7/31/2012

The Ohio State Highway Patrol is an internationally accredited agency whose mission is to protect life and property, promote traffic safety, and provide professional public safety services with respect, compassion, and unbiased professionalism.

The Highway Patrol Retirement System was created by the Ohio Legislature in 1941 to provide pension benefits to the sworn officers and communications personnel of the Ohio State Highway Patrol and has a long history of conservative stewardship of public funds, service to its membership, and a sound and deliberate investment policy. As with other defined benefit plans, HPRS's investments were hard hit by the market events of 2008 and 2009. **In 2009**, the Retirement Board, with the support of both active members and retirees, formulated a comprehensive five-point plan for recovery and ongoing stability.

1) Reduce the annual cost of living adjustment (COLA) from 3% to 2% with limited exceptions for our oldest retirees who receive very limited benefits. Grant the Retirement Board the discretion to reinstate the 3% COLA when conditions improve.
2) Increase the amount that each member contributes to the retirement system by 1% (from 10% to 11%).
3) Increase the Final Average Salary (FAS) calculation period from 3 to 5 years for members retiring after 2014.
4) Increase the COLA eligibility age from 53 to 60.
5) Reduce the allocation of contributions to the health care fund by 1% of employer payroll.

In both 2009 and 2010, the Retirement Board proactively implemented the fifth point of its plan by redirecting 1% of employer payroll from health care to pension benefits and an additional 1.75% in 2011 and 2012. The assistance of the Ohio General Assembly was needed to enact the other four points of the plan.

Since legislation was not enacted, it was clear to the Board that additional measures had to be considered to ensure our system's solvency and compliance with the Ohio Revised Code. **On April 19, 2012**, after discussion of numerous alternatives, the Board unanimously approved two modifications to the initial plan. They are:

1) The annual cost of living adjustment (COLA) applied to eligible retirees will range between 0% - 3%. The percentage rate will be determined by the Board as deemed necessary to comply with the annual actuarial valuation requirements of ORC 5505.121.
2) The amount each active member contributes to the retirement system will range between 10% - 14% of the member's annual salary. The percentage rate will be determined by the Board as deemed necessary to comply with the annual actuarial valuation requirements of ORC 5505.121.

On May 23, 2012, the Ohio Senate unanimously passed Senate Bill 345 which contains the elements presented above. Action by the Ohio House is in progress.

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Testimony Before the
House Health and Aging Subcommittee on Retirement and Pensions
On House Bill 69/(Senate Bill 345)

Mark R. Atkeson, Executive Director, Ohio Highway Patrol Retirement System

August 1, 2012

Chairman Schuring, Ranking Member Hagan, and members of the House Health and Aging Subcommittee on Retirement and Pensions, thank you for this opportunity to speak. My name is Mark Atkeson, and I am the executive director of the Ohio Highway Patrol Retirement System (HPRS). I am here today to discuss the current provisions in our pension reform plan, how we plan to address future changes, and the comprehensive report provided to the ORSC by William Fornia.

I want to thank Representatives Schuring, Wachtmann, and Ramos for their work on the Ohio Retirement Study Council (ORSC). I also appreciate the House Health and Aging Committee's and this subcommittee's willingness to address the issues facing our system by means of this legislation which reflects the proposed recommendations unanimously passed by our Board.

As a recent retiree with 31 years of service to the State Highway Patrol and State of Ohio, I have seen both the good years and the not-so-good. Unfortunately, we are in one of those not-so-good times as a result of the market events of late 2008 and early 2009. Because of these significant negative market events, it was apparent that HPRS would not be able to amortize its unfunded liabilities over 30 years. This is the first time our system has been in this situation.

During the spring and summer of 2009, our Board diligently worked to develop a solvency plan that would meet the requirements of the Ohio Revised Code. Our Board solicited input from both active and retired members, our retirees' association, and the Ohio State Troopers Association (OSTA), the union for our active bargaining members, and ultimately approved a plan that called for shared sacrifice, but no additional taxpayer-funded support.

Our plan, as initially introduced in HB 69, included the following five points:

1. Reduce the annual cost of living adjustment (COLA) from 3% to 2% with limited exceptions for our oldest retirees who receive limited benefits.
2. Increase the amount each member contributes to the retirement system by 1%, from 10% to 11%.
3. Increase the Final Average Salary (FAS) calculation period from 3 to 5 years for members retiring after 2014.
4. Increase COLA eligibility age from 53 to 60.
5. Reduce the allocation of contributions to the health care fund by 1% of employer payroll.

If enacted, these changes would have reduced the amortization of our unfunded pension liabilities to less than 30 years, Ohio's benchmark for a healthy pension system.

Without legislative action, the only action the Board could take was to reduce the percentage of employer contribution to the health care fund. This was reduced by 1% in 2009 and by another 1.75% in 2011. Even if we allocate the remaining 1.75% destined for the health care fund to the pension fund, without additional changes, we are still at risk of falling outside the 30-year period.

Although not statutorily mandated, our Board considers access to affordable health care as an essential component of a secure retirement. Based on the most recent actuarial study, the health care fund is estimated to be solvent for another 10 years. If we have to further reduce the employer contribution to 0%, this fund will be depleted in a matter of years – even if significant changes are made to health care benefits and premiums.

Going forward, in 2012, it was clear to the Board that additional measures had to be considered to ensure our system's solvency and compliance with the Ohio Revised Code. Over the past six months, a number of meetings were held to inform our membership, both active and retired, of the status of our pension solvency. Changes to the existing plan were presented and input from the membership was gathered. Yes, there are individuals who are concerned with how the changes to the plan personally affect them, but overwhelmingly the membership understands that action must be taken to ensure pension and health care benefits into the future.

On April 19, 2012, after discussion of numerous alternatives, the Board unanimously approved two modifications to the initial plan. They are:

1. The annual cost of living adjustment (COLA) applied to eligible retirees will range between 0% - 3%. The percentage rate will be determined by the Board as deemed necessary to comply with the annual actuarial valuation requirements of ORC 5505.121.
2. The amount each active member contributes to the retirement system will range between 10% - 14% of the member's annual salary. The percentage rate will be determined by the Board as deemed necessary to comply with the annual actuarial valuation requirements of ORC 5505.121.

Granting this latitude to the Board allows corrections to be made more quickly and responsively to actuarial projections. Increasing employee contributions and decreasing COLA are actions the Board would take only if required by actuarial necessity. By addressing employee contributions and COLA, the burden is borne by all members of our system.

Unlike the other systems, we are a single-employer system. But, we have worked with both our retirees' association and the Ohio State Troopers Association (OSTA) in formulating this plan.

As you know, on July 11, 2012, Mr. Fornia presented the results of the Pension Trustee Advisors and KMS Actuaries, LLC (PTA/KMS) study to the ORSC. His report supported our plan, which is before you now, as approved by our board and unanimously passed by the Senate on May 23, 2012. There are numerous recommendations presented throughout this report, and many have already been acted on by our board.

Many of the recommendations for "triggers" for adjusting employee contributions and COLA discussed in the report are well-received and are under consideration by our board with an expectation of adopting the appropriate ones in the near future. These decisions will be based on our annual actuarial valuation reports as well as the recommendations presented in this report.

We whole-heartedly support Mr. Fornia's recommendation to *"Give the systems* [*sic*] *boards broad authority to make certain changes if necessary,"* especially as it pertains to reducing COLA and increasing employee contribution. In reference to our plan, he further wrote, *"The* *proposed 30-year* [HPRS] *plan is comprehensive, very significant, and a reasonable approach given the funded status of the system."*

I also want to point out that Mr. Fornia's report used our 2009 plan in his analysis, not our 2012 plan. The new plan, in Mr. Fornia's words*, "is much stronger than the one tested in the ORSC report."* In follow up conversations, he stated our new plan *"will absolutely do the trick."* This is reinforced by our recently obtained supplemental actuarial valuation from Gabriel Roeder & Smith. With our new plan according to PTA's report, *"additional contributions would be available for health care, and long-term solvency is projected to be satisfied."*

Passing this legislation as presented will ensure the solvency of our system. We will be able to reduce our amortization period considerably and will substantially decrease our unfunded liabilities. It is doubtful the negative limits of the proposed ranges will ever have to be adopted; however, these ranges ensure the Board has the ability to react even under extreme circumstances.

For your convenience, I have submitted a copy of SB 345 and highlighted those areas that are different from the original language in HB 69.

Thank you for the opportunity to present this testimony, and I appreciate your consideration of this legislation as presented. I will be glad to answer any questions you may have.

Testimony Before the
Senate Insurance, Commerce and Labor Committee
On Senate Bill 345

Mark R. Atkeson, Executive Director
Ohio Highway Patrol Retirement System
May 15, 2012

Chairman Bacon, Vice Chair Faber, Ranking Member Brown, and members of the Insurance, Commerce and Labor Committee, thank you for this opportunity to speak. My name is Mark Atkeson, and I am the executive director of the Ohio Highway Patrol Retirement System (HPRS). I want to thank Senators Niehuas and Kearney for their support in introducing this legislation. I also appreciate this committee's willingness to address the issues facing our system by means of this legislation which reflects the proposed recommendations unanimously passed by our Board.

As a recent retiree with 31 years of service to the State Highway Patrol and State of Ohio, I have seen both the good years and the not-so-good. Unfortunately, we are in one of those not-so-good times as a result of the market events of late 2008 and early 2009. Because of these once-in-a-lifetime market events, it was apparent that HPRS would not be able to amortize its unfunded liabilities over 30 years. This is the first time our system has been in this situation.

During the spring and summer of 2009, our Board diligently worked to develop a solvency plan that would meet the requirements of the Ohio Revised Code. Our Board solicited input of both active and retired members and ultimately approved a plan that called for shared sacrifice, but no additional taxpayer-funded support.

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