

## EMPLOYER Notice

Ohio Public Employees Retirement System • 277 East Town Street • Columbus, Ohio 43215

**Important:**

Your knowledge of and adherence to GASB statements is essential as you prepare your annual financial reporting documents.

## Update on GASB Statements 12, 27 and 45

### Who should read this notice

Those responsible for compiling the *Comprehensive Annual Financial Report (CAFR)*

### Situation overview

Each year, employers request information regarding the pension system's benefits as required by the Governmental Accounting Standards Board (GASB) Statements 12, 27 and 45.

Attached please find the current information for:

- **Statement 12, *Disclosure of Information on Post-employment 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.
- **Statement 27, *Accounting for Pensions by State and Local Governmental Employers*** requires public employers to provide detailed disclosures of pension information in financial statements and accompanying information.
- **Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension*** also establishes standards for disclosure of information on post-employment benefits other than pension benefits by all state and local government employers. Statement 45 supersedes Statement 12 for public employers, effective for fiscal periods beginning after December 15, 2007. Any employer may implement Statement 45 prior to the required date.

### What you need to do

Please review the information and include, as appropriate, in your financial documents.

### Who to contact for more information

After you review this *Employer Notice*, contact Employer Outreach with questions or comments at 1-888-400-0965 or by email at [employeroutreach@opers.org](mailto:employeroutreach@opers.org).

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## GASB Statement No. 12

Statement 12 of the Governmental Accounting Standards Board (GASB), *Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Governmental Employers*, establishes standards for disclosure of information on postemployment 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 post-employment 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 post-employment 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 post-employment health care. The Ohio Revised Code provides statutory authority for employer contributions. In 2009, state and local employers contributed at a rate of 14.00% of covered payroll and public safety and law enforcement employer units contributed at 17.63%. The portion of employer contributions allocated to health care was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-employment 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, 2008.

**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 2008 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%.

## **GASB Statement No. 12**

**Health Care** — Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 3% for the next 6 years. In subsequent years, (7 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 357,584 active contributing participants as of December 31, 2009. The number of active contributing participants for both plans used in the December 31, 2008, actuarial valuation was 356,388.
  2. The rates stated in Section A, above, are the contractually required contribution rates 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 for January 1 through March 31, 2009 by 0.5000 for both state and local employers and 0.3971 for both law enforcement and public safety employers. For the period April 1 through December 31, 2009, multiply the actual employer contributions by 0.3929 for both state and local employers and 0.3120 for both law enforcement and public safety employers.
  3. The amount of \$10.7 billion represents the actuarial funding value of OPERS' net assets available for OPEB at December 31, 2008.
  4. Based on the actuarial cost method used, the Actuarial Valuation as of December 31, 2008, reported the actuarially accrued liability and the unfunded actuarially accrued liability for OPEB at \$29.6 billion and \$18.9 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, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

## **GASB Statement No. 27**

Statement 27 of the Governmental Accounting Standards Board (GASB), *Accounting for Pensions by State and Local Governmental Employers*, requires public employers to provide detailed disclosure of pension information in financial statements and accompanying information.

To assist you, OPERS is providing the disclosure data required in paragraph 20 of GASB Statement 27. Please be aware that, in addition to this information, you'll need to supply information from your records. A sample disclosure notice can be found in GASB Statement 27, Appendix D, Illustration 3.

- A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
1. The Traditional Pension Plan - a cost sharing, multiple-employer defined benefit pension plan.
  2. The Member-Directed Plan - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
  3. The Combined Plan - a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.
- B. OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.
- E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.
- The 2009 member contribution rates were 10.0% for members in state and local classifications. Public safety and law enforcement members contributed 10.1%.
- The 2009 employer contribution rate for state and local employers was 14.00% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2009 was 17.63%.
- F. Total required employer contributions for all plans are equal to 100% of employer charges and should be extracted from the employer's records.

## **GASB Statement No. 45**

Statement 45 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pension*, 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 the disclosure data required in paragraph 24 of GASB Statement 45. Please be aware that, in addition to this information, you'll need to supply information from your records. A sample disclosure notice can be found in GASB Statement 45, Appendix D, Illustration 5.

### **A. Plan Description**

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 maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, 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 post-employment 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 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

### **B. Funding Policy**

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14.00% of covered payroll, and public safety and law enforcement employers contributed at 17.63%. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

C. Information from employer's records

The rates stated in Section B, above, are the contractually required contribution rates 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 for January 1 through March 31, 2009 by 0.5000 for both state and local employers and 0.3971 for both law enforcement and public safety employers. For the period April 1 through December 31, 2009, multiply the actual employer contributions by 0.3929 for both state and local employers and 0.3120 for both law enforcement and public safety employers.

D. 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, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.