

The following information is provided to the university by the Ohio Public Employees Retirement System (OPERS):

By law, a portion of the contribution public employers pay into an alternate retirement plan (ARP) on behalf of participating employees goes to the Ohio Public Employees Retirement System (OPERS) to offset the potential negative financial impact on OPERS of choosing an alternate retirement plan. The portion of the employer contribution that goes to OPERS is called a “mitigating rate” and is set by law by the Ohio Retirement Study Council (ORSC). Under current law, OPERS is authorized to collect up to 6 percent of the employer contribution made on behalf of ARP participants. By law, however, the 6 percent rate collected from ARP participants is limited to the mitigating percentage rate that is collected from OPERS defined contribution participants. The mitigating rate is currently .54 percent (0.54%) for state employers and .7 percent (0.70%) for local employers.

1. What is the mitigating rate?

House Bill 586, effective March 31, 1997, established Ohio Revised Code Chapter 3305 which permitted certain academic and administrative employees of higher education institutions to select an Alternative Retirement Program (ARP) offered by a private vendor in lieu of participating in the appropriate state retirement system (either OPERS, State Teachers Retirement System (STRS) or School Employees Retirement System (SERS)). Certain employees (those with less than five years of service and new hires) were permitted to opt out of the state retirement system with the understanding that it could have a negative financial impact on the state retirement systems. To mitigate the negative financial impact of the loss of this population, the Ohio General Assembly authorized the state retirement systems to collect a portion of the employer contribution rate for those employees that elected to participate in an ARP. By comparison, when the state retirement systems were authorized to establish defined contribution options for their members in 2001, the Ohio General Assembly gave each system the authority to collect a mitigating rate from the employer contribution made on behalf of members who elect a defined contribution plan.

2. As someone who chose an ARP, why should a portion of my contribution go to OPERS?

Ohio is a non-Social Security state, meaning that public employees by law pay into a state retirement system instead of Social Security. If a public employee chooses an ARP instead of OPERS, there is the potential of a negative effect on the state retirement system. Therefore, the Ohio General Assembly mandated that the potential negative impact be mitigated by the collection of the “mitigating rate.” Similarly, when the Ohio General Assembly authorized the state retirement systems to offer defined contribution options to their members, the general assembly also authorized the systems to collect a mitigating rate from the employer contribution made on behalf of members who elect a defined contribution plan.

3. What is the process for the determining the mitigating rate?

Every three years according to law, the Ohio Retirement Study Council uses an independent actuary to review and determine any necessary adjustments in the mitigating rate to reflect any changes in the level of the negative financial impact on the state retirement systems. The most recent review was completed in June 2005. At the time the study was completed, OPERS was not authorized to begin collecting the ARP mitigating rate because the OPERS Board was not collecting a mitigating rate from participants in the OPERS defined contribution plans. (OPERS started collecting a mitigating rate from its defined contribution members in January 2006.)

Once determined, OPERS notifies its employers with ARP participants of the upcoming change and the implementation date. This was completed in March 2007. Each employer then notifies the impacted participants of the implementation date.

4. Can the mitigating rate change?

Yes. The General Assembly has authorized the Ohio Retirement Study Council with the responsibility of setting the mitigating rate every three years. The rate is determined by an actuarial analysis that projects the potential impact of ARP participation on OPERS

The ARP mitigating rate is also impacted by the mitigating rate charged to OPERS defined contribution plan participants. By law, OPERS cannot collect a mitigating rate from ARP participants that exceeds the rate collected from OPERS’ defined contribution participants. The OPERS Board evaluates the OPERS mitigating rate annually for

its defined contribution participants and, thus, to the extent that this rate does not exceed the rate set by the ORSA, the ARP mitigating rate may change.

5. When does the mitigating rate go into effect?

August 1, 2007.

6. What is the negative financial impact?

The funding for the statewide retirement systems is based on average expected employee and employer contributions, which in turn is impacted by the employee's salary. The ARP program, which was established in 1997 and subsequently expanded in 2005, allows certain new hires who would otherwise participate in a state retirement system to opt-out of membership in the system. In sum, the statewide retirement systems are negatively impacted if a portion of the population base is excluded.

In developing the employer contribution rate, the actuary determines the portion of the contribution rate that is allocated to fund what is referred to as the "unfunded liability." To the extent the pool of new members is diminished, the employer contribution available to fund the "unfunded liability" is reduced, and thus the state retirement systems are negatively impacted.

7. What causes the unfunded liability?

Unfunded liability is created when a benefit is provided and the appropriate employer and employee contributions (and corresponding investment return) needed to fund the cost of the benefit are not paid. Assume for example that you are an employer with two employees. Employee A has worked for you for 18 years, and Employee B has worked for you for 6 years. You have no pension plan in place, but you have opted to start one. Should both of these employees have the same benefit? Typically, the pension plan would consider all the past service for both of these employees and would give them credit for their service in the retirement calculation. However, this creates a benefit for which there is an unfunded liability.

Unfunded liability is also impacted by the amount the retirement system earns on its investments. As you are aware from your own personal investments in the ARP, only a small portion of the funds you plan to have for retirement come from the contributions from you and your employer. The more significant component of the retirement savings comes from the investment earnings of the long-term investment of the retirement funds. This also applies to the state retirement systems. To the extent that the retirement systems earn less than they anticipate, the unfunded liability grows. Conversely, to the extent that the retirement systems are able to earn more than they anticipate, the unfunded liability is reduced. With the exception of the fiscal years 2000-2002, the Ohio Public Employees Retirement System has had good returns and has been able to reduce the unfunded liability.

8. Is there a limit on the mitigating rate?

Yes. The enabling statute authorizes the state retirement systems to collect up to 6% of the employer contribution made on behalf of ARP participants until such time the unfunded pension liability is/was fully amortized or more simply put, fully paid off, excluding unfunded liability for health care benefits and benefit improvements enacted after the enabling legislation. By comparison, when the state retirement systems were authorized to establish defined contribution options for their members in 2001, the Ohio General Assembly gave each system the authority to collect a mitigating rate from the employer contribution made on behalf of members who elect a defined contribution plan.

9. Why is it being implemented now?

With the enactment of H.B. 586, which took effect on March 31, 1997, OPERS began collecting a mitigating rate of 6 percent. Beginning January 1, 1999, OPERS reached full funding, which means there was no unfunded liability. Consequently, OPERS ceased charging a mitigating rate to the ARP participants. In 2002, OPERS was no longer fully funded and thus could have begun charging ARP participants a mitigating rate.

In 2004, the legislature passed Senate Bill 133, which became effective August 1, 2005. This bill expanded the population of OPERS employees (and potential new hires) that could participate in the ARP. Pursuant to the actuarial study completed by ORSA in July 2005, OPERS was authorized to collect 6 percent of the employer contribution made on behalf of ARP participants; however, the 6 percent rate was limited to the mitigating percentage rate that was being collected from OPERS defined contribution participants. OPERS did not implement a mitigating rate for its defined contribution participants until January 2006.

The implementation of this mitigating rate to participants of ARP was delayed until August 2007 to allow adequate time for OPERS to notify employers, who in turn needed to notify the impacted employees and make changes to their payroll systems.

10. What are the other Ohio statewide retirement systems doing?

Each of the state retirement systems whose populations are eligible to opt out to participate in the ARP (OPERS, SERS, and STRS) are authorized to collect a mitigating rate to offset the negative financial impact of the electing employees' participation in ARP. OPERS and SERS previously ceased collection of the mitigating rate because each system reached full funding in 1999. Since the expansion of the eligible ARP population in August 2005, SERS resumed collecting 6 percent of the employer contribution made on behalf of the ARP participants. Due to differences in funding status, STRS has never reached full funding status since the passage of the enabling legislation. Consequently, STRS has continually collected the mitigating contribution rate, which is currently 3.5 percent.

11. Is the mitigating rate impacted by the increased employer and member contribution rates?

No. While the increase in employer and member contribution rates reduces unfunded liability, which ultimately should reduce the mitigating rate collected from the ARPs, there is no immediate impact.

12. Where Can I Obtain Additional Information?

Your questions can be answered by:

- Visiting <http://hr.osu.edu/benefits/arpchanges.htm>
- Contacting the Office of Human Resources Customer Service Center, service@hr.osu.edu, (614) 292-1050, 1-800-678-6010, Fax: (614) 292-6235