

Ohio Police & Fire Pension Fund

140 East Town Street / Columbus, Ohio 43215-5164 / Tel. (614) 228-2975 / www.op-f.org

June 29, 2022

The Honorable Phil Plummer
Chair, Ohio Retirement Study Council
77 S. High Street, 13th Floor
Columbus, Ohio 43215

Chair and Council members,

Thank you for the opportunity to share additional information on the necessity of HB 512. At the conclusion of the most recent ORSC meeting, the council requested that OP&F begin the 30-year plan process, mentioning Ohio Revised Code Section 742.16:

If the period necessary to amortize the unfunded actuarial accrued pension liability exceeds thirty years, as determined by the unfunded actuarial valuation required by section 742.14 of the Revised Code, the board, not later than ninety days after receipt of the valuation, shall prepare and submit to the Ohio Retirement Study Council and the standing committees of the House of Representatives and the Senate with primary responsibility for retirement legislation, a report that includes the following information:

- (A) The number of years needed to amortize the unfunded actuarial accrued pension liability as determined by the actuarial valuation;
- (B) A plan approved by the board that indicates how the board will reduce the amortization period of unfunded actuarial accrued pension liability to not more than thirty years;
- (C) Whether the board has made any progress in meeting the thirty-year amortization period.

As requested, attached is a preliminary estimate of the 30-year funding for OP&F and the estimated impact of the passage of House Bill 512 on that 30-year funding. It is important to note that at this time this can only be an estimate. A 30-year plan must, by law, be based upon the annual or quinquennial actuarial report, due November 1, 2022 this year. That report will contain numerous actuarial assumptions that will inform and guide any 30-year plan and the valuation is expected to be presented to the Board in October.

Respectfully, we feel confident the 26.5 percent employer contribution rate received by the Ohio Highway Patrol since 2009 is more than justified by just the necessity to lower our assumed rate of return based on U.S. capital market assumptions. As noted by your actuary, assumed rate of return is the most impactful actuarial factor.

Attached please find the Board approved estimate reflecting the requirements of ORC 742.16. above. The Board has made progress on its plan in HB 512 working with the bill sponsors

through the insurance committee where the bill was assigned. Since the introduction of the bill, OP&F has been transparent in communication that House Bill 512 is an exercise of good governance – to provide an early warning system to the council and the General Assembly that action would be required.

We thank you again for the opportunity to work with the council to protect and preserve not only the fiscal integrity of the fund, but also the vested retirement benefits of the sworn safety forces of OP&F.

Best Regards,

Mary Beth Foley

Mary Beth Foley, Esq
Executive Director

Please see attachments:

- OP&F Board Approved submission, as requested by ORSC Chair
- Cavanaugh Macdonald legislative analysis of House Bill 512
- Pension Trustee Advisors confirmation of House Bill 512 analysis
- Feb. 24, 2022 letter to ORSC on necessity to lower assumed rate of return
- June 8, 2022 letter to ORSC requesting support for House Bill 512
- June 21 letter to ORSC on ORSC staff analysis of House Bill 512

Ohio Police & Fire Pension Fund
 30-Year Funding Estimates
 Actuarial Impact of HB 512



Proposed Components (Each component is added to previous)	Metrics				Estimated results based on the January 1, 2021 Actuarial Valuation				Use of Funds			Funding Progress	
	Pension Unfunded Accrued Liability (UAL)	Pension Funded Percentage	January 1, 2022 Pension Amortization Period in Years	HCSF Projected Solvency Year	Total Employer Rate	Total Employee Rate	Total Employer and Employee Rate	Pension UAL Contribution Rate	Pension Normal Cost Rate	HCSF Contribution Rate	Total Use of Funds	Progress towards Reduction in Unfunded Needed to reach 30 Years	Additional Reduction in Unfunded Needed to reach 30 Years
Current Plan	\$6,516,000,000	71.2%	24	Dec, 2037	21.66%	12.25%	33.91%	17.71%	15.70%	0.50%	33.91%	\$0	\$0
1 Current Plan based on 7.50%	\$7,723,000,000	67.6%	39	March, 2037	21.66%	12.25%	33.91%	15.83%	17.58%	0.50%	33.91%	(\$879,000,000)	\$879,000,000
2 Impact of HB 512 based on 7.50% assumed investment return	\$7,723,000,000	67.6%	25	March, 2037	26.50%	12.25%	38.75%	20.67%	17.58%	0.50%	38.75%	\$879,000,000	\$0

Provisions of HB 512		
Salaries Earned for Pay Period	Employer Rate	
	Police Officer	Firefighter
January 1, 1986 - December 31, 2022	19.50%	24.00%
January 1, 2023 - December 31, 2023	20.90%	24.50%
January 1, 2024 - December 31, 2024	22.30%	25.00%
January 1, 2025 - December 31, 2025	23.70%	25.50%
January 1, 2026 - December 31, 2026	25.10%	26.00%
Beginning on or after January 1, 2027	26.50%	26.50%

Notes:

- Information critical to the understanding of the analysis above can be found in our cover letter dated February 2, 2022 regarding "Actuarial Impact of Increasing Employer Contributions to the Ohio Police & Fire Pension Fund - HB 512". This information was confirmed by the ORSC actuary, PTA, on May 25, 2022.
- Contribution Rates shown are based on ultimate 26.50% rates effective January 1, 2027. Funding Period and Additional Reduction in Unfunded Needed to reach 30 Years reflect the phase in of the after employer contribution increase under HB 512 is fully phased in.
- Information above is based on the implementation dates noted. Earlier/later implementation results in shorter/longer funding periods.
- The order of the components impacts the "Progress towards Reduction in Unfunded to reach 30 Years"

Prepared by Cavanaugh Macdonald Consulting on June 28, 2022.



Cavanaugh Macdonald
CONSULTING, LLC

The experience and dedication you deserve

February 2, 2022

Mr. Scott Miller
Deputy Executive Director
Ohio Police and Fire Pension Fund
140 East Town Street
Columbus, OH 43215

**Re: Actuarial Impact of Increasing Employer Contributions to the Ohio Police & Fire Pension Fund -
HB 512**

Dear Mr. Miller:

We have estimated the impact on the funding period of the proposed legislation which increases employer contribution rates for the Ohio Police & Fire Pension Fund (the Fund). Based on the results of the January 1, 2021 Actuarial Valuation, we project a funding period as of January 1, 2022 of 24 years.

Section 1 of the bill appears to revise:

Section 742.33 to increase the police officer employers' contributions to the Fund from 19.50% of pay for all years to the following schedule:

Salaries Earned for Pay Period	Rate
Beginning before December 31, 2022	19.50%
January 1, 2023 – December 31, 2023	20.90%
January 1, 2024 – December 31, 2024	22.30%
January 1, 2025 – December 31, 2025	23.70%
January 1, 2026 – December 31, 2026	25.10%
Beginning on or after January 1, 2027	26.50%

Section 742.34 to increase the firefighter employers' contributions to the Fund from 24.00% of pay for all years to the following schedule:

Salaries Earned for Pay Period	Rate
Beginning before December 31, 2022	24.00%
January 1, 2023 – December 31, 2023	24.50%
January 1, 2024 – December 31, 2024	25.00%
January 1, 2025 – December 31, 2025	25.50%
January 1, 2026 – December 31, 2026	26.00%
Beginning on or after January 1, 2027	26.50%



Please note that a scheduled quinquennial review of actuarial assumptions will be performed in calendar year 2022 for the period January 1, 2017 – December 31, 2021 and will be first used for the January 1, 2022 actuarial valuation. Absent this legislation, the review is expected to push the funding period over 30 years. For example, if the discount rate is lowered to 7.50%, the resulting January 1, 2022 funding period absent this legislation is estimated to be 39 years. Including this legislation, it is estimated to be 25 years.

When the actual quinquennial review is completed in the fall of 2022, we will have completed the results of the January 1, 2022 actuarial valuation. While estimated return during 2021 will reduce the funding period, it is unclear if the funding period will be lower when all experience from 2021 is reflected in the valuation. In addition, our recommendation for other assumptions in the quinquennial review will likely increase the funding period. As a result, it is likely that the funding period as of January 1, 2022 without the proposed legislation will be higher than the 39 years noted above.

In order to prepare the results in this letter we have utilized appropriate actuarial models that were developed for this purpose. These models use assumptions about future contingent events along with recognized actuarial approaches to develop the needed results.

The estimates above are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present plan provisions that are outlined in the January 1, 2021 actuarial valuation reports and proposed plan provisions outlined in this actuarial note. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this actuarial note prior to relying on this information.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. Because of limited scope, Cavanaugh Macdonald performed no analysis of the potential range of such future differences.

The undersigned are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions concerning this information, please let us know.

Respectfully submitted,

Larry Langer, ASA, EA, FCA, MAAA
Principal and Consulting Actuary

Wendy Ludbrook, FSA, EA, FCA, MAAA
Consulting Actuary



May 25, 2022

Ms. Bethany Rhodes
Executive Director
Ohio Retirement Study Council

Subject: Review of Ohio Police and Fire Proposed Bill HB512

Dear Bethany:

As required by Section 742.14(C) of the Ohio Revised Code (ORC), the actuary for the Ohio Police and Fire Pension Fund (OP&F) has conducted an analysis of Proposed Bill HB 512. We have reviewed this analysis and find it to be reasonable and appears to be completed in accordance with the pertinent actuarial standards of practice.

This analysis was presented in a letter to Wendy Zahn, Director, Legislative Service Commission dated February 14, 2022. We did not replicate the actuarial valuation upon which that letter was based but were able to conduct several reasonableness tests and find that its basic conclusions are reasonable and consistent with our expectations. We do not anticipate that a complete replication would produce findings that are materially different from the conclusions made by the actuary.

HB 512 would increase employer contributions made to OP&F on behalf of police and fire members as indicated in the following table:

Salaries Earned for Pay Period	Police	Fire
Beginning before December 31, 2022 (Current Rate)	19.50%	24.00%
January 1, 2023 – December 31, 2023	20.90%	24.50%
January 1, 2024 – December 31, 2024	22.30%	25.00%
January 1, 2025 – December 31, 2025	23.70%	25.50%
January 1, 2026 – December 31, 2026	25.10%	26.00%
Beginning on or after January 1, 2027	26.50%	26.50%

Using these new rates and expanding on the analysis which the actuary conducted in 2021 to determine the funding period, we were able to confirm that this actuarial analysis is reasonable.

The primary findings of the actuaries' analysis are:

- I. The current statutory contribution rates were adequate to fund the statutory benefits over a period of 24 years as of January 1, 2022.
- II. After reducing the assumed rate of return from 8.00% to 7.50%, based on the current contribution rates, the funding period is estimated to be 39 years.
- III. After reducing the assumed rate of return from 8.00% to 7.50%, based on the contribution rates anticipated by HB512, the funding period is estimated to be 25 years.

2 | Review of HB51 Actuarial Analysis

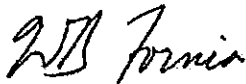
We did replicate the calculations from Finding I (24 years status quo). We do not have the complete information necessary to precisely replicate the calculations from Finding II and Finding III (7.5% basis as of January 1, 2022), but based on various estimation techniques, we find the conclusions to be consistent with our estimates.

This analysis does not consider other changes in actuarial assumptions beyond the discount rate reduction. The actuaries indicated that the quinquennial review will take place this year and be incorporated into the actuarial valuation as of January 1, 2022 which will be completed in the fall. There is some possibility that this review would result in periods somewhat longer than the 39 and 25 year periods estimated in Findings II and III. And of course, should investment returns for 2022 continue to be poor, the results as of January 1, 2023 would also increase the funding period.

But based on currently available information, including the assumption return decrease to 7.50%, we concur with the actuaries' essential conclusion that HB 512 would improve the funding position from more than thirty years to under thirty years.

Actuarial calculations were performed under my direction. I am a Member of the American Academy of Actuaries and qualified to render this actuarial opinion. We are available to discuss these findings and recommendations in more detail.

Sincerely,



William B. Forna, FSA

Cc: Jeff Bernard – ORSC
Linda Bournival – KMS

Ohio Police & Fire Pension Fund

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Feb. 24, 2022

The Honorable Kirk Schuring
Vice Chair, Ohio Retirement Study Council
1 Capitol Square
Senate Building, 2nd Floor
Columbus, OH 43215

Dear Senator Schuring,

At our Board of Trustees meeting on Feb. 23, trustees unanimously voted to lower our assumed rate of return for our investment portfolio to 7.5 percent. As you are aware, this action was not unexpected and the Board has been carefully monitoring the capital market assumptions for several years. The recent years of positive performance in the markets justified the previous assumed rate of return of 8.0 percent.

Analysts do their best to predict future returns. For the past 10 years lower returns were forecast, *but* OP&F was able to better those predictions and see returns above the 8.0 percent assumed rate (see chart below):

10-year periods (ending Dec. 31):			
	Dec. 2009- Dec, 2018	Dec. 2010- Dec.2019	Dec.2011- Dec.2020
10-year actual return (gross)	10.01%	9.95%	9.10%
10-year forecast	7.72%	7.36%	7.11%

In past years, the Board, working with our OP&F investment staff, investment managers and actuarial experts, did not recommend lowering the rate as many peers did. Our team has met the 8.0 percent target, and with expertise from them and our managers, we have been able to outperform the 8.0 percent rate.

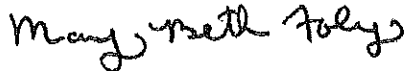
However, reports from these trusted investment advisors now indicate that future expected returns will not support this rate. OP&F's assumed rate of return has been 8.0 percent for more than four years, the date of our last experience study (the next study is scheduled for this year). As of the end of 2020, our annualized return for the previous five years was 9.95 percent (for the last 10 years, it's been 9.1 percent and for 30 has been 8.84 percent).

Currently, we are in compliance with Ohio's 30-year funding requirement. However, moving to an assumed rate of 7.5 percent will have a negative impact. As the Council well knows, though, many additional different assumptions are evaluated when calculating the 30-year funding

period. Therefore, we will not know the new funding period until the next actuarial valuation is conducted and reported to the Board this fall. We write to notify you and the Council, as we expect it will exceed 30 years, as increased retirements, fewer new hires and lower payroll growth may also be issues. The potential negative impacts are one of the reasons OP&F and our stakeholders are pursuing HB 512.

I am available to discuss and review this decision with you and the council and can answer any questions you or they may have.

Best regards,

A handwritten signature in cursive script that reads "Mary Beth Foley".

Mary Beth Foley, Esq.
Executive Director

cc: Ohio Retirement Study Council
Bethany Rhodes, Director/General Counsel, Ohio Retirement Study Council
Rep. Thomas Brinkman, Chair, House Insurance Committee

Ohio Police & Fire Pension Fund

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June 8, 2022

The Honorable Phil Plummer
Chair, Ohio Retirement Study Council
77 S. High Street, 13th Floor
Columbus, OH 43215

Dear Chair Plummer and members of the Council,

I write on behalf of our Board and stakeholders to respectfully request that you each vote in support of House Bill (HB) 512, rejecting staff's recommendation and voting affirmatively that H.B. 512 should continue its journey through the legislative process. House Bill 512 was put forward by sponsors Brian Baldrige and Cindy Abrams on behalf of Ohio's municipal public safety forces in an exercise of good governance - to provide an early warning system to the Council and the General Assembly that action would be required. The document posted to your website is not instructive on current issues, misrepresents OP&F members' sacrifices and says little about the actual bill. Most alarmingly, the recommendation suggests legislative delay so a full blown funding crisis can occur.

The purpose of House Bill 512 is to ask the General Assembly to place both OP&F fire and police employer contribution rates in parity with the Highway Patrol Retirement System rates, the only comparable law enforcement public pension system in Ohio. HPRS has had a statutory 26.50% employer contribution rate since 2009.¹ (In contradiction of the assertion employer rates have been "frozen" for forty years). OP&F has had a 19.50% rate for police employers and a 24.00% rate for fire employers since 1986. We appreciate that the analysis acknowledges that previous reports by ORSC's own experts have long recommended police and fire rates be equalized. While recommending that OP&F rates should be the same for both police and fire, the analysis expresses no opinion on what that rate should be. The fiduciaries with a duty to members and beneficiaries of the fund do have an opinion, and it is 26.5%.

In purporting to be an "apples to apples comparison", the analysis ignores the statutory distinction between uniform and non-uniform systems enshrined in Ohio law.² A table which is part of the ORSC staff analysis claims that reductions from 2012 pension reform legislation reduced OP&F's unfunded liability by \$0.781 billion. While true as of **January 1, 2010**, the actual total reduction in current and future liabilities is **\$3.2 billion** – a figure we have reported and confirmed since pension reform was enacted almost 10 years ago.³ That fact is acknowledged by the ORSC's own actuary. There is a curious refusal by staff to acknowledge cuts to health care benefits that have negatively impacted so many.

¹ Amended Substitute House Bill 1 of the 128th General Assembly.

² OP&F and HPRS are referred to as the "uniform retirement systems." See ORC 145.295(A)(1), 742.21(A)(3), 3307.761(A)(1), 3309.73(A)(1) and 5505.40(A)(3).

³ The annual employer provided value of benefits – the employer normal cost – has reduced significantly due to 2012 pension reform. The employer normal cost rate was 9.95% of pay in the Jan. 1, 2012 – the last pre-reform actuarial valuation. This amount was close to the member contribution of 10%. As reported in the Jan. 1, 2021 valuation, the employer normal cost rate was 3.45%, which is significantly less than the member contribution of 12.25%.

The recommendation to stall and delay is not based on actuarial science or sound funding principles; the report states that "ORSC staff have operated under the assumption that employer increases are not an option".⁴ Further, the assertion that OP&F has not raised the member contribution rate or adjusted the retirement age requirements for members is deceptive. The OP&F employee contribution rate, along with the age and years of service requirements, are set by statute. The Board of Trustees is only permitted to temporarily make adjustments when the actuarial valuation required by Revised Code Section 742.14 indicates that the fiscal integrity of the fund is threatened.⁵ In order to avoid that, OP&F and her stakeholders have responsibly come forward to avoid that result.

We cannot believe that further defunding of police and firefighters is what the Council wants for Ohio's front line public safety employees, who are retiring in droves and whose employers struggle to replace them. The recommendation seems to welcome a fiscal crisis so as to trigger emergency measures that would be insufficient to solve the problem, unfair to members and fails to address current challenges. Focusing on such a specific snapshot in time does not accurately reflect the true success of the OP&F Board in solving funding issues while protecting benefits.

Finally, the analysis fails to address the root cause of the current issue, a possible need to lower the Assumed Rate of Return to 7.25% or 7.0% based on lowered capital market assumptions. OP&F has been working with our employer partners and those who oppose the bill to resolve these issues. Recommendations on current laws already passed by the General Assembly, some sponsored by members of this council, are inappropriate and irrelevant to analysis of H.B. 512. We hope the Council will vote to allow the General Assembly and its committees to continue the work.

Best regards,

Mary Beth Foley

Mary Beth Foley, Esq.
Executive Director

cc: ORSC members
President Gary Wolske, Fraternal Order of Police of Ohio
President Jon Harvey, Ohio Association of Professional Firefighters
OP&F Board of Trustees

⁴ Though not relevant to HB 512, contrary to the analysis, past ORSC staff has repeatedly considered changes to the employer rates over 40 years, most recently in 2009. See *Adequacy of Contribution Rates for the Police and Firemen's Disability and Pension Fund* dated August 21, 1992. Also see Aristotle Hutras Memorandum to ORSC Members dated June 30, 2009.

⁵ See ORC Sections 742.161 and 742.31.

May 25, 2022

Ms. Bethany Rhodes
Executive Director
Ohio Retirement Study Council

Subject: Review of Ohio Police and Fire Proposed Bill HB512

Dear Bethany:

As required by Section 742.14(C) of the Ohio Revised Code (ORC), the actuary for the Ohio Police and Fire Pension Fund (OP&F) has conducted an analysis of Proposed Bill HB 512. We have reviewed this analysis and find it to be reasonable and appears to be completed in accordance with the pertinent actuarial standards of practice.

This analysis was presented in a letter to Wendy Zahn, Director, Legislative Service Commission dated February 14, 2022. We did not *replicate* the actuarial valuation upon which that letter was based but were able to conduct several reasonableness tests and find that its basic conclusions are reasonable and consistent with our expectations. We do not anticipate that a complete replication would produce findings that are materially different from the conclusions made by the actuary.

HB 512 would increase employer contributions made to OP&F on behalf of police and fire members as indicated in the following table:

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2 | Review of HB51 Actuarial Analysis

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Sincerely,



William B. Fornia, FSA

Cc: Jeff Bernard – ORSC
Linda Bournival – KMS

Ohio Police & Fire Pension Fund

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June 21, 2022

The Honorable Phil Plummer
Chair, Ohio Retirement Study Council
77 S. High Street, 13th Floor
Columbus, OH 43215

Chair and Council members,

Thank you for your time and understanding as we work through the legislative process of House Bill 512. We stand ready to answer any and all questions surrounding this bill and the actions OP&F has taken over the years in striving to remain compliant with the funding requirements for the state's public retirement systems. We respect council staff and understand they have a perspective to share with council. However, OP&F should be allowed to respond either before items are posted to the website or at the meeting. The Council then has the information it needs to make good decisions.

We are grateful that the council requested additional information and rejected the assertion that council is not in charge of setting the policy direction for the council's legislative recommendations. The legislation that created and governs the Ohio Retirement Study Council does not delegate any duties to its staff. All of the many duties and authority reside with the council and policies and recommendations are only valid after adoption by the council.

On behalf of our members and stakeholders, we must clarify some statements made in the ORSC staff analysis for House Bill 512. First, Mr. Bernard suggested that ORSC has urged the OP&F Board for several years to use the Board authority it possesses to make adjustments and improve the system's funding. I am unaware of any such suggestion since 2015 to the present. Per statute, the Board authority is only available if the system falls out of compliance with the state's 30-year funding requirement. Since Jan. 1, 2015, OP&F has been compliant with this mandate. While we expect that the actuarial valuation due this fall will show we are above 30 years (and we promptly shared this information last year), we are still under 30 years as of today. Also, very limited authority was granted to OP&F as a part of pension reform legislation in 2013. (three OP&F Boards and two directors ago). The authority that does exist is limited to retirement age and member contributions.

Since our members' average age for service retirement is currently **54.3** for police and **55** for fire, raising the age from 52 to 54 or even 55 will have little cost savings effect. It would be an

empty gesture. The same is true of the member rate, which went up 2.25 % already.¹ Neither option will achieve a 30 year funding period with the lower assumed rate of return.

That is why I asked ORSC's actuary, Mr. Fornia, about the assumed rate of return. It is by far the most impactful assumption and the one causing the pressure on funding status:

Executive Director Foley: My question, and we thank you for your actuarial analysis of House Bill 512, if the Board lowers that, the assumed rate of return, to Representative Lightbody's question, very impactful, and so if the Board continued to lower or needed to lower to become in line with the range you spoke of, that would likewise increase our funding needs?

Mr. Fornia: Director Foley, yes definitely. The assumed rate of return is the most important assumption The Fed funds rate went down, down, down, down. Now it's ratcheting up a little bit. But that's kind of the back bone of all these actuarial assumptions and so if rates stay low, which despite recent inflation, they really are staying low, then these assumed rates of return will be, you know, congregating around 7% or so.

This is not caused by "deferral" of action by the OP&F Board. If your staff is in possession of recent recommendations voted on by council to decrease police and fire member benefits that we are unaware of, please forward for the Board's review. We have no documents or letters from the council to the Board encouraging the OP&F Board to cut police and fire member benefits in the period 2014 to June 2022. Indeed, Senator Schuring recently reminded the council that benefits fall under the authority of the General Assembly:

Senator Schuring: I just want to clarify when you said that there could be a breach of benefit. **I just want to remind everybody our benefits primarily are statutory benefits. Our contributions are statutory contributions. It would take an act of the General Assembly to make any significant breach of a benefit and I am saying that now because we are on television.** The audience needs to know that this is not something that can be done with just a quick adjustment. Now we do have ability to, some of the systems, we did it in 2012, we gave them the ability to change the COLA and there is a lot of people that know about that and I think there are some members that are getting phone calls in that regard. And then there is a non-statutory benefit, the health care benefit, but generally speaking what I think makes Ohio's plans so solid, so strong is it's etched in our statute and it would take an act of the General Assembly to change that. So I just want to make sure everybody is aware.

The confusion created for some council members is evident in the question from Council member Miller, trying to get an answer on whether OP&F has been asked by council for a 30-year funding plan after pension reform:

Member Miller: Thank you Mr. Chairman, Jeff I would like to talk about the recommendation that OP&F immediately begin a 30 year amortization plan, is this a new recommendation or has this been recommended before, and if so, when?

¹ The suggestion of solely raising active member rates to achieve funding to support retirees runs afoul of another staff paper on Intergenerational Equity and STRS, dated June 10, 2021.

Mr. Bernard: Mr. Chair, Ms. Miller, I'm sorry, could you, I want to make sure I understand your question correctly, has, are you asking, has there been a process of 30 year plans before through ORSC?

The accurate answer is "no." Clearly, as OP&F has been under the 30 year threshold since 2015, there has been no recent request to begin a 30 year amortization plan.

Member Miller: Mr. Chairman, Mr. Bernard my question is has the ORSC recommended that OP&F conduct a 30 year amortization plan, has there been a prior recommendation and, if so, when?

There is no prior recommendation to OP&F. The pension reform plan was filed by the Board per statute, not request. Moreover, such a recommendation has never been presented to the council by staff that we could locate.

Mr. Bernard: Yes, so the 30 year requirement is in statute, so it is something that happens by statute. When they cross over the 30 year plan, they are required to submit a plan to the ORSC for how they plan on getting below 30 years. So, I would say we view it as a statutory requirement.

No, there has not been a recommendation. OP&F has not "crossed over" thirty years. Instead a statutory summary is provided which is further misleading in that it is the quinquennial report due November 1, 2022 that triggers the plan. H.B. 512 seeks to avoid that result.

Member Miller: Thank you Mr. Chairman, Mr. Bernard, so you believe it is a statutory requirement that they submit this plan as soon as, so how, how long has this been, I'd say a little, been deferred, I guess by the system, is my question?

It hasn't been deferred, ever. OP&F has always filed a plan.

Mr. Bernard: Well, let me try to answer that with the most context that I can. In pension reform, those plans and those bills were analyzed by, actually by Mr. Fornia and in that process he advised that it was likely that OP&F and, I believe, STRS, would be required to make additional changes beyond what was in those bills and that was confirmed after passage and coming back and re-reviewing it. So, there was further action by the OP&F Board subsequent of pension reform around Health Care and that move got them below 30, after pension reform was completed, now even after those moves, in the adequacy reports that we had received there has been a recommendation, again and again, particularly related to the assumed rate of return being so high and that it was very likely that more changes were going to be necessary. So, I think this has really been a situation since pension reform, I guess is how we see it and it has been by our ORSC actuary that the process begin, discussions begin to get ahead of it, I guess would be a way to express it.

The short and factual response is that nothing has been deferred. The 30 year plan requirement has not been triggered as OP&F has met the thirty year threshold. The ORSC actuary shares its recommendations with ORSC staff, not OP&F. Senator Schuring has pointed this out over and over again. This response

fails to distinguish between recommendations received by staff but not acted upon by council.

Again, the council has never adopted an ORSC actuarial recommendation for a 30 year plan nor asked the OP&F Board to submit a 30 year plan outside of the statute. The answer given to Member Miller blurred the facts. Until council's request in last week's meeting, neither current Board nor current staff have been asked for a plan outside of the statute.

Mr. Bernard also stated that the second committee hearing in the House triggered the staff analysis process. What he didn't say is that staff actually has no consistent policy or practice of producing a legislative analysis at any particular point in the legislative process. A casual review of staff recommendations over the last four General Assembly sessions (8 years) only reveals two instances where the analysis occurred after the second committee hearing. That was for H.B. 499 of the current session and H.B 520 of the 131st General Assembly. Here is a sampling of the broad range of the timing of staff recommendations:

- H.B. 184 (134th G.A.) OP&F disability changes, staff recommendation **after passed** House and referred to Senate committee
- H.B. 308 (133rd G.A.) state P.T.S.D Fund, staff recommendation two months **after enactment**
- S.B. 8 (132nd G.A.) SERS COLA, staff recommendation **after passed House and Senate** but before reported out of conference committee
- H.B. 572 (132nd G.A.) OPERS service credit, staff recommendation **after passed** House and reported out of committee in Senate
- H.B. 362 (132nd G.A.) SHPRS changes, staff recommendation after referred to committee but **before any hearing**
- S.B. 151 (132nd G.A.) SERS COLA, staff recommendation after referred to committee but **before any hearing**
- S.B. 27 (131st G.A.) Firefighter cancer presumption, staff recommendation **after passed** Senate and after first committee hearing in House

In addition Mr. Bernard described three ORSC "policy positions" that block raising the OP&F employer contribution rate:

Mr. Bernard: House Bill 512 would have a major precedent change on three separate policy positions of the ORSC. The first is the historic stability of employer rates. The second is opposition to raising employer rates and the third is the undermining of board authority provisions that were in pension reform.

This statement is not supported by the facts. First, I can find no recorded vote of the ORSC declaring a blanket opposition to increasing employer contribution rates. Second, the staff is ignoring the statutory variations in the five pension systems. OPERS has no board authority provisions and is permitted to set the employer rate up to 14%. RC 145.48(A). STRS is permitted to set the employer rate up to 14%. R.C. 3307.28. SERS is permitted to set the employer rate up to 14%. RC 3309.49. HPRS is set by statute at 26.5%. RC 5505.15(B). OP&F is likewise set by statute at 19.5% for police and 24% for fire. Plainly, the General Assembly has decided that the legislative process will determine the employer rates for the uniform systems, HPRS and OP&F. The rates are not "frozen". Instead the rates are "fixed" by the General Assembly and the fixed percentage can be revisited, studied and changed as has been demonstrated.

Finally, ORSC staff often confuses what is required of council under the revised code and what is "required" of staff. Nothing is required of staff but to follow the direction of the Council.

Director Rhodes: Mr. Chairman, members of council. So a staff recommendation is just that. When we provide the recommendation, the council can do just like in committees – you can accept it, you can reject it, or you can amend it; but I will need action.

(See August 12, 2021 ORSC meeting, during discussion of staff recommendation for H.B. 184 *after* the bill, sponsored by the then Chair Carfagna of ORSC, was passed unanimously by the House.)

Not so. The statute does not require the council to do these analysis at any particular time or in any particular manner. It does not require that the council vote on the recommendations, or at any particular time. Council is not required to post analysis without consultation with interested parties or bill sponsors, as is the custom for your staff. Council is not required to tell retirement systems they may not see the draft even if requested. You have an opportunity to create policy and make the Council transparent.

We will consult our Board at our June meeting as requested, but wish to be clear that H.B. 512 *is* the Board's plan. If it is not passed, the General Assembly will have to cut police and fire benefits. We are hopeful neither council nor the General Assembly intends that result.

Again, we thank you for the time to clarify these points. I am available to discuss at any time.

Best regards,

Mary Beth Foley

Mary Beth Foley, Esq.
Executive Director

cc: OP&F Board of Trustees
President Gary Wolske, Fraternal Order of Police of Ohio
President Jon Harvey, Ohio Association of Professional Fire Fighters
Executive Director Tom Austin, Ohio Patrolmen's Benevolent Association
President Sam Gmetro, Northern Ohio Fire Fighters Association

RETURN ON INVESTMENT



* As of 12/31/2021

Funding period as of 1/1/2021 25 YEARS	
Calculated using 8.0% assumed investment return	Funding ratio is 71.2 percent
Improvement from 28 years in 2020	Unfunded liabilities currently \$6.5 billion
Remains in compliance with Ohio's funding requirement	-if assumptions are met these will eventually be zero in 25 years

DISABILITY BENEFITS

In the last 18 years, OP&F has dramatic decreases in disability retirements

Permanent and Total disability grants



On-duty partial grants



Reasons: Non-disabling conditions not considered in calculations (2013); retiree health care increases (2004); evaluation doctors using newer versions of AMA Guides (2010), psychological testing incorporated into mental health evaluations (2011), and change to a stipend based health care model (2019).

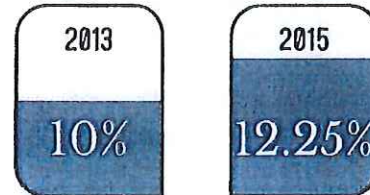
PENSION REFORM

Enacted in 2012 is working as intended

\$3.2 BILLION

removed from unfunded liabilities

MEMBER CONTRIBUTIONS INCREASED



COST OF LIVING ADJUSTMENT

Pension reform in 2012 changed COLAs for OP&F members. **No members receive a COLA until they are age 55***

(*Exceptions are P&T disability benefit recipients and survivors)

COLA is matched to the CPI, with a cap of 3.0% for members with less than 15 years of service on 7/1/2013

EMPLOYER CONTRIBUTIONS

UNCHANGED since 1986



HEALTH CARE +

+ OP&F continues to contribute a small amount toward retiree health care (0.5 percent of employer contributions)

+ OP&F's move to a stipend based model has extended the life of the health care stabilization fund. The most recent actuarial study conducted as of Jan. 1, 2021 found that implementation of the new stipend model increased the health care fund's solvency to 17 years..