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

June 30, 2001

MEMORANDUM

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

FROM: Laurie Fiori Hacking, Executive Director Laurie Fiori Hacking

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 (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

The PERS health care plan utilizes Preferred Provider Organizations which make up a network. This PPO network is a partnership between doctors, hospitals, PERS, and our benefit recipients as patients. The design of the PERS plan encourages the use of PPO providers, but benefit recipients may choose any provider and still receive benefits. Once a recipient is eligible for Medicare, the PERS health care plan becomes

secondary to Medicare coverage. Once this occurs, benefit recipients will receive the maximum level of coverage regardless of whether or not they use a PPO provider.

Under the PERS health care plan, the following benefits are available to members utilizing networks, living outside of a network area, or who are eligible for Medicare: 80 percent of reasonable and customary fees for medical services and 100 percent hospital coverage. A calendar year deductible of $100 per individual, or $200 per household also applies. There is a lifetime maximum benefit of $2,500,000.

PERS members living in a network state and not eligible for Medicare receive the following benefits if they do not choose network providers of service: 70 percent of reasonable and customary fees for medical and hospital coverage (unless an emergency). A calendar year deductible of $150 per individual or $300 per household applies. The lifetime maximum benefit is $2,500,000 regardless of network usage.

Alternate Health Care Coverage

Alternative health care coverage, HMOs, 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 generally more comprehensive than coverage provided by the PERS plan. Benefit recipients are 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 will also be the responsibility of the primary benefit recipient.

Prescription Drug Coverage

Prescription drug coverage is available for benefit recipients and their covered dependents. A 34 day supply of medications is covered when the purchase is made at a network retail pharmacy. 120 days of medication is covered under the mail service plan. Co-payments are designed to encourage use of generic products. The prescription drug program is available to members covered by both traditional and alternative health care plans.

Medicare

If a PERS benefit recipient is eligible for Medicare Part A (hospital) at no cost, enrollment is necessary. PERS will provide comparable substitute coverage for benefit recipients who are over age 65 and not eligible for Medicare A. In order to receive this substitute coverage, benefit recipients must submit a letter from Social Security indicating their ineligibility for free Medicare A.

If a benefit recipient is eligible for health care coverage, enrollment in Medicare Part B (medical) is necessary when eligibility is reached. When a benefit recipient or covered spouse reaches the age of 65, PERS requests a copy of the benefit recipient's (or spouse's) Medicare card showing part B coverage.

Unless covered by an HMO, a benefit recipient who is enrolled in Medicare B (medical) may use Medicare Direct. Currently, the Medicare Direct program is available in certain states and covers Medicare B covered charges only. In the case of Medicare Direct, the health care provider of services mails a claim to the Medicare paying agency. The agency makes a payment and forwards the remainder of the bill (along with a Medicare explanation of benefits) to the PERS health plan administrator.

PERS reimburses Medicare B premiums if a benefit recipient is not being reimbursed from another source. In order to receive this reimbursement, the benefit recipient must send a copy of his or her Medicare card, showing enrollment in Part B. As long as the benefit recipient remains enrolled the reimbursement is added to the recipient's monthly benefit amount. If a benefit recipient must pay the Medicare B premium to the Social Security Administration directly, he or she may ask PERS to make a payment to Social Security, rather than having the amount added to his or her pension check.

The Dental Plan

Dental coverage is available to all PERS benefit recipients regardless of health care coverage. 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 if the recipient chooses coverage.

The Vision Plan

Vision coverage is also available to all PERS benefit recipients regardless of health care coverage. This plan includes 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.

The Long Term Care Plan

This is a program in which any PERS benefit recipient, regardless of health care coverage, his or her spouse, adult children, parents and parents-in-law 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, 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 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, 2000, there were 120,527 benefit recipients eligible for health care coverage. As of December 31, 2000, 45,193 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 willing 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.

In 1997, the Retirement Board adopted a calculation method for determining employer contributions applied to health care expenses in which employer contributions equal to 4.2 percent of covered payroll were used to fund health care costs. This was raised to 4.3 percent in 2000.

Health care costs have risen in excess of assumed levels over the past few years. Continued unfavorable experience in the retiree health plan over an extended period of time could produce a need to modify plan design and or increase health care contributions to the fund.

(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 D, "Statements of Changes in Plan Net Assets - Health Care".

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

The Retirement Board made a one-time employer contribution rate rollback for calendar year 2000. However, health care funding was not affected by this rollback. The percentage of the employer contribution rate used to fund healthcare, for all divisions, was increased to 4.3 percent for 2000 from 4.2 percent for 1999.

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 section 145.48 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; HB 628, 9/21/00)

Sec. 145.58 Group hospitalization coverage; ineligible individuals; service credit; alternative use of HMO *(Effective beginning 4/1/01)*

(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)(2) 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 Ohio police and fire 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; HB 222, Eff. 11/2/99; HB 535, Eff. 4/1/01)

Attachment C

STATEMENTS OF PLAN NET ASSETS

HEALTH CARE

	2000	1999	1998	1997	1996	1995	1994
Assets							
Cash and Short Term Investment	$299,551,036	$193,521,934	$471,335,326	$487,746,980	$499,169,867	$353,600,557	$542,600,044
Receivables:							
Employers'	$20,915,187	$27,145,428	$29,510,057	$21,388,190	$24,240,915	$24,624,841	$23,659,125
Retirement Incentive Plan	$3,721,569	$2,777,067	$2,964,960	$3,829,808	$3,527,193	$1,706,491	$1,345,457
Investment Sales Proceeds	$26,467,886	$117,162	$86,793,714	$46,184,481	$1,971,383	$10,817,145	
Accrued Interest and Dividends	$46,815,613	$46,415,084	$52,727,381	$51,018,811	$46,742,776	$60,681,581	$61,424,582
Total Receivables	$97,920,255	$76,454,741	$171,996,112	$122,421,290	$76,482,267	$97,830,058	$86,429,164
Investments, at fair value:							
Bonds	$2,134,491,585	$2,162,313,014	$2,795,959,387	$3,031,100,715	$3,035,272,679	$3,789,626,044	$3,400,706,772
Mortgage & Mortgage Backed	$1,493,537,925	$1,429,145,862	$1,413,860,311	$1,115,901,122	$1,025,311,866	$759,843,916	$853,676,132
Stocks	$3,850,714,985	$3,911,196,263	$3,805,758,533	$2,580,763,906	$2,059,686,377	$1,712,462,199	$1,040,228,479
Real Estate	$1,046,691,262	$1,118,361,190	$930,135,999	$609,166,124	$518,242,690	$483,534,455	$406,770,132
Venture Capital	$16,733,040	$18,111,104	$8,565,060	$6,485,887	$4,977,458	$5,411,920	$3,378,445
International Securities	$2,045,814,900	$2,287,215,780	$477,774,232	$207,407,199	$160,034,275	$44,731,309	$6,540,762
Collateral on Loaned Securities			$1,135,559,244	$944,925,686	$2,013,574,900	$1,557,133,046	$2,025,404,461
Total Investments	$10,587,983,697	$10,926,343,213	$10,567,612,766	$8,495,750,639	$8,817,100,245	$8,352,742,889	$7,736,705,183
Collateral on Loaned Securities	$799,148,208	$865,608,588					
Fixed Assets:							
Land	$717,831	$724,575	$723,204	$307,514	$316,739	$336,898	$356,495
Building and Building Improvements	$6,016,564	$3,868,237	$3,657,787	$3,282,978	$3,366,657	$3,484,318	$3,636,156
Furniture, Fixtures, and Equipment	$5,357,308	$4,428,341	$3,784,916	$2,953,821	$2,803,422	$2,782,978	$2,609,631
	$12,091,703	$9,021,153	$8,165,907	$6,544,313	$6,486,818	$6,604,194	$6,602,282
Accumulated Depreciation	($3,644,071)	($3,384,156)	($3,014,820)	($2,438,487)	($2,153,523)	($2,058,796)	($1,858,991)
Total Fixed Assets	$8,447,632	$5,636,997	$5,151,087	$4,105,826	$4,333,295	$4,545,398	$4,743,291
Prepaid Expenses and Other	$18,677,709	$15,985,801	$14,580,242	$12,714,410	$600,084	$521,589	$463,160
TOTAL ASSETS	$11,811,728,537	$12,083,551,274	$11,230,675,533	$9,122,739,145	$9,397,685,758	$8,809,240,491	$8,370,940,842
Liabilities:							
Undistributed Deposits	$477,657	$251,682	$110,336	$689,534	$1,175,971	$1,248,435	$818,504
Medical Benefits Payable	$41,684,800	$53,846,033	$46,398,790	$44,621,490	$49,130,163	$49,190,177	$41,355,923
Investment Commitments Payable	$4,259,704		$36,238,584	$7,962,109	$1,685,348	$5,915,470	$7,124,451
Accrued Administrative Expenses	$728,799	$631,714	$528,321	$1,148,310	$996,534	$880,932	$842,692
Obligations Under Securities Lending	$799,148,208	$865,608,588	$1,135,559,244	$944,925,686	$2,013,574,900	$1,557,133,046	$2,025,404,461
TOTAL LIABILITIES	$846,299,168	$920,338,017	$1,218,835,275	$999,347,129	$2,066,562,916	$1,614,368,060	$2,075,546,031
Net assets held in trust for pension and post-employment health care benefits	$10,965,429,369	$11,163,213,257	$10,011,840,228	$8,123,392,016	$7,331,122,842	$7,194,872,431	$6,295,394,811

Attachment D

Statements Of Changes In Plan Net Assets
Health Care

	2000	1999	1998	1997	1996	1995	1994
Additions:							
Contributions:							
Members'							
Employers'	$452,867,242	$392,459,727	$379,761,098	$422,152,429	$403,816,027	$381,803,227	$371,768,137
TOTAL CONTRIBUTIONS	$452,867,242	$392,459,727	$379,761,098	$422,152,429	$403,816,027	$381,803,227	$371,768,137
Investment Income:							
Net Appreciation in Fair Value of Instruments	($546,918,282)	$888,386,350	$1,593,731,660	$370,211,565	($223,614,062)	$603,341,894	($335,838,310)
Bond Interest	$284,384,050	$254,543,745	$250,812,003	$285,716,854	$250,836,769	$212,206,050	$338,940,321
Dividends	$90,565,240	$69,366,846	$49,322,412	$45,080,119	$33,889,761	$29,152,640	$30,278,070
Real Estate Operating Income, net	$82,658,021	$71,472,483	$56,358,214	$60,159,183	$41,976,169	$27,318,784	$31,826,019
Securities Lending Income	$37,328,394	$29,062,059	$2,476,890	$1,727,809	$1,082,848	$1,404,426	$1,011,109
	($51,982,577)	$1,312,831,483	$1,952,701,179	$762,895,530	$104,171,485	$873,423,794	$66,217,209
Less: Investment Expenses	($37,183,505)	($28,561,474)	($1,698,418)	($1,005,080)	($798,761)	($593,144)	($433,624)
Net Investment Income	($89,166,082)	$1,284,270,009	$1,951,002,761	$761,890,450	$103,372,724	$872,830,650	$65,783,585
TOTAL ADDITIONS	$363,701,160	$1,676,729,736	$2,330,763,859	$1,184,042,879	$507,188,751	$1,254,633,877	$437,551,722
Deductions:							
Benefits	$559,606,294	$523,599,349	$440,596,663	$389,845,273	$369,213,858	$353,685,547	$327,578,426
Refunds of Contributions							
Administrative Expenses	$1,878,754	$1,757,358	$1,718,984	$1,928,432	$1,724,482	$1,470,710	$845,251
TOTAL DEDUCTIONS	$561,485,048	$525,356,707	$442,315,647	$391,773,705	$370,938,340	$355,156,257	$328,423,677
Net Increase	($197,783,888)	$1,151,373,029	$1,888,448,212	$792,269,174	$136,250,411	$899,477,620	$109,128,045
Net assets held in trust for pension and Postemployment health care benefits:							
Balance, Beginning of Year (as restated)	$11,163,213,257	$10,011,840,228	$8,123,392,016	$7,331,122,842	$7,194,872,431	$6,295,394,811	$6,186,266,766
BALANCE, END OF YEAR	$10,965,429,369	$11,163,213,257	$10,011,840,228	$8,123,392,016	$7,331,122,842	$7,194,872,431	$6,295,394,811