OPERS

OPERS Member-Directed and Combined Plan Changes

Q&A

Member-Directed and Combined Plan administrative fee changes

Q: What items are included in the administrative costs for the Member-Directed and Combined Plans?

A: These are the costs for OPERS staff to administer the plans and for a third-party administrator to perform recordkeeping services.

OPERS' administrative costs include time that we process applications and help members with their plans, and run the plans. For example, we process refund and retirement applications for members in these plans, and we incur legal and actuarial expenses related to the plans.

Recordkeeping duties performed by our third-party administrator include issuing quarterly statements and taking phone calls from members.

Q: How much are the current annual administrative costs?

A: The annual administrative expenses for the Member-Directed and Combined Plans are a combination of investment-related and non-investment-related expenses for each plan.

In 2013, total administrative costs for the Member-Directed Plan were $2.3 million. Total costs for the Combined Plan were $2.5 million.

Q: Why does OPERS charge an administrative fee when Ohio Deferred Compensation doesn't?

A: Ohio Deferred Compensation currently charges fees as a percentage of the **TOTAL** assets that a participant has in each fund. The total assets in a member's account are much larger than the contributions they make, which is what OPERS' previous fee was based on. Deferred Compensation's fees are split between investment management fees and administrative fees. However, Deferred Compensation plans to present other options to the Board of Trustees in the future in contemplation of changing the fee structure. The options will include a mix of asset-based and flat-dollar fees for administrative fees, while keeping investment management fees as a percentage of assets.

Q: Why is there a flat $5 fee and the 0.5 percent withholding from employer contributions in the Member-Directed Plan, but only one (the flat fee) assessed in the Combined Plan?

A: OPERS invests the employer contributions in the defined benefit portion of the Combined Plan. These investment returns can be used to cover administrative expenses. There is no such source of funding administrative expenses in the Member-Directed Plan.

Q: Why is there a flat $5 fee and the 0.5 percent withholding from employer contributions in the Member-Directed Plan for active members, but inactive members pay only the flat fee?

A: Because inactive members are no longer employees, employer contributions are not remitted to their accounts. So there is no source for the 0.5 percent withholding.

Member-Directed and Combined Plan mitigating Rate

Q: Why does OPERS charge a mitigating rate?

A: OPERS uses a portion of the employer contribution made on behalf of members in the Member-Directed and Combined Plans to offset any financial harm to the Traditional Pension Plan as a result of losing membership because of the other two plans. This was a condition of establishing the defined contribution plans.

The concept of the mitigating rate originated in 1997 when a select group of our membership was permitted to opt out of OPERS and choose an alternative retirement plan. The Ohio legislature recognized there would be ongoing harm to OPERS' funding for this loss of membership and thus required as a condition that a portion of the employer contribution would be remitted to OPERS.

The Ohio General Assembly later applied this concept to our defined contribution plans upon their creation.

Q: Has OPERS always charged the mitigating rate for its defined contribution plans?

A: No. We only began doing so in 2006 after we were able to analyze our experience with how many members were joining the defined contribution plans. We had no way of measuring negative impact when we created the plans, so the initial mitigating rate was applied when some history had built up in the plans.

Q: How does OPERS determine negative financial impact to the Traditional Pension Plan and what mitigating rate to charge?

A: The rate is based on plan experience and future assumptions. The OPERS Board of Trustees establishes the mitigating rate based on these factors.

Q: Will Traditional Pension Plan members contribute more or less money if the mitigating rate increases?

A: No. State law requires certain contribution rates for all members and all employers and they are not impacted by the mitigating rate.

Q: What financial impact will the mitigating rate increase have on members of OPERS' defined contribution plans?

A: For a member with a monthly earnable salary of $4,000, which is near the average monthly salary for a Member-Directed Plan member, the mitigating rate change for 2016 would result in about a $9 reduction in the total amount available for investment that month.

Q: Why can't the mitigating rate be used to pay the costs of the Member-Directed and Combined Plans?

A: State law requires that the mitigating rate reduce negative financial impact on the Traditional Pension Plan. That has nothing to do with the administrative costs of the two new plans.

Q: How is the money that is deducted for the mitigating rate used in the Traditional Pension Plan?

A: It is credited to the Employers' Accumulation Fund, where all employer contributions are held in the Traditional plan and is used to offset the unfunded liability.

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Member-Directed RMA Changes

Q: Will members who were hired prior to July 1, 2015, but make their plan selection after July 1, 2015, be under the new or the old vesting schedule?

A: Anyone hired prior to July 1, 2015, who selects the Member-Directed Plan during their first 180 days of work falls under the old vesting schedule. Plan participation is effective on your first day of work.

Q: If annual administrative costs are less than the 0.5 percent reduction to the RMA, will the extra money go into my investment account?

A: No. The 0.5 percent is based on *projected* administrative costs. The board will review the expenses and fees and make adjustments in future years as necessary.

Q: What types of administrative costs will be funded by the 0.5 percent reduction to the RMA?

A: These are the costs for OPERS staff to administer the plans and for a third-party administrator to perform recordkeeping services.

OPERS' administrative costs include the staff time and resources for functions like: processing applications, creating and mailing annual statements, creating plan-specific communications and counseling members about their plan. Recordkeeping duties performed by our third-party administrator include issuing quarterly statements and taking phone calls from members.

Q: Will the 0.5 percent be used to fund OPERS' total administrative costs (to operate all three plans)?

A: No. Because each plan is a separate, legal entity, it can be used only to pay administrative expenses in the Member-Directed Plan.

Q: Was the Member-Directed RMA vesting schedule always five years?

A: No. Members currently vest over a five-year period, but the original vesting schedule was 10 years. The original schedule reflected the former 10-year eligibility requirement for health care coverage in the Traditional and Combined plans. The new schedule is in keeping with all the health care changes.

Q: Why is OPERS changing the Member-Directed RMA vesting schedule?

A: The changes are consistent with the changes to the other pension plans for health care. They encourage members to work longer for health care to be closer to Medicare-eligible age, and they recognize that health care coverage is not usually provided in conjunction with defined contribution plans. Members who are Medicare eligible when they access their health care account will be able to use the new OPERS Medicare Connector to select a health care plan. Previously, members were responsible for finding their own health care plan. Now they will be able to take advantage of the cost savings and plan offerings associated with the Connector.

Q: Why is OPERS changing the way it pays interest on the Retiree Medical Account?

A: OPERS bears significant risk in paying guaranteed interest on RMAs when overall investment returns are negative or less than the guaranteed rate. The new interest rate calculation eliminates our risk of paying interest on RMA accounts when pension returns are negative, or less than the guaranteed rate, during the previous calendar year.

Q: How does the new RMA interest rate calculation work?

A: If investment returns during a calendar year are greater than zero, the RMAs will be credited with 4 percent interest the following year. If returns are zero or negative, no interest will be credited to the RMA the following year.

For members who have not retired, OPERS will apply the interest at the end of the year following the year that the interest is calculated. For instance, if the interest is calculated at the end of 2016, the amount would be credited to the member's account at the end of 2017. For retirees, the interest will be distributed evenly throughout the year following the calculation. Retired members will receive the proportionate amount of interest during each month. So the interest that is calculated for 2016 would be evenly deposited to the accounts during 2017.

Q: When do they go into effect?

A: The new rates will be initially measured near the end of 2016, to be applied to member accounts at the end of 2017. Current member accounts will be credited the current interest rate of 4 percent at the end of 2016.

Q: If the return on investment assets is more than 4 percent, how is the extra money used since Member-Directed Plan participants would receive only 4 percent interest on their RMA?

A: OPERS invests the Retiree Medical Account contributions in a manner similar to how the pension assets are invested. In the future we can draw on these assets to pay RMA interest, including when pension asset returns are more than zero but less than 4 percent.

Changing plans

Q: If members executed a plan change in the past, will OPERS allow them to purchase plan change service credit if they previously declined the opportunity to do so within their 180-day window?

A: No. Past rules required members to purchase service credit within 180 days of their plan change effective date.

Q: I had three plan change opportunities but have not used any of them; how will the new rules regarding one plan change impact me?

A: If you make a plan change on or after July 1, 2015, it will count as your one plan change opportunity.

General

Q: The Member-Directed and Combined Plans were first offered in 2003; why is OPERS making these changes now?

A: OPERS reviews all plans periodically, understanding that demographic and changes in life patterns impact the finances of plan funding. We have a decade of experience that has given us insight regarding what the Member-Directed and Combined Plans require to be self-supporting and to be operated more efficiently. OPERS staff recently conducted a thorough review of the plans, and as a result determined that it needed to make the changes.

Q: I selected the Member-Directed Plan based on the provisions of the plan in place at the time of my selection. What are my options if I do not want to participate in this plan because of the administrative fee changes that will be implemented in January 2016?

A: You may be eligible to change to a different plan. We have more information about that on our website.

Q: Has OPERS considered setting up for members of all three plans a Retiree Medical Account that would provide a monthly amount for health care expenses?

A: OPERS continually examines the health coverage we offer to make sure it reflects the current market and is financially sustainable. OPERS recently completed a multiple-year review that included feedback from members, and as a result made substantial changes to the health care coverage to ensure its sustainability.