NOTICE

1. The Health Care Committee will meet on **Tuesday, August 20, 2019 at 9:00 a.m.** in the offices of the Board.

2. The **OPERS Board** will meet on **Wednesday, August 21, 2019 at 9:00 a.m.** in the offices of the Board.
Board Meeting
August 21, 2019
9:00 A.M.
OPERS Office

AGENDA

I. Roll Call

II. Consent agenda:
   A. Minutes – May 15, 2019 and July 16-17, 2019
   B. Disability report

III. Committee Report:
   A. Health Care Committee

IV. Action Item:
   A. Board meeting dates/times September through December – Eric Harrell

V. Discussion Items:
   A. Group D – Allen Foster and Deborah McCarthy
   B. Cost of Living Adjustment (COLA) – Karen Carraher and Allen Foster
   C. Hedge Fund Policy and Benchmark Review – Paul Greff, John Blue, Suzanne Bernard and Kevin Hrad from Aon Hewitt Investment Consulting
   D. Real Estate, Private Equity & Hedge Funds 1st quarter 2019 performance – Paul Greff, Suzanne Bernard, Kevin Hrad, Karen Rode and Rob Kochis from Aon Hewitt Investment Consulting
   E. Executive Director report – Karen Carraher
   F. Executive Director evaluation
I. Discussion Items:
   A. Health Care packages – Tonya Brown – 3 hours

II. For Your Information:
   A. 2020 Retiree Health Care Plan Rate Setting
Agenda

- Review health care preferences from May’s Health Care Committee meeting
- Retiree Preference/Feedback – Informal
- Five new health care packages
- Staff package recommendation
Agenda

• Review health care preferences from May’s Health Care Committee meeting
  • Retiree Preference/Feedback – Informal
  • Five new health care packages
  • Staff package recommendation
Preferences From Prior Committee Meetings

Retirees Under Age 65

Eligibility
- Not eligible for health care until age 65 with 20 years
- Extend solvency by 5 years 2 months and added $3.6B to the health care fund

Allowance
- Freeze base at $600 through 2034*
- Extend solvency by 3 years and added $2.3B to the health care fund

*Periodic consideration by the Board
Preferences From Prior Committee Meetings

Retirees Age 65 and Over

**Eligibility**
- Age 65 with 20 years
- Extended solvency by 1 years 3 months and added $1.4B to the health care fund

**Allowance**
- Reduce base to $350 through 2034*
- Extended solvency by 2 years 6 months and added $4.4B to the health care fund

*Periodic consideration by the Board*
Agenda

- Review health care preferences from May’s Health Care Committee meeting
- Retiree Preference/Feedback – Informal
- Five new health care packages
- Staff package recommendation
The following preference feedback highlights the informal survey results from annual PERI chapter meetings. These are not formal survey results and should be used for information only.

General Program Feedback:
• **98%** feel OPERS should continue a Health Care Program

• **73%** prefers offering an individual plan to under 65 participates verses the group plan

• **Less than 20%** feel grandfathering of allowance and eligibility should be eliminated
When discussing **grandfathering** both allowance and eligibility were considered.

- Less than 2% selected to eliminate all grandfathering and access

- 16% selected to eliminate grandfathering but continue to provide access to the grandfathered group

- 3% selected to maintain grandfathering for non-Medicare population only

- **60% felt grandfathering should be maintained** but agreed with **reducing the allowance amount**

- While 19% selected to maintain current eligibility and allowance grandfathering
Retiree Preferences Feedback

Allowance levels options for both under 65 and over 65 were presented and discussed for consideration.

Over 65 – Medicare Eligible Base Allowance $450

• Only 4% of retirees indicated they would reduce the base allowance to $250
• 47% indicated they prefer to freeze the current base allowance at $450 thru 2034
• While 49% selected to reduce the base to $350 with a freeze

Under 65 – Individual Plan Base Allowance

• 10% of retirees felt no allowance should be provided to under 65
• 42% selected to set the base allowance set at $450 with a freeze
• 47% indicated their preference as setting the base at $600 with a freeze
Health Care eligibility options for both under 65 and over 65 were presented and discussed for consideration.

65 and Over - Health Care Eligibility

• 58% selected to require retirees to be age 65 with 20 years of service to qualify (provide access only to those with less than 20 years – no funding)

• 42% selected to maintain current conditions with eligibility at age 65 with 20 years (maintain current population with less than 20 years)

Under 65 – Health Care Eligibility

• 40% indicated they prefer health care eligibility be age 65 with 20 years (no under 65 program)

• 27% selected to change eligibility to age 62 with 20 years

• 17% selected to change eligibility to age 60 with 20 years

• 17% indicated they would not change current conditions
Agenda

• Review health care preferences from May’s Health Care Committee meeting

• Retiree Preference/Feedback – Informal

• Five new health care packages

• Staff package recommendation
Eligibility – the age and years of service required to receive health care assistance.

Base Allowance – the dollar amount that health care assistance is based upon, of which retirees receive a percentage using an allowance table.

Disability – current conditions will apply; recipients will have access to health care assistance for 5 years and then must meet health care eligibility requirements.

Low Income Program – the assistance that OPERS may provide to those who meet certain income qualifications.
Grandfathering – a provision in which an old practice continues to apply to some existing situations while a new practice will apply to future cases.

For purposes of this presentation, the “grandfathered” population includes both:

• Retirees grandfathered prior to 2015 because they had health care before the HCPP 3.0 changes and subsequently did not meet either the age and/or service requirements

• Retirees enrolled and receiving health care in 2015 and after who would not meet the new eligibility requirements
Note:
Packages 2, 3 & 4 phase out grandfathering
Package 5 retains grandfathering with reductions to the allowance
Package 1 – No HC, Potential Annual Deposit

• Discontinue the OPERS health care plans.

• Allocate the existing HC trust fund to current and future retirees potentially via a deposit in a personal healthcare savings account with additional future deposits based on available funding.

• Access to a vendor for plan selection and reimbursement would be provided to retirees.
Package 1 – Summary of Changes

• Current retirees (including grandfathered) would receive a deposit

• Future qualified retirees would receive a deposit at retirement (must meet health care eligibility)

Medicare eligible retirees currently have an HRA account and receive monthly deposits to it for reimbursement of qualified medical expenses

Pre-Medicare retirees currently have access to the OPERS group plan
Package 1 – Total Impact

No HC, Potential Annual Deposit

Impacted Current Retirees
- Under 65: ~29,400
- 65 & Over: ~132,400
  ∑ ~161,800

Impacted Future Retirees
- Under 65 & Over 65: ~61,000 +++

Impact data as of 07/31/2019
Offer health care to eligible retirees at age 65 or older (Medicare population only)

**Eligibility** - Must have 20 years of service and be at least age 65

**Base allowance** - $350

**Grandfathered Eligibility** - Less than 20 years – health care phased out over a 3 to 5 year period

**Grandfathering allowance**
- Pre-Medicare – eliminated as of 01/01/2022
- Medicare (65+)- retirees subject to 51% allowance floor (current floor is 75%)
Package 2 – Summary of Changes

- Retirees under age 65 no allowance, plan or access
  *The current age requirement is 60*

- Retirees over age 65, base allowance reduced to $350
  *The current base allowance is $450*

- Retirees over age 65, grandfathered allowance floor reduced to 51% from 75%

- Grandfathered retirees over age 65, less than 20 years of service, eligible with reduced allowance % until phased out
  *The service requirement for retirement effective dates 12/1/2014 and earlier was 10 years, and prior to 7/1/1986 was 5 years*
Package 2 – Total Impact

Under 65, No Coverage or Plan

**Impacted by New Eligibility Requirements**
- Under 65: ~29,500 - No longer eligible
- 65 & Over: ~43,100 - 3 or 5 year phase out

**Impacted by Allowance Grandfathering Changes**
- Under 65: 0
- 65 & Over: ~49,700 - Reduced allowance
Package 3 – HC for All, Minimum Age 60

- Provide health care to all eligible retirees with a minimum age of 60

- **Eligibility** - Must have 20 years of service

- **Allowance** - Pre-Medicare retirees – base allowance $600/$900  Medicare retirees – base allowance $350

- **Grandfathered Eligibility** - Less than 20 years – health care phased out over a 3 to 5 year period. Eligible for low income subsidy when phase out ends.

- **Grandfathering allowance** - retirees subject to 51% allowance floor. Eligible for low income subsidy.
Package 3 – Summary of Changes

- Retirees under 60, no allowance, plan or access
  Eligibility for an unreduced retirement benefit currently allows for health care younger than age 60

- Retirees over 65, base allowance reduced to $350
  The current base allowance is $450

- Retirees grandfathered floor reduced to 51% from 75%

- Grandfathered retirees with less than 20 years, eligible with reduced allowance % until phased out
  The service requirement for retirement effective dates 12/1/2014 and earlier was 10 years, and prior to 7/1/1986 was 5 years
Package 3 – Total Impact

HC for all, Minimum Age 60

Impacted by New Eligibility Requirements
Under 65: ~13,200 - No longer eligible
65 & Over: ~43,100 - 3 or 5 year phase out

Impacted by Allowance Grandfathering Changes
Under 65: ~8,400 Reduced Allowance
65 & Over: ~49,700
Package 4 – HC for All, Group C Eligibility

• Provide health care to all eligible retirees with a minimum age of 55

• **Eligibility** - 55 to 64 – must have 32 years of service
  65 and over – must have 20 years of service

• **Allowance** - Pre-Medicare retirees – base allowance
  $600/$900  Medicare retirees – base allowance $350

• **Grandfathered Eligibility** – Less than 20 years – health care phased out over a 3 to 5 year period. Eligible for low income subsidy when phase out ends.

• **Grandfathering allowance** - retirees subject to 51% allowance floor. Eligible for low income subsidy.
Package 4 – Summary of Changes

• Retirees under 55, no allowance, plan or access
  Groups A and B eligibility for an unreduced retirement benefit currently allows for health care younger than age 55

• Retirees age 55-64 must have 32 years of service
  The current service requirement is 20 years (at age 60)

• Retirees over 65, base allowance reduced to $350
  The current base allowance is $450

• Retirees grandfathered floor reduced to 51% from 75%

• Grandfathered retirees, with less than 20 years, eligible with reduced allowance % until phased out
  The service requirement for retirement effective dates 12/1/2014 and earlier was 10 years, and prior to 7/1/1986 was 5 years
### Package 4 – Total Impact

**HC for all, Group C Eligibility**

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<td>Under 65: ~26,000 - No longer eligible</td>
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• Provide health care to all eligible retirees

• **Eligibility** – Group eligibility requirements apply for Pre-Medicare (under 65) retirees:
  - **Group A**: 30 years at any age
  - **Group B**: 32 years at any age or 31 years min. age 52
  - **Group C**: 32 years and min. age 55

• **Eligibility** – Medicare (65 and over) – must have 20 years of service with min. age of 65

• **Allowance** - Pre-Medicare retirees – base allowance $600/$900
  Medicare retirees – base allowance $350

• **Grandfathered** – Maintain grandfathering for eligibility and allowance – reduce allowance to floor at 51%
Package 5 – Summary of Changes

• Retirees under 65 that don’t meet “Group” eligibility requirements are not eligible for health care until age 65 with 20 years of service
  *The current age requirement is 60*

• Retirees over 65, base allowance reduced to $350
  *The current base allowance is $450*

• *Grandfathered* retirees, maintain eligibility and allowance - reduce allowance to floor at 51%
  *The current floor is 75%*
Package 5 – Total Impact

HC for all, Group Eligibility

Impacted by New Eligibility Requirements
Under 65: ~14,400  Maintain Eligibility w/ Reduced Allowance
65 & Over: ~43,100

Impacted by Allowance Grandfathering Changes
Under 65: ~5,800  Reduced Allowance
65 & Over: ~57,500
Disability – Package 2, 3, 4 & 5:

- Current conditions will apply; disability recipients will have access to health care assistance for 5 years and then must meet health care eligibility requirements to maintain access.
- If the disability recipient don’t meet health care eligibility after the 5 years but meets low income qualifications they will be eligible for the low income subsidy.
- If disability recipient returns to private sector employment, health care assistance will be eliminated.

Low Income Subsidy – Package 3, 4 & 5:

- Eligible for health care and household income is at 100% poverty level; retirees would receive an extra $100 monthly deposit.
- If retiree is “grandfathered” and household income is at 100% poverty level, the retiree would be eligible for low income allowance assistance and receive a 51% allowance rate. Retiree must apply for Medicaid.
Agenda

• Review health care preferences from May’s Health Care Committee meeting

• Retire Preference/Feedback – Informal

• Five new health care packages

• Staff package recommendation
Staff Package Recommendation – Pending Cost

- **Package 5** provides health care to all eligible retirees
- Promotes high service requirements if you wish to retire at an earlier age and receive health care assistance, while maintaining current Medicare eligible requirements of age 65 with 20 years of service
- Maintains grandfathered population eligibility but with reduced allowances versus phasing out those currently on the plan
- All retirees subject to the full structure of the allowance table – allowances range from 51% to 90%
Cathy
Retired: 01/01/2009
Service: 32 years
Current age: 70

On Jan. 1, 2022, Cathy will be impacted by the reduction in the base allowance which will impact her current allowance amount.

Now: 75% x $450 = $337
2022: 75% x $350 = $262
Package 5 – Grandfathered Retiree Example

Denise

Retired: 1/1/2013
Service: 12 years
Current age: 70

On Jan. 1, 2022, Denise will maintain eligibility but will receive a reduced allowance based on the 51% allowance floor.

Now: 75% x $450 = $337
2022: 51% x $350 = $178
Joe

Service: 33 years
Current age: 58

On Jan. 1, 2022, Joe will no longer be in the OPERS group plan and will be provided an allowance subsidy to purchase a plan on the individual market.

Now: 76% x $1,306 = $992
(premium reduction)

2022: 76% x $900 = $684
Frank

Service: 25 years
Current age: 57

Frank is a future retiree with an effective date after Jan. 1, 2022. He will retire with a reduced benefit at age 57 with 25 years with no health care coverage. He will age in to health care at age 65.

$76\% \times $350 = $266 \ @ \ age \ 65$
Discussion
MEMORANDUM

DATE: August 12, 2019

TO: OPERS Retirement Board Members

FROM: Tonya Brown, Director of Member Operations
Gretchen Feldmann, Health Care Medicare Programs Manager

RE: I. Discussion Items:
B. Willis Towers Watson Via Benefits – HRA Migration

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**Purpose**

This memo provides information on Willis Towers Watson (WTW) Via Benefits’ new Health Reimbursement Arrangement (HRA) system and how the OPERS Medicare population will be migrated over to the new platform effective September 3, 2019.

**Background**

A few years ago, WTW acquired a company (Acclaris) that provided HRA administration services. By incorporating Acclaris’ technology into its suite of business offerings, WTW is able to offer an integrated end-to-end delivery model to its enrollees.

OPERS retirees, spouses, and surviving spouses will migrate away from the current PayFlex HRA system to the WTW HRA system. Once the OPERS population has been migrated, WTW will be able to provide a “one-stop shop” experience that includes enrollment, HRA, and advocacy services.

**Implementation Effort**

The implementation to support the HRA migration was launched June 2018. Over the last 12+ months, OPERS and WTW staff have engaged in meetings and onsite visits to work through the various aspects of migration-related work.
• **Governance.** Detailed file layouts, policies, processes that support the OPERS account have been documented, reviewed, and approved by OPERS staff.

• **Testing.** OPERS staff have used a rigorous testing protocol to ensure that financial and operational reports will be produced accurately.

• **Communications.** All communications received by retirees (66 pieces) were reviewed and adjustments were made so that they are more user-friendly and easy to understand. Several pieces have been customized to the OPERS population and policies.

• **Training.** OPERS staff have also traveled to WTW locations in Utah, Arizona, and Texas to facilitate culture training for all WTW associates that will be handling HRA-related calls. OPERS staff has also worked closely with the OPERS Member Services department to ensure that representatives are equipped to answer questions from retirees.

  The WTW claims processing and customer service teams that will support the OPERS population are seasoned associates as they have supported other WTW clients that have already migrated. Even though these two teams have supported prior migrations, they have recently participated in refresher training specific to the OPERS HRA migration.

• **Staffing.** When considering previous migrations, WTW has estimated that 22% of the OPERS population will call in response to the HRA migration. To support that call volume, WTW has 77 customer service representatives available to answer OPERS calls. Should the volume exceed WTW’s estimate, an additional 223 customer service representatives (total of 300 representatives) have been trained so that customer service support can scale as needed.

  A WTW associate will be onsite in Columbus, Ohio, from September 4 – September 17 to partner with the OPERS conversion team should any issues arise after the go-live date.

**Communication Plan**

To ensure that the OPERS population is fully aware of this migration, the following communications have occurred.

• **July**
  - OPERS Letter - Pre-Announcement
  - OPERS Email Blast - Pre-Announcement
  - WTW Letter - Announcement
  - WTW Website – Messaging Update, Video Posted
• **August**
  - WTW Letter & Calls to Direct Deposit Population (see Enhancement section)
  - WTW Letter to Forfeiture Population (see Enhancement section)
  - OPERS Facebook Post – Announcement Reminder
  - OPERS Email Blast - Announcement Reminder

**Black-Out Period**
The OPERS population will experience a 3-week black-out period that spans August 12 – September 3. The first two weeks of the black-out period will be “business as usual” because of the timing when automatic and recurring claims are paid out.

- Any claims that were submitted prior to the black-out period will be processed and paid out.
- Automatic reimbursement claims will be paid out as usual (as of 12/31/18, A/R claims represented 61% of total claims).
- Most recurring claims will be paid out as usual (as of 12/31/18, recurring claims represented 10% of total claims).
- Retirees may start to “feel” something the third week of black-out period as there may be a delay in their out-of-pocket claims being paid out.
- Retirees will not be able to access the funding portion of the website during the entire three weeks of the black-out period.

**Enhancements**
Upon migrating to the new WTW HRA system, retirees, surviving spouses and OPERS staff will positively be impacted by the following enhancements / process improvements:

- **Communications**
  - **Real-Time Alerts.** Individuals can opt-in to receive electronic communications (email and text) that will provide status updates as their claim is received, claim is processed, claim is approved or denied, and claim is paid.
  - **Explanation of Payments (EOPs).** These documents are sent to individuals when a reimbursement is processed. The new EOPs are much more aesthetically pleasing, and they provide individuals with clear, easy-to-understand information about their claim.
  - **Deceased Individuals.** Communications that are not relevant or appropriate to the deceased population will be suppressed. The dedicated forfeiture communications (see “Forfeiture” section) will serve as the means in which to communicate with survivors and/or the estate of the deceased individual.
- **Website.** Upon logging into the WTW website, individuals will see a completely new funding section. Individuals will be able to see their total available balance, and easily reconcile their paid claims against what they submitted for reimbursement.

- **NOTE:** Throughout the communications and website review and development process, OPERS staff have solicited feedback from retirees to ensure that we accomplish our goal of enhancing the individual HRA experience.

- **Claims Processing**
  - Upon receiving notice that the same claim has been denied twice, WTW staff will call the individual to help them understand why the claim was denied and provide support as necessary.
  - Retirees who may forget something during the claims submission process will only have to fix the error vs. submitting an entirely new claim. For example, if the reimbursement form is missing a signature, but all the supporting documentation is intact, the retiree will only need to submit a new reimbursement form (no need to send in supporting documentation again).

- **Reporting**
  - All the financial and operational reports that OPERS staff receive have been reviewed for improvements. Several reports have been customized with additional data elements to better align with the needs of OPERS staff.

- **Direct Deposit**
  - Individuals who don’t provide bank account information will no longer receive their HRA reimbursement via paper check. This process improvement aligns with the OPERS requirement of mandatory direct deposit for HRA reimbursement and pension payments (PayFlex was not able to suppress paper checks from being distributed to individuals that did not provide bank account information to WTW Via Benefits).

Because this is a process change, letters will be mailed to any OPERS retiree and surviving spouse that currently does not have bank account information on file with WTW to alert them that their reimbursements will be suspended until they provide the bank account information.

**NOTE:** The small population of OPERS individuals that have been “approved” to receive paper checks will be exempt from this process improvement.
• **Forfeiture**
  o The forfeiture date will be loaded into the customer service system that WTW staff use so that they can provide specific details to the estate of the deceased individual.

  o WTW will communicate to the estate of the deceased individual with a letter within 30 days of the date of death; a letter 180-days prior to the forfeiture date; an outbound call 180-days prior to the forfeiture date; and a letter 30-days prior to the forfeiture date. All communications will indicate the forfeiture date and available HRA balance and explain the process in which to submit reimbursements.

  o Authorized representatives that the retiree or surviving spouse establish prior to their death will be honored after the individual passes away. Those representatives will be able to ask questions about the individual’s HRAs without needing to submit supporting documentation (e.g. Power of Attorney, Executor of Estate, etc.).

  o If an authorized representative was not associated with the retiree’s HRA prior to death, the surviving spouse will be able to submit a death certificate as proof of relationship so that the spouse can assume ownership.

  o Retirees and surviving spouses will now have the same forfeiture process. Estates of the deceased individual will have a flat 24-months to submit reimbursements against the available HRA balance. Because this is a process change, letters will be sent to the estate of any deceased individuals alerting them of the change.

**Summary**

This migration does not impact the following items:
- WTW Via Benefits phone number dedicated for OPERS population
- WTW Via Benefits web address dedicated for OPERS population
- Enrollment services
- Advocacy support post-enrollment
- Reimbursement methods (standard, recurring, automatic reimbursement)

Even though several things are changing within the HRA experience, they are all positive enhancements. Communications that have been sent to the OPERS population reinforce that positive message so that any potential concern/fear of the change can be reduced.

OPERS staff will continue working closely with WTW staff on any issues that may arise after the go-live date of September 3, 2019.
Willis Towers Watson Via Benefits
HRA Migration

UPDATE

Gretchen Feldmann, MA – Medicare Programs Manager
August 14, 2019
Agenda

• Background
• Implementation Effort
• Communication Plan
• Black-Out Period
• Enhancements
• Summary / Questions
• WTW Via Benefits (WTW) acquired HRA Administrator

• WTW will be able to offer an end-to-end delivery model

• OPERS population will migrate to new platform 9/3/19
• Launched June 2018

• Implementation areas include the following:
  o Governance documentation
  o Testing
  o Communications
  o Training
  o Staffing

• WTW associate will be onsite 9/4 – 9/17
Communication Plan

• **July**
  - OPERS Letter - Pre-Announcement
  - OPERS Email Blast - Pre-Announcement
  - WTW Letter - Announcement
  - WTW Website – Messaging Update, Video Posted

• **August**
  - WTW Letter & Calls to Direct Deposit Population (see Enhancement section)
  - WTW Letter to Forfeiture Population (see Enhancement section)
  - OPERS Facebook Post – Announcement Reminder
  - OPERS Email Blast - Announcement Reminder
Black-Out Period

• 3-week black period will span 8/12 – 9/3

• There will be no access to the funding section of WTW website

• Week 1 & Week 2: Mostly “Business as Usual”
  o Claims submitted prior to black-out will be processed/paid
  o Automatic reimbursement claims will be processed/paid
  o Recurring reimbursement claims will be processed/paid

• Week 3
  o Retirees may start to “feel” a delay in out-of-pocket claims being processed/paid
Enhancements

• Communications
  o Real-Time Alerts
  o Explanation of Payments
  o Deceased Individuals
  o Website

• Claims Processing

• Reporting

• Direct Deposit Process

• Forfeiture Process
• Migration does not impact the following:
  o OPERS dedicated phone number / website
  o Enrollment services
  o Advocacy support post-enrollment
  o Reimbursement methods

• HRA migration is a positive change!

• OPERS staff will continue working closely with WTW staff once migration goes live 9/3/19
Questions?
MEMORANDUM

DATE: August 12, 2019

TO: OPERS Retirement Board Members

FROM: Eric Harrell, General Counsel

RE: IV. Action Item:
   A. Board Meeting Dates/Times – September through December 2019

Action requested: ________ moved, ________ seconded to: Authorize the Board Chair to call regular monthly board meetings to begin on the Tuesday immediately before the third Wednesday of the month, at a time to be determined by the Board Chair for the remainder of 2019, at his discretion.

Background – Ohio Administrative Code Section 145-1-01 requires appropriate board resolution to move the meeting date and hour from the regularly scheduled board meeting date and time established in that rule – 9 a.m. on the third Wednesday of each calendar month. Over the past year the Board has discussed changes to the frequency of board meetings and the need to continue or abolish some of the existing committees. These changes will require the Board (rather than some of the committees) to begin meeting on the Tuesday immediately preceding the regular Wednesday board meeting.

In accordance with those discussions, changes will be made to Ohio Administrative Code Section 145-1-01 later this year to implement the changes the board has requested. Until those changes are in effect, it is proposed that the Board grant the Board Chair the authority to call the regular board meeting to begin on either the Tuesday before the regularly scheduled meeting date and/or on the regularly scheduled date, as needed, at a time to be determined by the Board Chair for the remainder of 2019. This will allow for matters that previously would have been presented to committees during Tuesday meetings, to be presented to the entire Board on those Tuesdays, by beginning the board meeting on Tuesday and continuing into Wednesday.
MEMORANDUM

DATE: August 13, 2019

TO: OPERS Retirement Board Members

FROM: Allen Foster, Director – Benefits
       Deborah McCarthy, Government Relations Officer/Legal Counsel

RE: V. Discussion Items:
A. Group D

**Purpose** – The purpose of this memorandum is to provide the Board with a detailed outline of the Group D proposal, as it was presented to the Board at the July 2019 Strategic Planning retreat. The memorandum summarizes the rationale for Group D, the plan design components of Group D, and next steps.

**Background** – At the July 2019 Strategic Planning retreat, the Board heard a presentation from staff on a proposal to establish Group D in the Traditional Pension Plan. This proposal is a result of the ongoing review and analysis performed by the Alternative Plan Design work group—a group of staff committed to reviewing the retirement plans offered by OPERS with several goals in mind: reduce/eliminate subsidization; ensure plan sustainability; evaluate plan appropriateness and attractiveness; ensure plan purpose is achieved in light of changing environment; maintain intergenerational equity; and advance planning to minimize member impact.

At the July retreat, the Board heard several presentations that laid the groundwork for the introduction of Group D. The first presentation was an investment market outlook that included a review of economic growth trends, national debt and deficits, inflation, interest rates, and the international and national financial markets. The second was a presentation on the changing needs of the future generations of our membership—with a focus on the Millennial generation and Generation Z. The final presentation of that morning was a summary of the 2018 historical review presentation, which included an outline of actions taken to date and the current environment in which OPERS is
Currently operating. Each of these presentations were intended as a prelude to a discussion with the Board about the necessity of establishing a Group D tier in the Traditional Pension Plan.

**Issues – Defining the Problem.** OPERS today is in a very different position than in the first 75 years of our history. We need to think and act differently than we have in the past. The OPERS Traditional Pension Plan is a mature retirement plan whose active to retiree ratio is steadily falling and will be 1:1 in the next fifteen years. The Traditional Pension Plan is cash flow negative—our benefit payments exceed the incoming contributions—and, as such, OPERS is increasingly reliant on investment income in a volatile investment market. Our unfunded actuarial accrued liabilities of $24 billion are the largest they’ve ever been. We are faced with the reality that, in the next 10 years, approximately 51% of our accrued actuarial liabilities will come due--$55 billion—which is over half of our accrued assets.

We have taken numerous actions in the past to position the Traditional Pension Plan for the future. In 2012, the Ohio legislature enacted S.B. 343 to improve funding, reduce subsidization of benefits, and to maintain intergenerational equity. S.B. 343 introduced the concept of three separate retirement groups (A, B, and C) and a member’s group was determined by the date the member attained of retirement eligibility based on the age and service criteria in effect prior to the legislation. A member’s group determined which of the benefit changes applied—age and service retirement eligibility, benefit calculation, age and service early retirement reduction factors, final average salary, and many more. Group A members were the least impacted and Group C members were the most impacted. S.B. 343 resulted in a $3.2B reduction in OPERS’ unfunded actuarial accrued liabilities.

Despite all of the actions taken to date, several core issues continue to exist:

1. The needs of future generations of our members are changing;

2. The Traditional Pension Plan’s unfunded actuarial accrued liability (UAAL) is at the highest level it has been ($24B) and needs a significant portion of the employer contribution rate to fund it;

3. Investment market volatility continues to be a risk to the retirement system due to the system’s dependency of investment returns to fund benefits;

4. The health care fund is in danger of depletion because no contributions are going to fund health care now or in the foreseeable future.
   (Separate actions are in process related to the health care issues.)
**Funding Plan.** Our goal is to create a thriving Traditional Pension (defined benefit) plan that provides the benefits members want with the retirement security they have come to expect.

Group D is an opportunity to create a plan design that will thrive in changing conditions. A plan design that has flexibility to address challenging financial conditions and still maintain a strong funded status. A plan design that allows us to continue to fund the UAAL of the Traditional Pension Plan and under current conditions fund its own benefit. A plan that has the ability to flex upward with benefit increases when funding is good without creating a permanent benefit structure should funding decrease.

Group D is an opportunity to create a plan design that is attractive to the future generations of our members. A plan design that meets their need for independence and control over planning for their own needs. A plan design that provides a clear line of sight to their goals. A plan design that is portable to address shorter periods of employment with a particular employer.

Group D is an opportunity to modify the Traditional Pension Plan in a manner that reduces the likelihood of future benefit reductions. A new tier of the plan that will position the Traditional Pension Plan for the future and give the system more flexibility to manage market fluctuations. A new tier that will allow members to share in the times when the markets are good and that will withstand market downturns without seeking benefit reductions.

Group D is an opportunity to address the lack of available funding for health care with a new tier of the Traditional Pension Plan that includes a retiree medical account to fund this group’s health care in retirement. A new tier of the plan that will reduce the system’s risk of offering health care that our retirees want, but that we cannot guarantee.

**Group D Plan Design.** Below is a detailed description of the plan design features for the proposed Group D tier of the Traditional Pension Plan.

<table>
<thead>
<tr>
<th>Group D Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution Rates (Potentially)</td>
<td>- Members potentially contribute 11% of their earnable salary to OPERS. Of the 11%, 10% would fund the defined benefit plan and 1% to fund their Pension Plus Account. (Contribution rate is contingent upon benefit formula multiplier).</td>
</tr>
</tbody>
</table>
| Benefit Eligibility & Final Average Salary | - Unreduced benefit age/service requirements – 62/35, 67/25 or 70/5  
- Reduced benefit age/service requirements – 57/30, 62/20 or 65/5  
- Final average salary – average of the 10 highest years of salary  
- Benefit formula multiplier – 2.0% assuming an 11% contribution rate (lower if 10% contribution rate). |
| Pension Plus Account                       | - A separate account that allows for 1% of member contributions to be deposited into an investment account. Members would have immediate access. |
vesting and manage their own investment portfolio.

<table>
<thead>
<tr>
<th>Gainsharing Account</th>
<th>• Active members share investment earnings in accordance with the policy. Group D members who have accrued 5 years and 1) Investment return is over 7.2% and 2) Funded ratio has exceeded the specified target.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funded ratio threshold</td>
<td>• The funded ratio threshold may range from 90% to 120%.</td>
</tr>
<tr>
<td>Retiree Medical Account (RMA)</td>
<td>• A portion of the employer contribution allocated to fund an individual account to reimburse retiree for qualified medical expenses. Initial contribution allocation is 2%.</td>
</tr>
</tbody>
</table>
| COLA | • Simple COLA – CPI up to 2.0% starting at age 62  
• Any future changes to COLA may include Group D. |
| Stabilization Fund | • A fund that allows for 0.5% of employer contributions to be used as a reserve for future funding needs. |
| Discount Rate | • For Group D valuation purposes only, the discount rate would be 7%. |
| Portability Refunds Service Purchases | Money in  
• Members can roll money into the plan from other eligible retirement plans.  
• Service purchases would continue the same as practiced today. In addition, members could purchase a maximum of 5 years of “Air Time” service credit (with no associated public employment) at the full actuarial cost.  
Money out  
• Refunds would include member contributions, interest, Pension Plus account and Gainsharing account, if applicable.  
• After termination of employment, funds could be rolled to another eligible retirement plan. |
| Proposed Protective Services Division | • An occupational classification truly based on public safety job duties (Correction officers, EMS workers, etc.).  
• Member contribution rate estimated to be 15% and employer at 16%. |
| Earnable Salary Survivor Benefits Disability Benefits | • Earnable salary – based on minimum wage instead of current requirement of $660 per month to earn full-time service credit.  
• Survivor benefits – discontinue current program for Group D and continue to offer life insurance product OPERS implemented in 2018.  
• Disability – Use “any occupation” standard for initial determination (same as Social Security). |

**Next Steps** -- During our August Board meeting staff will provide highlights of Group D, follow up to questions during the July strategic plan meeting, and member examples that compare Group C to Group D.
MEMORANDUM

DATE: August 13, 2019

TO: OPERS Retirement Board Members

FROM: Karen Carraher, Executive Director
       Allen Foster, Director of Benefits

RE: V. Discussion Items:
    B. Cost of Living Adjustment (COLA)

Purpose – The purpose of this memorandum is to reintroduce to the Board the past discussions and actions taken regarding the cost of living adjustment (COLA). Since 2017, when the topic was first introduced to the Board, the financial condition of the retirement system has declined. As such, it is appropriate to review and discuss possible future changes to the COLA.

Background – In 2017, the Board reviewed and approved changes to the COLA for all current and future retirees. Over several months that year, the Board heard presentations on the history of the COLA, the purpose of the COLA in comparison to the Consumer Price Index (CPI) and the relationship of the COLA to actual inflation. In September of 2017, several packages of proposed changes to the COLA were presented and in October, the Board approved a modified version of one of those packages to be drafted into legislation. After introduction of House Bill 413 in November, the bill received three hearings and no further action was taken on the bill by the Ohio legislature.

Since then, the retirement system’s funding measures have declined, and staff is reintroducing proposed changes to the COLA for the Board’s review and consideration.

Issues:

Declining funding measures - As of the end of 2018, OPERS is 77.5% funded with a 27-year amortization period. When the COLA changes were last
presented to the Board, the funded ratio was 80.1% with 19 amortization years (2016). At that time, OPERS had unrealized investment losses of $2.77 billion. The positive investment return of 2017 offset those losses. However, the negative 2018 return puts OPERS in the same situation with unrealized losses. As of the end of 2018, the unrealized investment losses were $2.86 billion.

OPERS’ unfunded actuarial accrued liability (UAAL) has increased since COLA changes were last approved by the Board. As of year-end 2016, the UAAL was $19.9 billion. As of the end of 2018, the UAAL is $24.4 billion—the largest in OPERS history.

Due to the unrealized losses of $2.86 billion, if OPERS achieves the 7.2% assumed rate of return over the next three years the amortization period will increase to 31 years and the funded ratio would decrease to 75.7%. Additionally, the impact of a year in which the assumed rate of return of 7.2% is not achieved will further reduce the funded ratio and increase the amortization period outside the 30-year statutory requirement.

Currently the total employer contribution is being used to fund pension with no funding to health care. In 2017, OPERS was using 1% of the employer contribution to fund health care. Since OPERS has a fixed statutory contribution rate, the allocation of the employer contribution between pension and health care is important and can provide a lever to use in down times. However, since none of the employer contribution is currently funding health care there is no lever in the event of down markets.

Finally, the Traditional Pension (TP) Plan is a mature retirement plan whose active to retiree ratio is steadily falling and will be 1:1 in the next fifteen years. The TP Plan is cash flow negative—the benefit payments exceed the incoming contributions—and, as such, OPERS is increasingly reliant on investment income in a volatile investment market. In the next 10 years, approximately 51% of our accrued actuarial liabilities will come due--$55 billion—which is over half of our assets.

In summary, OPERS funding position is weaker than it was the last time the Board considered COLA changes suggesting an even greater need for re-consideration. OPERS has no ability to redirect future employer contributions and will exceed the 30-year statutorily required amortization period if all investment assumptions are met. The risk of a market downturn would further increase the amortization period.

**Past actions to improve funding measures** - As a reminder, many past actions have been taken to improve the system’s long-term solvency. In 2012, the Ohio legislature enacted Senate Bill 343 to improve funding, reduce subsidization of benefits, and to maintain intergenerational equity. Areas changed for active members included:
• Age & service eligibility increased
• Age & service calculation modified
• Five-year FAS
• CPI-based COLA
• Actuarial reduction factors
• FAS spiking (CBBC)
• Minimum earnable salary increased
• Disability program changes
• Liability cost service purchases
• Joint retirement/intersystem transfers
• Survivor benefit eligibility

Active members have already significantly shared in the reduction of the UAAL through these changes, which generated $3.2 billion in savings to the system. Additionally, further changes are being considered for members hired in the future.

Despite past actions taken to improve the system’s long-term solvency, OPERS continues to be faced with declining funding measures and increased UAAL. To generate additional savings from the active member population would require OPERS to engage in a complete plan redesign of active members’ future benefits, reducing the value of benefits relative to the contributions to those benefits. Such changes increase the possibility of members initiating a plan change. Currently, 246,000 active members are eligible to plan change and all new members are eligible to make an initial plan selection. The impact of significant number of plan changes would be harmful to the TP plan.

**Purchasing power and inflation** – The purpose of the COLA is to mitigate but not fully offset the erosion of a pension’s purchasing power over time. The 2017 analysis of OPERS’ COLA compared to CPI-W showed that OPERS members who retired in 1995 or after have received a COLA that exceeded inflation. During long periods of low inflation, a fixed COLA will naturally outpace inflation over the duration of retirement. Coupled with longer life expectancies of the retiree population, the subsidization to the pension above inflation is magnified.

In 2019, the post-legislation period retirees’ COLAs are based on the increase in CPI-W, not to exceed 3%. CPI-W is index for Urban Wage Earners & Clerical Workers and is also the basis for Social Security’s COLA. This compares with members retiring prior to 2013 in which the COLA is fixed at 3%. For many retirees in that category, their initial COLA was not a fixed 3%, but was increased to the fixed 3% as benefit enhancements were made. Staff is sensitive to the fact that a 3% simple COLA is not compounding and has the potential to decrease purchasing power over time. OPERS COLA has never been compounding and the COLA was never intended to fully offset inflation. The first COLAs were granted a rate significantly lower than overall inflation (1.5% CPI based COLA at a time when the inflation was approximately 9%).
Please refer to August through October 2017 Board materials for additional information.

Options – During the August through October 2017 Board meetings, the Board evaluated various packages. For purposes of beginning this discussion, staff are presenting the final four packages updated with slight modifications and updated savings estimates.

**Package 1 (Cap 2.0%)** – Savings $4.47 Billion
- CPI-based COLA capped at 2.0%
- 85% purchasing power restored
- First COLA for future retirees delayed to 2\textsuperscript{nd} pension anniversary, new retirees who avoid delayed first COLA will experience one-year freeze

**Package 2 (Cap 2.5%)** – Savings $3.02 Billion
- CPI-based COLA capped at 2.5%,
- 85% purchasing power restored
- First COLA for future retirees delayed to 2\textsuperscript{nd} pension anniversary, new retirees who avoid delayed first COLA will experience one-year freeze

**Package 3 (Freeze 2 years)** – Savings $3.44 Billion
- No COLA’s granted during calendar 2022-2023 (2-year freeze)
- Following the freeze, future COLA’s would return to current conditions*
- 85% purchasing power restored
- First COLA for future retirees delayed to 2\textsuperscript{nd} pension anniversary (all retirees subject to 2-year freeze)

**Package 4 (Freeze 3 years)** – Savings $4.18 Billion
- No COLA’s granted during calendar 2022-2024 (3-year freeze)
- Following the freeze, future COLA’s would return to current conditions*
- 85% purchasing power restored
- First COLA for future retirees delayed to 2\textsuperscript{nd} pension anniversary (all retirees subject to 2-year freeze)

*The term “Current Conditions” is defined to mean that retirees receiving a fixed 3\% COLA prior to the freeze would return to receiving a 3\% COLA following the freeze. Retirees receiving a CPI-based COLA prior to the freeze would return to receiving a CPI-based COLA following the freeze period.*
Next Steps – Board discussion to review proposed package options and determine which options to present for Board action in September.