OPERSource
Your OPERS source for legislative facts
July 2012

OPERS PROPOSES CHANGES TO RETIREE HEALTH CARE COVERAGE

Changing demographics with members living longer, increasing health care expenses and economic conditions have led the Ohio Public Employees Retirement System to periodically adjust the discretionary health care coverage that it began offering retired members in 1974. Historically the OPERS Board of Trustees has been able to preserve access to health care coverage for our retirees despite rising costs by making slight changes each year. It is important to understand that while Ohio law requires OPERS to fund pension benefits, health care coverage is discretionary. *Simply put, we cannot offer health care coverage to our members if our pension benefits are not adequately funded.*

Why is OPERS considering changes to the health care program now?
National and state challenges demand constant evaluation of funding rates and solvency periods to maintain pension and health care plans that are viable. These challenges include:

- Rising health care expenditures
- Growing retiree population with the retirements of baby boomers
- Retirees living longer
- The investment and economic environment across the world and United States

The Board will need to make final decisions regarding changes to the health care program this fall, with or without the passage of pension legislation. At this stage, the design of the future health care program is not yet concluded. Statewide member and stakeholder meetings regarding proposed health care plan changes began in May and will continue through August. OPERS continues to communicate with our membership and retirees about the contemplated changes, using every communication tool available. Combined pension / health care presentations are taking place weekly across the state and webinars, email blasts, and postings on our website and social media sites are occurring daily.

> ***"The passage of pension legislation in 2012 is critical for OPERS to continue offering access to health care coverage to current and future retirees."***

The passage of pension legislation in 2012 is critical for OPERS to continue offering access to health care coverage to current and future retirees.

If pension legislation IS NOT PASSED in 2012, OPERS will need to reduce annual health care expenditures by nearly 70% and may only be able to provide statutorily-required benefits, such as Medicare Part B reimbursement and a hospital equivalent plan for those hired prior to 1986 who did not pay into Medicare. This change could need to be in place as early as 2014 and would likely mean that OPERS will no longer be able to provide a health care plan for some 221,000 current retirees and their dependents, as well as future retirees.

If pension legislation IS PASSED this year, the OPERS Board will still be faced with making significant changes to our health care plan. If the General Assembly approves the Board's proposed pension plan changes, we would be able to allocate 4% of incoming employer contributions to fund our health care coverage well into the foreseeable future. However, our current health care program uses approximately 7.6% of incoming employer contributions due to current costs – changes will be needed to bring these costs down to the proposed 4% funding level. The Board hopes to adopt a revised plan before the end of 2012. At the earliest, changes could be implemented in 2014. Both current and future retirees will be impacted by these changes.

continued on page 2

The following chart outlines key components that the OPERS Board has considered for future health care plan design. The components and other changes outlined within this document are in DRAFT form and the Board has not taken final action on any item to date.

Component	Board Preference
Age and service member eligibility requirement (excludes current retirees)	• Minimum eligibility for health care allowance for future age & service members: Age 60 with 20 years of service • Same eligibility criteria will be used for public safety and law enforcement members • ***Members retiring at any age with 30 or more years of service:*** Effective the first year of implementation, these members will have access to health care coverage.This will be re-evaluated by the Board for future years.
Age and service retiree monthly allowance (current and future retirees)	• Monthly allowances will range between 51% and 90% of the full monthly premium. • Same allowance table will be used for current and future retirees. • Current retirees with an allowance at or above 75% will not be lowered below 75%. • ***Members retiring at any age with 30 or more years of service:*** Effective the first year of implementation, these members will have at least a 71% allowance. This will be re-evaluated by the Board for future years.
Age and service spouse and children coverage (current and future retirees)	• Spouses will have no allowance and no access to health care. • Spouses over age 65 may have access to help in securing a plan on the individual market. • Children (up to age 26) will have access to coverage if the retiree has at least 20 years of service and is enrolled in the health care plan. • Children receive half of the retiree's allowance percentage. • Spouses do not assume the member's health care upon the death of the retiree.
Medicare B Premium Reimbursement (current and future retirees)	• $0 Medicare Part B premium reimbursement for all retirees
Plan Sponsorship/Personalized Model	• OPERS will continue to sponsor a plan for under 65 eligible participants until exchanges or other options are available • OPERS will not sponsor a plan for over 65 retirees, but will provide assistance and allowance (for those eligible) to select a plan on the individual market. Such plans generally have more economical choices.
Pre/Post Retirement Survivor Spouse Coverage	• Spouses of members who die before or after retirement will not assume the member's health care allowance.

The above components may be subject to a 3-year transition plan at the Board's discretion. The Board is also evaluating health care eligibility as it pertains to the OPERS disability program and service credit.

As described in the chart above, age and service eligibility requirements for health care coverage for future age and service members would increase to a minimum age of 60 with 20 years of service. (Members with at least 30 years of service would continue to have access at any age subject to reevaluation by the Board at a later date.) Current retirees who are already eligible for health care coverage will continue to have access to coverage.

For NON-MEDICARE plan participants (under age 65) who are currently retired or will retire after health care changes are in place, OPERS is proposing to charge retirees not yet eligible for Medicare a monthly premium that reflects a percentage of the full monthly cost of coverage ($814 per month in 2012). The Board's initial consideration suggests that the exact percentage will be based on the retiree's age and years of service at retirement using a scale that provides a decrease in the retiree's share of the premium for every year they work past the minimum retirement eligibility requirements. Allowances for eligible dependent children, as contemplated, will be half of the retiree's percentage and depend on the recipient's years of service and age at retirement. The current proposal is that spouses of non-Medicare plan participants will not have access to coverage or an allowance once the proposed transition period ends.

Current disability recipients will continue to have access to health care coverage and premium assistance. Future disability recipients will be subject to new rules and may be limited to 5 years of health care coverage unless they meet age and service requirements or enroll in a federal health care program like Medicare or Medicaid.

For MEDICARE-eligible participants (65 and older) who are currently retired or will retire after health care changes are in place a new Personalized Model (PM) is being considered for participants with Medicare that will allow retirees to select a Medicare solution that best fits their medical, pharmacy and financial needs. Medicare-eligible retirees will receive personalized guidance from a licensed benefit advisor in the selection of a personalized option on the individual Medicare market.

There are many plans available on the individual Medicare market that are comparable to our current plan and potentially less expensive. OPERS is proposing to discontinue sponsoring a Medicare Advantage Plan and instead provide Medicare-eligible retirees, who choose to participate in the Personalized Model, with a monthly allowance to be used to purchase a Medicare plan of their choice. The allowance amount will be a percentage of a board-approved dollar amount ($358 per month in 2012).

continued on page 3

Allowances for eligible dependent children will be half of the retiree's percentage and depend on recipient's years of service and age at retirement. Medicare-eligible spouses of plan participants may have access to the Personalized Model but will not receive an additional allowance.

When will OPERS finalize the health care changes currently being considered?

The Board will continue to discuss health care plan changes through the summer. They are expected to finalize the health care changes in the fall of 2012.

When will the health care changes take effect?

Once final decisions are made by the Board, a firm implementation schedule will be put in place and a definitive start date will be announced. The changes could be in place as early as 2014, but the Board has the discretion to set a later start date. Some portion of these changes may be subject to a 3-year transition as determined by the OPERS Board.

"Simply put, we cannot offer health care coverage to our members if our pension benefits are not adequately funded."

ORSC REVIEW AFFIRMS OPERS' CURRENT, FUTURE PLANS

An independent analysis of Ohio's public pension systems validates the pension redesign plan proposed almost three years ago by OPERS Board of Trustees.

As you may know, on July 11th, Pension Trustee Advisors and KMS Actuaries presented to the Ohio Retirement Study Council its review of the 30-year plans and pension redesign solutions offered by Ohio's five state pension systems. The council hired the actuarial firm in November to provide an independent review of the System's pension redesign proposals as Ohio strives to pass pension legislation.

The consultants commended OPERS' "comparatively strong funded status" and indicated that our pension redesign proposal, incorporated in a bill passed in May by the Ohio Senate, was on target. It singled out OPERS' 30-year plan as not needing "further adjustment."

"The OPERS approach to extending retirement eligibility requirements is beneficial to both the retirement plan and the health care program and addresses the cost pressure from improved life expectancy," the report stated. "The proposed 30-year plan … does satisfy the dual objectives of 30-year funding and long term health care solvency."

The consultants also encouraged the ORSC and the Ohio legislature "to take action this year" on pension redesign legislation, and suggested that further delay was harming the Systems financially, due to the lack of the reduction in liabilities.

The consultant also recommended that the OPERS Board of Trustees, as well as trustee boards of the other systems, be given authority to make limited changes to their plans in the future, without legislative approval, in order to keep the plans within the 30-year funding period.

Other recommendations, highlights and notes contained in the report include the following:

- Further changes would not be needed in the near future with he passage of pension legislation and the health care changes because of OPERS' "comparatively strong funded status."
- Defined benefit plans in Ohio are "well established," and while defined contribution plans might be "a reasonable optional alternative," the consultants do not recommend them the "sole vehicle" for retirement benefits.
- The consultants support OPERS' proposed 4 percent employer allocation to health care, as well as the Board's decision to make necessary adjustments to the health care program.
- OPERS' approaches to cap salary spiking, increase the minimum earnable salary required for full pension benefits and transition members to the new plan are on target and were recognized as ways to end the inequities that currently exist.
- Ohio does not need "dramatic changes" to their plans as some other states, including Rhode Island, Illinois and California, are considering or have enacted in pension legislation.
- The consultants suggest a series of sustainability options for the future that may be used "if necessary to meet the funding objectives for the programs."

OPERS' CALL TO ACTION GENERATES RESULTS

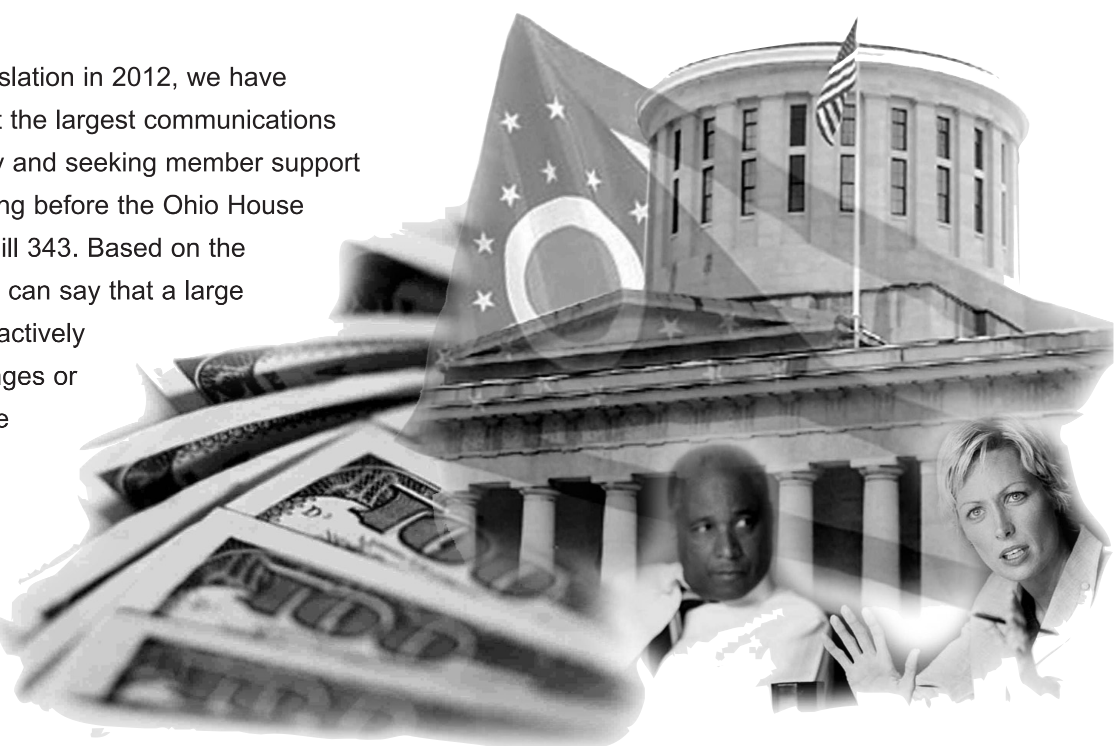
For almost three years, representatives of OPERS have travelled across Ohio to educate our members regarding the Board's recommended pension benefit changes.

More than ever, these changes are necessary to maintain our pension fund solvency and access to health care coverage for OPERS retirees. Since 2009, OPERS has forfeited more than $700 million in potential savings – that's nearly $1 million per day. If pension legislation is not passed in 2012, we will not be able to allocate any incoming employer contributions to fund health care coverage, meaning that the Board will have to reduce our annual health care expenditures from almost $1.6 billion to less than $500 million in order to maintain the OPERS health care trust fund. That means that only those retirees for whom health care insurance is statutorily mandated (i.e., Medicare eligible) will receive any assistance for health care expenses.

Given our need for pension legislation in 2012, we have redoubled our efforts, rolling out the largest communications effort in OPERS' 76-year history and seeking member support for our Board's plan, now pending before the Ohio House of Representatives as Senate Bill 343. Based on the response we have received, we can say that a large majority of our members either actively support the recommended changes or at least understand that they are necessary.

Some facts and figures for your consideration: In April 2012, OPERS called on its members to visibly support the Board's proposed changes by contacting their legislators, sharing the message that pension redesign is vital to future of OPERS and its ability to continue providing access to health care coverage. To help our members show their support, OPERS provided postcards, an online petition and an e-mail letter to legislators. *Even though it could mean substantial changes to their benefits, over 60,000 members, retirees, employers, and others have responded so far, indicating their support for our Board's proposed changes and urging their passage in 2012.*

We will be delivering these messages to legislators in the near future to demonstrate the widespread support and the need to keep pension plan changes at the forefront of the General Assembly's legislative agenda.



OPERS Government Relations Team

Gordon Gatien
Government Relations Officer – 614-222-2924

Deborah McCarthy
Assistant Government Relations Officer – 614-222-6466

Christopher Collins
Assistant Government Relations Officer – 614-222-0555

Anthony Tedesco-Nichols
Assistant Government Relations Officer – 614-222-0381

OPERS

The Ohio Public Employees Retirement System (OPERS) is the largest public pension fund in Ohio and the 11th largest public pension fund in the U.S. In operation since 1935, OPERS serves nearly 954,000 members, including more than 176,000 retirees and beneficiaries.