Report to the Ohio Retirement Study Council on OP&F 30 Year Funding, Actuarial Status as of January 1, 2023

William B. Fornia, FSA

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Findings

- OP&F actuary (CMC) calculated that 30-year funding met as of January 1, 2023
  - We find that 30-year funding was satisfied under CMC assumptions used in 1/1/23 valuation
  - However, we found that their analysis was not credible due to continuing approach to OPERS expenses
- CMC will modify their methodology
  - We find this proposed change a strong improvement
  - This results in 30-year funding satisfied not only as of 1/1/23, but also as of 1/1/22
- We continue to be concerned with 1/1/24 and likely 1/1/25 positions

Background

- Each year, the OP&F's actuary performs an actuarial valuation
  - Based on assets, population, assumptions and benefit structure
- This determines unfunded liability (UL)
- Law requires that statutory contribution rate be sufficient to extinguish UL within 30 years
- ORSC actuary reviews OP&F's calculation each year *(R.C. 742.311 Annual adequacy report)*
- Our review as of 1/1/2022 (conducted in 2023) found issues with OP&F's assumptions which appeared to indicate failure of 30-year target

What made 2022 OP&F 30-Year Analysis Not Credible

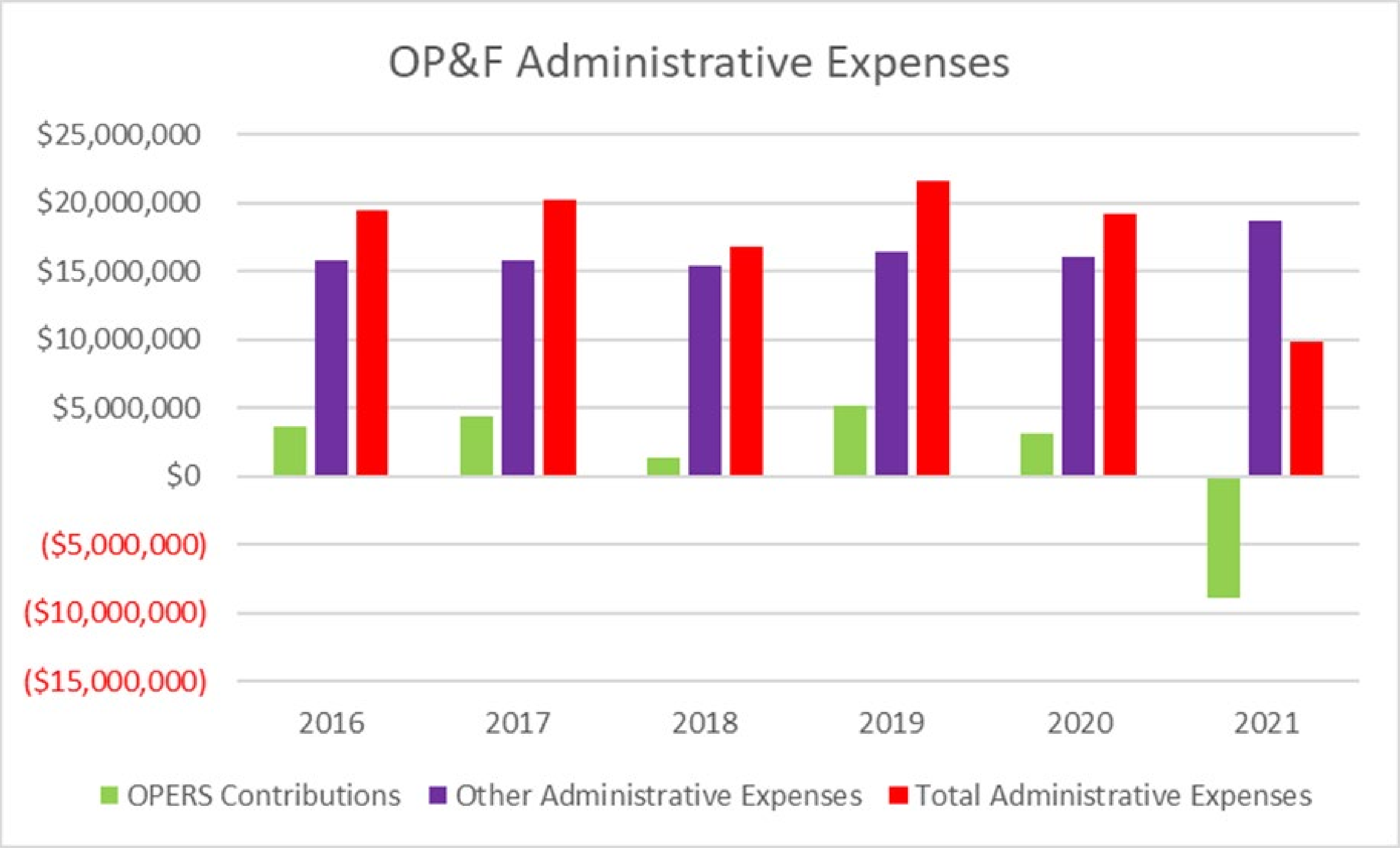
- OP&F 2022 actuarial analysis relied on one-time $9 million accounting credit from OPERS and assumes will continue for nearly thirty years

- This was merely an OPEB accounting credit. Not real money.
  - OPERS was not actually providing $9 million in cash to OP&F

- This was a one-time adjustment and would certainly not continuously recur for the next 30 years

- OPEB accounting credit can be extremely volatile

2022 Analysis Hinged on Administrative Expenses



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How has this difference been resolved?

- OP&F 2023 actuarial analysis continued this approach
- 30-year requirement was met as of 1/1/2023 notwithstanding this approach
- Our initial analysis re-iterated our concern with administrative expense assumption *(Memo dated February 27, 2024)*
- CMC did extensive research on exactly what comprises the OPERS expense *(Memo dated March 22, 2024)*
  - This is the cost that OP&F pays to OPERS for benefit coverage for OP&F employees
  - CMC confirmed that although financial accounting costs were quite volatile, cash expense is relatively stable

CMC findings on OP&F's OPERS expense

Development of Proposed Administrative Expense Assumption

Calendar Year	(a) Administrative Expense From ACFR	(b) OPERS GASB Expense	(c) OPERS Contributions Actually Made per OP&F Staff	Proposed Administrative Expense (a) - (b) + (c)
2016	$ 19,517,891	$ 3,672,521	$ 1,356,608	$ 17,201,978
2017	20,218,704	4,426,337	1,403,108	17,195,475
2018	16,780,220	1,340,383	1,472,029	16,911,866
2019	21,612,071	5,207,345	1,523,056	17,927,782
2020	19,218,035	3,123,667	1,543,347	17,637,715
2021	9,780,703	(8,921,262)	1,559,294	20,261,259
2022	12,810,009	(6,492,288)	1,557,189	20,859,486

Volatile

Stable

PTA 2022 findings on administrative expenses

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- We found that it was unreasonable to use an expense assumption based on column (b) – OPERS GASB Expense
  - The figure is not actual cash
  - The figure had flipped to negative, which could not possibly persist for 30 years

Impact of CMC proposed change to administrative expenses

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- 2020 significantly overstated administrative expense
- 2021 and 2022 significantly understated administrative expense
- Correcting this results in reasonable future administrative expense assumptions and satisfies 30-year funding requirement in all years *(Memo dated April 11, 2024)*

Major Findings

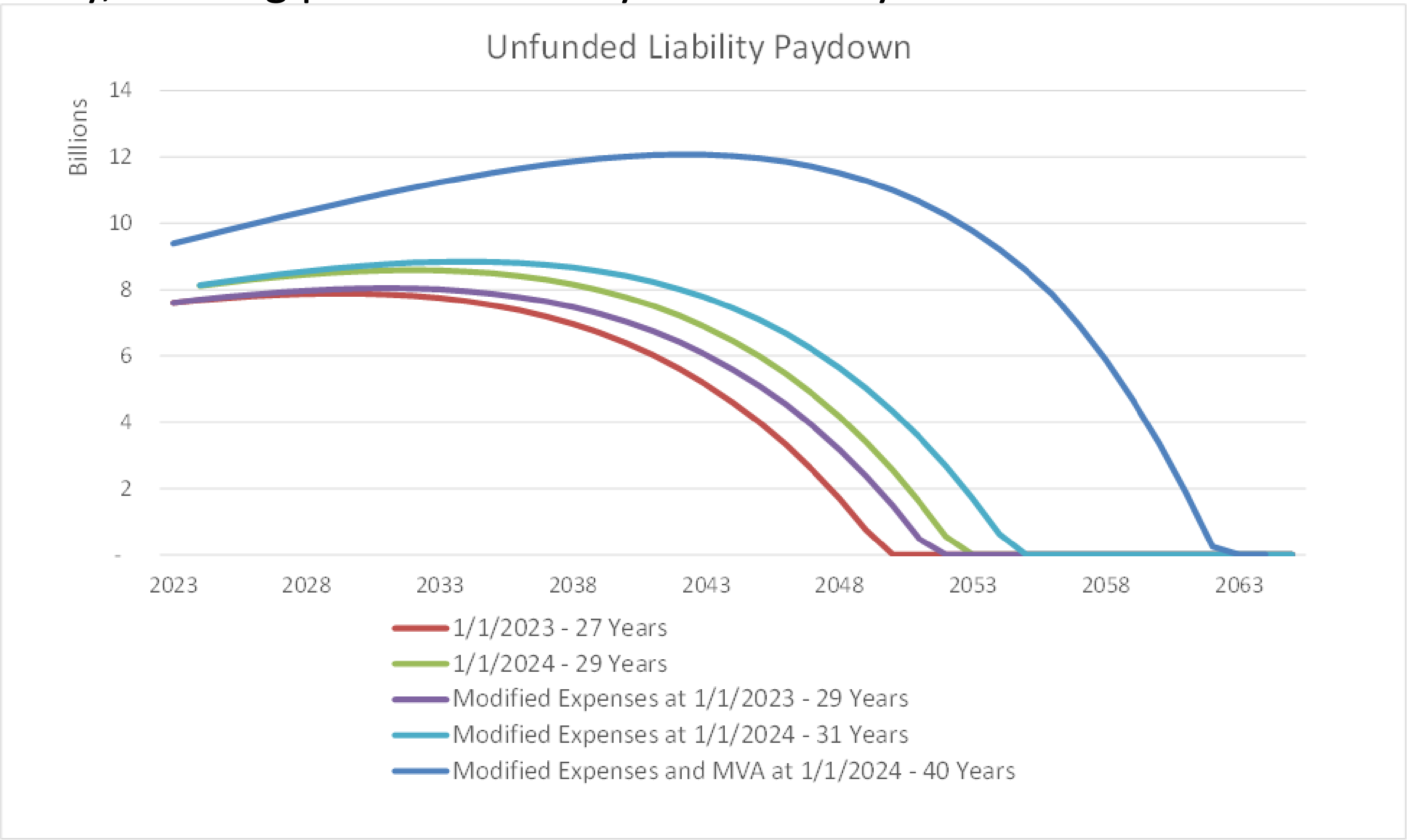
- Statutory requirement as of 1/1/23 is satisfied under either the CMC administrative assumptions or their proposed revised assumptions

- Statutory requirement as of 1/1/22 is also satisfied under either the CMC administrative assumptions or their revised assumptions

- Reasonable likelihood that 1/1/24 and/or 1/1/25 will not satisfy 30-year requirement
  – Due to delayed recognition of investment volatility

What about bad 2022 returns?

- Actuarial asset smoothing will delay recognition of 2022 losses, but absent recovery, funding period will likely exceed 30 years



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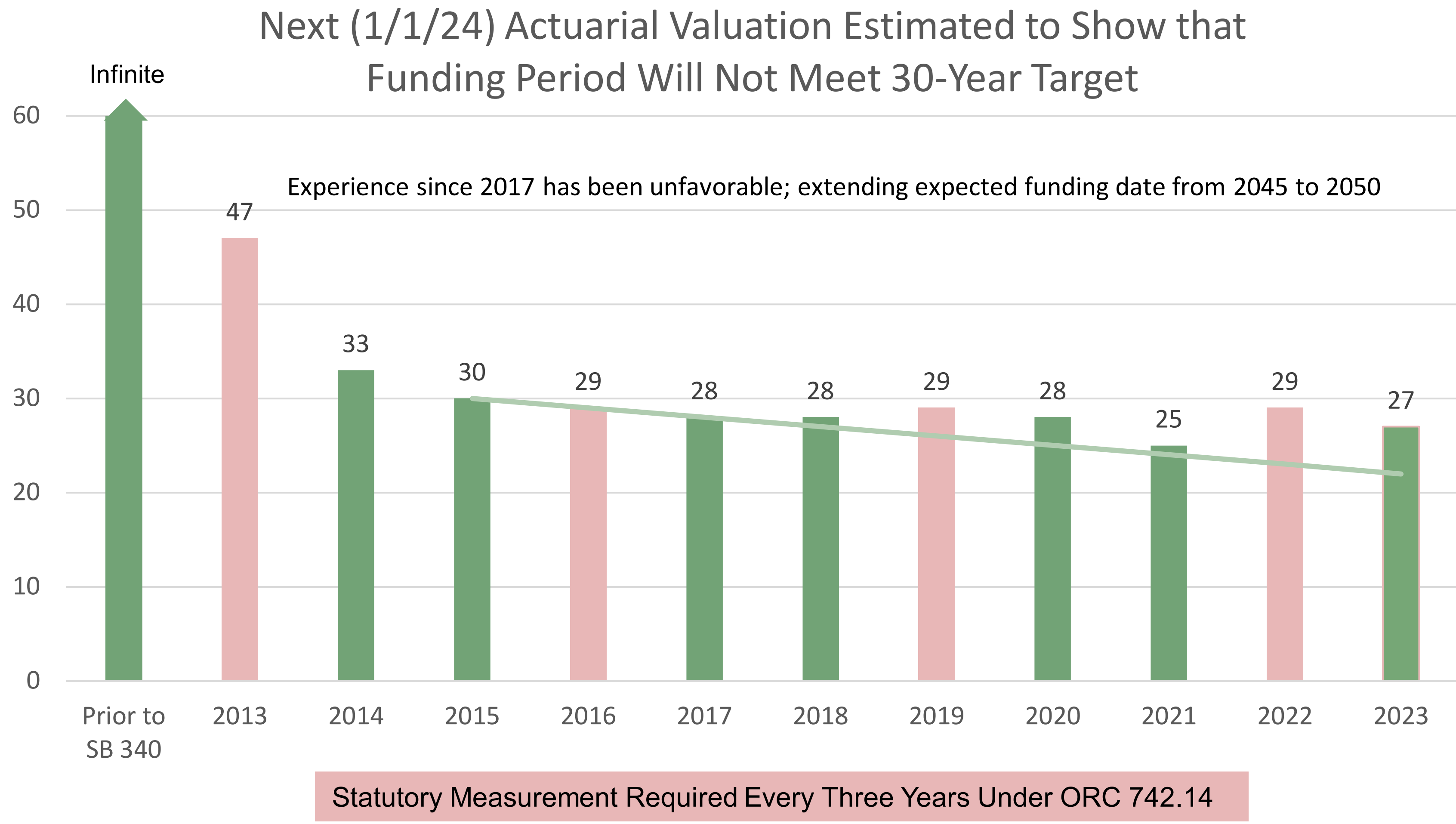
History of Funding Periods



Conclusions

- OP&F actuaries calculated that 30-year funding met as of January 1, 2023. We concur.

- OP&F actuaries are modifying their assumption for administrative expenses, to our satisfaction

- Poor 2022 investment returns also likely to further deteriorate funding
  - Although actuarial asset smoothing will delay this impact