GASB Statement No. 12

Statement 12 of the Governmental Accounting Standards Board (GASB), *Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Governmental Employers,* establishes standards for disclosure of information on post-employment benefits other than pension benefits by all state and local government employers.

To assist you, OPERS is providing disclosure data required in paragraph 10 of GASB Statement 12.

A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

   OPERS provides retirement, disability, and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

   In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-employment Benefit (OPEB) as described in GASB Statement 12.

   A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2006, state employers contributed at a rate of 13.54% of covered payroll, local government employer units, contributed at 13.70% of covered payroll and public safety and law enforcement employer units contributed at 16.93%. The portion of employer contributions, for all employers, allocated to health care was 4.50%.

B. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

C. Summary of Assumptions:

   Actuarial Review - The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2005.

   Funding Method - The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

   Assets Valuation Method - All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

   Investment Return - The investment assumption rate for 2005 was 6.50%.

   Active Employee Total Payroll - An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. In addition, annual pay increases over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health Care - Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 6% for the next 9 years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

D. OPEB is advance-funded on an actuarially determined basis. The following disclosures are required:

1. The Traditional Pension and Combined Plans had 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804.

2. The rates stated in Section A, above, are the actuarially determined contribution requirements for OPERS. As part of this disclosure, it will be necessary for the employer to disclose the employer contributions actually made to fund post-employment benefits. The portion of your employer contributions that were used to fund post-employment benefits can be approximated by multiplying actual employer contributions by 0.3323 for state employers, 0.3285 for local government employers, and 0.2658 for both law enforcement and public safety employers.

3. The amount of $11.1 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2005.

4. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2005, reported the actuarial accrued liability and the unfunded actuarial accrued liability for OPEB at $31.3 billion and $20.2 billion, respectively.

E. OPERS Retirement Board Implements its Health Care Preservation Plan

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.