

**Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, Ohio 43215**

**Minutes
March 13, 2014**

The meeting was called to order by Chairman Wachtmann at approximately 9:06 a.m. in room 121, the Statehouse, Columbus, Ohio.

The following members attended the meeting:

Voting members

Edna Brown
David Burke
Shannon Jones
Dan Ramos
Kirk Schuring
Lynn Wachtmann
Lora Miller
Seth Morgan

Non-voting members

Mark Atkeson
Karen Carraher
John Gallagher
Lisa Morris
Mike Nehf
Kari Hertel

Absent

Staff

Bethany Rhodes
Jeff Bernard
Ashley Wilson

There being a quorum present, Chairman Wachtmann asked that the minutes of the previous meeting be approved. Without objection the minutes were approved.

Chairman Wachtmann asked Director Carraher to present the OPERS Disability Report. Director Carraher reviewed the report and noted that OPERS has seen a decline in the number of applications received and approved with an increase in the number of denials and ineligible applications. There were no questions for the Director.

The Chairman then asked Director Atkeson to present the HPRS Disability Report. Director Atkeson noted that the percentage of disability applications granted relative to active member is down from the 2012 figure of 0.60% to 0.43%. There were no questions for Director Atkeson.

(Ms. Hertel entered the meeting at 9:15 a.m.)

The Chairman asked Mr. Bernard to review the H.B. 162 analysis. Mr. Bernard reviewed the analysis and gave the ORSC staff recommendation of approving H.B. 162. Chairman Wachtmann asked if there was any discussion on the analysis. There was none. Rep. Schuring moved to adopt the staff recommendation, and Sen. Burke seconded the motion.

The Council voted on the motion. A roll call vote was taken, and the motion passed 8-0.

YES: Chairman Wachtmann
Edna Brown
David Burke

Vice-Chair Jones
Rep. Ramos
Rep. Schuring

Mr. Morgan
Ms. Miller

Chairman Wachtmann asked Director Morris to give an update on STRS/SERS membership determinations. Director Morris explained that a letter was sent to SERS/STRS employers that asked for the number of members that will be affected by the July 1st change in membership. She reported that 29% of the employers have responded and stated that 539 individuals will be affected. Director Morris said that the 539 individuals were roughly split between STRS and SERS. Given this rate, SERS is estimating that there will be approximately 2,000 SERS/STRS members moved. Director Morris said that SERS will provide a summary to the Council when they receive the rest of the information. The Chairman asked if there were any questions. There were none.

Chairman Wachtmann moved to the qualified managers letter. The Chairman noted that he thought everyone was in agreement with the report not being needed anymore. He asked if any of the directors had any comments. Director Nehf asked to clarify if the council was interested in discontinuing the Ohio qualified manager program or just the ORSC reporting requirement. Chairman Wachtmann said that he was open to discussion from other members, but he was suggesting that the report, not the program itself, be discontinued. There were no further comments or questions.

Chairman Wachtmann moved to discuss the systems' opiate abuse prevention programs. The Chairman explained that he brought up this topic due to current debates going on in the General Assembly and his belief that the current standards and safe guards lead to excess prescribing of opiates. He encouraged the directors to examine the current practices in place for their prescription programs. Director Morris noted that Suzanne Martin, SERS Assistant Director of Health Care was available to comment on how SERS addresses the problem. Ms. Martin explained that SERS uses ESI as their pharmacy benefit manager, and ESI is showing that prescriptions are being filled for smaller amounts. She also noted that the major problem is ensuring that the prescriptions are taken by the correct person. Chairman Wachtmann agreed and said that he would like to

see the specific information regarding the report that shows prescriptions being filled for smaller amounts because that would be excellent news.

Ms. Miller noted that insurers charge the same co-pay for a ten-day supply of medication as with a 30-day supply, so doctors write the prescriptions for the 30-day supply to keep the patient from having to pay the co-pay twice. Ms. Miller suggested that in conversations with their respective pharmacy benefit managers, it would be helpful if the systems would mention a co-pay based on the number of pills prescribed. Ms. Martin added that Medicare already follows that practice which can help encourage others to follow suit. The Chairman asked if there were any other questions. There were none.

Chairman Wachtmann moved to a discussion of the STRS 30-year plan. Director Nehf reviewed the letter that was submitted to the Council. Rep. Schuring noted that the valuation of July 1, 2012, indicated a 36 year funding period and that the most recent valuation noted a 40 year period. Rep. Schuring asked Director Nehf if he attributed the increase in unfunded liabilities to the fact that STRS changed their actuary. Director Nehf explained the process of switching actuaries and said that some of the assumptions did affect the unfunded liabilities and noted that he anticipates STRS being at 30-year funding by 2016. Rep. Schuring noted that Director Nehf said that the board was considering several options for bringing the system into a 30-year funding status, but only one was listed in the letter, that of transferring 1% of funds from the healthcare fund to the pension fund. He asked how the funding period for health care would change if this were to go into effect. Director Nehf said that the health care solvency period would be reduced from 50 to 20 years. Rep. Schuring asked what the other options are that the board is considering. Director Nehf said that board authority, mitigating rate, and the quinquennial review were all items being discussed. Rep. Schuring said that while he appreciates the letter submitted to the Council, he noted that it was a report not a board approved plan, as is required under Revised Code 3307.512. He stated that he does not see a "plan" in the letter, only a report. He encouraged the board to comply with Ohio law in the future.

Mr. Morgan thanked Director Nehf for the phone call earlier in the week and asked Director Nehf if there was any change in the smoothing process during the switch to a new actuary. Director Nehf said that there was no change. Mr. Morgan went on to state that he is concerned with the level of dependence the systems have on salary growth assumptions. He asked what the current rate was for STRS, and if there was any change. Director Nehf said that there was temporary reduction of 0.5% for a ten-year period, and then it would pick back up at a 4%. Mr. Morgan encouraged all the system to re-evaluate that salary increase assumption as a more systemic issue affecting liabilities.

Mr. Morgan then pointed out one of the items in the letter that affect both active members and benefit recipients that stated, "Calculating pensions on a fixed formula of 2.2% for all years of service." Mr. Morgan asked what was different

about that. Director Nehf explained that a graduated, increasing formula had been used before pension reform that would result in a greater benefit with 35 years of service. Under the new formula in pension reform the same years of service would consistently provide 2.2% of FAS per year of service. Mr. Morgan noted that the situation with STRS was a good example of what Mr. Fonia had previously reported to the Council, that if a board were unwilling or unable to take corrective action, an automatic adjustment should take effect.

Sen. Burke expressed his concern that an increase in employer contributions to health care would lead to more legislative involvement and responsibility for funding a member's benefit. He suggested that it was better for STRS to fix their own problems instead of having the legislature fix it for them. Sen. Burke remarked that we are at the height of a bull market and that this period could be an anomaly and that the system should be prepared for a bear market. He remarked that he wants to look at a positive future, but that the board is responsible for carrying their own water and proposing a plan that gets them to 30 years, just as OP&F had recently done.

Rep. Ramos remarked that while a 40-year period is bad, he appreciated that STRS is moving in a positive direction with regard to the number of years for the unfunded liabilities. He also pointed out that the Council and the General Assembly had approved S.B. 342 which called for a graduated plan that would not immediately result in 30 years, but that would gradually increase years of service and contribution requirements to achieve 30 years. Rep. Ramos asked where STRS would be if S.B. 342 were to immediately go into effect. Director Nehf said that it would have gotten them a few years. Rep. Ramos asked Director Nehf if it was reasonable to assume that STRS will be at 30 years when S.B. 342 is fully in effect. Director Nehf said yes.

Chairman Wachtmann asked Mr. Bernard to discuss the rules for this month. Mr. Bernard reviewed the rules that were submitted and noted that the STRS rule 3307:1-7-05 was submitted as an emergency rule, but after discussions with ORSC staff was removed as an emergency rule and instead submitted through the normal procedure. He explained that all rules submitted to the ORSC this month are in compliance with the Ohio Revised Code. Chairman Wachtmann thanked Mr. Bernard.

The Chairman asked if there was any new or old business for the Council. Rep. Schuring noted that there are times when the rules submitted have a real effect on people, and the staff and Council need time to review. He went on to say that rules filed as an emergency need to be worthy of that level and used cautiously. Chairman Wachtmann agreed and added that STRS has filed some 20 emergency rules since Thanksgiving. The Chairman questioned the need for those filings and strongly encouraged STRS staff to look into that.

The next ORSC Council meeting was set for April 10th.

The meeting adjourned at 10:18 a.m.

Date approved

Lynn Wachtmann, Chair

Secretary

Shannon Jones, Vice Chair