Ohio Retirement Study Council

30 East Broad Street, 2nd Floor
Columbus, Ohio 43215
PHONE: 614-228-1346
FAX: 614-228-0118

To: Governor John R. Kasich
Senate President Keith Faber
Speaker of the House Cliff Rosenberger
Senate Minority Leader Joe Schiavoni
House Minority Leader Fred Strahorn
Members of the Ohio Retirement Study Council
LSC Director Mark Flanders

From: Bethany Rhodes, Director/General Counsel

Date: March 22, 2016

Subject: 2015 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, 2015.

Ohio
Retirement
Study
Council

30 East Broad Street, 2nd Floor
Columbus, Ohio 43215
PHONE: 614-228-1346
FAX: 614-228-0118

Annual Report 2015

Evaluations and Recommendations Regarding the Operations of the State Retirement Systems

131st General Assembly
January 1, 2015 – December 31, 2015

Issued March 22, 2016

MEMBERS OF THE OHIO
RETIREMENT STUDY COUNCIL

SENATORS

Bill Beagle, Chair
Edna Brown
Jay Hottinger

REPRESENTATIVES

Kirk Schuring, Vice-Chair
Ron Amstuz
Dan Ramos

APPOINTED BY THE GOVERNOR

Lora Miller
Seth Morgan
Vacant

EX-OFFICIO

Mark Atkeson, State Highway Patrol Retirement System
Karen Carraher, Public Employees Retirement System
John Gallagher, Ohio Police and Fire Pension Fund
Lisa Morris, School Employees Retirement System
Mike Nehf, State Teachers Retirement System

DIRECTOR

Bethany Rhodes

ANNUAL REPORT
THE 131st GENERAL ASSEMBLY
JANUARY 1, 2015 - DECEMBER 31, 2015

TABLE OF CONTENTS

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, 2015, and ending December 31, 2015. 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, 2015, the five systems have combined assets of approximately $195 billion with approximately 676,000 active contributing members, 761,000 inactive members, and 458,000 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 respect to the operations of the systems. The Council is required to study all statutory changes

[1] R.C. 171.04.

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 performances, operating budgets, and administrative rules. In addition, the ORSC staff has continued a digitization project to preserve records in the Council's possession, monitored legislation introduced in the General Assembly that would affect the state retirement systems, completed an actuarial audit of PERS, and began a multi-year project to standardize the reports provided by the systems to the General Assembly and Council.

This report is a compilation of the evaluations and recommendations the Council made throughout 2015. It provides a summary of the ORSC reports and staff activities completed during 2015, pending public retirement issues, and staff recommendations. In addition, it provides a historical record of legislative action taken during the 131st 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, 2014 – July 1, 2015

The ORSC is required to conduct a semiannual review of the policies, objectives, and criteria of the systems' investment programs.[2] RVK is the Council's investment performance consultant. While there is a wealth of information in the analyses, this report details only the rolling 1-, 5-, and 10-year performance experience, and comments from RVK.

Investment Performance Summary (July 1, 2014 - December 31, 2014)

The following summarizes the report received by the ORSC at its April 23, 2015, meeting and reflects the investment performance for all six funds[3] for the period ending December 31, 2014. The findings of this report are briefly summarized as follows:

- All six retirement system portfolios had positive results for the one-year period ending December 31, 2014; half of the funds (PERS, PERS-HC, and SERS) outperformed their policy benchmarks in that same period.
- Over the trailing five-year period, all of the retirement systems have exceeded their actuarial interest rate (the actuarial rate is the investment return target used by the systems' actuaries to determine its capacity to fully fund future benefits). Net of fees, PERS returned 9.90% (vs. 8.00% actuarial rate), PERS-HC 8.64% (vs. 6.70%), STRS 10.48% (vs. 7.75%), OP&F 10.88% (vs. 8.25%), SERS 9.15% (vs. 7.75%), and SHPRS 9.14% (vs. 8.00%).
- Over the trailing ten-year period, no system has achieved their actuarial interest rate. Net of fees, PERS returned 6.65% (vs. 8.00% actuarial rate), PERS-HC 6.20% (vs. 6.70%), STRS 7.13% (vs. 7.75%), OP&F 7.23% (vs. 8.25%), SERS 5.91% (vs. 7.75%), and HPRS 5.93% (vs. 8.00%). During the same period, PERS, PERS-HC, and OP&F exceeded their fund benchmark. STRS, SERS, and SHPRS trailed their fund benchmarks.

To summarize RVK comments:

1) Currently, all the funds are diversified across multiple asset classes and exhibit characteristics of prudent investment diversification. RVK further noted that the determination of a fund's asset allocation is the single most important investment decision and is a major determinant of long-term return and the volatility risk of asset values. However, RVK advised the ORSC to not assume that all the funds should have the same asset allocation. Differences in their liabilities, funding status, the risk tolerance of their fiduciaries and other factors will likely produce legitimate differences in asset allocation.

---

[2] R.C. 171.04.

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

They advised the Council and retirement system boards to monitor changes in asset allocation over time.

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

Investment Performance Review (January 1, 2015 – June 30, 2015)

The following summarizes the report received by the ORSC at its November 12, 2015, meeting and reflects the investment performance for all six funds[4] for the period ending June 30, 2015. The findings of this report are briefly summarized as follows:

- All six retirement system portfolios had positive results for the one-year period ending June 30, 2015. All funds except PERS-HC and SHPRS outperformed their policy benchmarks.

- Over the trailing five-year period, all of the retirement systems have exceeded their actuarial interest rate (the actuarial rate is the investment return target used by the systems' actuaries to determine its capacity to fully fund future benefits). Net of fees, PERS returned 11.08% (vs. 8.00% actuarial rate), PERS-HC 9.58% (vs. 6.70%), STRS 11.80% (vs. 7.75%), OP&F 12.22% (vs. 8.25%), SERS 10.56% (vs. 7.75%), and SHPRS 10.13% (vs. 8.00%).

- Over the trailing ten-year period, no fund has achieved their actuarial interest rate. Net of fees, PERS returned 6.82% (vs. 8.00% actuarial rate), PERS-HC 6.20% (vs. 6.70%), STRS 7.21% (vs. 7.75%), OP&F 7.42% (vs. 8.25%), SERS 6.07% (vs. 7.75%), and SHPRS 6.14% (vs. 8.00%). During the same period, PERS, PERS-HC, STRS, and OP&F exceeded their fund benchmark. SERS and SHPRS trailed their fund benchmarks.

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

1) Currently all the funds are diversified across multiple asset classes and exhibit characteristics of prudent investment diversification. RVK further noted that the determination of a fund's asset allocation is the single most important investment decision and is a major determinant of long-term return and the volatility risk of asset values. However, RVK advised the ORSC to not assume that all the funds should have the same asset allocation. Differences in their liabilities, funding status, the risk tolerance of their fiduciaries and other factors will likely produce legitimate differences in asset allocation. They advised the Council and system boards to monitor changes in asset allocation over time.

---

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

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

30-YEAR FUNDING PLANS
THE 131st GENERAL ASSEMBLY
JANUARY 1, 2015 – DECEMBER 31, 2015

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.[5] 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 2015 indicate that all systems are now within the 30-year time frame.** The last time all systems were within the 30-year amortization period was 2000. The actuarial reports are as of December 31, 2014, for PERS, OP&F, and SHPRS and June 30, 2015, 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	21	83.8%
OP&F	30	70.8%
STRS	28.4	69.3%
SERS	27	68.8%
SHPRS	29	70.3%

[5] R.C. 145.221, 742.16, 3307.512, 3309.211, and 5505.121.

STATUS OF HEALTH CARE FUNDS
THE 131st GENERAL ASSEMBLY
JANUARY 1, 2015 - DECEMBER 31, 2015

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 2014, the total cost of providing retiree health care was approximately $2.77 billion. As employee contributions are used solely to fund pension benefits under federal and state law, any discretionary health care costs borne by the retirement systems must be financed by excess employer contributions only; the systems are not permitted to use any employee contributions for health care.[6]

The retirement systems' actuaries annually review the amount of contributions required to fund vested pension benefits. Employer contributions in excess of what is needed to support those benefits can be allocated to health care. Each year the retirement systems review their health care plans and make adjustments as needed. The following chart indicates the percentage of employer contributions each system allocated to health care during 2015 and the projected solvency period for each system's health care fund.

[6] R.C. 145.47, 26 U.S.C. 401(a), and 26 U.S.C. 401(h).

Ohio Retirement System	Percentage of Employer Contribution Allocated to Health Care in 2015	Projected Solvency Period for Health Care Funds
PERS	2.00%	Indefinite[7]
STRS	0.00%	2034
SERS	0.82%*	2024
OP&F	0.50%	2024
SHPRS	4.00%	2029

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

[7] "Indefinite" means that and actuary has determined that the funding exceeds 100 years.

REPORTS ON ENACTED PENSION LEGISLATION
THE 131st GENERAL ASSEMBLY
JANUARY 1, 2015 - DECEMBER 31, 2015

Am. Sub. H.B. 2

Am. Sub. H.B. 2 generally makes changes to the states charter school operations. This summary is limited to those provisions of the bill that pertain to the five public retirement systems. The Act:

- Excludes from STRS or SERS membership certain persons who are employed by community school operators and are subject to Social Security (R.C. 3307.01(B)(2)(b), 3309.011, 3309.013, and 3314.10.)

ORSC Position - The ORSC took no action on this bill.
Effective Date - February 1, 2016

Am. Sub. H.B. 64 (Biennial Budget bill)

Am. Sub. H.B. 64 made numerous changes to state law and established the biennial budget. This summary is limited to those provisions of the bill that pertain to the five public retirement systems. The Act:

- Freezes at current rates the percentage of an alternative retirement program (ARP) participant's compensation that must be paid by a public institution of higher education to the Public Employees Retirement System (PERS) (0.77%), State Teachers Retirement System (STRS) (4.5%), or School Employees Retirement System (SERS) (6%), to mitigate any financial impact of the ARP on the retirement system (R.C. 3305.052 and 3305.062).
- If the State Teachers Retirement Board increases the mitigating rate for ARPs between July 1, 2015, and September 29, 2015, then the Board is required to repay each public institution the difference between the Board's rate and 4.5% and reimburse each institution for expenses related to increasing the rate and caps the rate at 4% until the difference is repaid (Section 733.40 of Am. Sub. H.B. 64).
- Eliminates provisions requiring each state public retirement system board to annually submit to the Ohio Retirement Study Council two reports related to securities transactions and asset management: one on Ohio-qualified agents and minority business enterprises and one on Ohio-qualified investment managers (R.C. 145.114, 145.116, 742.114, 742.116, 3307.152, 3307.154, 3309.157, 3309.159, 5505.068, and 5505.0610).

ORSC Position - The ORSC took no action on this bill.
Effective Date - June 30, 2015

Sub. H.B. 340 (Biennial Budget correction bill)

Sub. H.B. 340 makes numerous changes to state law and the biennial budget. This summary is limited to those provisions of the bill that pertain to the five public retirement systems. The Act:

- Modifies Am. Sub. H.B. 2 provisions addressing STRS and SERS charter school membership to provide that, for the STRS and SERS exclusion to apply, the operator must have been paying Social Security taxes on or before February 1, 2016 (R.C. 3307.01 and 3309.013).
- Under Am. Sub. H.B. 2 a teacher employed by a community school operator that withholds and pays Social Security taxes is included in STRS membership only if the teacher has contributing service in a community school in Ohio within one year preceding the later of July 1, 2016, or the date on which the operator for the first time withholds and pays Social Security taxes for the teacher. The bill changes the July 1, 2016, date to February 1, 2016, the effective date of Am. Sub. H.B. 2 (R.C. 3307.01 and 3309.013).

ORSC Position - The ORSC took no action on this bill.
Effective Date – December 22, 2015

PENDING PENSION-RELATED ISSUES AND RECOMMENDATIONS
THE 131st GENERAL ASSEMBLY
JANUARY 1, 2015 - DECEMBER 31, 2015

The ORSC staff keeps legislators aware of relevant public retirement issues and of prior recommendations that have been made but not acted upon by the legislature. There remain a number of issues and recommendations that continue to warrant legislative consideration. At its September 2014 meeting, the ORSC asked its staff to update these recommendations that have not been acted on. The list was presented and accepted at its November 2014 meeting. What follows is a brief summary of each issue and of action taken by the legislature or the ORSC, if any, in the 131st General Assembly.

Community School Employees in STRS and SERS

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

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

[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.

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 the time, the ORSC had not altered the mitigating rate, and therefore it appeared the rate should remain at 3.5% by operation of H.B. 94 of the 124th General Assembly. However, STRS continued to require employers of ARP participants to remit 4.5% rather than 3.5%.

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.

Subsequent to that meeting, Am. Sub. H.B. 64 of the 131st General Assembly froze the ARP contribution rates as follows:

PERS 0.77%
STRS 4.50%
SERS 6.00%

With the establishment of these rates in state law, ORSC staff finds that the issue is resolved until directed by the GA or Council to take additional action.

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.

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

---

[9] R.C. 742.14(A).

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 an accounting of the disability experience of the law enforcement divisions, with recommendations to improve its functionality. ORSC staff issued a report in November 2014. The ORSC took no action on the report, but did ask staff to suggest a process to standardize all reports provided by the retirement systems to the Council. At its December 11, 2014, meeting, the ORSC modified then accepted a staff plan to standardize a number of reports. ORSC staff have completed the standardization of two reports (the Iran/Sudan Divestiture Report and the Internal Audit Report) and are continuing the standardization project in 2016. Additional reports to be standardized are the annual retirement system budget, annual health care report, and annual disability report.

Actuarial Funding of Pension Benefits

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

10-year actuarial interest rates The most recent semi-annual investment review required by law as of June 30, 2015, indicated that over the trailing ten-year period no retirement system has met their actuarial interest rate. PERS trailed with 6.82% (compared to 8.0% actuarial rate), STRS trailed with 7.21% (compared to 7.75%), SERS trailed with 6.07% (compared to 7.75%), OP&F trailed 7.42% (comparted to 8.25%), and SHPRS trailed with 6.14% (compared to 8.00%).

It is important to note that while no system has met their actuarial rate, they are able to pay off all accrued benefits over a 30-year period as required by law. The success of a system in meeting its long term actuarial interest rate is one of the most closely monitored data points by the Council, but it is not the sole determining factor of adequate pension funding. Even so, the failure to meet the actuarial rate is of concern and will be analyzed by each system during their 5-year experience review study. These studies will include an analysis of the appropriateness of the current actuarial interest rate.

__Adequacy of OP&F contribution rates__ The ORSC is required to conduct an annual study on the adequacy of contribution rates of OP&F.[10] PTA/KMS will complete this study in the first half of 2016.

__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.

__Remove 13th check authority in STRS__

R.C. 3307.671 permits the STRS Board to provide a supplemental benefit to retirees. This has often been referred to as the "13th check." The repeal of this section was initially advocated in 1996 under the "Joint Legislative Committee to Study Ohio's Public Retirement Plans"[11] and ORSC staff continue to support its immediate repeal.

__Update past studies relative to disparity of employer rates in OP&F__

Employer contribution rates for police and fire fighters are established in statute. Police employers are required to contribute an amount equal to 19.50% of salary, while fire fighter employers are required to contribute 24%. In its annual study on the adequacy of contribution rates, ORSC's previous actuary, Milliman, recommended a blending and equalizing of those rates at a weighted average of 21.5%.[12] Their position was that without equalizing the rates fire fighters are in part subsidizing the benefits of police officers. Previous funding plans proposed by OP&F have also proposed equalizing the rates. At its September 2012 meeting, Rep. Schuring requested that the ORSC provide an update on this policy issue. PTA/KMS will provide an update on this policy issue in its 2016 annual adequacy report.

__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

---

[10] R.C. 742.311.

[11] 1996 Joint Legislative Committee to Study Ohio's Public Retirement Plans, chaired by Sen. Cooper Snyder and Rep. Dale Van Vyven.

[12] Milliman USA letter to Aristotle L. Hutras dated June 6, 2002.

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.

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 provided 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 four of fourteen years have seen an increase of greater than 3% in CPI-W and five of those years experienced 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.

Mandatory Social Security

The State of Ohio has a long and successful record of opposing mandatory Social Security coverage for its public employees. This issue continues to resurface in the context of various Social Security reform proposals as a means of generating additional revenues for Social Security. The General Assembly has consistently opposed efforts to require Social Security participation.

Purchase of Service Credit

Pursuant to the ORSC's request, Milliman completed a report on the cost of purchasing service credit in 2007. The report noted that with regard to health care benefits, if they are reduced in the future, some of the additional health liabilities could be eliminated. Additionally, if service purchases did not count toward eligibility or amount of health care benefits, then the additional health care liabilities would be eliminated. The report revealed that the retirement systems subsidized the purchase of credit in nearly every case in 2005.

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

Independent Legal Counsel

The ORSC contracted with Independent Fiduciary Services to complete fiduciary audits of STRS and OP&F. These reports were completed in 2006. One of the recommendations was that Ohio law should be amended to authorize the retirement systems' boards to retain independent outside legal counsel without the prior approval of the 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.

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). The SERS funding policy has advocated for a closed 30-year funding period since 1998.

[13] Fornia, Bournival, and Schrader, 36.

DOCUMENTS STATUTORILY REQUIRED OF THE RETIREMENT SYSTEMS
THE 131st GENERAL ASSEMBLY
JANUARY 1, 2015 - DECEMBER 31, 2015

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 2015.

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 2015.

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. Actuarial analyses were completed for H.B. 305.

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 2015 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 June 30, 2015, had reduced the market value of those holdings by 97.58%. 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.

DOCUMENTS STATUTORILY REQUIRED OF THE ORSC
THE 131st GENERAL ASSEMBLY
JANUARY 1, 2015 - DECEMBER 31, 2015

The ORSC is required by statute to issue various reports. 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.

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

The ORSC is required to semiannually review the policies, objectives, and criteria of the retirement systems investment programs, including a review of asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, relative volatility, and performance evaluation guidelines. ORSC's consultant provided these reviews at the April and November ORSC meetings. These reports are available at the ORSC office.

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

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

A 10-year report of PERS was issued in 2015. That report was issued by PTA/KMS and found that the actuarial valuation and quinquennial investigations for PERS were "reasonable, consistent and accurate. [PTA/KMS does] not believe that any methods, assumptions, or calculations are erroneous to the level of necessary recalculations." Once PTA/KMS presents the report to the PERS board, the 10-year actuarial review for PERS will be complete. The full report is available at the ORSC office.

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

The ORSC is required, at least once every ten years, to complete a fiduciary performance audit of each retirement system. There were no fiduciary audits completed in 2015.

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

The ORSC is required, annually, to review the adequacy of employer and employee contribution rates under OP&F and make recommendations on the proper financing of the benefits of the Fund. This report was completed in the first quarter of 2016 (See *Pending Pension Related Issues*, above).

Triennial Supplemental Contribution Rates (R.C. 171.07)

The ORSC is required, triennially, to review the supplemental contribution rate (mitigating rate) provided to PERS, STRS, and SERS for those members who elect to participate in the ARP. By action of Am. Sub. H.B. 64, which establishes those rates in state law, this study is rendered moot.

<u>ORSC Annual Budget</u> (R.C. 171.05)

The ORSC is required, annually, to submit a budget of its expenses. The ORSC budget was submitted in May of 2015 and is available at the ORSC office.

<u>ORSC Annual Report</u> (R.C. 171.04)

The ORSC is required, annually, to submit a report on its evaluation and recommendations regarding the state retirement systems. The 2014 report was submitted in March 2015.

STATUS OF PENSION LEGISLATION
THE 130th GENERAL ASSEMBLY
JANUARY 1, 2015 - DECEMBER 31, 2015

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	Concur-rence	Eff Date
2	1/28/15	-	Charter school participation STRS and SERS-Dovilla	-	EDU	3/25/15-3/26/15	3/31/15	EDU	6/25/15-6/25/15	Yes	H 10/07/15 S 10/07/15	2/01/16
11	1/28/15	N/A	PERS judge healthcare-Brenner	N/A	JUD	3/4/15-3/17/15	3/18/15	CVJ	6/11/15-9/23/15		9/30/15	10/19/15
64	2/1//15	N/A	Teaching permits, ARP rates, and ORSC Manager report-Smith	N/A	FIN	4/21/15-4/22/15	4/27/2015	FIN	6/17/2015-6/18/2015	Yes	S 6/25/2015 H 6/26/2015	Various
257	6/10/15		Re-employed retirants-Becker		FIN							
284	7/7/15	N/A	Forfeiture of benefits-Dovilla and Anielski	AA	JUD	1/27/16						
292	7/22/15		Cancer presumption-Hagan		INS							
305	8/25/15	Yes	Akron employees-Schuring	AA	HG/RR	12/9/15 (2/2/16)						
311	8/31/15		STRS ARP rate-Schuring		HG							
340	9/28/15	N/A	Charter school participation STRS and SERS-Amstutz	N/A	SG	10/19/15-10/27/15	10/29/15	FIN	12/9/15-12/9/15		12/9/15	12/22/15

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	Concur-rence	Eff Date
3	2/2/15		High Performing School Districts-Sen. Hite and Faber		ED	3/25/2015-3/25/2015	3/26/2015	ED				
11	2/2/15		Volunteer Firefighter Dependents Fund-Sen. Eklund	N/A	INS	10/13/2015-10/14/2015	10/19/2015	INS	11/19/15-12/8/15			3/23/16
27	2/9/15		Firefighter cancer presumption-Sen. Patton		FI							
38	2/9/15		State contracts-Seitz		GOV	3/11/2015-3/18/2015	3/19/2015	GOV	4/29/2015-4/29/2015			8/12/2015

HOUSE COMMITTEES

ARD	Agriculture & Rural Development
ASV	Armed Services, Veterans Affairs, and Public Safety
COM	Commerce and Labor
CFA	Community and Family Advancement
EWD	Economic and Workforce Development
ED	Education
ENR	Energy and Natural Resources
FIN	Finance
FHD	Financial Institutions, Housing, & Urban Development
GOV	Government Accountability and Oversight
HG	Health & Aging
INS	Insurance
JUD	Judiciary
LOC	Local Government
PU	Public Utilities
RR	Rules & Reference
SG	State Government
TI	Transportation and Infrastructure
WM	Ways & Means

LEGISLATIVE ACTION

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

SENATE COMMITTEES

AG	Agriculture
CVJ	Civil Justice
CL	Commerce and Labor
CRJ	Criminal Justice
ED	Education
ENR	Energy and Natural Resources
FIN	Finance
FI	Financial Institutions
GOV	Government Oversight and Reform
HHS	Health and Human Services
INS	Insurance
MED	Medicaid
PU	Public Utilities
RR	Rules and Reference
SLG	State and Local Government
TR	Transportation, Commerce, and Labor
WM	Ways & Means

ORSC POSITION

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