6.8% compared to 8.0%.⁵ PERS HC had a 7-year return of 5.2% compared to 6.7% actuarial rate. Over this period all funds except SHPRS exceeded their respective policy benchmarks.
- Milliman provided the following observations on a review of the systems' asset allocation in comparison to the InvestorForce⁶ All Public Defined Benefit Universe:
 1. The actual (37.8%) and target (35.0%) domestic equity allocation of SHPRS was above the median plan's allocation to domestic equity (35%) in the InvestorForce All Public Defined Benefit Universe. This was also true for STRS' actual (31.3%) and target (33.0%) allocation to domestic equities. For OP&F, the target allocation to domestic equities (31.6%) was below the median, as was the actual allocation

² R.C. 171.04.

³ The PERS health care portfolio (designated "PERS HC" by Milliman) is tracked separately from the pension benefit funds (designated as "PERS DB").

⁴ STRS matched its benchmark during this period.

⁵ The system's 2013 return targets are: PERS 8.0%, OP&F 8.25%, STRS 7.75%, SERS 7.75%, SHPRS 8.0%.

⁶ InvestorForce provides monitoring, analysis, and reporting on institutional assets.

(26.7%). The actual (26.1%) and target (22%) allocation of SERS, the actual (21.3%) and target (22%) allocation of PERS, as well as the actual (23.8%) and target (23.5%) allocation of PERS Health Care domestic equity were all below that of the median plan.

2. Four of the six funds' actual asset allocations to fixed income were well below the median plan (27%) of the InvestorForce All Public Defined Benefit Universe.
3. The median plan allocation of the InvestorForce All Public Defined Benefit Universe to non-U.S. equity as of December 31, 2013 was 15.0%. The target allocations for all plans were significantly above the median, with the actual allocations following suit.
4. The universe median allocation to real estate in the InvestorForce All Public Defined Benefit Universe was 8.6% as of December 31, 2013. The target allocation of each of the systems, with the exception of SHPRS (5.0%) and PERS Health Care (6.0%), is above the median allocation.
5. The universe median allocation to alternatives in the InvestorForce All Public Defined Benefit Universe was 9.6% as of December 31, 2013. The target allocation of each of the systems, with the exception of OP&F (5.3%) and PERS Health Care (8.4%), is above the median allocation.

Investment Performance Review (January 1, 2014 – June 30, 2014) -

Due to the new contract with RVK, the investment review for this period is delayed.

**30-YEAR FUNDING PLANS
THE 130TH GENERAL ASSEMBLY
JANUARY 1, 2014 – DECEMBER 31, 2014**

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.⁷ This 30-year amortization refers to the amount of time the respective system would need to pay off all currently accrued benefits. This standard was modeled after the national standard adopted by the Governmental Accounting Standards Board for all governmental pension plans. The change was intended to maintain inter-generational equity among taxpayers and system members by limiting the ability to fund current benefit costs by extending the funding period beyond 30 years. **Actuarial reports issued in 2014 indicate that OP&F is beyond this 30-year standard. Changes in the law during pension reform indicate that a 30-year plan is not needed by OP&F until the next triennial report in 2016.** The actuarial reports are as of December 31, 2013 for PERS, OP&F, and SHPRS and June 30, 2014 for STRS and SERS.

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

	Years of Unfunded Liabilities	Funded Ratio
PERS	24	82.4%
OP&F	33	66.7%
STRS	29.5	69.3%
SERS	28	68.1%
SHPRS	30	69.8%

⁷ R.C. 145.221, 742.16, 3307.512, 3309.211, and 5505.121.

STATUS OF HEALTH CARE FUNDS
THE 130th GENERAL ASSEMBLY
JANUARY 1, 2014 - DECEMBER 31, 2014

In 1974, the five public retirement boards were given broad discretionary authority to provide health care coverage to retirees and their dependents. Unlike pension benefits, which are vested on retirement, health care benefits are not a vested right under Ohio's public pension laws. Therefore, the courts have determined that the boards are authorized to change the premiums, eligibility, and level of health care benefits at any time. A 2004 ruling by the Tenth District Court of Appeals (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 by law to reimburse benefit recipients for Medicare Part B premiums (medical). Additionally, retirees who do not qualify for Medicare Part A (hospital) are provided equivalent coverage under the systems' health care plans or are provided access through a Medicare Connector. All employees hired on or after April 1, 1986, are required by federal law to contribute to Medicare and will therefore not require this equivalent coverage. Employees hired before that date were not required to contribute to Medicare.

Beginning in 2006, Medicare began offering a prescription drug benefit known as Medicare Part D. Low income retirees who qualify for a government subsidy for their Medicare prescription drug benefit may fare better under Medicare D than the systems' plans. These low income retirees 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 calendar year 2013, the total cost of providing retiree health care was approximately \$2.64 billion. By law, any health care costs borne by the retirement systems must be financed by employer contributions only; the systems are not permitted to use any employee contributions for health care.

The retirement systems' actuaries annually review 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. Each year the retirement systems review their health care plans and make adjustments as needed. The following chart indicates the percentage of employer contribution each system allocated to health care during 2014 and the projected solvency period for each system's health care fund.

Ohio Retirement System	Percentage of Employer Contribution Allocated to Health Care in 2014	Projected Solvency Period for Health Care Funds
PERS	2.00%	Indefinite
STRS	1.00%	2063
SERS	.14%*	2029
OP&F	.50%	2024
SHPRS	4.30%	2028

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

REPORTS ON ENACTED PENSION LEGISLATION
THE 130th GENERAL ASSEMBLY
JANUARY 1, 2014 - DECEMBER 31, 2014

Am. Sub. H.B. 59 (Biennial Budget Bill)

Am. Sub. H.B. 59 generally makes operating appropriations for the biennium beginning July 1, 2012, and ending June 30, 2014, and provides authorization and conditions for the operation of state programs. This analysis is limited to those provisions of the bill that pertain to the five public retirement systems. The Act:

- Requires each system to pay its proportionate share to ORSC by electronic transfer or other method of electronic payment (R.C. 171.05).
- Includes as entities that may offer investment options under an alternative retirement plan (ARP) maintained by a public institution of higher education entities that have provided investment options for at least ten years under ARPs at Ohio public institutions of higher education (R.C. 3305.03).

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

Effective Date - September 9, 2013

H.B. 67

The Act:

- Delays until September 7, 2013, a requirement that certain public employers notify individuals who have provided personal services of their right to seek determinations of membership in PERS.
- Delays until August 7, 2014, the date by which an individual must submit a request for PERS to determine whether the individual should have been classified as a public employee for purposes of PERS membership.

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

Effective Date - March 16, 2013

H.C.R. 19

The enacted Resolution urges Congress to oppose any legislation that requires Social Security coverage for members of any of the five public retirement systems.

ORSC Position - The ORSC recommended that the General Assembly approve H.C.R 19 at its November 14, 2013, meeting.

Concurrence - November 13, 2013

H.B. 483

The Act:

- Excludes from the membership of the State Teachers Retirement System (STRS) any individual holding a teaching license who is performing state-funded auxiliary

services for nonpublic school students, regardless of whether the individual is employed by a public school district or under a contract with a third party.

- Requires the ORSC to develop a procedure to determine if the individuals excluded from STRS under the act are teachers for purposes of STRS membership and, by December 31, 2014, make its recommendation to the STRS Board.
- Provides that, until July 1, 2015, the percentage of an alternative retirement program (ARP) participant's compensation paid by a public institution of higher education to STRS to mitigate any financial impact of an ARP on STRS cannot exceed 4.5% of the participant's compensation.
- Requires ORSC to study and recommend changes to the ARP mitigating rate and, by December 31, 2014, report its findings and recommendations to the Governor, Senate President, and House Speaker.

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

Effective Date - September 15, 2014

S.B. 42

The Act:

- Permits PERS to provide a Medicare Part A reimbursement for those employees hired before April 1, 1986, who are ineligible for premium-free Medicare Part A coverage. This will also permit those individuals to have access to the PERS Medicare Connector.
- Requires each system to be responsible for the payment of the 10-year actuarial audit (as they are responsible for the 10-year fiduciary audit).
- Modifies the joint retirement provisions of PERS, STRS, and SERS.
- Permits, rather than requires, PERS, OP&F, SERS, and SHPRS to provide long-term care insurance.
- Increases the salary a poll worker receives prior to being included in PERS membership from \$500 to \$600.
- Provides for a staggering of OP&F active member Board appointments.
- Provides that an STRS member may volunteer in a different position than they retired from in STRS and not be subject to the 2-month forfeiture of benefits.
- Made various technical changes in PERS, STRS, SERS, and SHPRS.
- Explicitly states that PERS employees are not in the civil service of the state.
- Provides that PERS may assess penalties for the recovery of overpayments.

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

PENDING PENSION-RELATED ISSUES AND RECOMMENDATIONS
THE 130th GENERAL ASSEMBLY
JANUARY 1, 2014 - DECEMBER 31, 2014

The ORSC staff keeps legislators aware of relevant public retirement issues and of prior recommendations that have been made but not acted upon by the legislature. There remain a number of issues and recommendations that continue to warrant legislative consideration. At its September 2014 meeting, the ORSC asked its staff to update these recommendations that have not been acted on. The list was presented at its November 2014 meeting and accepted under a motion by Rep. Schuring. What follows is a brief summary of each issue and of action taken by the legislature or the ORSC, if any, in the 130th General Assembly.

Increase of mitigating rate by STRS – Certain members of STRS may participate in the alternative retirement plan (ARP) rather than the STRS defined benefit plan. If they do so, a portion of the employer contribution is diverted to the defined benefit plan rather than accruing to the benefit of the member; this is referred to as the *mitigating rate*.

In 2000, this rate was set at 6%. That rate was later adjusted to 5.76% according to an actuarial study. In 2001, STRS established its own defined contribution plan (STRS DC) and set the mitigating rate for that plan at 3.5%. In response, the General Assembly took two actions that affirmatively reduced the mitigating rate and placed it under increased control of the General Assembly. First, H.B. 535 of the 123rd General Assembly removed a requirement that an actuarial study automatically increase or decrease the mitigating rate and instead provided that the ORSC was to conduct an analysis triennially and *permitted* to adjust the rate as reflected in the analysis.⁸ Second, H.B. 94 of the 124th General Assembly provided that the ARP rate could not, under any circumstances, exceed the STRS DC rate. By operation of law under H.B. 94, the ARP rate decreased to 3.5%, where it remained until June of 2013. At that time STRS raised its DC rate to 4.5% and required employers to raise the ARP rate to 4.5% as well.

In response to these actions, the ORSC requested that the Attorney General issue an opinion specifying whether it is the ORSC or STRS that has the authority to raise the ARP mitigating rate. The Attorney General issued Opinion 2013-024 in July of 2013. This opinion indicated that STRS does not have the authority to independently modify the ARP mitigating rate and that the authority to do so, with restrictions, rested with the ORSC. At this time, the ORSC has not altered the mitigating rate, and therefore it appears the rate should remain at 3.5% by operation of H.B. 94 of the 124th General Assembly. However, STRS has continued to require employers of ARP participants to remit 4.5% rather than 3.5%.

⁸ The last report was completed in 2005 and suggested a rate of 8.64%. ORSC took no action on receiving this report. No analysis was completed in either 2008 or 2011. According to the triennial schedule, the next analysis was due 2014, but under motion of the ORSC, H.B. 483 delayed that study to 2015.

H.B. 483 of the 130th General Assembly provided that the rate could not exceed 4.5% and required the ORSC to issue a report on the rate. The report noted that the mitigating rate analyses have been inconsistent and made a number of recommendations to improve the mitigating rate process. At its December 11, 2014, meeting, the ORSC accepted the report and asked staff to work with the ORSC consulting actuary to recommend a new rate and process for determining that rate.

Triennially reporting of valuations – Pension reform during the 129th General Assembly included a modification of the timing of certain reports issued by OP&F. One modification required triennial valuations by OP&F, rather than annual.⁹ The ORSC recommended during pension reform that this provision remain annual, an opinion concurred upon by independent consultants and again supported by the Council during the 130th General Assembly. No action has been taken by the General Assembly to revert the requirement to an annual valuation report. However, because of concern expressed by Council members, at the September 12, 2013, ORSC meeting, OP&F Director John Gallagher indicated that OP&F would continue to supply annual valuation reports to the Council. The ORSC staff continue to support a statutory change to require such reporting.

Market smoothing – Market smoothing provides that market gains or losses are incurred over a period of time (typically 3-5 years) rather than immediately as they occur. This effectively reduces “noise” from wild swings in the market (positive or negative) that could result in knee-jerk reactions resulting in benefit modifications that are not supported by long-term trends. A smoothing method is more consistent with pension actuarial analysis and funding, and it has historically been used by the five public retirement systems. At the September 12, 2013, ORSC meeting, the use of a smoothing method in reports provided to the Council was formalized by an 8-0 vote. The Council did not specify the duration of the smoothing and did not prohibit the inclusion of market value (i.e., non-smoothed accounting of assets) for information purposes.

Board Authority – A component of pension reform in the 129th General Assembly was the authority of OP&F, SERS, STRS, and SHPRS to independently adjust the plan design features of their respective retirement system. Pension reform required the ORSC to review that authority. At the April 9, 2013, ORSC meeting, the ORSC recommended that the board authority provisions be modified in the following ways: 1) Any plan design change must receive actuarial review; 2) Any plan design change receive review and prior-approval by the ORSC; 3) The board authority provisions be standardized and consistent among the systems; and 4) That objective, measurable standards be established to determine when a board is authorized to make or propose plan design adjustments.

There has been no further action on this recommendation.

Ad hoc report on disability experience of law enforcement/Report standardization project – In November of 2012, Representative Schuring requested that ORSC staff provide

⁹ R.C. 742.14(A).

an accounting of the disability experience of the law enforcement divisions, with recommendations to improve its functionality. ORSC staff issued a report in November 2014. The ORSC took no action on the report, but did ask staff to suggest a process to standardize all reports provided by the retirement systems to the Council. At its December 11, 2014, meeting, the ORSC modified then accepted a staff plan to standardize a number of reports. ORSC staff will begin that plan in 2015.

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

10-year actuarial interest rates

The last semi-annual investment review required by law as of December 31, 2013, indicated that over the trailing ten-year period only STRS has exceeded their actuarial interest rate. STRS had a 10-year return of 7.9% compared to a 7.75% actuarial rate. The remaining systems have not met their actuarial rates over the same period. PERS trailed with 7.3% compared to 8.0% actuarial rate. SERS had a return of 7.0% compared to 7.75%, OP&F was close with a return of 8.1% compared to 8.25%, and SHPRS trailed their actuarial rate, 6.8% compared to 8.0%.

It is important to note that PERS, SERS, and SHPRS have not met their rates but are able to pay off all accrued benefits over a 30-year period as required by law. The success of a system meeting its long term actuarial interest rate is one of the most closely monitored data points by the Council, but it is not the sole determining factor of adequate pension funding.

Adequacy of OP&F contribution rates

ORSC is required to conduct an annual study on the adequacy of contribution rates in OP&F.¹⁰ The last study was completed by Milliman in 2006. The 2006 study concluded that the rates at the time 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. This report is now almost a decade old and does not include the market losses and gains of the previous years, recent actions by the OP&F Board to stabilize funding, and, more importantly, the dramatic effect on existing liabilities resulting from the pension reform of the 129th General Assembly. A contract with PTA/KMS will complete the annual adequacy of contribution rates study in 2015.

¹⁰ R.C. 742.311.

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

Joint Legislative Committee to Study Ohio's Public Retirement Plans - In 1995, the Joint Legislative Committee to Study Ohio's Public Retirement Plans (JLC) was created to complete a comprehensive review of the laws and operations of all five public 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 129th General Assembly further implemented these recommendations. The following details recommendations that were acted upon in either the 129th or 130th General Assemblies. The following also specify those recommendations that have not yet been addressed.

- "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." Pension reform implemented this recommendation for all uniformed members except highway patrol.

S.B. 340 of the 129th G.A. (eff. 1-7-13) raised the normal unreduced retirement age for OP&F members hired after July 1, 2013.

S.B. 343 of the 129th G.A. (eff. 1-7-13) raised the normal unreduced retirement age for PERS members in Group B to 50 and Group C to 52.

- "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. 341, 342, and 343 (eff. 1-7-13) increased both the years of service and age requirements necessary for a normal retirement in PERS, STRS, and SERS. They remain untied to Social Security.

- "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." Pension reform implemented this recommendation for OP&F, STRS, and PERS (this

recommendation was previously implemented in SERS). SHPRS continues to have statutory percentage reduction of benefits, and ORSC staff maintains its recommendation that reductions be actuarially determined.

S.B. 340, 342, and 343 (eff. 1-7-13).

- “That disproportionate increases in salary prior to retirement be limited to a maximum percentage for purposes of determining final average salary in PERS, SERS, [OP&F] and SHPRS unless such increase results from employment with another employer or promotion to a position previously held by another employee.”

The legislature has continued to implement strategies to reduce or eliminate “salary spiking” by members. Pension reform continued this process in OP&F and PERS. However, ORSC staff recommends that continued vigilance be practiced in preventing disproportionate increases in final salary resulting in unjustifiable and subsidized retirement benefits.

- “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.”

The section in the Revised Code permitting this “supplemental benefit” (R.C. 3307.671) continues to be operative and ORSC staff continues to recommend its immediate removal. ORSC reaffirmed this position in a November 2014 motion.

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) required SERS to establish such a plan. Pension reform (S.B. 3309.81) removed the requirement that SERS establish a defined contribution fund, and made the establishment permissive.

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 outsourced the development and maintenance of the option in its analysis. 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. ORSC staff considers the JLC recommendation resolved by the more recent action of the General Assembly and the findings of the SERS survey and withdraws its recommendation that SERS be *required* to establish a DC plan. However,

ORSC staff continues to recommend that SERS have the authority to do so should future members desire such an option.

University of Akron Non-Teaching Employees - Most non-teaching employees of Ohio's state universities are members of PERS; an exception is non-teaching employees at the University of Akron, who are currently members of SERS. Consideration of a transfer of these employees from SERS to PERS should be made in the interest of developing consistent membership standards. The ORSC actuary provided several options to address the actuarial impact upon both retirement systems of such a transfer in its March 11, 2002, report Transfer of University of Akron Active Members from SERS to PERS. Based on that report, the ORSC staff recommended a transfer of the University of Akron non-teaching employees from SERS to PERS for the purpose of providing 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 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; and¹¹

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 funding period under SERS at the time), with the excess in contributions used to provide a supplemental contribution to SERS. This is consistent with 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 has not taken any action on the recommendation. The staff position is now over a decade old. ORSC staff continues to support consistent and clear membership

¹¹ With the implementation of the PERS Health Care Preservation Plan, this recommendation may no longer apply.

standards; however, the conditions of the transfer may need further review in response to pension reform.

Reemployment Provisions - There continues to be legislative interest in the reemployment provisions of the five public retirement systems that allow members who have been retired to return to public employment while continuing to receive their pension.

Recommendations have varied depending on if the re-employment resulted from a “retired-rehired” process, in which the member retired and then was then rehired in the exact same position, versus so called “double-dipping,” where the member retires and returns to employment in a new capacity (for instance, a teacher retiring to become a state legislator). In the past, the Council has recommended that the reemployment provisions be standardized and more robust penalties be issued for “retired-rehired” situations, rather than establishing a uniform prohibition of re-employment. ORSC reaffirmed this position in a November 2014 motion.

Health Care for Reemployed Retirees - H.B. 151 (eff. 2-9-94) required PERS reemployed retirees to receive primary health insurance coverage through the retiree’s public employer if the employer provides coverage to other employees performing comparable work. PERS health care coverage becomes secondary. For those members over 65, PERS has recently indicated that coverage will be provided through a Medicare Connector model rather than through a PERS sponsored plan. Because of changes in federal law regarding plans that cover only retirees, re-employed retirees over 65 will have separate funding than other PERS retirees who are not re-employed. It is important to note that health care coverage is a discretionary retiree benefit.

Effective January 1, 2004, the OP&F board amended its health care policy relative to reemployed retirees. In OP&F, reemployed retirees who are eligible for health care coverage through their employer must pay the full premium cost should they choose to enroll in the OP&F health care plan. The STRS board adopted a rule, which became effective January 2009, that requires reemployed retirees to receive health care coverage from their public or private employer if the employer offers health care. SHPRS also has a policy, which became effective January 1, 2008, that requires surviving spouses who are not eligible for Medicare and who are working and have medical coverage available through their employers to obtain their primary medical coverage through that employer. In SERS, those re-employed on or after January 1, 2016, are required to receive health care through from their public employer.

Annual 3% COLA - In its analysis of H.B. 157 (eff. 2-1-02), which provides for an annual 3% COLA in all five public 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. Since enactment, only three of thirteen years have seen an increase of greater than 3% in CPI-W and six of those years experiencing inflation of less than 2%.

Under pension reform, COLA has been modified. For OP&F, COLA for certain members is reduced to the lesser of 3% or CPI, for SHPRS the Board is authorized to provide a COLA of up to 3%, for STRS 2% and a suspension of COLA for certain members, and for PERS the lesser of 3% or CPI for certain members. SERS continues to provide a 3% benefit.

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 [five] public retirement systems at the same time."¹²

The report is approaching two decades old. There has been no action to support or consider an offset by the General Assembly.

Review of Adequacy of the Contribution Rates - Current law requires the ORSC to conduct an annual review of contribution rates to OP&F and make recommendations to the legislature that it finds necessary for the proper financing of those benefits. In 2003, the Council voted to have Milliman review the adequacy of the contribution rates for PERS, STRS, SERS, and SHPRS. The legislature has not indicated if they wish this procedure to be periodic or intended it as a one-time request.

¹² Report to the Ohio Retirement Study Council: Feasibility Study on Disability and Workers' Compensation Coordination, Milliman & Robertson, November 23, 1999.

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

Purchase of Service Credit - Pursuant to the ORSC's request, Milliman completed a report on the cost of purchasing service credit in 2007. The report noted that with regard to health care benefits, if they are reduced in the future, some of the additional health liabilities could be eliminated. Additionally, if service purchases did not count toward eligibility 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.

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

Independent Legal Counsel - The ORSC contracted with Independent Fiduciary Services to complete fiduciary audits of STRS and OP&F. These reports were completed in 2006. One of the recommendations was that Ohio law should be amended to authorize the retirement systems' boards to retain independent outside legal counsel without the prior approval of the State Attorney General. This recommendation has not been acted upon but was reaffirmed by the ORSC at its November 2014 meeting.

Custodian - Another recommendation from the 2006 fiduciary audits of STRS and OP&F that has not been acted upon was that the applicable Ohio statutes should be amended to grant authority to select, contract with, manage, and terminate the financial institution(s) that will provide master custody services to the retirement systems, which are subject to the oversight jurisdiction of the ORSC. ORSC reaffirmed this position at its November 2014 meeting.

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

PTA/KMS recommended that the ORSC consider updating this policy framework. ORSC indicated its support in a November 2014 motion.

Permit, rather than require, systems to provide LTC coverage - Prior to pension reform, all of the state retirement systems were required to offer long-term care (LTC) health coverage to its members. Under pension reform, the State Teachers Retirement System (STRS) was

permitted, rather than required, to offer such coverage. Due to a lack of willing providers, at its July 2013 meeting, on a motion from Rep. Wachtmann, the ORSC recommended that law be modified to permit, rather than require, the Public Employees Retirement System (PERS), School Employees Retirement System (SERS), Ohio Police and Fire Pension Fund (OP&F), and State Highway Patrol Retirement System (SHPRS), to offer LTC coverage. This change was made under S.B. 42 of the 130th General Assembly.

Implement a declining 30-year funding policy - PTA/KMS recommended that the 30-year funding policy be modified to provide that it is an absolute funding limit rather than a minimum standard. Instead, they recommended a removal of the 30-year funding period as an objective in favor of the establishment of a declining 30-year period that aims for a funding period of 15-20 years.¹³

At its February 2015 meeting, the STRS Board adopted a closed 30-year funding period beginning July 1, 2015 (meaning that in 30 years, STRS liabilities would be fully funded).

Remove the qualified manager report - The retirement systems are required to submit an annual report on the selection of Ohio based and minority based managers. Because of changes in the industry, at its March 2014 meeting, the ORSC agreed that the annual report was no longer necessary. ORSC did not recommend that the actual Ohio based and minority based manager program be terminated, only that the annual report be discontinued. ORSC reaffirmed its support for this position at its November 2014 meeting.

¹³ Fornia, Bournival, and Schrader, 36.

DOCUMENTS STATUTORILY REQUIRED OF THE RETIREMENT SYSTEMS
THE 130th GENERAL ASSEMBLY
JANUARY 1, 2014 - DECEMBER 31, 2014

The retirement systems are required by statute to submit various documents to the ORSC to assist the Council in its evaluation of the systems. The following is a listing of each report the retirement systems are required to submit to the ORSC along with a very brief summary of the contents of the report. Copies of 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. With the exception of OP&F which requires triennial valuations, the actuarial valuation must be submitted annually to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation. These reports were timely issued and are available at the ORSC office.

Annual Report on Health Care - (R.C. 145.22(E), 742.14(E), 3307.51(E), 3309.21(E), 5505.12(E)) This report provides a full accounting of the revenues and costs relating to health care benefits. The report on health care must be submitted annually to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation. These reports were timely issued and are available at the ORSC office.

Quinquennial Evaluation - (R.C. 145.22(B), 742.14(C), 3307.51(B), 3309.21(B), 5505.12(B)) This report must be completed at least once every five years. It is an actuarial investigation of the mortality, service, and other experience of the members, retirees, contributors, and beneficiaries of the system to update the actuarial assumptions used in the actuarial valuation. The quinquennial evaluation must be submitted to the ORSC and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation. No quinquennial evaluations were required during 2014.

Annual Report on Disability Experience - (R.C. 145.351, 742.381, 3307.513, 3309.391, 5505.181) The report details the preceding fiscal year of the disability retirement experience of each employer. The report must specify the total number of disability applications submitted, the status of each application as of the last day of the fiscal year, total applications granted or denied, and the percentage of disability benefit recipients to the total number of the employer's employees who are members of the respective retirement system. The report on the disability experience must be submitted to the Governor, the ORSC, and the chairpersons of the standing committees and subcommittees of the House of Representatives and Senate with primary responsibility for retirement legislation. These reports were timely issued and are available at the ORSC office.

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 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 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. No 30-year plans were required in 2014.

Actuarial Analysis of Legislation - (R.C. 145.22(D), 742.14(D), 3307.51(D), 3309.21(D), 5505.12(D)) These reports are required when any introduced legislation is expected to have a measurable financial impact on the retirement system. The actuarial analysis must be submitted to the ORSC, the Legislative Service Commission, and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation within sixty days from the date of introduction of the legislation. No actuarial analyses were required during 2014.

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 information on the use of Ohio-qualified agents and minority business enterprises. These reports were timely issued and are available at the ORSC office.

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. The budgets were timely submitted and reviewed by ORSC and are available at the ORSC office.

Audit Committee Report – (R.C. 145.095, 742.105, 3307.044, 3309.044, 5505.111) Each retirement system is required annually to submit to the ORSC a report of the actions taken by its Audit Committee. These reports were timely issued and are available at the ORSC office.

Rules - The systems are required to submit to the ORSC a copy of the full text, rule summary, and fiscal analysis of each rule they file with the Joint Committee on Agency Rule Review pursuant to R.C. 111.15. The systems rules were reviewed in 2014 and any concerns were resolved through ORSC meetings.

Divestment of Assets in Iran and Sudan – Section 707.20 of H.B. 562 of the 127th General Assembly required OP&F to establish a policy for the identification of businesses in which the fund has direct or indirect holdings that are engaged in scrutinized activities in Iran or Sudan and to divest those holdings. OP&F has continued to report on those efforts and, as of October 2014, had reduced the market value of those holdings by 97.12%. The other

retirement systems have also developed a policy of divestiture of holdings of companies conducting business in Iran and Sudan and have continued to decrease those holdings.

STATUS OF PENSION LEGISLATION
THE 130th GENERAL ASSEMBLY
JANUARY 1, 2014 - DECEMBER 31, 2014

HOUSE BILLS

House Bill	H. introduction	Actuarial Received	Subject, Sponsor, and System	ORSC Pos	H.Cmte	Reported Out – Floor Vote	Sen introduction	S Cmte	Reported Out – Floor Vote	Conf Cmte	Concurrence	Eff Date
59	2/12/2013	N/A	ORSC dues; PERS determinations, OBM information, Rep. Arnstutz	N/A	FA	4/17/2013-4/18/2013	4/23/2013	FIN	6/5/2013-6/6/2013	Yes	6/27/2013	Various
67	2/20/2013	N/A	Delay determinations for PERS, Rep. Schuring and Ramos	N/A	HG	2/27/2013-2/27/2013	2/27/2013	SGO	3/6/2013-3/6/2013			3/6/2013
162	5/14/2013	N/A	Public officials—forfeiture of retirement benefits, Rep. Dovilla and Antieliski (All systems)	Support	JUD	1/23/2014	3/27/2014	SGO				
238	7/31/2013		Public contracts; Rep. Butler (All systems)		JUD	11/19/2014-12/02/2014	12/03/2014	SGO				
285	10/02/2013		Re-employment of retiree, Rep. Becker; PERS, OP&F STRS, and SERS		HG							
442	02/11/2014		Mandatory health benefits; Butler (PERS, OP&F, SHPRS)		HA							
483	03/18/14		Mid-budget review; Arnstutz (STRS)		FA	04/09/2014-04/09/2014	04/10/2014	FIN	05/20/2014-05/21/2014	Yes	06/04/2014	Various
521	04/16/2014		STRS membership; Rep. Cera (STRS)		HG							
620	09/16/2014		Ex-Spouse benefits; Rep. Huffman		HG							
H.C.R. 18	4/30/2013	N/A	Invalidate OAC Rule 3309-1-52 (SERS), Rep. McGregor	N/A								
H.C.R. 19	5/7/2013	N/A	Oppose Social Security coverage of public employees (all systems), Rep. Schuring	N/A	HG	5/29/2013-6/5/2013	6/6/2013	IFI	10/30/2013-11/13/2013		11/13/2013	
H.C.R. 40	11/19/2013	N/A	GASB standards 67 and 68, Reps. Schuring and Ramos	Support	HG	12/04/2013-12/04/2013	12/05/2013	IFI	2/19/2014-2/19/2014		2/19/2014	

SENATE BILLS

Sen Bill	S. introduction	Actuarial Received	Subject, Sponsor, and System	ORSC Pos	Sen Cmte	Reported Out – Floor Vote	H introduction	H Cmte	Reported Out – Floor Vote	Conf Cmte	Concurrence	Eff Date
42	2/14/2013	N/A	School property tax-Manning and Gardener		WM	3/19/2013-4/10/2013	4/16/2013	WM	12/09/2014-12/10/2014		12/11/2014	3/23/2015
288	2/25/2014		Volunteer Police Officers' Dependents Fund—Eklund		IFI	5/28/2014-5/28/2014	5/29/2014	HG	12/10/2014-12/10/2014			
385	11/10/2014		PERS Health Care—Brown		SGO							

HOUSE COMMITTEES

ANR Agriculture & Natural Resources
 CLT Commerce, Labor, & Technology
 DRR Economic Development & Regulatory Reform
 ED Education
 FA Finance & Appropriations
 FHD Financial Institutions, Housing, & Urban Development
 HG Health & Aging
 INS Insurance
 JUD Judiciary
 MWD Manufacturing and Workforce Development
 MVA Military & Veterans Affairs
 PO Policy & Legislative Oversight
 PU Public Utilities
 RR Rules & Reference
 SLG State & Local Government
 TPS Transportation, Public Safety, & Homeland Security
 WM Ways & Means

SENATE COMMITTEES

AG Agriculture
 CVJ Civil Justice
 CL Commerce and Labor
 CRJ Criminal Justice
 ED Education
 ENR Energy and Natural Resources
 FIN Finance
 IFI Insurance and Financial Institutions
 MHS Medicaid, Health, and Human Services
 PLV Public Safety, Local Government, and Veterans Affairs
 PU Public Utilities
 RU Rules
 SGO State Government Oversight and Reform
 TR Transportation
 WM Ways & Means
 WED Workforce and 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/A No Action Required