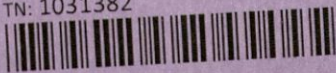


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# ANNUAL REPORT 1973

PUBLIC EMPLOYEES RETIREMENT SYSTEM OF OHIO

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## The Retirement Board



The four elected members of the Retirement Board, the three statutory members and their deputies, are shown here. Seated clockwise around the table are, Doris Wood, Batavia, representing miscellaneous employee groups; Mark McElroy, Cleveland, county employees representative; Thomas E. Ferguson, Deputy Auditor of State; William L. Williams, Chief of Administration, Auditor of State; Joseph T. Ferguson, Auditor of State and a statutory member of the Board; Charles E. Hughes, Dayton, chairman of the Board and representative of municipal employees; James A. Bolden, State Employees Equal Employment Opportunity Coordinator, Department of Administrative Services; Joseph J. Sommer, Director, Ohio Department of Administrative Services and a statutory member of the Board; C. Scott Rawlings, Chief of Administrative Agencies, Office of the Attorney General; William J. Brown, Ohio Attorney General and a statutory member of the Board; and Raphael Horwitz, Columbus, state employee representative. Standing is J. Douglass Peters, Executive Director.

### *A Message From the Chairman*

## **An Historic Year**

The year 1973 was an historic one for your Retirement System. The passage of Amended House Bill No. 430, effective November 20, 1973, made it so.

The impact on the members of this comprehensive bill is set forth in considerable detail in this Annual Report. In one way or another it affects everyone in this system.

Speaking for your Board, it is most gratifying for us to have had a part in the planning and support of this legislation. It had our unanimous and hearty endorsement.

The dedicated efforts of the retirement staff in implementing these changes so well in so brief a time is a matter of pride both to them and to the Board.

Charles E. Hughes  
Chairman, 1974

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## *The Year of Amended House Bill No. 430 Historic Legislation Brings Major Changes*

Perhaps the most comprehensive amendments in the history of public employee retirement legislation in Ohio were enacted unanimously in 1973 by the 110th General Assembly. Amended House Bill No. 430 affects every member and every retirant of the System in one way or another. Details on the changes brought about by the measure are set forth in this Report.

The bill became effective Nov. 20, 1973, 90 days after the Governor signed it on Aug. 21. Here in brief are the changes it brought.

- The employee contribution rate was fixed at 8% effective January 1, 1974; employer rates, although unchanged for the present (9.4% for local units; 10.4% for state), can be increased by the Retirement Board, as needed, to a maximum of 13%.

- Retirement was made possible at any age after 32 years of service credit. Previously 35 years were required. Other service and age requirements for retirement eligibility remain unchanged.

- The new law provided that no monthly benefit payment for age and service retirants can exceed 90% of Final Average Salary; no disability benefit can exceed 75%. The previous limits were 85% and 60%, respectively.

- Those veterans previously excluded from obtaining credit for the time they served on active military duty are now permitted to purchase up to three years of such duty for credit toward retirement.

- The survivor benefit rights of a widower are now the same as they have been for a widow. Previously, a widower under age 65 could not qualify for survivor benefits unless he were a dependent of his late working wife. Dependency is no longer a requirement.

- The requirement that a member have three years of service credit in the ten before retirement was eliminated.

- Members were granted additional time in

which to file either a retirement or disability application. Previously such applications had to be filed not later than the month of retirement in order for benefits to start the following month. Now such applications may be filed any time within three months of service termination in order to qualify for benefits the month following such termination.

- A uniform annual earnings requirement of \$3,200 was adopted as the basis for full service credit, unless payroll reports otherwise indicate full-time employment.

- The Retirement Board was authorized to pay the premium costs, effective January 1, 1974, of hospital-medical coverage for all receiving age and service, disability or survivor benefit payments from the System. Steps also have been taken by the Board, in cooperation with the four other public retirement systems in Ohio, to seek a more comprehensive hospital-medical program for those receiving benefit payments.

- A \$500 death benefit was provided payable to the estate of those who die while receiving an age and service or disability benefit.

It was a year of continued growth in all areas. Membership in the System grew to more than 254,000; the number of persons receiving benefits to 46,759; benefit payments to \$94,826,841\*; and assets to \$2,260,215,446. Comparisons with the 1972 figures will be found elsewhere in this Report.

In other legislative action, the General Assembly enacted Sub. House Bill No. 214 which brought increases ranging from \$4 to \$10 a month to those who retired between June 30, 1968, and July 1, 1971. A \$2 per month increase for each full year of retirement between June 30, 1968 and July 1, 1973, was authorized.

Effective with July 1, 1973, the System started mailing benefit warrants so that they are now received on the first day of the month for which due rather than on the last day.

**(Continued on Page 15)**

\*This figure is the total of monthly payments and does not include one-time payments, which would increase the total to \$100,826,321.



## *After Passage of Am.H.B. No. 430 4,897 Military Purchase Statements Issued*

By the close of 1973 the number of purchase statements issued to those seeking military service credit had reached 4,897 and requests were still coming in. A comparison with other types of back-payment statements issued is shown below. They were for redeposits and optional back-payments by members and employer liability payments.

### *Back Payments Statements*

**3,366 ISSUED DURING ALL OF 1973**

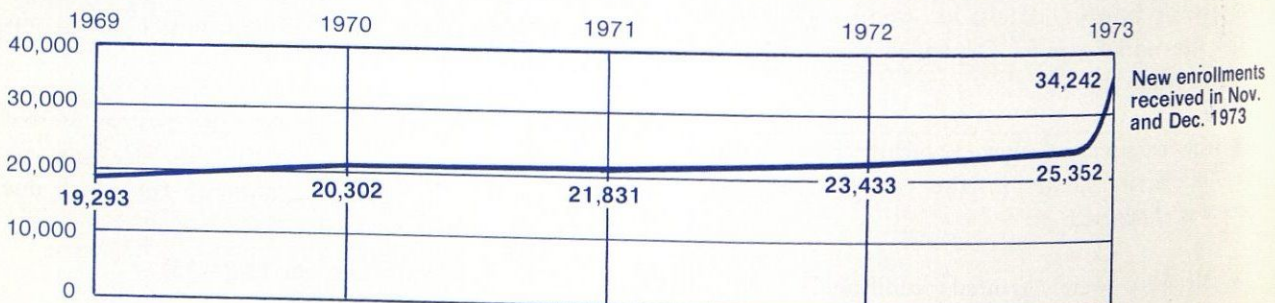
### *Military Purchase Statements*

**4,897 ISSUED DURING LAST 4 MONTHS OF 1973**

## *Free Health Care Made Available in 1974*

Blue Cross-Blue Shield enrollments increased 8,890 within two months after the announcement by PERS in November that coverage would be free starting with 1974. The newcomers, along with the 25,352 already enrolled, brought to more than 34,000 the number to receive free coverage. Late applications were still coming in at the year's end.

Blue Cross-Blue Shield Enrollments Increase 8,890 By End of 1973





## Active Members in PERS Now Total 219,509

10,168 More Public Employees  
Become Members of System  
During 1973, A Gain Of 4½%

Public services grow with public need. That growth is reflected in increasing numbers of members of the Public Employees Retirement System of Ohio.

During 1973, membership in the System increased 10,168 over the year 1972, to a total of 219,509. In addition there were more than 29,000 inactive members; those who are no longer in public employment but have left their accounts on deposit with the System for possible future retirement.

On the state level there were 2,629 more employees in the System. On the local level — cities, villages, counties, townships, libraries and other miscellaneous employer groups — the increase was 7,539.

Statistics on the numbers of members in 1973, compared with 1972, are shown below arranged according to the four different employee groups represented by elected members on the Retirement Board.



Director Peters addresses an audience of more than 1,500 township trustees and clerks at their state convention in Columbus.

## PERS Membership Totals for 1972 and 1973

EMPLOYEE GROUPS	NUMBER OF EMPLOYER UNITS		NUMBER OF MEMBERS		INCREASE	PCT. INCREASE IN MEMBERS
	1972	1973	1972	1973		
State of Ohio	190	181	80,214	82,843	2,629	3%
Counties	187	196	58,018	61,522	3,504	5½%
Cities and Villages	804	813	50,448	52,854	2,406	4½%
Miscellaneous Groups						
Public Libraries	248	249	6,110	6,179		
Townships	1,249	1,257	7,620	7,873		
Others	284	288	6,931	8,238	1,629	7½%
Total Active Members	2,962	2,984	209,341	219,509	10,168	4½%

(Note: Including inactive members the total membership is 248,782)



## *Benefit Totals Continue to Grow*

Benefits Paid in 1973 Reach  
\$94,826,841; Gain of 12%  
Over Total For Year 1972

Several factors were responsible for the 12% increase in 1973 total benefits over the 1972 total of \$84,355,688.

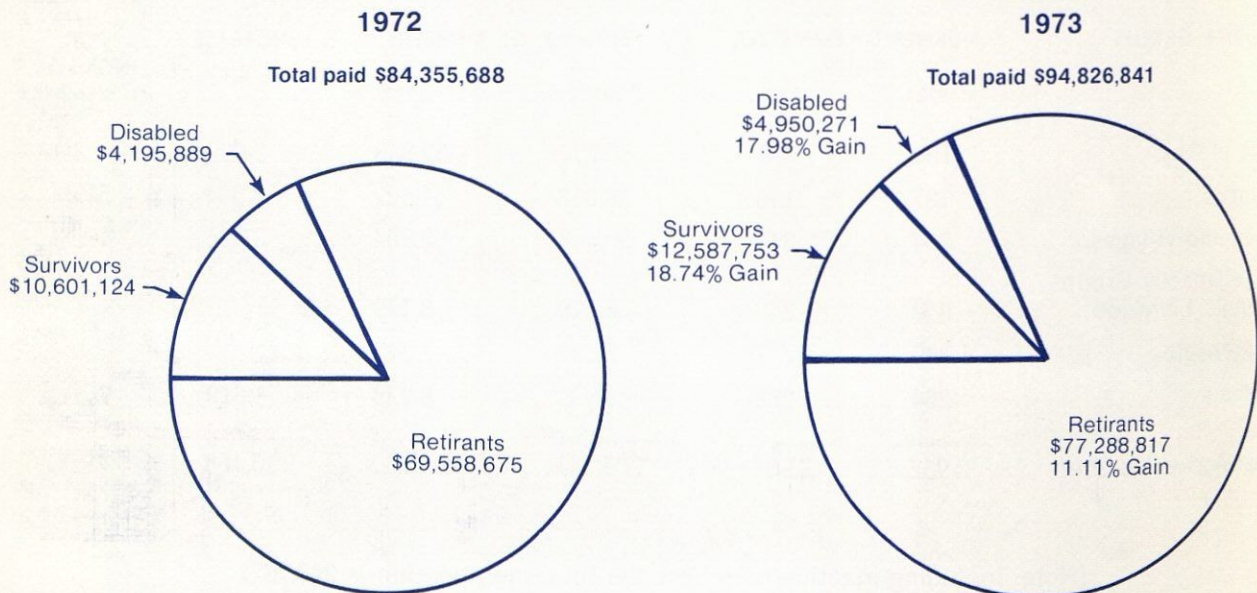
For one thing, there was a 7% increase in the number of persons receiving monthly payments. At the close of 1972 that total stood at 43,762; by the end of 1973 it was up to 46,759.

Cost-of-living increases were a factor; many retirants reached their third such increase in 1973. These made up approximately 7% of the more than \$10 million increase.

As salaries go up among public employees so do the final average salaries (five highest years) of members at time of retirement. The result, higher retirement benefits on the average, for those retiring in 1973.

Note: \$94,826,841 represents the total of monthly benefits paid during 1973. It does not include one-time payments such as would be made, for example, when a retirant dies and the balance in his account is paid to a beneficiary. All benefits, including one-time payments, totalled \$100,826,321.

## *Survivor and Disability Payments Lead in Percentage Growth*





## Impact of Cost-of-Living Increases

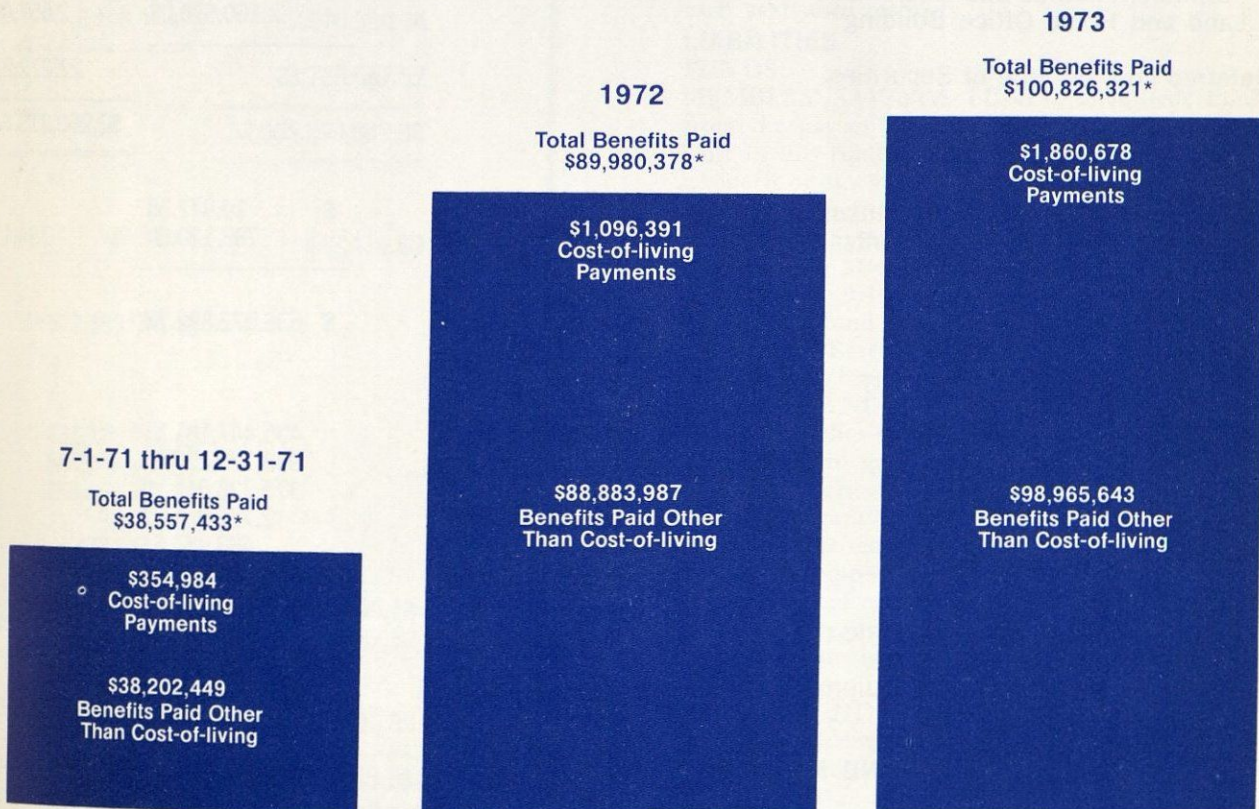
They Add \$1,860,678 To  
Benefits Of Those Who  
Qualified During 1973

The year 1973 marked the third in which cost-of-living allowances have been paid to those who qualified. The first such increase (1½%) was made with July 1971 warrants to all who as of that month had reached or exceeded their 37th monthly payment. Others have become eligible as they reach their 37th payment.

Since July 1, 1973 a total of \$3,312,054 has been added by this means to the benefit checks of retirants, survivors and disability retirants. Those who were in the first group had as of 1973 accumulated three such annual increases totalling 4½%.

Under the law, cost-of-living allowances must be added every year that living costs as shown by the U.S. Consumer Price Index go up 1½% or more. If the increase is more than 1½%, the excess carries to the next year.

## Since 1971 Incomes of Retirants Increased \$3.3 Millions



\*One-time payments included



# Statement of Assets, Liabilities and Reserves

1973

## ASSETS

Cash and Temporary Investments	\$	31,920,831.18	\$	82,520,387.46
Accounts Receivable — Employers Investments	\$	418,500.00		32,339,331.18
<hr/>				
Investments				
Bonds — Par Value — U.S. Treasury	\$	123,300.00		
F. N. M. A.		5,500,000.00		
Federal Land Bank				
U.S. Merchant Marine		1,669,000.00		
Int'l. Bank for Reconst. and Development		11,215,000.00		
Washington Metro. Area Transit Authority		5,800,000.00		
Corporate		1,342,159,947.12		
<hr/>				
Total Bonds Par		\$1,366,467,247.12		
Add Premium		7,656,554.13		
Deduct Discount		47,026,211.96		
<hr/>				
Book Value Bond Investments				1,327,097,589.29
Mortgages (Capehart) Par	\$	84,857,740.68		
Add Premium		157,589.44		
Deduct Discount		2,436,661.42		
<hr/>				
Book Value Mortgages				82,578,668.70
Stock (At Cost) Common Preferred Convertible				710,749,760.67
Fixed Assets				
Furniture, Fixtures and Equipment	\$	496,921.31		
Land and Home Office Building		2,160,575.08		2,657,496.39
<hr/>				
Deferred Loss on Sale of Securities				22,272,212.65
<b>TOTAL ASSETS</b>				<b>\$2,260,215,446.34</b>

## LIABILITIES AND RESERVES

Accounts Payable — Medical Insurance Investments	\$	10,977.58	\$	794,117.58
<hr/>				
Funds				
Members' Savings Fund	\$	636,072,892.72		
Employer Fund Liability <sup>(1)</sup>	\$1,123,613,078.31			
Unfunded Accrued Liability <sup>(1)</sup>	628,165,897.00			
<hr/>				
Funded Employer Liability		495,447,181.31		
A & P R Fund		948,120,269.23		
Survivor Benefit Fund		175,728,041.35		
Income Fund		2,757,905.00		
Expense Fund		460,957.61		
<hr/>				
Total Funds				2,258,587,247.22
Short Term Investment Income				491,444.59
Allowance for Replacement — Furniture, Fixtures and Equipment Building	\$	221,730.47		
		120,906.48		342,636.95
<hr/>				
<b>TOTAL LIABILITIES AND RESERVES</b>				<b>\$2,260,215,446.34</b>

(1) Unfunded Accrued Liability Based on Annual Actuarial Valuation — Active and Inactive Members.



## Notes to Financial Statement

1972

\$ 44,441,971.32  
31,618,995.68

\$ 274,900.00  
6,500,000.00  
730,000.00  
1,680,000.00  
  
6,115,000.00

1,309,187,962.86

\$1,324,487,862.86  
7,383,861.68  
36,011,179.43

1,295,860,545.11

\$ 90,360,924.11  
165,476.60  
2,604,617.00

87,921,783.71

\$ 518,105,738.30  
954,117.35

519,059,855.65

\$ 522,101.64  
2,148,448.70

2,670,550.34

23,725,687.57

\$2,005,299,389.38

\$ 442,414.80

\$ 571,358,946.16

\$1,035,167,575.65  
604,041,482.00

431,126,093.65  
844,948,933.25  
156,463,457.92  
97,095.19  
378,772.96

2,004,373,299.13  
128,937.52

\$ 274,184.69  
80,553.24

354,737.93

\$2,005,299,389.38

### 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 1973.

**BONDS** — 68.2% of P.E.R.S. money is invested in bonds — U.S. Government 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 100 corporations selected by the Board, on the advice of investment counsel, for their high quality. These stocks represent 31.71% 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 parvalue 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 deductions 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 10% (10.4% after 7-1-73) of payroll paid by the State and the 9.4% 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. Money from this source is credited to the other funds each year. The 1973 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 1973 from the budgeted amount is shown here.



## Sources of Retirement Funds

Income from the three sources of funds received by the Retirement System are reported on this page. The total in 1973 was \$389,743,340.87 compared with \$333,312,819.24 for the year 1972, a gain of 14.48%. As is illustrated in the pie charts below, the percentage amounts by source (in relation to the total from all three sources) remained unchanged for the two years.

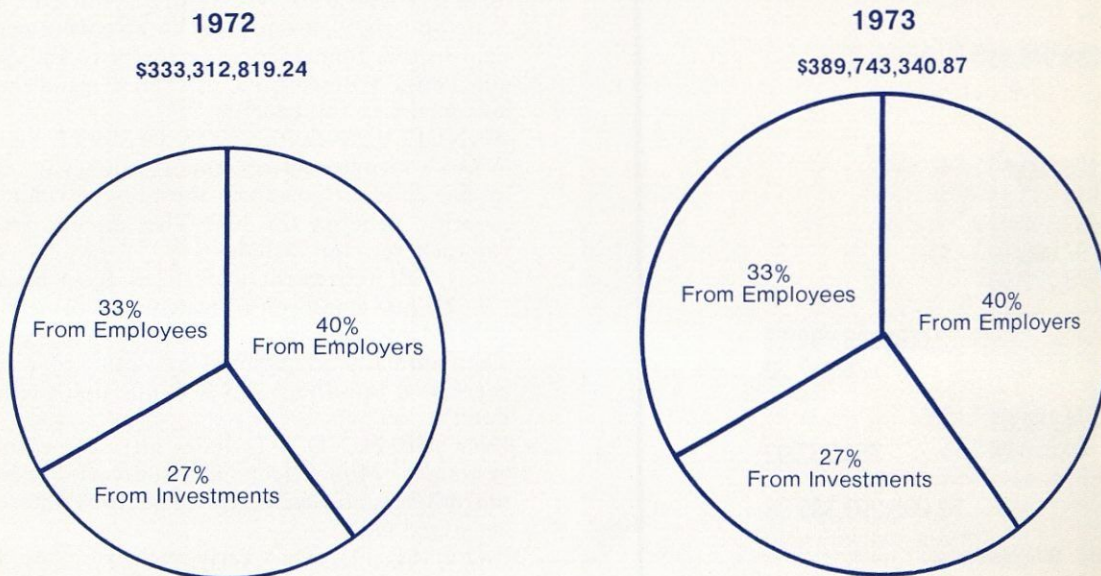
Contribution rates for both members and employer units were increased in 1973. The contribution rate for county, municipal and miscellaneous employer units went to 9.4% (previously 9%) and for employees of those units to 8.1% (previously 7.7%) effective January 1, 1973. The state employee rate also was set by the Board at 8.1% from 7.7%, effective January 1, 1973, but subsequently by Court direction this was reduced to 7.7% for the period January 1 to June 30, 1973. Thereafter, effective July 1, 1973, the employee rate became 8.1% and the state employer rate was advanced from 10% to 10.4%.

## Annual Income 1973

Employing Unit	Employers' Contributions	Employees' Contributions	Type of Investment	Investment Income
State of Ohio	\$ 67,617,797.08	\$ 52,946,553.48	Bonds	\$ 79,440,020.49
Municipalities	36,357,146.97	31,306,986.29	Commercial Paper (short term)	5,256,922.65
Counties	39,279,887.62	33,822,605.55	Mortgages	3,716,259.09
Miscellaneous	11,519,178.43	9,917,930.71	Stocks	18,562,052.51
Total	\$154,774,010.10	\$127,994,076.03	Total Investment Income	\$106,975,254.74
<b>TOTAL CONTRIBUTIONS AND INVESTMENT INCOME</b>				<b>\$389,743,340.87</b>

(1) Net of Premium Amortization

## Total Income





## Summary of the System's Investments

December 31, 1973

SECURITIES HELD		PAR VALUE	YIELD AT COST <sup>1</sup>	% OF PORTFOLIO
U. S. Government and Agencies Bonds:				
U. S. Treasury	\$ 123,300		6.35	
Federal Nat'l. Mortgage Association	5,500,000		6.65	
U. S. Gov't. Insured Merchant Marine	1,669,000		5.02	
Total		\$ 7,292,300		.32
International Bank for Reconstruction & Development		11,215,000	6.65	.50
Washington Metropolitan Area Transit Authority		5,800,000	7.75	.26
Corporate Bonds:				
Industrial	\$211,368,947			
Telephone	326,608,000			
Public Utilities	756,589,000			
Railroad General & Terminal	2,032,000			
Railroad Equipment Trust Certificates	39,412,000			
Finance	6,150,000			
Total		1,342,159,947	6.20	59.88
Mortgages (Capehart)		84,857,741	4.55	3.79
Short Term Investments (Maturity — less than 30 days)		79,400,000	9.73	3.54
Common Stocks (at Cost)		710,749,760	2.97	31.71
TOTAL PORTFOLIO		<u>\$2,241,474,748</u>	5.24	<u>100.00</u>

<sup>1</sup>Yield at Cost is determined by dividing the annual earnings of an investment by the price paid. This excludes any changes in value resulting from market fluctuations — realized or otherwise.



## *Statement of Changes In Funds and Reserves For The Year Ended*

	Balance January 1 1973	Income In Excess Of Expenditures	Interest Distribution Addition
Members' Savings Fund	\$ 571,358,946.16	\$ 96,550,895.44	
Employers' Accumulation Fund	431,126,093.65	128,011,317.49	\$39,931,646.00
Future Survivor Annuities	28,434,874.73	18,066,970.83	1,298,290.00
Retirement Annuities	844,017,176.50	(79,804,198.65)*	37,060,656.00
Statutory Cost of Living Adjustment	931,756.75	19,408.95*	
Survivor Annuities	128,028,583.19	(13,066,843.46)*	5,093,767.00
Administrative Expenses	378,772.96	(2,431,739.32)	
Income Fund	97,095.19	99,557,697.57	
<b>TOTAL</b>	\$2,004,373,299.13	\$246,903,508.85	\$83,384,359.00

\*Disbursement Accounts Off-Set By Miscellaneous Receipts

### *Investment Department Enlarges Staff by Three*

The year 1973 brought many changes to the Investment Department of PERS. The investment staff was increased by the addition of three stock analysts. These three analysts, all of whom have their Masters Degree in Business Administration, brought the total staff to ten.

With increased staff the Investment Department began in January active management of our fixed income investments (bonds). Thru bond swapping, a process where like bonds are substituted one for another for the purpose of increasing income or par value, annual income was increased by \$388,758.00 and par value by \$852,500.00.

In July the staff began preparing combined stock programs with Scudder, Stevens and Clark, our investment advisor. It is believed that in formulating combined programs better and more diverse information are brought to bear which should make the results more fruitful. In conjunction with gathering information for these programs the staff wrote ten research reports on various industries and companies.

Many of the procedures used by the Investment Department would not be possible without the use of our new computer and the staff is constantly utilizing its vast capacities.



## December 31, 1973

Interest Distribution Deduction	Transfer Addition	Transfer Deductions	Balance December 31, 1973
	\$ 9,913,013.08	\$ 41,749,961.96	\$ 636,072,892.72
	72,206,698.00	175,828,573.83	495,447,181.31
	203,637,042.68	15,778,579.33	32,021,556.23
	26,416,609.39	57,302,031.91	947,608,644.62
	2,513,923.97	439,541.09	511,624.61
	40,778.15	2,765,631.00	143,706,485.12
\$83,384,359.00		13,553,306.91	460,957.61
	<u>\$314,728,065.27</u>	<u>\$307,417,626.03</u>	<u>\$2,258,587,247.22</u>
<u>\$83,384,359.00</u>			

## Operating Expenses for 1973

ITEMS	
Salaries and Wages	\$1,402,010.19
Employer Contribution (PERS)	126,019.52
Insurance and Workmen's Compensation	33,002.58
Bureau of Employment Services	318.94
Actuarial Service	18,965.00
Audit Service	4,232.42
Investment Services and Expense	203,436.76
Medical Examinations; Investigations	23,331.95
Microfilm	4,305.50
Printing & Publishing; Dues & Subscriptions	47,035.36
Postage	95,804.86
Equipment (Includes: Rent, Repair, Contract)	163,452.27
Telephone, Telegraph, Freight and Express	26,765.78
Office Supplies	41,389.79
Travel (Staff, Director, Board)	25,420.25
Replacement Expense	113,166.99
Retirement Study Commission	22,291.82
Building Occupancy	78,297.33
Miscellaneous	11,289.51
<b>Total Operating Expenses</b>	<b>\$2,440,536.82</b>

Note: The statutes require that all the operating costs of the Retirement System be paid from investment income. These costs in 1973 amounted to 2.29% of that income, with a Per Capita Cost of \$8.11.



**Statement  
By  
Actuary**

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

January 28, 1974

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

Ladies and Gentlemen:

The last completed annual actuarial valuations of present members were based upon data as of December 31, 1972.

These valuations indicate that the contribution rates established by the Retirement Board for benefits then in effect meet the general objective of contribution rate percents 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 continues in sound condition in accordance with accepted actuarial principles.

Respectfully submitted,

*R G Roeder*

Richard G. Roeder

RGR:eam

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**Report  
From the  
State Auditor**

The annual inspection of the records and accounts of the Retirement System for the calendar year 1972 was submitted to the Retirement Board on September 20, 1973. Prepared by the Bureau of Inspection and Supervision of Public Office from the State Auditor, the Report compliments the System on the accuracy and neatness of its records. There were no findings, no exceptions and no recommendations for change. The Report states that the records of the System reflect its financial condition accurately.



## *Summary of Reserves Required To Pay Those Who Started Receiving Benefits in 1973*

Type of Benefits	Number	Total Reserves	Average Per Benefit From:	
			Member Savings Fund	Employer Accumulation Fund (includes Investment income)
Age and Service	4,063	\$130,865,583	\$ 8,452	\$23,756
Disability	393	\$ 18,512,909	\$ 6,445	\$40,660
Survivor	564	\$ 17,610,646	\$13,663	\$57,725
Average Reserve for all types		\$ 33,264	\$ 7,871	\$25,393
			23.66%	76.34%

TOTAL RESERVE REQUIRED FOR  
ALL 46,759 RECEIVING  
BENEFITS IN 1973 — \$1,123,848,310.58

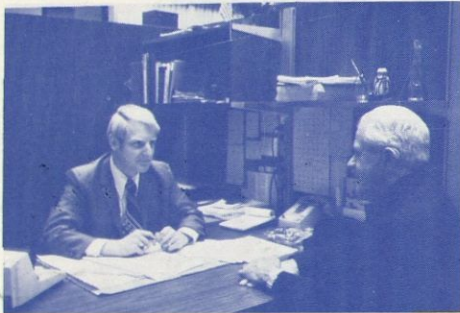
### *Historic Legislation*

(Continued from Page 3)

Every county in Ohio was visited by field representatives of PERS as the System sought to step up its informational program in the field. Representatives of the System, including your Executive Director, also spoke at 81 group meetings in the state to audiences totaling 7,923 members. More than 786,000 pieces of informational literature were distributed; every new member of the System received a HANDBOOK.

Initial steps were taken in a five-year program to automate many operations currently handled manually by PERS. During 1973 the necessary cables and outlets were installed and basic membership information on more than 500,000 present and former members of the System filed in a computer. Membership information is now virtually instantaneously available on visual scanners to operating departments throughout the PERS Building.





Experienced interviewers assist members who come to the System's headquarters in Columbus for information about retirement and other benefits. During the year a record 12,122 members took advantage of this service.