ORSC Report

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A Brief Overview of the Public Pension Plans of Ohio

Prepared for
The Joint Committee to Study
Ohio's Public Retirement Plans

April 19, 1995

A BRIEF OVERVIEW OF THE PUBLIC PENSION PLANS IN OHIO[1]

Preface - This report is intended to provide the Joint Committee on Retirement with a brief overview of the five statewide retirement systems for public employees in Ohio. It also offers for the consideration of the Joint Committee various pension principles and recommendations that have been adopted by either the Commission and/or the NCSL Pensions Working Group of which the Commission is a participant, which are germane to the focus of the Joint Committee as reported in the press release of April 13, 1995.

- **the level of contributions required to fund the level of benefits defined by statute;**

- **the investment authority and performance of each public plan, including the use of derivatives;**

- **the disability statutes, procedures and experience of each public plan;**

- **the cost and funding of retiree health care coverage provided by the public plans; and**

- **early retirement provisions and their fiscal impact on pension and health care costs.**

Introduction - Ohio has five statewide retirement systems for public employees: the Public Employees Retirement System (PERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), the Police and Firemen's Disability and Pension Fund (PFDPF) and the Highway Patrol Retirement System (HPRS). The Cincinnati Retirement System is the only municipal retirement system in Ohio, and falls outside the legislative oversight jurisdiction of the Commission. These public pension plans are in lieu of Social Security coverage.

Over 637,000 active employees are covered by the five statewide retirement systems, plus 251,000 inactive members who are not currently contributing but have not withdrawn their contributions. In addition to the active and inactive members of the retirement systems, over 255,000 individuals receive benefits for age and service retirement, disability or survivorship. Comprehensive health care coverage is also provided by the systems for retirees and their dependents. Altogether the five systems provide coverage to over 1.1 million active, inactive and retired members.

System	Active Members	Inactive Members	Beneficiaries
PERS	347,937	96,268	112,183
STRS	165,711	105,194	74,230
SERS	99,135	48,975	50,405
PFDPF	23,689	829	18,317
HPRS	1,467	11	723
Total	637,939	251,277	255,858

1 Statistical data on the five public pension plans in Ohio are as of 12/31/93 for PERS, PFDPF and HPRS and 6/30/93 for STRS and SERS, unless noted otherwise.

The assets of the five retirement funds exceed $63 billion. The annual income of these funds totals over 9.2 billion, including $5.5 billion in investment income alone. Benefits and other expenses payable annually exceeds $3.5 billion.

Dollars in Millions

System	Assets	Annual Income	Annual Expenses
PERS	$29,511.3	$4,067.3	$1,369.8
STRS	$26,239.4	$3,837.3	$1,375.9
SERS	$3,294.6	$579.6	$350.3
PFDPF	$4,627.8	$760.4	$425.3
HPRS	$296.3	$45.5	$13.6
Total	$63,989.4	$9,290.1	$3,534.9

Creation - The oldest of these funds is STRS which was created in 1920 for teachers in the public schools, colleges and universities. PERS was created in 1935 for state employees, with local government employees added in 1938. SERS was created in 1937 for non-teaching employees of the various local school boards. HPRS was created in 1941 by the withdrawal of all state troopers from PERS. PFDPF was created in 1967 after the abolition of 454 local police and fire relief and pension funds. A special retirement program administered by PERS and hereinafter referred to as the PERS-LE program was created in 1975 for certain law enforcement officers, including sheriffs, deputy sheriffs, township police officers and various others.

Governing Boards - Each retirement system is governed by an independent board composed of seven to nine members.

The PERS board has nine members, as follows: the Auditor of State; the Attorney General; the Director of Administrative Services; one retired member elected by the service and disability retirees; and five members elected by the active employees from various areas of government, including one state employee, one municipal employee, one county employee, one non-teaching higher education employee, and one miscellaneous employee not otherwise represented.

STRS also has a nine-member board: the Auditor of State; the Attorney General; the Superintendent of Public Instruction; one retired member elected by the service retirees; and five members elected by the active membership, including disability retirees.

The SERS board consists of seven members: the Auditor of State; the Attorney General; one retired member elected by the service and disability retirees; and four members elected by the active membership.

The PFDPF board has nine members, as follows: the Auditor of State; the Attorney General; a municipal finance officer appointed by the Governor; five members elected by the active membership, including two police officers, two firefighters and one member which alternates between a police officer and a firefighter, and one alternating retired member elected to represent retirees and their survivors.

The HPRS board consists of seven members: the Auditor of State; the Superintendent of the State Highway Patrol; four members elected by the active membership; and one retired member elected by the service and disability retirees.

Service Retirement - Vesting - A member's benefit in one of the non-uniformed employee retirement systems (PERS, SIRS, SERS) is vested after five years of service. The normal retirement age at which there is no reduction in benefits is 65, or any age after 30 years of service. A member may retire on a reduced pension upon attaining age 60 with at least five years of service, or age 55 with 25 years of service.

A member's benefit in the uniformed employee retirement systems (PFDPF, HPRS) is vested after 15 years of service. A member with 15 years of service, who voluntarily resigns or is discharged for any reason other than dishonesty, cowardice, intemperate habits or conviction of a felony, may retire on a pension based on a lower benefit formula at age 48 in PFDPF, or age 55 in HPRS. Normal retirement is age 48 with 25 years of service or age 62 with 15 years of service in PFDPF, and age 48 with 25 years of service or age 52 with 20 years of service in HPRS. A member may also qualify for a reduced pension upon attaining age 48 with 20 years of service in HPRS.

Age and Service Benefits - The formula for determining age and service benefits is generally 2.1% of final average salary times years of service in the non-uniformed employee systems, except that members with more than 30 years of contributing service receive 2.5% for each year over 30 in PERS and STRS. For example, members with 25 years of service receive 52.5% of their final average salary at age 65. The maximum benefit is 100% of final average salary in PERS and STRS, and 90% in SERS. The minimum benefit is $86 per year of service in all three non-uniformed employee systems. In lieu of the benefit based on the 2.1% formula, a member may receive a benefit based upon the money purchase value of the member's and employer's contribution, with interest. The member receives the benefit which provides the greater amount.

In the uniformed employee systems, the normal age and service benefit formula is 2.5% of final average salary for the first 20 years of service, plus 2% for the next five years of service, plus 1.5% for all service in excess of 25 years, up to a maximum of 72% of final average salary. For example, members with 25 years of service receive 60% of their final average salary at age 48. The benefit formula for members with 15 years of service, who voluntarily resign or are discharged, is 1.5% of final average salary times years of service. Neither of the uniformed employee systems offers a money purchase alternative.

Final average salary is based upon the average of the three highest years of compensation in all five systems.

Disability Benefits - A member of one of the three non-uniformed employee systems is eligible for a disability pension after five years of service. Members of PFDPF become eligible for on-duty disability benefits immediately upon employment and off-duty disability benefits after five years of employment. Members of HPRS become eligible for both on-duty and off-duty disability benefits immediately upon being employed as a state trooper.

Members of the non-uniformed employee systems are covered under one of two disability programs, the original plan or the revised plan. Employees who were members on or before July 29, 1992 were given a one-time opportunity to select coverage under either one of these programs. Employees hired after July 29, 1992 are automatically covered under the revised plan. The revised plan was adopted in 1992 to comply with the federal Older Workers Benefit Protection Act which generally prohibits age discrimination in employee benefits.

Under the original plan, application for disability must be filed before age 60. The benefit is generally payable for life, and is based on the same formula as an age and service pension except that service is projected from the member's age at the time of application to age 60 and is added to the member's earned service credit. The minimum benefit is 30% of final average salary and the maximum is 75%.

elected, the law allows the retiree to change such option upon divorce only with the written consent of the spouse or pursuant to a court order.

The surviving beneficiary or estate of a retired member also receives a $500 burial allowance in SERS, a $1,000 burial allowance in STRS, and a burial allowance ranging from $500 to $2,500 in PERS based on the amount of service credit at retirement.

Under the uniformed employee systems, the allowance for the survivors of a member not eligible to retire is a flat dollar amount per dependent. Benefits to the surviving spouse of an active member terminate upon remarriage regardless of age. However, if the remarriage ends within two years due to death or divorce, the terminated benefit resumes.

In PFDPF, the survivors of retired members receive the flat dollar amounts payable to the survivors of active members but' in addition, are eligible for any amount designated by the retiree under one of several joint survivor annuity options. In HPRS, the surviving spouse of a retired member is eligible for either the flat dollar benefit payable to the spouse of an active member or 50 percent of the retiree's pension, whichever is greater. In addition, a recent change in the law allows retirees to elect one of several joint survivor annuity options.

The surviving spouse or estate of all retired members in PFDPF or HPRS receives a $1,000 lump sum burial allowance.

Health Care Benefits - In 1974 the five state retirement boards were given broad discretionary authority to provide health care benefits to retirees and their dependents. Health care benefits are not a vested right and are subject to change at any time upon board action, including the level of coverage as well as the amount paid by those covered.

Since 1974 the five systems have provided a comprehensive hospital, medical and prescription drug plan. In 1977 the systems were required to reimburse benefit recipients for Medicare Part B (medical portion) premiums. Retirees not qualifying for Medicare Part A (hospital portion) are provided equivalent coverage under the systems' health care plans.

Controlling health care costs has been and continues to be a primary concern of each system In 1991 the Commission issued a report, The Costs and Funding of Health Care Benefits Provided by the Ohio Retirement Systems. Among the various choices raised in that report is the risk of escalating retiree health care expenditures jeopardizing the actuarial funding of basic pension benefits as pension reserves become used to pay for health care benefits. By law, any costs borne by the systems are required to be financed out of the employer contribution rate. The report documents that higher employer contribution rates are required to finance health care costs, and that the systems have little or no flexibility to increase the employer rates because they are either fixed by statute or at or near the statutory maximum.

In response to this concern, the systems have implemented a variety of cost-containment measures, including a preferred retail pharmacy network; a managed care network for retirees and dependents without Medicare; case management; mail-order drug plan; premium charges for retirees and/or dependents; increased deductibles and copays; hospital admission charges; formularies; etc. Also, the Ohio General Assembly has enacted legislation capping the Medicare Part B reimbursement in SERS at $24.80 (1988), STRS at $29.90 (1991) and HPRS at $41.10 (1994); changing the requirement to qualify for health insurance from five years to ten years of service in PERS and SERS (1981); and authorizing the SERS employer surcharge on the salaries of members who earn less than an actuarially-determined amount to fund health care benefits.

The following table shows each system's annual health care expenses, health care reserves, employer health care rate, Medicare Part B reimbursement rate and retiree premium contribution. As the table indicates, the retirement systems differ in their retiree premium charges, Medicare Part B reimbursement rates, health care funding levels, health care reserves and annual health care expenses. This raises a public policy issue of whether post-retirement health care benefits should be uniform among the various groups of public employees.

System	Health Care Expenses	Health Care Reserves	Employer Rate	Medicare Rate	Retiree Premium[2]
PERS	$307,001,902	$6,187,460,638	4.29% (State) 5.11% (Local) 5.89% (Law)	$46.10/mo.	$0.00/mo.
STRS[3]	$157,276,000 (1994)	$829,600,000 (1994)	2.00%	$29.90/mo.	$38-$50/mo. $48-$63/mo. $57-$75/mo. $67~$88/mo. $77~$l0l/mo.
S E R S[4]	$85,496,108 (1994)	$141,000,000 (1994)	6.01%	$24.80/mo.	$0.00/mo. $89.50/mo. $179.00/mo. $268.50/mo.
PFDPF[5]	$63,135,402	$154,908,200	6.5%	$46.10/mo.	$10.00/mo.
HPRS	$1,949,762	$52,196,527	5.5%	$41.1O/mo.	$0.00/mo.

Post Retirement Increases - Benefits in all five systems are increased from time to time to supplement the value of the original benefit. In 1970 an automatic cost-of-living allowance (COLA) was adopted for the retired members of the three non-uniformed employee systems. It now provides for an annual 3% increase to all benefit recipients on the rolls for at least one year, provided the average change in the Consumer Price Index (CPI) is at least 3% in the preceding year.

An automatic COLA for retired members of HPRS was first adopted in 1981. Similar to the COLA provided by the non-uniformed employee systems, it provides for an annual 3% increase, provided the CPI increases by that amount. However, service and disability retirees must wait until age 57 to receive their first COLA, except that disability retirees may qualify after five years of retirement' regardless of age.

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[2]The 1995 rates for service retirees without Medicare.

[3]The retiree premiums vary according to the retiree's years of service and the retiree's choice of insurance carrier. The lowest rates are for members retiring with 25 or more years of service, followed by those retiring with 20 but less than 25 years, followed by those retiring with 15 but less than 20 years, followed by those retiring with 10 but less than 15 years, and finally followed by those with less than 10 years of service paying the highest rates. The rates on the left-hand side of the column are for Blue Cross and Blue Shield of Ohio; the right-hand side, Aetna.

[4]The retiree premiums vary according to the retiree's years of service. Members retiring with 25 or more years of service pay no premiums; those retiring with 20 but less than 25 years of service pay 25% of the premium, followed by those retiring with 15 but less than 20 years paying 50% of the premium, and finally followed by those retiring with 10 but less than 15 years paying 75% of the premium.

[5]Service retirees with annual pensions of less than $10,000 pay no premiums.

In 1986 an automatic COLA was adopted for members of PFDPF retiring after July 24,1986 and electing not to have any future pension calculated on the basis of terminal pay. Identical to the COLA for the non-uniformed employee systems, it provides for an annual 3% increase, provided the CPI increases by that amount.

In 1988 an automatic COLA was adopted for members of PFDPF who retired before July 24, 1986 with an annual pension below a certain amount. The initial “cap” was $18,000 per year, this cap increases by $500 per year. In 1995, the cap is $21,500 per year. The annual COLA increase is a flat $360 under a single life annuity with proportional reductions for the various joint survivor annuity options, provided the CPI increases by at least 3% in the preceding year.

Ad hoc post-retirement increases are also granted by the legislature from time to time in all systems in an effort to offset at least partially the loss in the purchasing value of benefits during periods of inflation.

The STRS board also has discretionary authority to grant an annual lump-sum supplemental benefit check (13th check) in December to those who have received benefits for the preceding 12 months. Funds are derived from prior-year investment earnings that exceeded the actuarial funding requirements for the benefit plan.

Early Retirement Incentive Plans - Early retirement incentive (ERI) plans are available to the employers covered under the three non-uniformed employee systems. The plans for STRS and SERS were authorized in 1983; the PERS plan was authorized in 1986. The ERI plans for all three systems are very similar. The plans are established at the option of the employer and participation is voluntary on the part of the employee. The employer pays the total actuarial liability associated with the purchase of service credit. The employer may purchase up to five years of service credit or one-fifth of the employee’s total service credit, whichever is lesser. The plans are designed to be non-discriminatory since the employer must offer the plan to at least five percent of the employees based on seniority.

Traditionally, public employers have adopted ERI plans to cut payroll costs and reduce work force as an alternative to layoffs during difficult budgetary and economic times. Apart from financial reasons, some employers have also used such plans to provide greater managerial flexibility in restructuring operations, making promotions and maintaining a balance in the age and composition of the work force (something that might not occur in seniority-based layoffs).

The Ohio Retirement Study Commission concluded in its November, 1994 report, Early Retirement Incentive Plans: “ERI plans vary from state to state. The law authorizing ERI plans in Ohio is a permanent part of the retirement statutes of PERS, STRS and SERS. The law maximizes “local control,” allowing individual employers to offer such plans at their discretion and providing them some flexibility in the design of such plans to achieve their objectives. Most importantly from the perspective of this Commission, the law protects the actuarial soundness of the state retirement systems by requiring the individual employer to pay the additional liability resulting from the incentive plan as determined by each system’s actuary. In other words, the law precludes employers from shifting costs to the retirement systems.”

Social Security - Public employees in Ohio are not covered by Social Security, with very few exceptions. Generally, membership in one of the state retirement systems is mandatory for both full-time and part-time public employees, and is in lieu of Social Security coverage. Individuals receiving benefits from the state retirement systems may be subject to a partial or total offset of their Social Security pension which they have earned through other employment or which they qualify for through a spouse’s employment.

Actuarial Funding- Each of the five state retirement systems is funded on what is known as an actuarial reserve basis. This method requires the systems to accumulate funds during the active working years of their members which, at retirement, are sufficient to pay all retirement benefits, less interest accumulated during retirement. The law requires each retirement board to have a complete actuarial evaluation of all funds at least every five years, showing the value of present and future assets and liabilities, including any recommendations for the proper operations of the systems. More frequent valuations may be made at the discretion of the boards, and are presently done on an annual basis by all five systems.

The difference between the present value of all benefits credited to current participants and retired members and the value of the present assets is the unfunded accrued liability of a pension fund. Unfunded accrued liabilities are amortized over varying periods of time as determined by the respective boards on the basis of the actuary's recommendation. Forty years is generally recommended as the maximum amortization period for the prudent management of a fund.

The following table shows each system's amortization period for unfunded pension liabilities as of the end of fiscal year 1994 (fiscal year 1993 for PERS and HPRS):

Retirement System	Amortization Period
PERS	
State	**22.0 Years**
Local	**26.0 Years**
Law Enforcement	**10.0 Years**
STRS	**30.5 Years**
SERS	**40.0 Years**
PFDPF	**41.0 Years**
HPRS	**22.0 Years**

Employee and employer contribution rates are certified annually by each actuary as sufficient to pay off the unfunded accrued liabilities and establish a sufficient reserve to cover the anticipated pensions of current active and inactive members who are vested.

Generally, the five state retirement systems have three sources of revenue to fund the level of benefits guaranteed by statute: member contributions, employer contributions, and investment earnings. Also, a very small portion of the financing comes from state general fund appropriations for ad hoc post-retirement increases enacted by previous legislatures, which decreases each year as the closed population of benefit recipients continues to decline due to death.

As the table below indicates, investment income is the largest source of revenue for all five systems. Twenty years ago, approximately 25 percent of the systems' total revenues came from investment earnings; today, up to 60 percent of their total revenues come from investment income.

Retirement System	Employee Contributions	Employer Contributions	Investment Income
PERS	$639,366,718	$1,012,814,909	$2,414,522,053
STRS	$564,005,000	$869,862,000	$2,394,523,000
SERS	$123,270,559	$210,429,351	$243,539,163
PFDPF	$97,158,960	$200,703,066	$422,969,125
HPRS	$5,750,561	$13,405,126	$25,646,009

The following table shows for each system the current employee contribution rate, the current statutory maximum for employee contributions, the current employer contribution rate and the current statutory maximum for employer contributions.

Retirement System	Current Employee Rate	Current Statutory Maximum	Current Employee Rate	Current Statutory Maximum
PERS • State • Local • Law	 8.5% 8.5% 9.0%	 10.0% 10.0% No Maximum	 13.31% 13.55% 16.70%	 14.00% 14.00% No Maximum
STRS	9.3%	10.0%	14.00%	14.00%
SERS[6]	9.0%	10.0%	14.00%	14.00%
PFDPF[7] l Police • Fire	 10.0% 10.0%	 10.0% 10.0%	 19.50% 24.00%	 19.50% 24.00%
HPRS[8]	10.5%	10.5%	24.53%	31.50%

Investment Authority - By law, the boards of the five state retirement systems are vested with the authority and fiduciary responsibility to invest the funds held in trust for payment of retirement benefits to their members.

The law provides that with respect to the investment of such funds the board members shall discharge their duties solely in the interest of the participants and beneficiaries; for the exclusive purpose of providing benefits to the participants and beneficiaries and defraying reasonable

[6] In addition to the employer contribution rate of 14.0%. the SERS board is authorized to impose an employer surcharge on the salaries of lower-paid members in order to fund health care benefits. The surcharge generates an additional 1.14% of payroll.

[7] In addition to the employer contribution rate for police and firefighters, each employer having an unfunded accrued liability when PFDPF was established in 1967 pays annually an amount equal to five percent of that liability. Under this schedule, the liability should be paid off in the year 2035.

[8] HPRS law provides that the employer contribution rate shall not exceed three times the employee contribution rate.

expenses of administering the system; with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; and by diversifying the investments of the system so as to eliminate the risk of large losses, unless under the circumstances it is not prudent to do so. This standard, often referred to as the "prudent expert" rule because it calls for a special capacity beyond ordinary diligence, is similar to the standard set forth in the Employee Retirement Income Security Act which is applicable to private pension plans.

In addition to the prudent expert standard, the law provides a "legal list" which further restricts the types of investments the board members may make. If an investment vehicle is not specifically authorized in the legal list, the state retirement systems are prohibited from investing in it, regardless of whether the investment would otherwise be prudent. Legal lists are in need of constant revision in order to keep them current with changing market opportunities.

A growing number of states have abolished the legal lists and restricted their pension fund investments under the "prudent person" rule.

The Treasurer of State is the custodian of all funds and credits the income earned on investments to the respective pension funds.

The investment authority of the five systems was last updated in 1993. Such authority was expanded to increase the systems' maximum equity exposure from 35 to 50% of total assets; to allow the systems to invest up to 10% of total assets in foreign stocks and bonds; to add American depositary receipts, commingled stock investment funds, real estate investment trusts and derivatives to the systems' legal lists; and to modify certain restrictions relative to the systems' investments in corporate stocks, corporate and government bonds, commercial paper and real estate.

The following table shows the restrictions on asset allocation under the current legal lists.

Asset Class	**Maximum Percent Limitation**
US Stock	50% of Total Assets
Real Estate	25% of Total Assets
Canadian Bonds	15% of Total Assets
Venture Capital	5% of Total Assets
Foreign Securities	10% of Total Assets

Public Policy Considerations - The Ohio Retirement Study Commission (ORSC) has adopted its own set of pension principles which are observed in its review and recommendation of all proposed changes in the public retirement laws. These principles are reviewed periodically by the Commission, and make for sound and prudent public pension policy.

Various national organizations, including NCSL, have established pension principles to assist state legislatures in effectively managing public pension plans. The Commission staff is part of the NCSL Pension Working Group which has just completed its final revisions to the principles and recommendations included in the report' Public Pensions: A Legislator's Guide.

Several of these principles and recommendations are germane to the issues raised by this Committee and therefore warrant consideration.

I. <u>The Level of Contributions Required to Fund the Level of Benefits Defined by Staute</u>

A. The Level of Contributions

• The financing of benefits should be shared between employees and employers, with employers paying for the cost of unfunded accrued liabilities (ORSC).

• Unfunded accrued liabilities should be amortized over a reasonable period of time, related to the average working career of the members, but not to exceed 40 years (ORSC).

• There should be equal treatment in the burden of pension financing between generations of taxpayers. Ad hoc post-retirement increases should be financed separately and not merely added to the unfunded accrued liability of the pension funds (ORSC).

• The contribution rates should be continually reviewed by the Commission to ascertain a reasonable and just distribution of costs between members and employers (ORSC).

• The state legislature should not seriously consider or grant any proposed increase in pension benefits without adequate financing being established to cover its cost (ORSC).

• Pension funding should be a contemporary obligation (NCSL).

• State legislatures should require advance funding of pension benefits to ensure that pension costs are not shifted to future taxpayers (NCSL).

• State legislatures should require fiscal impact statements when establishing or amending pension plan benefit provisions (NCSL).

• Post-retirement adjustments should be independently funded and have a ceiling on the percentage of increase for a single year (NCSL).

B. The Level of Benefits

• The retirement benefit should provide an adequate standard of living at the time of retirement. The benefit should be related to a members final average salary, determined on the basis of the three highest years of salary (ORSC).

• The measure of adequacy should be based upon a minimum of 30 years of service for regular public employees and 25 years of service for protective and safety force employees (ORSC).

• Minimum benefits should not be set so high as to distort the benefit formula significantly (ORSC).

• Flat benefits (those not related to service, age and/or payroll-based contributions) should be examined critically for their impact on contribution rates (ORSC).

• The retirement benefit should be adequately maintained during the period of retirement. There should be a plan of prefunding post-retirement increases. When possible, post-retirement increases should follow some validly recognized economic indicator. Post-retirement increases based on factors which offset the effects of age, service and salary should be avoided (ORSC).

• There should be equal pension treatment among the various groups of non-uniformed public employees and as nearly as practicable retirement benefits should be uniform (ORSC).

• The nature of the services employees perform for state or local government should determine the retirement system under which they are covered. Protective and safety force employees are considered a special category of employees deserving of a special set of benefits (ORSC).

• Pensions should provide financial security in retirement (NCSL).

• Pension benefits should be equitably allocated among beneficiaries (NCSL).

II. The Investment & Performance of Each Public Plan, Including the of Derivatives

• Pension investments should be governed by the prudent person rule (NCSL).

• State legislatures should establish strict fiduciary standards and conflict of interest laws to govern the conduct of trustees as they manage the assets of the retirement system (NCSL).

III. The Disability Statutes, Process and Experience of Each Public Plan

• A study into the causes of the high rates of disability in PFDPF should be undertaken to determine if changes in the statutory provisions and/or administrative procedures would be appropriate (ORSC).

• Workers' Compensation benefits should be offset against PFDPF duty-related disability benefits (ORSC).

• State and local pension plans should provide strict guidelines for disability coverage and should provide follow-up periodic screenings of disabled retirees (NCSL).

IV. The Cost and Funding of Retiree Health Care Coverage Provided by the Public Plans

• All systems should segregate pension reserves from health care reserves and report in a timely and appropriate manner on their pension costs and health care costs (ORSC).

• All systems should require retirees to share in the premium cost in accordance with the following guidelines: short-service retirees should bear a greater portion of premium costs than long-service retirees; retirees without Medicare should bear a greater potion of premium costs than retirees with Medicare; and dependents should bear a greater portion of premium costs than primary benefit recipients (ORSC).

• Deductibles and out-of-pocket maximums should be indexed in all systems (ORSC).

• The reimbursement of monthly Medicare Part B premiums should be capped in all systems (ORSC).

• All systems should negotiate on a collective basis with health care providers or provider network managers to establish effective managed care programs, and encourage benefit recipients to utilize such programs through medical benefit penalties (ORSC).

• The PFPDF board should continue to limit post-retirement health insurance to 6.5% of payroll by exercising its discretionary authority to increase deductibles, copays and/or retiree premium contributions, as necessary (ORSC).

• State legislatures should use extreme care in developing health insurance provisions for retired employees, and should provide for separate accounting and funding from retirement programs (NCSL).

V. <u>Early Retirement Provisions and their Fiscal Impact on Pension and Health Care Costs</u>

• The normal retirement age should be set in a reasonable relationship to the employability limits of the average employee, which is generally age 65 for regular public employees and age 52 to 55 for protective and safety force employees (ORSC).

• The normal service for regular public employees should be 30 years and for protective and safety force employees 25 years, based upon the career expectations found in most other states (ORSC).

• Retirement benefits should be actuarially reduced for retirement prior to normal retirement age, except for long-service retirement at any age after normal requirements are met (30 years for non-uniformed employees and 25 years for uniformed employees - ORSC).

• The full, long-term costs of early retirement programs and incentives should be calculated before such a program is adopted to allow legislatures to provide for the costs (NCSL).