



Ohio Retirement Study Council

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To: ORSC Members
From: Jeffery A. Bernard, Senior Research Associate *JAB*
Date: September 20, 2018
Subject: OP&F Annual Adequacy Report Recommendation

Voting Members

Representatives

Kirk Schuring, *Chairman*
Rick Carfagna
Dan Ramos

Senators

Steve Wilson, *Vice-Chair*
Edna Brown
Jay Hottinger

Governor's Appointees

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Bethany Rhodes

Ohio Police and Fire Annual Adequacy Report

At its May 10th meeting, ORSC staff recommended removal of a statutory requirement to complete an annual adequacy of contribution rates study for the Highway Patrol Retirement System (HPRS; R.C. 5505.152). The annual adequacy report studies the sufficiency of employer and employee contribution rates to fund the obligations of HPRS.

ORSC staff recommended that the statutory requirement be removed as it was duplicative of other studies conducted by HPRS and expensive relative to HPRS' size. Ohio Police & Fire (OP&F) Executive Director Gallagher then requested that a similar statutory requirement in OP&F law also be removed. ORSC staff concurred that the report's discussion of contribution rates has the same duplicative and expense characteristics as the HPRS annual adequacy report. The ORSC requested that its staff further research the topic and return with a recommendation at its next meeting.

Annual Adequacy Report and Allocation of Police and Fire Employer Contributions

After review, ORSC staff recommends *maintaining* the statutory requirement to annually study the adequacy of contribution rates in OP&F (R.C. 742.311). The annual adequacy report has been the traditional method by which the ORSC has studied the disparity of employer contribution rates between police and fire in OP&F, a disparity that is not at issue in HPRS. Under current law, employers of police officers contribute an amount equal to 19.50% of police salary, whereas employers of firefighters contribute an amount equal to 24.00% of employee salary. The ORSC has repeatedly indicated that this is a policy area of interest, most recently reaffirmed in its November 2014 review of ORSC recommendations. As a

result, should the annual adequacy report requirement be removed, ORSC would lose an impartial review of the disparate contribution rates that apply to police and firefighter employers.

Given that the annual adequacy report is the method under which the ORSC receives an impartial review of the disparate employer rates in OP&F, ORSC staff would recommend removal of the annual adequacy report requirement *only if* the ORSC determines that the disparate employer rates in OP&F is resolved as a policy issue or a mechanism is established in law to continue an impartial review of those disparate rates.

Ohio Police & Fire Pension Fund

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

May 16, 2018

The Honorable Kirk Schuring
Chairman, Ohio Retirement Study Council
30 East Broad St., 2nd Floor
Columbus, OH 43215

Dear Chairman Schuring,

At the May 10, 2018, Ohio Retirement Study Council (ORSC) monthly meeting, Senior Research Associate Jeffery Bernard issued a staff recommendation to remove a requirement from the Highway Patrol Retirement System (HPRS) to perform an annual Adequacy of Contribution Rate study. Despite being in the Ohio Revised Code (ORC) since 2009, the ORSC, using its discretion, has not ordered such studies from HPRS.

Mr. Bernard explained to the ORSC members that they and the Legislature are able to rely on other reports and studies to ensure that contribution rates have been adequate and therefore has not ordered an adequacy of contribution study for HPRS. To have done so would be duplicative. Concluding his comments at the last meeting, Mr. Bernard recommended to the ORSC that this requirement be removed from the HPRS section of the ORC.

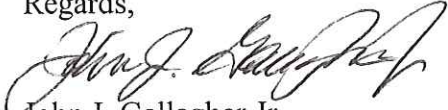
As you and Council members are aware, OP&F is subject to a very similar provision. Unlike the HPRS requirement, the ORSC has indeed ordered this study on an annual basis for approximately 32 years. OP&F has absorbed the cost of these annual studies, estimated to cost \$20,000 for the 2018 study.

On behalf of the Board of Trustees of the Ohio Police & Fire Pension Fund, we request that the requirement that the ORSC order an annual adequacy of contribution rate study be removed from our section of the Ohio Revised Code. Considering the anticipated legislative schedule, this amendment to the ORC may not be addressed until 2019. Therefore, OP&F kindly requests that the ORSC waive this requirement for 2018. We also request that the ORSC approve a waiver on this requirement until such time as this section of the ORC can be amended.

We thank you for expressing your support to remove this requirement from the HPRS code and we would kindly ask that the ORSC fully support removal of this provision from the OP&F code section as well, for the same reasons. To continue this requirement would be duplicative and expensive, in light of the other analysis we already perform.

Thank you for the staff analysis and for the recommendation Mr. Bernard made to the Council on this topic. We believe his analysis is all that will be needed to support the removal of this annual requirement but should you need any more support please let us know at your earliest convenience.

Regards,

A handwritten signature in black ink, appearing to read "John J. Gallagher Jr.", written in a cursive style.

John J. Gallagher Jr.
Executive Director

cc: ORSC Executive Director Bethany Rhodes



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To: ORSC Members
From: Jeffery A. Bernard, Senior Research Associate *JAB*
Date: May 10, 2018
Subject: Adequacy of HPRS Contribution Rates Report

Voting Members

Representatives

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Senators

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Statutory Requirement to Annually Review Highway Patrol Retirement System (HPRS) Contribution Rates

ORSC staff regularly review statutory requirements that apply to the ORSC and ORSC staff. A recent review found that the requirement to conduct an annual adequacy of HPRS contribution rates has never been completed (R.C. 5505.152). With the approval of the ORSC, staff recommend the removal of this requirement.

Background

Prior to 2009, HPRS employer rates were not specified in statute, instead being set by the HPRS Board and certified by the Director of Budget and Management. Am. Sub. H.B. 1 of the 128th General Assembly (the biennial budget bill) fixed the employer contribution rate at 26.5%. That bill also added a requirement, similar to OP&F law, that the ORSC annually complete a review of the adequacy of contribution rates of HPRS. These changes were not reviewed by the ORSC, only being discussed at the September 9, 2009, meeting, after the budget bill was completed.

Current ORSC staff reviewed past staff documents and found that the annual adequacy report requirement was not accounted for. The requirement does not appear on the ORSC staff analysis of H.B. 1. While the annual report mentions the freezing of the HPRS employer rate at 26.5%, it did not include a discussion of the requirement to annually review the contribution rates. ORSC staff rediscovered this requirement in our normal review process.

Recommend Removal of Requirement

Because there was no review of this provision by the ORSC, staff cannot comment on the policy objectives of the changes in the 2009 HPRS law. However, staff would recommend that the requirement be eliminated for two reasons:

The report is duplicative. Under current law, the HPRS Board may request that its actuary, at any time, review the adequacy of contribution rates.¹ Likewise, the annual valuation, five-year review, and 10-year ORSC actuarial audit effectively review the proper funding of the system, which naturally includes an analysis of contribution rates.

The analysis is expensive relative to HPRS' size. The cost of the annual adequacy of contribution rates is roughly \$20,000.² There may be value that OP&F, with 17 times the assets of HPRS, be independently reviewed annually. Additionally, ORSC has applied this requirement to OP&F for 32 years. However, ORSC staff question the value of such a report for HPRS when the applicable information is available in required actuarial analyses, even if the independent analysis is done less frequently than annually.

In the past, the ORSC has asked for ad hoc and independent analyses of the adequacy of contribution rates of the retirement systems. This was last done in 2003 for PERS, STRS, SERS, and HPRS. Removal of the requirement to annually review HPRS rates *would not affect* the authority of ORSC to conduct an independent analysis, should the ORSC chose to do so in the future.

For these reasons, ORSC staff recommend that the *requirement* to annually review HPRS rates be eliminated.

¹ R.C. 5505.12(C).

² PTA/KMS budgeted \$18,625 for its review of OP&F contribution rates. The cost for an analysis of HPRS would be similar.