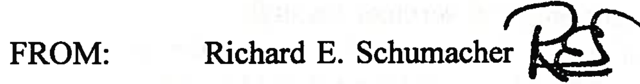
PUBLIC EMPLOYEES RETIREMENT SYSTEM OF OHIO
277 East Town Street, Columbus, Ohio 43215

MEMORANDUM June 26, 1998

TO: Ohio House Health, Retirement and Aging Committee
Ohio Senate Ways and Means Committee
Ohio Retirement Study Council

FROM: Richard E. Schumacher



RE: Reporting requirements under ORC Section 145.22(E)

The following document fulfills the requirements of the Public Employees Retirement System of Ohio as outlined in Ohio Revised Code Section 145.22, Section E. The section and the System's responses follows:

"(E) The board shall have prepared annually a report giving a full accounting of the revenues and costs relating to the provision of benefits under sections 145.325 and 145.58 of the Revised Code. The report shall be made as of December 31, 1997 and the thirty-first day of December of each year thereafter. The report shall include the following:

(1) A description of the statutory authority for the benefits provided;"

Attachments A and B are copies of ORC Sec. 145.325 (Medicare benefits for members of public employees retirement system), and ORC Sec. 145.58 (Group Hospitalization coverage; ineligible individuals; service credit; alternative use of HMO).

"(2) A summary of benefits;"

Following is an outline of the current PERS health care benefits:

The PERS health care plan includes preferred provider organizations which make up a network. Once a recipient is eligible for Medicare, the PERS health care plan becomes secondary to Medicare coverage and network provisions will not apply.

The PERS health care plan benefits include the following: 80 percent of reasonable and customary fees for medical services, and 100 percent hospital coverage; a deductible of $100 per individual, with a maximum

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of $200 per account; and a lifetime maximum benefit of $1,250,000.

Prescription Drug Programs: A drug benefit card program and a mail order prescription drug program are available for qualified recipients.

Alternative Health Care Plans: Alternative health care coverage, HMO's, are available to PERS benefit recipients who reside in an HMO area. An HMO offers hospital and medical services through participating physicians and health care facilities. Coverage under an HMO program is comprehensive and many services are paid in full. Prescription drugs and medicines are covered with a required co-payment. The primary benefit recipient will be responsible for the cost difference in HMO coverage if that cost is more than the basic cost of the PERS health care plan. The cost for dependent coverage also will be the responsibility of the primary benefit recipient.

Medicare Effects on PERS Health Care Coverage: If a PERS benefit recipient is eligible for Medicare Part A (hospital) at no cost, enrollment in that plan through the Social Security Administration is necessary. All persons 65 and older and who are not eligible for Medicare A must submit proof of this fact and substitute coverage will be provided by PERS. If a recipient is eligible for health care coverage, enrollment in Medicare Part B (medical) is necessary when eligibility is reached. Proof of enrollment must be submitted to PERS.

Unless covered by an HMO, a benefit recipient who is enrolled in Medicare B (medical) may use Medicare Direct, in which the health care provider submits the recipient's itemized bill to the Medicare paying agency, who then can submit the medical bills directly to the appropriate claims administrator.

If a benefit recipient is not being reimbursed for Medicare B from another source, PERS needs proof that they are enrolled in Medicare B. PERS then reimburses the recipient for the basic premium cost of coverage as long as the recipient is enrolled; the reimbursement cost is added to the recipient's monthly benefit amount. If a benefit recipient must pay the Medicare B premium to the Medicare Payment Center, the premium may be deducted from the monthly benefit check; PERS will then direct payment to the Medicare Payment Center on behalf of the recipient.

Dental Plan: A dental plan is available to all PERS benefit recipients. It is intended to help defray the costs of dental coverage, including oral examinations, diagnostic services, and extractions, as well as crowns,

bridges, and dentures. If a recipient chooses to be covered under the dental plan, a premium payment will be deducted from each monthly benefit check. Dependents also may be enrolled.

Vision Plan: A plan for vision coverage is available to all PERS benefit recipients regardless of health care coverage. Included are covered amounts for services provided by an ophthalmologist, optometrist, or optician for examinations, frames, and lenses. A premium payment is deducted from each monthly benefit check for those recipients who choose to participate; dependents also may be enrolled if the recipient chooses coverage.

Long Term Care Plan: This is a program in which any PERS benefit recipient, regardless of health care coverage, and their spouses may apply for protection from the expense of long term care. This plan was designed specifically to cover those long term care expenses not covered by the basic hospital/medical coverage you may have, including Medicare. It is intended to provide daily cash benefits when the insured is no longer able to independently perform the activities of daily living.

"(3) A summary of the eligibility requirements for the benefits;"

Following are the current eligibility requirements for the PERS health care plan:

When applying for age and service retirement, a member must have 10 years of Ohio service credit to qualify for the PERS health care plan. These 10 years may not include out-of-state or military service purchased after January 29, 1981; service credit granted under a retirement incentive plan; or exempt service purchased after May 4, 1992. If a member retires, chooses a joint and survivor annuity plan of payment (Plan A, C or D) and dies, the beneficiary will be entitled to health care coverage if the deceased retiree was eligible for health care coverage. If an individual is receiving a disability benefit, health care coverage is provided regardless of years of service credit.

If a member dies before retirement, health care coverage also will be available to survivors receiving monthly benefits regardless of the member's years of service credit.

Eligible dependents may be covered. These include the member's spouse; unmarried child(ren) under age 18, or under age 22 if attending school and dependent on the benefit recipient's support; and a dependent

child, regardless of age, who has a physical or mental handicap, is unable to earn a living, and became incapacitated prior to age 18 (or 22 if attending school).

"(4) A statement of the number of participants eligible for the benefits;"

As of December 31, 1997, there were 119,810 benefit recipients eligible for health care coverage. The number of eligible dependents cannot be determined, but as of December 31, 1997, 35,270 dependents were covered by a PERS health care plan.

"(5) A description of the accounting, asset valuation, and funding method used to provide the benefits;"

PERS utilizes an accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period they are earned and become measurable. Under this method, PERS estimates health care claims which have been incurred at year end, but which are not yet known to the Retirement System.

Plan investments are carried at fair value. Fair value is, "the amount that a plan can reasonable expect to receive for an investment in a current sale between a willing buyer and a wiling seller that is, other than in a forced liquidation sale." Short term investments are reported at amortized cost which approximates fair value. All other investments are valued at market value with the exception of real estate, which is based on estimated current values and independent appraisals.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to health care expenses. Under this new method, employer contributions equal to 4.2% of covered payroll are used to fund health care costs. These contributions along with investment income on allocated assets and periodic adjustments in health care provisions are expected to sufficient to sustain the program indefinitely.

"(6) A statement of the net assets available for the provision of the benefits as of the last day of the fiscal year;"

Please see Attachment C, "Statements of Plan Net Assets - Health Care".

"(7) A statement of any changes in the net assets available for the provision of benefits, including participant and employer contributions, net investment income, administrative expenses, and benefits provided to participants, as of the last day of the fiscal year;"

Please see Attachment D, "Statements of Changes in Plan Net Assets - Health Care".

"(8) For the last six consecutive fiscal years, a schedule of the net assets available for the benefits, the annual cost of benefits, administrative expenses incurred, and annual employer contributions allocated for the provision of benefits;"

Please see Attachment C, "Statements of Plan Net Assets - Health Care". The accounting of fair value of investments began in 1993; therefore 1992 is not included. Our report for next year will present six consecutive fiscal years.

"(9) A description of any significant changes that affect the comparability of the report required under this division."

No significant changes affect these reports.

Sec. 145.325 Medicare benefits for members of public employees retirement system

(A) Except as otherwise provided in division (B) of this section, the board of the public employees retirement system shall make available to each retirant or disability benefit recipient receiving a monthly allowance or benefit on or after January 1, 1968, who has attained the age of sixty-five years, and who is not eligible to receive hospital insurance benefits under the federal old age, survivors, and disability insurance program, hospital insurance coverage substantially equivalent to the federal hospital insurance benefits, Social Security Amendments of 1965, 79 Stat. 291, 42 U.S.C.A. 1395c, as amended. This coverage shall also be made available to the spouse, widow, or widower of such retirant or disability benefit recipient provided such spouse, widow, or widower has attained age sixty-five and is not eligible to receive hospital insurance benefits under the federal old age, survivors, and disability insurance program. The widow or widower of a retirant or disability benefit recipient shall be eligible for such coverage only if he or she is the recipient of a monthly allowance or benefit from this system. One-half of the cost of the premium for the spouse shall be paid from the appropriate funds of the public employees retirement system and one-half by the recipient of the allowance or benefit.

The cost of such coverage, paid from the funds of the system, shall be included in the employer's rate provided by sections 145.48, 145.49, and 145.50 of the Revised Code. The retirement board is authorized to make all necessary rules pursuant to the purpose and intent of this section, and shall contract for such coverage as provided in section 145.58 of the Revised Code.

(B) The board need not make the hospital insurance coverage described in division (A) of this section available to any person for whom it is prohibited by section 145.58 of the Revised Code from paying or reimbursing the premium cost of such insurance.

(ENACTED: HB 402, Eff. 12/14/67; HB 1, Eff. 6/13/75; HB 1, Eff. 8/26/77; HB 126, Eff. 6/13/81; SB 346, Eff. 7/29/92)

Sec. 145.58 Group hospitalization coverage; ineligible individuals; service credit; alternative use of HMO

(A) As used in this section, "ineligible individual" means all of the following:

(1) A former member receiving benefits pursuant to section 145.32, 145.33, 145.331, 145.34, or 145.46 of the Revised Code for whom eligibility is established more than five years after June 13, 1981, and who, at the time of establishing eligibility, has accrued less than ten years' service credit, exclusive of credit obtained pursuant to section 145.297 or 145.298 of the Revised Code, credit obtained after January 29, 1981, pursuant to section 145.293 or 145.301 of the Revised Code, and credit obtained after May 4, 1992, pursuant to section 145.28 of the Revised Code;

(2) The spouse of the former member;

(3) The beneficiary of the former member receiving benefits pursuant to section 145.46 of the Revised Code.

(B) The public employees retirement board may enter into agreements with insurance companies, health insuring corporations, or government agencies authorized to do business in the state for issuance of a policy or contract of health, medical, hospital, or surgical benefits, or any combination thereof, for those individuals receiving age and service retirement, or a disability or survivor benefit subscribing to the plan, or for PERS retirants employed under section 145.38 of the Revised Code, for coverage of benefits in accordance with division (D)(4)(b) of section 145.38 of the Revised Code. Notwithstanding any other provision of this chapter, the policy or contract may also include coverage for any eligible individual's spouse and dependent children and for any of the individual's sponsored dependents as the board determines appropriate. If all or any portion of the policy or contract premium is to be paid by any individual receiving age and service retirement or a disability or survivor benefit, the individual shall, by written authorization, instruct the board to deduct the premium agreed to be paid by the individual to the company, corporation, or agency.

The board may contract for coverage on the basis of part or all of the cost of the coverage to be paid from appropriate funds of the public employees retirement system. The cost paid from the funds of the system shall be included in the employer's contribution rate provided by sections 145.48 and 145.51 of the Revised Code. The board may by rule provide coverage to ineligible individuals if the coverage is provided at no cost to the retirement system. The board shall not pay or reimburse the cost for coverage under this section or section 145.325 of the Revised Code for any ineligible individual.

The board may provide for self-insurance of risk, or level of risk as set forth in the contract with the companies, corporations, or agencies, and may provide through the self-insurance method specific benefits as authorized by rules of the board.

(C) If the board provides health, medical, hospital, or surgical benefits through any means other than a health insuring corporation, it shall offer to each individual eligible for the benefits the alternative of receiving benefits through enrollment in a health insuring corporation, if all of the following apply:

(1) The health insuring corporation provides services in the geographical area in which the individual lives;

(2) The eligible individual was receiving health care benefits through a health maintenance organization or a health insuring corporation before retirement;

(3) The rate and coverage provided by the health insuring corporation to eligible individuals is comparable to that currently provided by the board under division (B) of this section. If the rate or coverage provided by the health insuring corporation is not comparable

to that currently provided by the board under division (B) of this section, the board may deduct the additional cost from the eligible individual's monthly benefit.

The health insuring corporation shall accept as an enrollee any eligible individual who requests enrollment.

The board shall permit each eligible individual to change from one plan to another at least once a year at a time determined by the board.

(D) The board shall, beginning the month following receipt of satisfactory evidence of the payment for coverage, pay monthly to each recipient of service retirement, or a disability or survivor benefit under the public employees retirement system who is eligible for medical insurance coverage under part B of Title XVIII of "The Social Security Act," 79 Stat. 301 (1965), 42 U.S.C.A. 1395j, as amended, an amount equal to the basic premium for such coverage, except that the board shall make no such payment to any ineligible individual.

(E) The board shall establish by rule requirements for the coordination of any coverage, payment, or benefit provided under this section or section 145.325 of the Revised Code with any similar coverage, payment, or benefit made available to the same individual by the police and firemen's disability and pension fund, state teachers retirement system, school employees retirement system, or state highway patrol retirement system.

(F) The board shall make all other necessary rules pursuant to the purpose and intent of this section.

(ENACTED: SB 256, Eff. 10/14/59; HB 957, Eff. 10/27/61; HB 225, Eff. 11/13/65; HB 430, Eff. 11/20/73; HB 268, Eff. 8/20/76; HB 1, Eff. 8/26/77; HB 126, Eff. 6/13/81; HB 236, Eff. 2/2/82; HB 631, Eff. 3/28/85; HB 706, Eff. 12/16/86; SB 124, Eff. 10/1/87; HB 382, Eff. 6/30/91; HB 383, Eff. 5/4/92; SB 346, Eff. 7/29/92; HB 151, Eff. 2/9/94; SB 82, Eff. 3/6/97; SB 67, Eff. 6/4/97)

Attachment C

STATEMENTS OF PLAN NET ASSETS
HEALTH CARE

	1997	1996	1995	1994	1993
Assets					
Cash and Short-Term Investment	$487,746,980	$499,169,867	$353,600,557	$542,600,044	$1,151,589,031
		499,169,867	353,600,557	542,600,044	1,151,589,031
Receivables:					
Employers'	21,388,190	24,240,915	24,624,841	23,659,125	40,084,469
Retirement Incentive Plan	3,829,808	3,527,193	1,706,491	1,345,457	5,289,767
Investment Sales Proceeds	46,184,481	1,971,383	10,817,145		624,837
Accrued Interest and Dividends	51,018,811	46,742,776	60,681,581	61,424,582	60,848,815
Total Receivables	122,421,290	76,482,267	97,830,058	86,429,164	106,847,888
Investments, at fair value:					
Bonds	3,031,100,715	3,035,272,679	3,789,626,044	3,400,706,772	3,863,062,372
Mortgage Backed	1,115,901,122	1,025,311,866	759,843,916	853,676,132	53,710,998
Stocks	2,580,763,906	2,059,686,377	1,712,462,199	1,040,228,479	752,053,110
Real Estate	609,166,124	518,242,690	483,534,455	406,770,132	302,815,364
Venture Capital	6,485,887	4,977,458	5,411,920	3,378,445	3,151,091
International Securities	207,407,199	160,034,275	44,731,309	6,540,762	
Collateral on Loaned Securities	944,925,686	2,013,574,900	1,557,133,046	2,025,404,461	
Total Investments	8,495,750,639	8,817,100,245	8,352,742,889	7,736,705,183	4,974,792,935
Fixed Assets:					
Land	307,514	316,739	336,898	356,495	352,195
Building and Building Improvements	3,282,978	3,366,657	3,484,318	3,636,156	3,501,974
Furniture, Fixtures and Equipment	2,953,821	2,803,422	2,782,978	2,609,631	2,437,782
	6,544,313	6,486,818	6,604,194	6,602,282	6,291,951
Accumulated Depreciation	(2,438,487)	(2,153,523)	(2,058,796)	(1,858,991)	(1,543,525)
TOTAL FIXED ASSETS	4,105,826	4,333,295	4,545,398	4,743,291	4,748,426
Prepaid Expenses and Other	12,714,410	600,084	521,589	463,160	401,891
TOTAL ASSETS	9,122,739,145	9,397,685,758	8,809,240,491	8,370,940,842	6,238,380,171
Liabilities:					
Undistributed Deposits	689,534	1,175,971	1,248,435	818,504	4,766,162
Medical Benefits Payable	44,621,490	49,130,163	49,190,177	41,355,923	43,942,630
Investment Commitments Payable	7,962,109	1,685,348	5,915,470	7,124,451	2,669,078
Accrued Administrative Expenses	1,148,310	996,534	880,932	842,692	735,535
Obligations Under Securities Lending	944,925,686	2,013,574,900	1,557,133,046	2,025,404,461	
TOTAL LIABILITIES	999,347,129	2,066,562,916	1,614,368,060	2,075,546,031	52,113,405
Net Assets held in trust for pension and postemployment healthcare benefits	$8,123,392,016	$7,331,122,842	$7,194,872,431	$6,295,394,811	$6,186,266,766

STATEMENTS OF CHANGES IN PLAN NET ASSETS
HEALTH CARE

	1997	1996	1995	1994	1993
Additions:					
Contributions:					
Members'					
Employers'	$422,152,429	$403,816,027	$381,803,227	$371,768,137	$349,134,791
TOTAL CONTRIBUTIONS	422,152,429	403,816,027	381,803,227	371,768,137	349,134,791
Investment Income:					
Net Appreciation (Depreciation) in fair value of Investments	370,211,565	223,614,062	603,341,894	(335,838,310)	231,255,412
Bond Interest	285,716,854	250,836,769	212,206,050	338,940,321	252,635,261
Dividends	45,080,119	33,889,761	29,152,640	30,278,070	29,612,126
Real Estate Operating Income, net	60,159,183	41,976,169	27,318,784	31,826,019	22,940,605
Securities Lending Income	1,727,809	1,082,848	1,404,426	1,011,109	
	762,895,530	104,171,485	873,423,794	66,217,209	536,443,404
Less Investment Expenses	(1,005,080)	798,761	(593,144)	433,624	396,108
Net Investment Income (Loss)	761,890,450	103,372,724	872,830,650	65,783,585	536,047,296
Other Income					
TOTAL ADDITIONS	1,184,042,879	507,188,751	1,254,633,877	437,551,722	885,182,087
Deductions:					
Benefits	389,845,273	369,213,858	353,685,547	327,578,426	307,001,902
Refunds of Contributions					
Administrative Expenses	1,928,432	1,724,482	1,470,710	845,251	1,319,547
TOTAL DEDUCTIONS	391,773,705	370,938,340	355,156,257	328,423,677	308,321,449
Net Increase	792,269,174	136,250,411	899,477,620	109,128,045	576,860,638
Net assets held in trust for pension and postemployment healthcare benefits:					
Balance, Beginning of Year (as restated)	7,331,122,842	7,194,872,431	6,295,394,811	6,186,266,766	5,609,406,128
BALANCE END OF YEAR	$8,123,392,016	$7,331,122,842	$7,194,872,431	$6,295,394,811	$6,186,266,766

Attachment D