

Ohio Retirement Study Council
30 East Broad Street, 2nd Floor
Columbus, Ohio 43215

Minutes
September 14, 2023

The meeting was called to order by Chairman Schuring at approximately 1:00 p.m. in Room 017, the Ohio Statehouse, Columbus, Ohio.

The following members attended the meeting:

Voting members

Bill Blessing
Paula Hicks-Hudson
Mary Lightbody
Lora Miller
Ed Montgomery
Phil Plummer, Vice-Chairman
Dr. Anthony Podojil
Kirk Schuring, Chairman

Non-voting members

Karen Carraher, PERS
Mary Beth Foley, OP&F
Scott Helkowski, Attorney General
William Neville, STRS
Carl Roark, HPRS
Richard Stensrud, SERS

Absent

Adam Bird

Staff

Jeff Bernard
Bethany Rhodes
Alex Strickmaker

With a quorum present, the meeting was called to order at 1:00 p.m.

Chairman Schuring moved to the report from the Actuary and Consulting Services subcommittee. Vice-Chairman Plummer stated the subcommittee recommends that the RFP be re-issued until October 2, 2023, at 5pm. Senator Blessing moved that the ORSC accept the subcommittee recommendation. Vice-Chairman Plummer seconded the motion. The motion passed unanimously.

Chairman Schuring moved that the minutes of the previous meeting be approved. The minutes were approved without objection.

Chairman Schuring moved to the Investment Performance Evaluation RFP. Senator Blessing stated that the ORSC received one responsive proposal, from RVK, Inc. and stated that he scored them 97 out of 100. He moved that the contract be awarded to

RVK, Inc. Vice-Chairman Plummer seconded the motion. The motion passed unanimously

Chairman Schuring moved to a report from the ORSC Staff Salary Evaluation Subcommittee. Mr. Montgomery stated that the subcommittee recommends a two percent salary increase for staff who had already received a three percent salary increase and a five percent salary increase for the director. Senator Blessing moved to accept the subcommittee recommendation and Ms. Miller seconded the motion. The motion passed unanimously.

Chairman Schuring moved to the HB 33 Staff Memo. Mr. Bernard spoke to the contents of the memo and outlined the pertinent changes relating to pensions. He also spoke to recommended changes to the Revised Code.

Senator Hicks-Hudson arrived at 1:11 p.m.

Representative Lightbody stated that she is currently drafting a bill to address one of the recommendations in the memo. Vice-Chairman Plummer moved to adopt the memo as an ORSC recommendation. Senator Blessing seconded the motion, and the motion passed unanimously.

Chairman Schuring moved to the OP&F Annual Adequacy Report. Mr. Fornia presented the report. He outlined concerns with OP&F's calculation for whether they currently meet the statutorily required thirty-year funding requirement. Chairman Schuring asked if this report was an actuarial audit. Mr. Fornia responded that it is similar but that the report only looks at one specific calculation done by OP&F. Chairman Schuring asked if Mr. Fornia was presenting on the adequacy of OP&F's contributions, and Mr. Fornia stated that he was. Chairman Schuring stated that an actuarial audit is done in a cycle for each retirement system and asked if Mr. Fornia had previously done an actuarial audit for OP&F. Mr. Fornia stated that he had. Chairman Schuring stated that OP&F is out of cycle for an actuarial audit. Mr. Fornia stated that this report is targeted to one specific calculation. Chairman Schuring asked if Mr. Fornia had spoken to Cavanaugh Macdonald, the actuary for OP&F, about these concerns. Mr. Fornia stated that he had. Chairman Schuring asked whether Mr. Fornia believed that the concerns in the report were from a lack of compliance with actuarial standards or just the calculation itself. Mr. Fornia stated that he believed it is borderline as to whether it is in compliance with standards. Chairman Schuring stated that there will be a new actuarial valuation in October of OP&F. Mr. Fornia stated that this is correct and that the funding level of OP&F will likely remain similar to what it is now. Chairman Schuring asked if an actuary not in contract for a specific retirement system had ever declared that the system was not currently in compliance with the thirty-year funding requirement. Mr. Fornia stated that if OP&F were to hire a new actuary, they likely would not agree that the system is not meeting the thirty-year requirement. Chairman Schuring asked whether an outside actuary reporting that a retirement system is out of compliance with the funding requirement would trigger the provisions of the Revised Code. Mr. Fornia stated that he

did not know. Chairman Schuring re-iterated that a new actuarial valuation for OP&F would be provided in October.

Mr. Fornia continued his presentation and stated that the report outlines a disagreement over the calculation of administrative expenses for the system. He stated that OP&F is utilizing a nine-million-dollar accounting credit to offset administrative expenses, which is not proper. He stated that this allows OP&F to stay within the thirty-year funding requirement. He further stated that OP&F has been using this method in the past, and it was reasonable in the past. It is unreasonable now because it is causing inconsistencies with how administrative expenses are calculated. Mr. Fornia stated that this inconsistency should have triggered further review.

Chairman Schuring stated that the actuarial report evaluated by Mr. Fornia was created in October 2022. He questioned as to why Mr. Fornia was just now providing his report. Mr. Fornia stated that he was prepared to provide his report in February 2023 but there had been three ORSC meeting cancellations that had prevented him from presenting his report.

Mr. Fornia then outlined the recent investment returns of OP&F and that smoothing of returns does not show the full picture of recent investment losses. Mr. Fornia stated that OP&F also appropriately decreased their assumed rate of return, which increased their liabilities. He re-iterated that the focus of the report is that the use of the accounting credit for administrative expenses is improper and that smoothing of returns has caused investment losses to not be fully realized. He also stated that this would not be an issue for PERS, STRS, or SERS but that it could be a future issue for HPRS.

Chairman Schuring thanked Mr. Fornia for his report. He asked whether Mr. Fornia's report conformed with the requirements of the revised code that the report evaluate the contribution rates of OP&F. Mr. Fornia stated that the report evaluated the contribution rates and concludes that the rates are not adequate.

Mr. Montgomery asked whether equalizing employer contribution rates of police and fire at a higher rate would correct the issue. Mr. Fornia said that it would help correct the issue if not fully correct the issue. Mr. Montgomery asked where exactly the OP&F funding level was and if it was thirty years and a number of months or thirty-one years. Mr. Fornia stated he does not recall exactly what the number is but that there is a two-year difference between his report and OP&F's actuarial valuation.

Chairman Schuring stated that he has never seen a report from an actuary not contracted with a retirement system declare that the system is outside of the thirty-year funding period.

Director Foley stated that Mr. Fornia is correct that the accounting credit does not represent actual money from PERS but that OP&F also does not provide money to PERS when the credit represents a cost. Director Foley further stated that OP&F is not assuming that they will receive the credit for thirty years; instead, they are only factoring

it for one year. Director Foley further stated that the use of the credit was established in their five-year experience study as it was decided that audited financial numbers were to be used. She further stated that the issue facing OP&F is due to the disparity of contribution rates between police and fire. The director suggested that the council recommend that police and fire employer contribution rates be set at twenty-four percent, if not higher. She stated that this would address the problem of underfunding that has existed for the last forty years.

Ms. Miller asked whether the use of the accounting credit was standard practice. Mr. Fornia stated that it is not unusual to do the calculation this way, but it becomes improper when it is done and causes such a drastic drop in administrative expenses.

Chairman Schuring thanked Mr. Fornia for his report.

Chairman Schuring moved to the Investment Performance Review for the period ending December 31, 2022. Rebecca Gratsinger of RVK, Inc. presented the report. Ms. Gratsinger spoke to the relief from inflation that is starting to materialize. She stated that the retirement systems have generally outperformed their benchmarks despite losses and that current market trends point toward better returns in the next year. She then spoke to changes in diversification and asset allocations among the systems. She stated that diversification is extremely important to the long-term health of a pension fund. She further stated that the individual systems have performed when compared to the assumed rate of return over a five-to-ten-year period. Ms. Gratsinger spoke to a nationwide trend where assumed rates of return are being lowered. She further stated that each system has outperformed their benchmarks over a seven-year period and four of the six funds outperform their peers. As to risk and return, each fund performs well when compared to their peers. As for the returns of individual asset classes, the funds generally outperform their benchmarks over the long-term and outperform the median of their peers.

Chairman Schuring thanked Ms. Gratsinger for her report. Representative Lightbody also thanked her for her report and praised the thoroughness of it.

Chairman Schuring moved to the ten-year HPRS fiduciary audit. Randy Miller of Funston Advisory Services presented the report. Mr. Miller stated that the audit focused on board governance and administration, organizational structure and staffing, investment policy and oversight, legal compliance, risk management and controls, and IT operations. He stated that HPRS operates effectively, staff are capable, and members and retirees are satisfied with the system. He further provided that the HPRS Board is well functioning. Mr. Miller also spoke to the reliance on competent advisors and service providers which compliments the small staff of HPRS. He further stated that Funston made 110 recommendations and that HPRS has already begun the implementation of some of them.

Chairman Schuring thanked Mr. Miller for his report.

Senator Hicks-Hudson asked about the recommendation for a legislative change to allow HPRS to select their own external counsel, as opposed to the Attorney General making the selection. Mr. Miller stated that this is a recommendation that they have made for other retirement systems since the systems have unique legal challenges and would benefit from the ability to select their own counsel. Senator Hicks-Hudson asked if this is a major concern that needs addressed. Mr. Miller stated that it is not a major concern but that it would be an improvement.

Chairman Schuring thanked Mr. Miller again for his report.

Chairman Schuring moved to the PERS Annual Audit report. Director Carraher presented the report.

Chairman Schuring moved to the OP&F Annual Audit report. Director Foley presented the report.

Chairman Schuring moved to the STRS Annual Audit Report. Director Neville presented the report.

Chairman Schuring moved to the HPRS Annual Audit Report. Director Roark presented the report.

Chairman Schuring moved to the SERS Annual Audit Report. Director Stensrud presented the report.

Chairman Schuring moved to the PERS 2022 Health Care Report. Director Carraher presented the report.

Chairman Schuring moved to the OP&F 2022 Health Care Report. Director Foley presented the report.

Chairman Schuring moved to the HPRS 2022 Health Care Report. Director Roark presented the report.

Chairman Schuring moved to the STRS Disability Report. Director Neville presented the report. Representative Lightbody asked for an explanation of how disability coverage determinations are made. Director Neville stated that an independent medical examiner determines the medical status of the individual and the determination is made based on that. Representative Lightbody asked what a member can do if their claim is denied. Director Neville stated that the individual can appeal to the Disability Review Panel of the STRS Board. Senator Hicks-Hudson asked what a cancelled application would be. Director Neville stated that he would respond to ORSC staff in writing as to all the reasons an application would be canceled. *(NOTE: STRS responded on 9-19-23 and the written response was immediately forwarded to the voting members.)*

Chairman Schuring moved to the SERS Disability Report. Director Stensrud presented the report.

Chairman Schuring moved to the 2024 STRS PBI Policy. Director Neville spoke to the changes in the policy and the reduction of the number of individuals who fall under the policy. He also spoke to the changes in how the incentive for individuals will be calculated. Ms. Miller asked how the positions that no longer fall under the policy were chosen. Director Neville stated that they no longer fell under the definitions for the type of employees that are eligible under the policy. Ms. Miller then asked whether anyone had left their employment at STRS because of the change. Director Neville stated that the change was just made in August but no one had left at this point.

Dr. Podojil asked how the benchmarks in the policy are established. Director Neville stated that the benchmarks are created by the Board in consultation with their investment consultant.

Chairman Schuring moved to the ORSC Audit Report. Director Rhodes presented the audit.

Chairman Schuring moved to the Rules. Mr. Bernard stated that ORSC staff had reviewed the rules, they are in line with the Revised Code, and staff has no further comments.

Chairman Schuring moved to new and old business.

Chairman Schuring said that the next meeting is scheduled for October 12, 2023, or at the call of the Chairman.

The meeting adjourned at approximately 2:44 p.m.

Date Approved

Kirk Schuring, Chair

Bethany Rhodes, Secretary

Phil Plummer, Vice Chair