

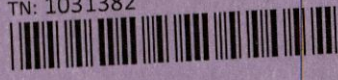
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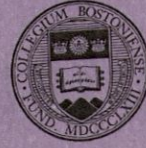
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Public Employees Retirement System

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REFERENCE

Dedicated to serving the public employees of Ohio

DEDICATED TO SERVING THE PUBLIC EMPLOYEES OF OHIO

THE PUBLIC EMPLOYEES OF OHIO RETIREMENT BOARD OF OHIO — 1971

One of the most significant developments of the past year for the Public Employees Retirement System of Ohio was the move in August from leased quarters, occupied since 1937, to our own new building at 277 East Town Street.

The Board, in 1967, asked legal counsel (the Attorney General) whether the Board had the authority to contract for the erection of a building to house its operations. The Attorney General held in the affirmative.

The Board then negotiated a contract with the developer of the Market-Mohawk (an urban redevelopment project), chose the site, selected an architect and retained the services of the State Architect as consultant.

Following a paper flow study plans and specifications were approved and contracts let late in 1968, so that it was possible to break ground early in 1969.

Dedicated to serving the public employees of this state, the new building provides the space and facilities needed to keep pace with the growth of the Retirement System. Recognition is paid here to members of the Board, both past and present, and the many other individuals whose counsel, foresight and efforts were so important to the success of this venture.

Mark McElroy
Chairman of the Board, 1971



MARK McELROY, Chairman
County Employee Rep.
Cleveland



RAPHAEL HORWITZ
State Employee Rep.
Columbus



CHARLES E. HUGHES
Municipal Employee Rep.
Dayton



DORIS WOOD
Miscellaneous Employee Rep.
Batavia



WILLIAM J. BROWN
Attorney General, Columbus



PAUL A. COREY
Director, Department of
State Personnel, Columbus



JOSEPH T. FERGUSON
Auditor of State, Columbus

FRED L. SCHNEIDER
Executive Director

J. DOUGLASS PETERS
Deputy Director

Reception Area



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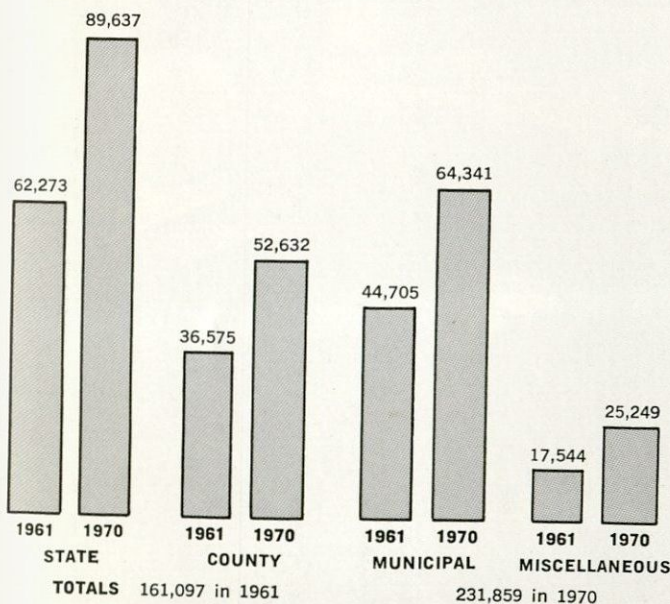
Membership in the Public Employees Retirement System is a privilege as well as an obligation under the law. It assures those who qualify through age and service, of disability and survivor protection during their younger years and monthly benefits when they retire.

All public employees of the state, counties, its cities, villages, townships, libraries, and other political subdivisions are members. By the end of 1970 the number had grown to more than 231,800, a 6% gain over 1969. A 10-year comparison of PERS memberships by employee groups is illustrated through bar graphs below.

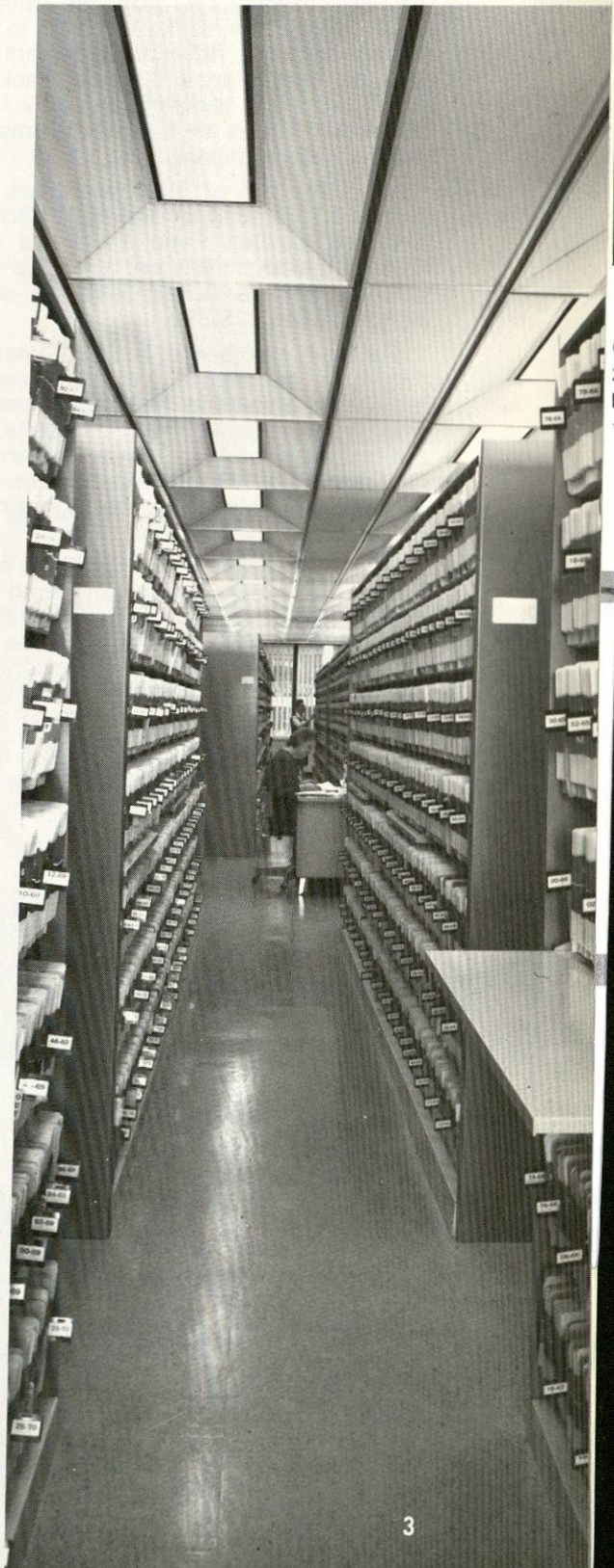
The protection afforded by the Retirement System is one of the important "fringe" benefits provided public employees in Ohio. It can be a determining consideration for the prospective employee and an inducement to present public employees to make public service their careers.

Records of the Retirement System include a personal history file for each member, past and present. These files, maintained in open stacks as pictured at the right, are arranged according to members' Federal Identification Numbers. The information is confidential and is available only to the member or his authorized representative.

Ten-Year Comparison of Membership by Employee Groups



Note: Included in these totals are those no longer in public employment who have left their savings on deposit. Those on inactive status totalled 15,637 in 1961 and 22,514 in 1970.



MEMBERS' SAVINGS FUND

The deductions (7.7%) from the salary of a public employee belong to him. His money is in effect in a savings account with the Retirement System. Some day either he or his beneficiary will receive back all of this money, and, if he or his beneficiary qualify for monthly benefit payments chances are a great deal more will be returned than he had on deposit.

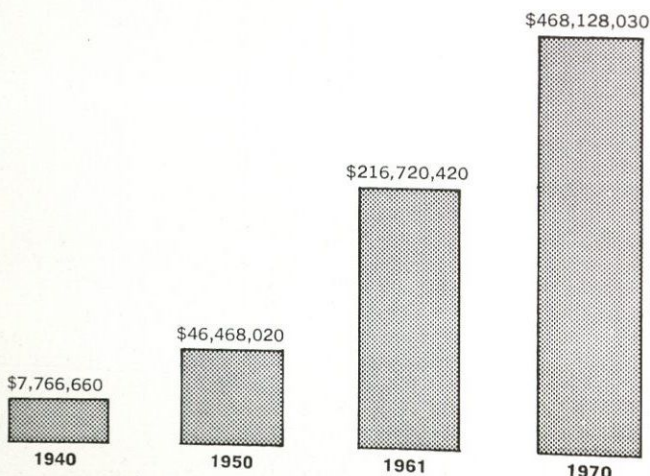
As of the end of 1970, members of the Retirement System had a total of \$468,128,030 on deposit in the Members' Savings Fund. This is a steadily increasing fund as new members are added to the System and as salaries increase. During 1970 the savings of members increased \$48,228,782.

For many members of the Retirement System the funds they have on deposit and the disability, survivor and retirement protection that their accounts represent are their most valuable financial assets, assuring them of a future source of income in the form of monthly benefits. Those who leave covered public employment before becoming eligible for a pension can claim a cash refund of all their contributions.

When a member does qualify for monthly benefits the money in his account is transferred to the Annuity and Pension Reserve Fund along with the accumulated interest it has earned. At the same time the money contributed to his credit during his working career by his employer or employers, along with interest, also is transferred to the Annuity and Pension Reserve Fund.

It will be from this Fund that his monthly benefits will be paid for as long as he lives. The balance in the Annuity and Pension Reserve Fund as of Dec. 31, 1970, was \$572,237,687.66.

The Growth of the Members' Savings Fund — 1940 thru 1970



POSTING SECTION



SAVINGS AND SERVICE RECORDS

All records maintained by the Retirement System are important but none more so than those which document the member's savings and public service record. For example, it is from these records that, at time of retirement, a member's Final Average Salary is calculated and the length of his public service determined.

Such information is taken from the monthly payroll reports of his employer, and entered on his individual ledger card. After the deduction for retirement has been entered on his ledger, the card is returned to the Pre-Posting Section, pictured below, awaiting the next payroll contribution.

Nearly a quarter of a million ledger cards are maintained in the Pre-Posting Section, representing the accounts of all members of the Retirement System currently employed or on "leave of absence" status from P.E.R.S. Entries on these cards record the more than \$468 million in members' savings. Statements are sent annually, through fiscal or payroll officers to all members, informing them of the balances in their accounts as of the close of the year.

SAVINGS LEDGER			
NAME		DATE OF BIRTH	REF. NO.
DOE JOHN		10 16 30 2	255 33 5678
530,065 2			6 70 00 0
AMOUNT	EXCESSIVE	DATE	REFERENCE
34.56		JUN 30 70	34.56 *
35.75		JUL 31 70	70.29 *
34.56		AUG 31 70	104.85 *
34.56		SEP 30 70	139.41 *
34.56		OCT 31 70	173.97 *
35.75		NOV 30 70	209.72 *
34.56		DEC 31 70	244.28 *
DATE			
CODE			
REMARKS			
1,232.00			
Burrage PUBLIC EMPLOYEES RETIREMENT SYSTEM			

Example of a member's ledger card



BENEFIT PAYMENTS — AMENDMENTS

Benefits paid by the Retirement System have increased in number and total amounts each year since the first retirement check was issued on January 31, 1938 by what then was known as the State Employees Retirement System.

The annual increases in benefit payments by the System are caused by a number of factors. The number of covered employees and officials has kept growing as illustrated in the chart of the past decade on Page 3, and a steady increase in the number of persons receiving monthly benefits has resulted.

The addition of survivors benefits in 1951 has added more than 5,400 to the total number of monthly benefits being paid. Upward changes in

salary levels also were a factor as higher average salaries result in higher benefit amounts at the time of retirement.

Another important cause of increases in benefit amounts paid out were amendments enacted to the retirement law, some of which extended coverage to additional groups of employees and others gave uniform increases (to those retired) or liberalized the benefit formula (for those who retired after the enactments).

Legislated benefit increases were granted in the year 1970. Amended Substitute House Bill No. 210, effective in September, 1970, brought a new schedule of survivor benefits into the law, based

Data Processing Section



on a late member's final average salary and number of surviving dependents. This was added to the fixed schedule of survivor benefits already in the law so that the survivors receive whichever of the two bases is the greater.

This legislation (Sub. H.B. No. 210) also expanded the definition of dependents to include the decedent's unmarried dependent child up to age 22, if a student. Otherwise the benefit for the child stops on his 18th birthday.

Another change makes it possible for widows to qualify for monthly benefits at age 50 if their

late husbands had at least 10 years of service credit. Previously the requirement was 15 years.

Concerned about the affect of the rise in the cost of living on persons already retired, the 108th Ohio General Assembly enacted, in Amended Senate Bill No. 448, an automatic 1½% cost-of-living increase, effective starting in July, 1971. This continues each year thereafter when the U.S. Consumer Price Index shows an increase in the cost of living of at least that same percentage. The amendment stipulates that a retirant must have received at least 36 monthly payments in order to qualify for his first increase.

TEN-YEAR COMPARISON OF BENEFITS PAID TO RETIRANTS, BENEFICIARIES, DISABILITY RETIRANTS AND SURVIVORS

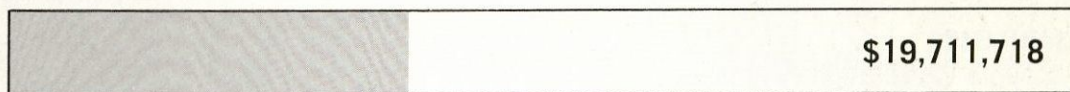
NUMBER OF
INDIVIDUALS
AS OF END OF YEAR

30,978 1970

To Retirants and Beneficiaries

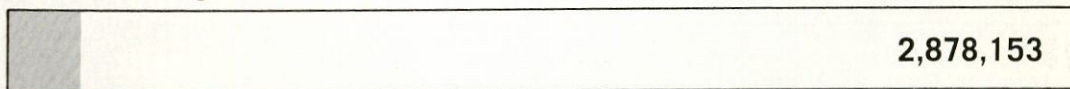


16,487 1961

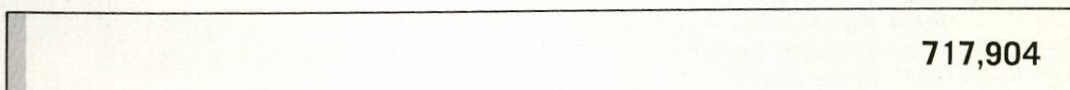


To Disability Retirants

1,571 1970

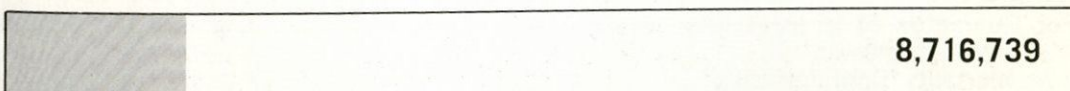


508 1961

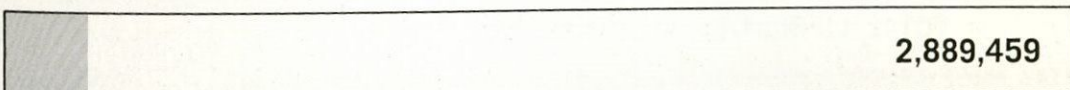


To Survivors

5,424 1970



2,311 1961



STATEMENT OF ASSETS, LIABILITIES AND RESERVES

		1970
ASSETS		
Cash and Temporary Investments — At Cost		\$ 269,002.31
Accounts Receivable		29,033,833.76
Investments		
Bonds — Par Value — U.S. Treasury	\$ 52,683,900.00	
Federal Land Bank	7,975,000.00	
F.N.M.A.	3,275,000.00	
U.S. Merchant Marine	2,729,000.00	
Int'l Bank for Reconstruction and Development	4,515,000.00	
Corporate	1,058,666,947.79	
Municipal	18,579,000.00	
Total Bonds Par	<u>\$1,148,423,847.79</u>	
Add Premium	7,573,529.67	
Deduct Discount	<u>28,192,198.63</u>	
Book Value Bond Investments		1,127,805,178.83
Mortgages (Capehart) Par	\$ 100,927,049.52	
Add Premium	180,230.57	
Deduct Discount	<u>2,930,163.60</u>	
Book Value Mortgages		98,177,116.49
Stocks (At Cost) Common		276,707,617.31
Preferred Convertible		1,824,165.35
Fixed Assets		
Furniture, Fixtures and Equipment	\$ 460,585.22	
Building and Site	<u>2,140,782.05</u>	2,601,367.27
Deferred Loss on Sale of Securities*		<u>26,632,637.41</u>
TOTAL ASSETS		<u><u>\$1,563,050,918.73</u></u>
LIABILITIES		
Accounts Payable — Investments		\$ 969,752.01
Funds		
Members' Savings Fund	\$ 468,128,029.85	
Employers' Accumulation Fund**	390,878,699.80	
A & PR Fund	572,237,687.66	
Survivor Benefit Fund	125,575,623.66	
Income Fund	79,166.94	
Interest Guar. (Members at Retirement)	1,500,000.00	
Expense Fund	65,121.75	
Total Funds	<u>1,558,464,329.66</u>	1,558,464,329.66
Short Term Investment Income		6,225.69
Allowance for Replacement		
Furniture, Fixtures and Equipment		144,559.37
RESERVES		
For Guarantee of Interest Maintenance		
Investments	\$ 1,502,939.00	
Mortality Contingencies	1,509,864.00	
Total Reserves	<u>453,249.00</u>	3,466,052.00
TOTAL LIABILITIES AND RESERVES		<u><u>\$1,563,050,918.73</u></u>

*This entry, which is explained in the "Notes to Financial Statement," will be amortized over the remaining period to maturity of the bonds exchanged.

**Not listed are the unfunded accrued service liabilities at actuarial valuation, and as of the most recent valuation \$381,724,828. They are being amortized over a period of 10 years.

NOTES TO FINANCIAL STATEMENT

1969

	\$		
		4,731,211.08	
		25,645,040.40	
\$		63,972,000.00	
		7,975,000.00	
		3,275,000.00	
		2,745,000.00	
		4,515,000.00	
		945,201,602.71	
		20,084,500.00	
		<u>\$1,047,768,102.71</u>	
		7,604,132.09	
		25,754,446.21	
		1,029,617,788.59	
\$		106,514,923.65	
		187,127.04	
		<u>3,087,521.69</u>	
		103,614,529.00	
		195,639,965.58	
		1,824,165.35	
\$		241,561.37	
		<u>1,270,658.43</u>	
		1,512,219.80	
		<u>24,459,693.26</u>	
		<u><u>\$1,387,044,613.06</u></u>	
\$		419,899,247.44	
		326,566,029.86	
		516,796,971.59	
		116,169,865.06	
		2,250,000.00	
		1,500,000.00	
		<u>11,362.13</u>	
		\$1,383,193,476.08	
		52,038.71	
		104,314.27	
\$		1,902,939.00	
		1,338,596.00	
		<u>453,249.00</u>	
		3,694,784.00	
		<u><u>\$1,387,044,613.06</u></u>	

ASSETS

CASH— Only enough cash is on deposit at the State Treasury to meet the outstanding checks written for benefit payments, refunds and expenses.

ACCOUNTS RECEIVABLE— Principally these are employers' contributions due for the last quarter of 1970.

BONDS— 74.90% of P.E.R.S. money is invested in bonds — U.S. Government, municipals and those of corporations rated A or higher. The corporate holdings include bonds issued by industries, utilities, and railroads. These bonds are listed at their par value.

MORTGAGES— P.E.R.S. owns only Capehart Mortgages. These Capehart Mortgages are guaranteed by the United States Government.

CORPORATE STOCK— P.E.R.S. owns stocks in 92 corporations selected by the Board, on the advice of investment counsel, for their high quality. These stocks represent 18.17% of the portfolio.

DEFERRED LOSS ON SECURITIES— Low coupon bonds were sold in 1969 and 1970 at a deep discount and the proceeds were reinvested in higher coupon bonds at approximately the same deep discount and approximately the same maturity and same par value as the bonds sold. The replacement bonds will mature at par, will yield almost 1% more each year until maturity and thus will increase investment income about \$750,000 each year until maturity.

LIABILITIES

FUNDS

MEMBERS' SAVINGS FUND— The 7.7% deducted from the pay of all employee members is held in trust in this fund. Return of his entire account, as a benefit or as a refund, is guaranteed to each member or his beneficiary or his estate.

EMPLOYERS' ACCUMULATION FUND— The current 10% of payroll paid by the State and the 9% paid by local governments are held in this fund for later transfer to the Annuity and Pension Reserve Fund when a member retires and qualifies for benefits.

ANNUITY AND PENSION RESERVE FUND— When a member retires, enough money is set aside in this fund to guarantee the present value of his monthly benefits for life. The amount set aside for each retiree includes:

- 1) all retirement deductions from his pay;
- 2) his employer's "matching" contributions;
- 3) interest earned by these funds.

Then annually, as required by statute, 4% interest is credited into the A & PR Fund from the Income Fund.

INCOME FUND— Includes all income from investments. Interest from this source is credited to the other funds each year. The 1970 interest has been credited.

EXPENSE FUND— Early each year the Retirement Board adopts a budget to pay operating costs for the coming year. The money remaining at the close of 1970 from the budgeted amount is shown here.

RESERVES

In keeping with prudent management, the Retirement Board guards against unforeseen costs by setting up special reserves to meet any such contingencies.

These liabilities are regularly determined by actuarial valuation (12/31/69) the actuary calculated them to total a period of 25 years.

LEGISLATIVE CHANGES AND BENEFIT AMOUNTS — 1965 THRU 1970

During the past six years there have been three legislative changes affecting benefit amounts to persons on the retired rolls and also to those who will retire after the amendments became effective. Two of these, enacted in 1965 and 1968, were followed by substantial increase in the total of benefits paid by the Retirement System. The third change, enacted in 1970, also is expected to increase total benefit payments, but the extent of the increase will not be known until more data has been accumulated.

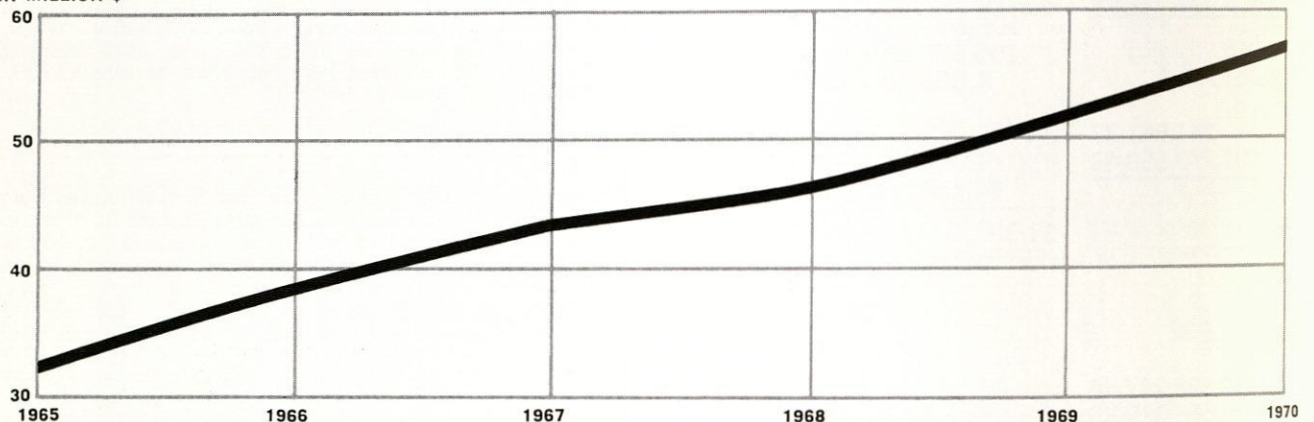
The upper graph on this page is based on total

payments made each year to retirants, their beneficiaries and to disability retirants, starting in 1965. The second graph is based on the total of survivor benefits paid by the System.

What affect the 1970 amendments will have has not yet been determined, because those provisions which substantially liberalized the survivor provisions of the law did not go into effect until September, 1970. Those portions of the 1970 amendments increasing monthly benefits for retirants who qualify, do not become effective until July 1, 1971.

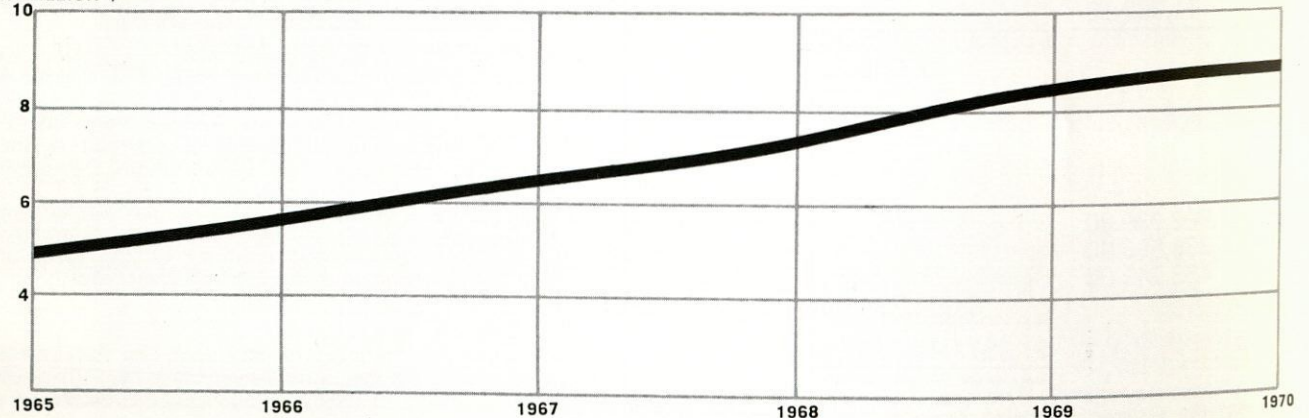
Total Benefit Payments to Retirants, Their Beneficiaries, and to Disability Retirants by Years — 1965 thru 1970

IN MILLION \$



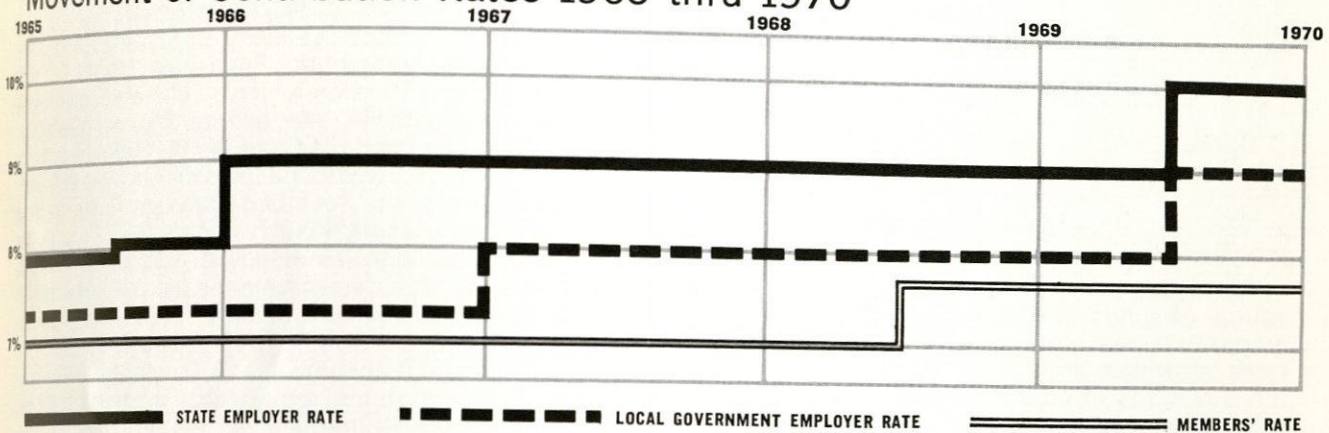
Total Benefits Paid to Survivors by Years — 1965 thru 1970

IN MILLION \$



CONTRIBUTION RATES REFLECT INCREASED BENEFITS COSTS

Movement of Contribution Rates 1965 thru 1970



What affect the 1970 amendments may have on contribution rates will be considered after there has been enough experience with the increases to reach a conclusion.

Statement
by
Actuary

GABRIEL, ROEDER, SMITH & COMPANY
CONSULTING ACTUARIES
FIRST NATIONAL BUILDING
DETROIT, MICHIGAN 48226
AREA 313 961-3346

March 11, 1971

The Retirement Board
Public Employees Retirement System of Ohio
277 East Town Street
Columbus, Ohio 43215

Ladies and Gentlemen:

The last completed annual actuarial valuation covering retirants and beneficiaries was based upon data as of June 30, 1970.

This valuation indicates that liabilities for future benefit payments to present retired lives are fully funded by applicable System reserve assets.

The last completed annual actuarial valuation of present non-retired members was based upon data as of December 31, 1969.

This valuation indicates that the contribution rates established by the Retirement Board meet the general objective of contribution rates which will remain approximately level from generation to generation and, more specifically, are sufficient:

- (i) To fully fund the costs of benefit commitments being made to members for their service currently being rendered; and
- (ii) To fund over a reasonable period of future years the unfunded portion of liabilities for their service already rendered.

Based upon these valuations it is our opinion that the Public Employees Retirement System of Ohio is in sound condition in accordance with accepted actuarial principles.

Respectfully submitted,

R G Roeder

Richard G. Roeder

RGR:eam

$\frac{1}{2} C + \frac{1}{2} I - \frac{1}{2} B - \frac{1}{2} E$

INCOME

The Retirement System has but three sources of income. These are from the members through payroll deductions, from employers who contribute at a rate somewhat higher than do the members, and from the income on the System's investments.

During 1970 the deductions from members' salaries, the contributions of employer units, and income on the investments of the System, amounted to \$267,329,231, representing a 14.51% gain over the year 1969.

As will be noted in the table below, the largest source of funds is that represented by the public employer units, reflecting, of course, the higher rates at which they contribute toward the retirement benefits of public employees and officials.

When money is received by the Retirement System it is credited to the appropriate fund, as specified in the law, namely, the Members' Savings Fund, Employers' Accumulation Fund, Survivors' Benefit Fund, or the Income Fund. Pending trans-

fer later, to meet benefit payments, it is all invested in income producing securities.

Transfers from the Members' Savings and Employers' Accumulation Funds are made to the Annuity and Pension Reserve Fund when members retire because of age and service, or disability. When a member dies and his dependents qualify for monthly survivors benefits his account is transferred from the Members' Savings Fund to the Survivors' Benefit Fund.

Also, the statutes require that annually interest, at 4%, be transferred from the Income Fund to the Annuity and Pension Reserve, the Employers' Accumulation and the Survivors' Benefit Funds.

Investment income in 1970 totalled \$68,365,424. The statutes require that all the operating costs of the Retirement System be paid from investment income. Operating expenses of the Retirement System in 1970 were \$1,457,245, representing 2.13% of the investment income. Details are on page 15.

ANNUAL RECEIPTS 1970-1969

	Employers' Contributions		Employees' Contributions		TOTALS	
	1970	1969	1970	1969	1970	1969
State of Ohio	\$ 45,487,367.58	\$38,496,612.05	\$35,025,400.55	\$31,416,825.62	\$ 80,512,768.13	\$ 69,913,437.67
Municipalities	30,772,735.53	26,331,767.33	26,329,263.36	24,051,221.16	57,101,998.89	50,382,988.49
Counties	27,281,384.13	22,877,925.84	23,341,827.40	20,955,164.30	50,623,211.53	43,833,090.14
Miscellaneous	5,780,182.39	5,463,229.98	4,945,646.28	5,006,018.53	10,725,828.67	10,469,248.51
Total	\$109,321,669.63	\$93,169,535.20	\$89,642,137.59	\$81,429,229.61	\$198,963,807.22	\$174,598,764.81

TYPE OF INVESTMENT	Investment Income	
	1970	1969
Bonds	\$55,121,203.56	\$47,523,785.98
Commercial Paper (Short Term)	836,545.82	634,476.44
Mortgages	4,400,505.55	4,658,513.96
Stock	8,007,169.38	6,035,469.07
Total Investment Income	\$68,365,424.31	\$58,852,245.45

INVESTMENTS

Investments of the Retirement System totalled \$1,533,232,680 as of the close of 1970. This figure compares with \$1,359,647,157 as of the end of the year previous, representing an increase of \$173,585,523 in the investments of the System during 1970.

As will be noted on the table below the greater portion of the System's invested funds is in corporate bonds - 69.05%.

Additional purchases of common stock increased the System's holdings in 1970 by \$81,067,652, and the total stock portfolio to \$276,707,617, representing 18.05% of the total investments of the system. The retirement law limits the amount of common and preferred stock that the System may include in its investments to 35% of the total portfolio.

The high level of interest rates that has pre-

vailed on new issues of corporate bonds for several years has been a factor in increasing the yield from that source. The average yield on bonds purchased in 1970 was 8.69%. At the end of 1970 the average yield on all bonds owned by the Retirement System was 5.82% compared with 5.34% for 1969. The yield on all PERS investments, listed in the table below, was 5.19% for the year 1970 as compared with 4.97% for 1969.

All investments owned by the System conform strictly to the requirements and limitations contained in the law (Section 145.11 of the Revised Code of Ohio). That same section of the law specified: "The members of the Public Employees Retirement Board shall be the trustees of the several funds created by Chapter 145 of the Revised Code, and said board shall have full power to invest such funds." (Underscoring ours).

INVESTMENT TOTALS AT END OF 1970 AND 1969

	TOTALS		% OF TOTAL INVESTMENTS	
	1970	1969	1970	1969
Bonds - Par Value				
U.S. Treasury Bonds	\$ 52,683,900	\$ 63,972,000	3.44	4.70
Federal Land Bank	7,975,000	7,975,000	.52	.59
Federal Nat'l. Mortgage Ass'n.	3,275,000	3,275,000	.21	.24
U.S. Insured Merchant Marine	2,729,000	2,745,000	.18	.20
Int'l. Bank for Recon. & Devel.	4,515,000	4,515,000	.29	.33
Municipal Bonds	18,579,000	20,084,500	1.21	1.48
Corporate Bonds	1,058,666,948	945,201,603	69.05	69.52
Mortgages (Capehart)	100,927,050	106,514,924	6.58	7.84
Commercial Paper*	5,350,000	7,900,000	.35	.58
Stocks (At Cost)				
Common	276,707,617	195,639,965	18.05	14.39
Preferred Convertible	1,824,165	1,824,165	.12	.13
TOTAL INVESTMENTS	<u>\$1,533,232,680</u>	<u>\$1,359,647,157</u>	<u>100.00</u>	<u>100.00</u>

*Maturity - less than 30 days.

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