THIRD QUARTER

EMPLOYER Outreach

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

OPERS

GASB

GASB project—Update for employers

In the coming months, employers will be receiving important briefings from OPERS regarding the implementation of required standards from the Governmental Accounting Standards Board (GASB). It's important all employers realize that OPERS is working diligently to compile the required information and establish the processes necessary to ensure you are given the information needed to comply with the standards prior to the established implementation dates. We also realize that, although you are not required to implement these new standards until the fiscal year beginning after June 15, 2014, we want to help you get prepared. We know these new standards are complex and need careful planning. Thus, we are developing comprehensive education offerings to assist you in your understanding and implementation.

Overview

In June 2012, the GASB issued two new standards changing the accounting and financial reporting requirements for pensions. The intent of the standards is to enhance the pension-related information in financial reports by providing greater transparency and to standardize the valuation practices from entity to entity. The established effective dates are extremely tight given the magnitude of the changes. Simply put, the new standards require separate public pension accounting for financial reporting and require employers to recognize a net pension liability on their financial statements. These are new accounting and financial standards for reporting purposes, and will not impact your funding requirements.

Why the change?

From the GASB's perspective, pension benefits are a component of the compensation package and employment relationship between the employer and employee. Therefore, to the extent the pension system is not 100% funded, under the new standards, employers have to report a liability for the unfunded portion of the pension benefits earned by employees. Under Ohio law, the current employer funding requirement is the statutorily required contributions. While GASB will be requiring employers to present this new unfunded liability on your financial statements, the employer's responsibility is to remit the statutory contributions.

How OPERS is approaching this implementation

We recognize the impact this requirement may have. GASB is still working on the implementation guide. Thus, OPERS' staff, working closely with employers, performed a test implementation involving a cross section of employers. Some of the most important goals of the test implementation were to:

- Identify required disclosure elements for both OPERS and employers, and

- Develop a specific and sustainable way to allocate the proportionate pension liability share to each employer entity.

OPERS has completed its work with the employer test group to prepare pro forma financial statements and disclosures using the data provided. With that information, OPERS has begun to develop educational and outreach materials for a broad-based implementation for all 3,700 employer entities.

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Lessons learned

As with any project of this magnitude and aggressive timeline, the lessons learned were considerable—and told us we were on the right path by performing the test implementation. OPERS is still working on contribution reporting reconciliation, proportionate share calculations, defining the level of necessary detail, external audit approaches and developing tools for employers.

The good news

Please understand that OPERS did not create these standards and worked hard to positively influence the standards as much as possible by working directly with the GASB's officials during both the comment period prior to the finalization of the standards and also our test implementation.

We are partnering with employers by making available the information necessary for compliance—even though the implementation responsibility is a shared responsibility. We're proud to announce that OPERS is a national leader in the testing and implementation of these standards.

OPERS is working to help ensure our partners, all OPERS-reporting and contributing employers, are well-positioned to implement these standards. We'll be using every outreach outlet available to us including employer-specific webinars, group meetings, self-help guides and more. In addition, an employer forum is being developed so that employers can share resources, experiences and best practices as, together, we implement the new GASB standards.

OPERS' 2012 funded ratio shows increased strength

The Dec. 31, 2012 valuation shows the funded ratio of the defined benefit portion of OPERS at 81%. The number of years needed to amortize the unfunded actuarial accrued liability is 26. These figures have improved our Dec. 31, 2011 funded ratio of 77.4% and the years needed to amortize the unfunded actuarial accrued liability of 29.

Why valuations are useful

Third-party valuations are important for a variety of reasons. By measuring the financial position of OPERS, the actuarial valuation helps OPERS Board of Trustees and management:

- Establish employer and employee contribution rates (subject to statutory limits),
- Determine allocation of employer contributions between pension and health care for the coming year,
- Provide disclosure information for financial reporting, and
- Analyze actual experience from the past year.

Remember that without the benefit changes, the entire amount of all future employer contributions would have been required to go to the pension benefit to keep the pension amortization period less than 30 years as required by law.

Why the positive change?

The improved 2012 results may be attributed to:

- The numbers reflect the impact of benefit changes recently enacted by legislation and retiree health contributions increasing up to 4% of employer contributions by 2016.

  (Remember that without the benefit changes, the entire amount of all future employer contributions would have been required to go to the pension benefit to keep the pension amortization period less than 30 years as required by law.)

- Strong investment returns in the last years have exceeded the assumed rate of return—helping the unfunded liability.

What were the pension legislation changes?

If you'll recall, some of the pension legislation changes enacted in 2012 became effective Jan. 7, 2013. Those changes included among others:

- Longer retirement eligibility conditions,
- An average period of five years for final average salary data,
- Cost-of-living increases capped at the Consumer Price Index (CPI), and
- Higher benefit multiplier applied at 35 years of employment, rather than 30 years.

Where in the world did EAC go? Coming soon...

Employer Advisory Council (EAC) had been deferred due to a perfect storm of emerging priorities brought about due to legislated pension changes, the number of OPERS members requesting personalized information to help with retirement decisions and changes in government-required standards reporting.

About EAC

The EAC was established as an advisory group to help OPERS seamlessly integrate operational enhancements. This innovative council is made up of employers representing all sizes, types and locations of OPERS-reporting employers. Members accepted the responsibility to review business processes prior to processes being implemented so that, together, we could ensure all aspects had been vetted on both sides of the equation: employers and OPERS.

About the delay

The concept was sound, but the timing could not have been worse. The wave of business processes slated for assessment and redesign anticipated as part of OPERS' system-wide Our Way Forward project has been delayed as staff and technical resources have been deployed to implement the changes required by the pension legislation—and to generate the information necessary for members to make sound retirement decisions. First and foremost, OPERS needs to deliver on its service promise to members.

In addition, the Governmental Accounting Standards Board's (GASB) new requirements will be effective for all 3,700 employer entities starting in 2014. To ensure the accuracy and timeliness of this project for all employers, considerable staff time and technical resources have been devoted to it. (See related story on GASB project on page 1.)

Not forgotten

Employer Services stands by its commitment to employers. The inaugural meeting of the Employer Advisory Council is slated for Nov. 8, 2013.

Latest information on employer responsibilities for membership determination

Effective Sept. 29, 2013, public employers receiving services from workers for whom OPERS membership is not extended must attain the signature of those workers on the OPERS-specific acknowledgement form (form PEDACKN). This is necessary for individuals who will be providing services for your organization, but for whom no retirement contributions will be withheld.

Employer compliance will help eliminate potential risk and employer liability from individuals who may, at a future date, claim membership was declined.

Employer responsibility

If your employer organization has workers for whom no OPERS membership is extended, you'll need to:

- Provide the OPERS acknowledgement form for worker review and signature.
- As the employer:
  - Retain a copy of the acknowledgment form for five years, and
  - For employers who are decentralized, the hiring entity must forward the completed form to the entity responsible for reporting to OPERS.
  - The public entity responsible for reporting contributions to OPERS must then forward the form on to OPERS.

– The public entity responsible for reporting contributions to OPERS must then forward the form on to OPERS.

This latest provision was included to address feedback that compliance with the acknowledgement form process would be difficult for decentralized public entities.

Retention responsibilities

Public employers must retain a copy of a completed PEDACKN form for five years. Public employers can determine how your copy of the form will be archived (electronic, hard copy, professional archivist). If a form is needed in the future to help determine membership status, OPERS will contact the employer contacts on record to request the copy.

Note that if the form sent to OPERS contains a full Social Security number (SSN), OPERS will also retain a copy. However, forms with redacted SSNs or employer identification numbers will be purged.

OPERS does not retain a copy of this form indefinitely because, clearly, the individuals are not OPERS members. As such, OPERS does not have the responsibility to retain forms on individuals who are not OPERS members. The forms will be purged according to OPERS' records retention policy.

Employer

Back to school: OPERS webinars for employers

The beginning of fall brings to mind the back-to-school specials and encounters and makes all of us yearn for something new. We have just the ticket for you: OPERS webinars. Do yourself a favor and make the commitment for yourself and affected employees (those who work with pension reporting and payment) to check out the seminar that will enhance your life at work. Just to get things rolling, you'll find webinars available on ECS (ideal for new or learning employees), membership determination (see related article on page 3) and more. As always, employer-specific training is free of charge. Check it out at www.opers.org.

2014 is just around the corner...*employers must report all employees at least monthly*

Effective Jan. 1, 2014, all employers must report earnings at least monthly showing when salary is *earned* not *paid*. More than 100 employers report employees quarterly, semi-annually or annually—resulting in almost 8,000 public employees accruing or not accruing contributing months accurately.

Think this is overly specific? Think again. The switch to monthly (or more frequent) contribution reporting can be extremely important to your employees—take a look at these examples that show you why:

- **Consider Sally:** Sally's work as a local 911 operator allows her to meet the minimum threshold for pensionable salary and still work on a schedule that allows her to care for her family. She's previously agreed with her employer to be paid in a lump sum once a year to help with holiday expenses.

After Jan. 1, 2014, if Sally were to be reported only once a year, she would receive only one contributing month credit. (Your arrangement *of when* to pay her remains yours; OPERS is concerned ONLY with reporting and remitting contributions on pensionable earnings when they are <u>earned.</u>)

With one contributing month accounted per year, Sally would need 60 years to accrue the contributing months necessary for a minimum retirement benefit. However, if Sally's employer moves to the monthly reporting (as required by law), and accurately reports when the salary was earned (rather than paid), she will receive contributing month credit for each month she works. Meaning she will be constructively (and accurately) earning this important retirement criterion.

Employer takeaways: Of course, that's an extreme scenario to make a point. However, the issue is real.

- If employers do not comply with consistent monthly, or more frequent, reporting, you will negatively impact your employee's retirement accounting of contributing months.

- The rule of thumb is that if the annual earnable salary is less than $600 per month—although no impact to service credit may occur at the end of the year—a definite negative impact to contributing months will occur (and contributing months is necessary for health care). Take a look:

Using $600 threshold for full months beginning Jan. 1, 2014.

Through 12/31/2013				Beginning 1/1/14	
Frequency	Annual Salary	Annual Service Credit	Contributing Months	Annual Service Credit	Contributing Months
1 - Annual	3,000	1.000	12	0.083	1
3 - Quarterly	1,500	1.000	12	0.333	4
3 - Quarterly	3,000	1.000	12	0.333	4
2 - Semi-annual	300	0.042	12	0.042	2
1 - Annual	500	0.069	12	0.069	1

The information contained in the table above demonstrates the impact to an employee's service credit if the employer does not switch to a consistent monthly, or more frequent, reporting method. Compliant contribution reporting requires employers to submit a monthly, or more frequent, report for each calendar month in which an employee provides services as that is the best representation of when salary is earned.

Publications available

OPERS works to be fully compliant and transparent with all information to all stakeholders—but especially with employers who work as our partners in creating a secure retirement for public employees. We want to remind you that myriad publications exist (all online, some print) that are designed to help you understand the business of pensions generally, be knowledgeable about OPERS specifically, and help you understand the health care provisions.

Resources

In the news...Membership Determination outreach campaign

OPERS wants all individuals to receive the full pension benefit they deserve. The membership determination portion of the pension legislation has gone through a variety of revisions in the past 12 months. The deadline for individuals requesting a membership determination for work performed prior to Jan. 7, 2013 but for which no pension service credit was recorded or contributions withheld is Aug. 7, 2014.

OPERS is working to ensure all who may be affected are notified of this deadline. In addition to scheduled outreach through all OPERS resources (including website, publications, social media), OPERS determined to use the innovative approach of placing ads on Sept. 8, 2013 in the eight largest newspapers throughout the state including: *Akron Beacon Journal, Canton Repository, Cincinnati Enquirer, Cleveland Plain Dealer, Columbus Dispatch, Dayton Daily News, Toledo Blade and Youngstown Vindicator.*

Personal savings an important element of retirement security

Financial security in retirement doesn't just happen. Financial security takes planning and commitment and, yes, money. Your OPERS pension is a start, but most experts agree that the surest path to financial security in retirement also involves personal savings.

Employers can help

Employees who have not yet committed to a personal savings plan are not alone. Fewer than half of all employed Americans have calculated how much they need to save for retirement.

Employers are considered to be a trusted resource for employees. As such, your influence could be critical in helping to convey the importance of personal savings in retirement.

Talking points

To get things started, here are a few key points you might want to bring up to employees as early as Oct. 21-26, 2013—designated by Congress as National Save for Retirement Week:

- Encourage employees to analyze finances so they will know what they need (remember to factor in life goals such as travel or helping the kids with education). Experts estimate most retirees will need about 70 percent of their preretirement income to maintain their standard of living (and those who make less will need 90 percent or more).

- Learn everything you can about what OPERS pension benefits and health care offerings will be. OPERS offers myriad opportunities for seminars, pamphlets, annual individualized benefit statements and online tools to help employees better understand what their financial status will be after retirement.

- Before changing jobs, encourage your employees to check into what will happen to pension benefits if a job change or retirement is being considered. Employees should learn what benefits they may have from a previous employer.

- How retirement funds are saved can be as important as how much is saved. Inflation and interest rates have a huge impact on savings. Consider your risk tolerance and time horizon before you consider investments. Remember the importance of different types of investments because, through diversification, risk can be mitigated.

- Consider all savings options available. Public employees have deferred compensation options via Ohio Deferred Compensation. In addition, employees might want to consider establishing an individual retirement account (IRA). Learn about these options and how getting started with these accounts can maximize retirement savings potential.

Encourage employees to ask questions

While these tips are meant to get employers and employees talking about the importance of personal retirement savings, remember more information is always available. Contact Ohio Deferred Compensation, your bank, or a financial adviser. Encourage employees to ask questions and make sure they take the time to understand the answers. The best thing to do? Start saving today.

Health Care Update

Open enrollment in the fall—employers can help

Many employers remain in contact with retirees. All employers are urged to continue to be a positive resource for retirees by knowing a few basic facts about open enrollment to share with retirees:

- Health care open enrollment for 2014 takes place in October 2013.
- All eligible retirees receive packets at their home address in September 2013. If retirees do not receive informational packets, they should contact OPERS directly via the Member Call Center at 800-222-7377.
- Informational seminars are available in person (throughout the state) and via the Internet. Visit the OPERS website for exact information. Although there is no charge for these seminars, registration is required.

Health Care Planning Tool on website

And speaking of the OPERS website, employers who have employees considering retirement in the near future are asked to encourage those employees to access the OPERS Health Care Planning Tool. This tool will guide your employees through their particular situation so that they can make informed decisions. The information requested is the same as would be provided when speaking to an in-house counselor. Via the website, employees can input information 24/7 and in complete privacy.

Some health care changes delayed

Employers are encouraged to remember these important details about OPERS-provided retiree health care:

- The OPERS Board of Trustees approved a one-year delay in the implementation of key elements of the newly adopted health care plan.
- This one-year delay applies to all the components of the new plan with a few exceptions.

Here are the exceptions:

- Medicare Part B premium reimbursement: For those eligible, Medicare Part B premium reimbursement will transition incrementally from the current monthly reimbursement of up to $96.40 to a $0 reimbursement in 2017 with the first reduction occurring in 2015.
- Only the following types of service credit will apply toward health care eligibility after Dec. 1, 2013: contributing service, Ohio retirement system transfers, interrupted military service, unreported time and restored service.
- Members, who retire under a disability retirement Jan. 1, 2014, or later, will be subject to a five-year limit on access to health care. Those who qualify for Medicare due to a disability or meet health care eligibility requirements can stay on OPERS health care.
- Retirees who voluntarily elect to withdraw from the OPERS health care plan on or after Jan. 1, 2014, cannot re-enroll.
- Beginning Jan. 1, 2014, contributing service credit for health care will be accumulated only if the member earns at least $1,000 per month. Partial health care credit will not be granted for months in which less than $1,000 is earned. Credit earned prior to January 2014 will not be affected by this change.

Please note these are only the most immediate changes. Additional implementation dates are planned for 2015 and beyond. OPERS is making these timing changes so current members and retirees can have more time to prepare.

Multiple educational opportunities

Learning opportunities are multiple and include:

- The Health Care Planning Tool
- Member counseling
- Videos via the website at www.opers.org
- Member newsletters

We understand this may be a complex topic for your employees contemplating retirement. Employers are asked to encourage all employees to use every tool available so that just the right retirement decision is made.

Info *to Go*

Seasonal employees finishing up summer employment? *Note these transition details*

If you have seasonal employees leaving, it's important to remember to process them accurately. Important for you, so that reports will be processed without exceptions; important for the seasonal employees, who need to be accurately reported for future retirement benefits.

Review these quick-hit reminders to ensure compliance within your organization:

- Report final contributions with a Pay Period End (PPE) code of Q (for quit) for employees whom you do not anticipate returning to your employer organization within the year.

- If an employee is terminating for the season, but expects to return next year, or works on an intermittent basis (for example, if the employee is planning on returning over the holidays), you need to report the employee with a PPE code of S for seasonal (same as the PPB code when they return).

- Keeping a seasonal employee? No action is necessary for those employees moving to a permanent position—*unless* the employee is changing to a different employer code within your employer family, or to a different pay schedule.

If you have seasonal employees leaving, it's important to remember to process them accurately. Important for you, so that reports will be processed without exceptions.

- Do you have re-employed retirees in seasonal or intermittent positions? Contact Employer Outreach for specialized instructions or view information via the online *Employer Manual.*

Encourage employees to sign up for online accounts

Those who read their OPERS member newsletter know that the OPERS online account system has been enhanced. We're asking employers to reinforce that message and encourage employees to sign up for online accounts. What's the big deal about online accounts? Two words: safety, and access.

- **Safety:** To enhance the security of sensitive information, members who have not accessed their online account in over a year will be asked to reset their passwords. In addition, members will be assigned an OPERS-specific ID in the near future. *Remember, employers will still need to use Social Security numbers when working directly with OPERS about any employee.*

- **Access:** The OPERS online account for members is available 24/7—meaning your employees will have detailed information and self-service tools available whenever a question arises. (More retirement tools are planned for the future. Encourage your employees to check back often.)

Regarding the website...have you seen what's new?

The OPERS home page has been revised and refreshed. We believe you'll find the new home page is easier to navigate and has a more attractive appearance. The new page went live late August; take a look:

EMPLOYER Outreach

OPERS

Mailbox

An employee contacted me asking me if she had to retire by Nov. 30 to receive OPERS health care as a retiree. What is up with that?

Your employee understood part of what is being published. Please take a moment to review this information in its entirety so that you (and your employee contemplating retirement) completely understand this important deadline:

Employees who have an effective retirement date of Dec. 1, 2013 must be off your payroll by November 30. If those employees are not off payroll by Nov. 30, 2013, they will have to comply with the new service credit rules. Simply put, the new rules mean that for those members retiring with an effective date after Dec. 1, 2013, only the certain types of service credit will apply toward health care eligibility. (See article, page 6.)

What is earnable salary?

Well, of course it means salary on which pension can be earned—or pensionable salary. Not all forms of compensation are available for pension contributions. Wages that are not-pensionable should not have employee retirement contributions withheld, nor should employers contribute retirement funds for these wages.

Here are common examples of not-pensionable wages earned by public employees:

- Wages paid on a per-action basis such as:
  - Emergency medical personnel who are paid on a per-run basis.
  - Board and commission members who are paid per meeting.
  - Court reporters who are paid on a per-page basis.
  - Proctors or facilitators (online or classroom) who receive compensation based on a per-student rate.