SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
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HELEN M. NINOS
Interim Executive Director

December 22, 2016

John Carey, Chancellor
Ohio Department of Higher Education
25 South Front Street
Columbus, OH 43215

Re: ARP Mitigating Rate

Dear Chancellor Carey,

As you may know, Am. Sub. H.B. 520, an omnibus public pension clean-up bill, passed the Ohio General Assembly on Dec. 8, 2016 and is currently being prepared for the Governor's approval.

We expect the legislation to become effective in March, 2017.

The legislation contains new provisions for OPERS, STRS and SERS regarding the calculation of a mitigating rate for alternative retirement plans being offered at institutions of higher education.

The new provisions require the systems to submit an "initial report" concerning the actuarial calculation of these rates to your office by December 31, 2016.

Attached please find SERS' initial report as required by the legislation. It is a letter from SERS' consulting actuary, Cavanaugh Macdonald, and is dated June 28, 2016.

Also attached for your convenience is SERS' language in the bill, in 3309.212(B).

If we can assist you with any additional information regarding this filing, please don't hesitate to contact me.

Thank you, and happy holidays from SERS.

Sincerely,

Helen M. Ninos

Helen M. Ninos
Interim Executive Director

Attachments

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

June 28, 2016

Ms. Lisa Morris
Executive Director
School Employees Retirement System of Ohio
300 East Broad Street, Suite 100
Columbus, OH 43215-3746

Subject: HB 520

Dear Lisa:

As requested, we have determined the impact of HB 520 on the School Employees Retirement System of Ohio.

Background

HB 520 changes certain provisions of the System. They are:

1. Establishes a formula for calculating 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), State Teachers Retirement System (STRS), or School Employees Retirement System (SERS) to mitigate any financial impact of the ARP on the retirement system and specifies that the percentage is ¼ of the percentage calculated, not exceeding 4.50%.
2. Eliminates provisions under which a PERS, STRS, or SERS member who earns service credit in more than one system during the same time period receives partial credit from each system in which credit is earned.
3. Removes a membership determination for members who do not, and will never, exist at certain community (charter) schools.
4. Establishes conditions for a SERS member to elect a purchase or transfer of service credit from Ohio Police & Fire Pension Fund or State Highway Patrol Retirement System to SERS, and between SERS and the Cincinnati Retirement System.

Data, Methods and Assumptions

The data, methods and assumptions used to determine the impact of HB 520 are the same as those used in the June 30, 2015 valuation, as revised to reflect the recommendations of the Experience Study for the Five-Year Period ending June 30, 2015. In particular, the assumed investment rate of return is 7.50% and the assumed rate of active payroll growth is 3.50%.

1. ARP Mitigating Rate

Continuing law permits a full-time employee of a public institution of higher education to elect to participate in an ARP rather than SERS. Each ARP must be a defined contribution plan that provides retirement and death benefits through a number of investment options. An educational institution must contribute a percentage of the compensation of an employee electing to participate in an ARP to SERS that would otherwise cover the employee. This contribution, referred to as the "mitigating rate," is to offset any negative financial impact of the ARP on SERS.

HB 520 replaces current law with a different method for calculating the mitigating rate. It requires SERS to contract with an independent actuary to complete an actuarial study to determine the mitigating rate for ARP's based on the formula detailed in HB 520. The initial study must be completed and submitted to the Department of Higher Education no later than December 31, 2016. Each subsequent study must be completed and submitted no later than December 31st of every fifth year. In order to perform the calculation, the actuary shall use the most recent annual actuarial valuation.

The ARP Mitigating Rate calculation is shown in Exhibit A. The current mitigating rate payable by employers of full-time employees of public institutions of higher education who elect to participate in an ARP is 6.00% of compensation. The mitigating rate based on the methodology prescribed in HB 520 is 3.48% of compensation. This is a reduction of 2.52%. Based on the estimated payroll, revenue will decline by approximately $322,500 in the first year, with this amount growing with our payroll growth assumption of 3.50% in each future year.

2. Elimination of Concurrent Service Credit

A PERS, STRS, or SERS member who has contributions and service credit in two or more of those retirement systems may retire separately under each system or have service credit earned in all the systems combined to determine eligibility for a retirement or disability benefit, and the benefit amount from a single retirement system. A member who chooses to retire separately under multiple retirement systems receives partial credit in each retirement system apportioned on the basis of the ratio of contributions to the system from which the member is retiring to the total contributions for any period during which there was service covered by more than one system. HB 520 eliminates the partial service credit earned on a concurrent basis.

This change is expected to have no measurable impact on SERS.

3. Community School Employees in SERS

Current statute dictates that a non-teaching community school employee is excluded from SERS if the school's operator withheld and paid Social Security taxes on behalf of its employees on or before February 1, 2016, and either of the following is the case:

1. The employee is initially employed by the operator on or after July 1, 2016 and has Social Security taxes withheld beginning with the first paycheck after the employee commences employment;
2. The employee is a former employee of a community school operator and is reemployed by the same operator on or after July 1, 2016 and has Social Security taxes withheld beginning with the first paycheck after the former employee commences reemployment.

Paragraph number 2 above does not apply to a former employee of a community school operator who was employed by the same operator at any time between July 1, 2015 to June 30, 2016, and whose date of reemployment is before July 1, 2017.

The proposed change in HB520 removes a membership determination for individuals that do not exist due to existing language in R.C. 3309.013 making the statute applicable only to community school operators who withheld Social Security taxes on or before February 1, 2016. The amendment removes a provision that had no effect as the specified individuals do not, and will not, ever exist.

4. Purchase or transfer of credit from Ohio Police & Fire Pension Fund (OP&F), State Highway Patrol Retirement System (SHPRS) or Cincinnati Retirement System (CRS)

HB 520 establishes conditions for a SERS member to purchase or transfer service credit from OP&F or SHPRS to SERS and between SERS and CRS. A SERS member who has contributed to OP&F, SHPRS or CRS is permitted to have contributions and service credit transferred to SERS, or if the member received a refund of contributions from one of those systems, the purchase of SERS service credit for service under that system. In addition, CRS members with contributions in SERS may transfer those contributions and service credit to CRS.

HB 520 permits a member to purchase the credit or have the contributions and service credit transferred only if all the following conditions are met:

1. The amount of the member's current service credit is greater than the amount of credit that will be transferred.
2. The member is eligible, or with the credit will be eligible, for a retirement or disability benefit.
3. The member agrees to retire or accept a disability benefit no later than 90 days after receiving notice from SERS that the credit has been obtained.

<u>This change is expected to have no measurable impact on SERS.</u>

Certification

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

Sincerely,

Todd B. G

Todd Green, ASA, FCA, MAAA
Principal and Consulting Actuary

TBG:tbg

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School Employees Retirement System of Ohio

Exhibit A

The calculation of the ARP Mitigating Rate is demonstrated below:

Mitigating Rate Illustration			
1.	6/30/2015 UAAL		$ 6,551,490,056
2.	Cumulative ARP Contributions		7,336,635
3.	Cumulative UAAL Contributions		12,090,313
4.	Historical Liability		4,753,678
5.	12/31/2015 Remaining UAL		6,546,736,378
6.	2015 ARP Payroll		12,364,498
7.	2015 SERS Payroll		2,845,443,802
8.	Total 2015 ARP + SERS Payrolls		2,857,808,300
9.	Compensation Ratio		0.43%
10.	ARP % of Row 5		28,150,966
11.	Estimated (Est) 2016 ARP Payroll	6. x 1.035	12,797,255
12.	Perpetual Amortization Factor		25.9206
13.	30 - Year Amortization Factor		17.6106
14.	Perpetual Amortization of Row 4.	4. / 12. / 11.	1.43%
15.	30-Year Amortization of Row 10.	10. / 13. / 11.	12.49%
16.	Computed Mitigating Rate	14. + 15.	13.92%
17.	Basic Mitigating Rate	16. x 0.25	3.48%
18.	Maximum Mitigating Rate		4.50%
19.	**Final Mitigating Rate**	**min(17.,18.)**	**3.48%**

operator that was withholding and paying employee and employer taxes pursuant to 26 U.S.C. 3101(a) and 3111(a) on or before February 1, 2016, for persons employed in the school.

Sec. 3309.212. (A) As used in this section:

(1) "Compensation" has the same meaning as in section 3309.01 of the Revised Code except that in the case of an electing employee, "compensation" means the amount that would be the electing employee's compensation if the electing employee was a member of the retirement system.

(2) "Compensation ratio" means the ratio for the most recent full fiscal year for which the information is available of the total compensation of all electing employees to the sum of the total compensation of all the retirement system's members in the system's defined benefit plan and the total compensation of all electing employees.

(3) "Electing employee" means a participant in an alternative retirement plan provided pursuant to Chapter 3305. of the Revised Code who would otherwise be a member of the retirement system.

(4) "Historical liability" means the portion of the retirement system's total unfunded actuarial accrued pension liability attributed to the difference between the following:

(a) The cumulative contributions received under division (D) of section 3305.06 of the Revised Code on behalf of electing employees since the establishment of the alternative retirement plan;

(b) The cumulative contributions toward the unfunded actuarial accrued liability of the retirement system that would have been made if the electing employees had been members of the retirement system in the system's defined benefit plan.

(B) The school employees retirement board shall contract with an independent actuary to complete an actuarial study to determine the percentage of an electing employee's compensation to be contributed by a public institution of higher education under division (D) of section 3305.06 of the Revised Code. The initial study must be completed and submitted by the board to the department of higher education not later than December 31, 2016. A subsequent study must be completed and submitted not later than the last day of December of every fifth year thereafter.

(C) For the initial study required under this section, the actuary shall determine the percentage described in division (B) of this section as follows:

(1) The actuary shall calculate a percentage necessary to amortize the historical liability over an indefinite period.

(2) The actuary shall calculate a percentage necessary to amortize over a thirty-year period the amount resulting from multiplying the compensation ratio by the difference between the following:

(a) The unfunded actuarial accrued pension liability of the defined benefit plan;

(b) The historical liability.

(3) The percentage to be contributed under division (D) of section 3305.06 of the Revised Code shall be one-fourth of the sum of the percentages calculated under divisions (C)(1) and (2) of this section, not to exceed four and one-half per cent.

(4) To make the calculations and determinations required

under divisions (C)(1) and (2) of this section, the actuary shall use the most recent annual actuarial valuation under section 3309.21 of the Revised Code that is available at the time the study is conducted.

(D) For any study conducted after the initial study required under this section, the actuary shall determine the percentage described in division (B) of this section as follows:

(1) The actuary shall calculate a percentage necessary to amortize over a thirty-year period the amount resulting from multiplying the compensation ratio by the difference between the following:

(a) The unfunded actuarial accrued pension liability of the retirement system's defined benefit plan under the annual actuarial valuation under section 3309.21 of the Revised Code that is most recent at the time the study is conducted;

(b) The historical liability determined under division (C) of this section.

(2) The percentage to be contributed under division (D) of section 3305.06 of the Revised Code shall be one-fourth of the sum of the percentages calculated under divisions (C)(1) and (D)(1) of this section but not less than one-fourth of the percentage determined under division (C)(1) of this section, except that the percentage shall not exceed four and one-half per cent.

Sec. 3309.30. For service subsequent to June 30, 1955, the retirement board shall credit a year of service credit to any member employed on a full-time basis for nine or more months of service within a year. For contributing and prior service before July 1, 1955 only eight or more months of service on a full-time