PTA PENSION TRUSTEE ADVISORS

KMS ACTUARIES LLC

# Report to the Ohio Retirement Study Council on OP&F 30 Year Funding, Actuarial Status as of January 1, 2019, and Anticipated Position as of January 1, 2020

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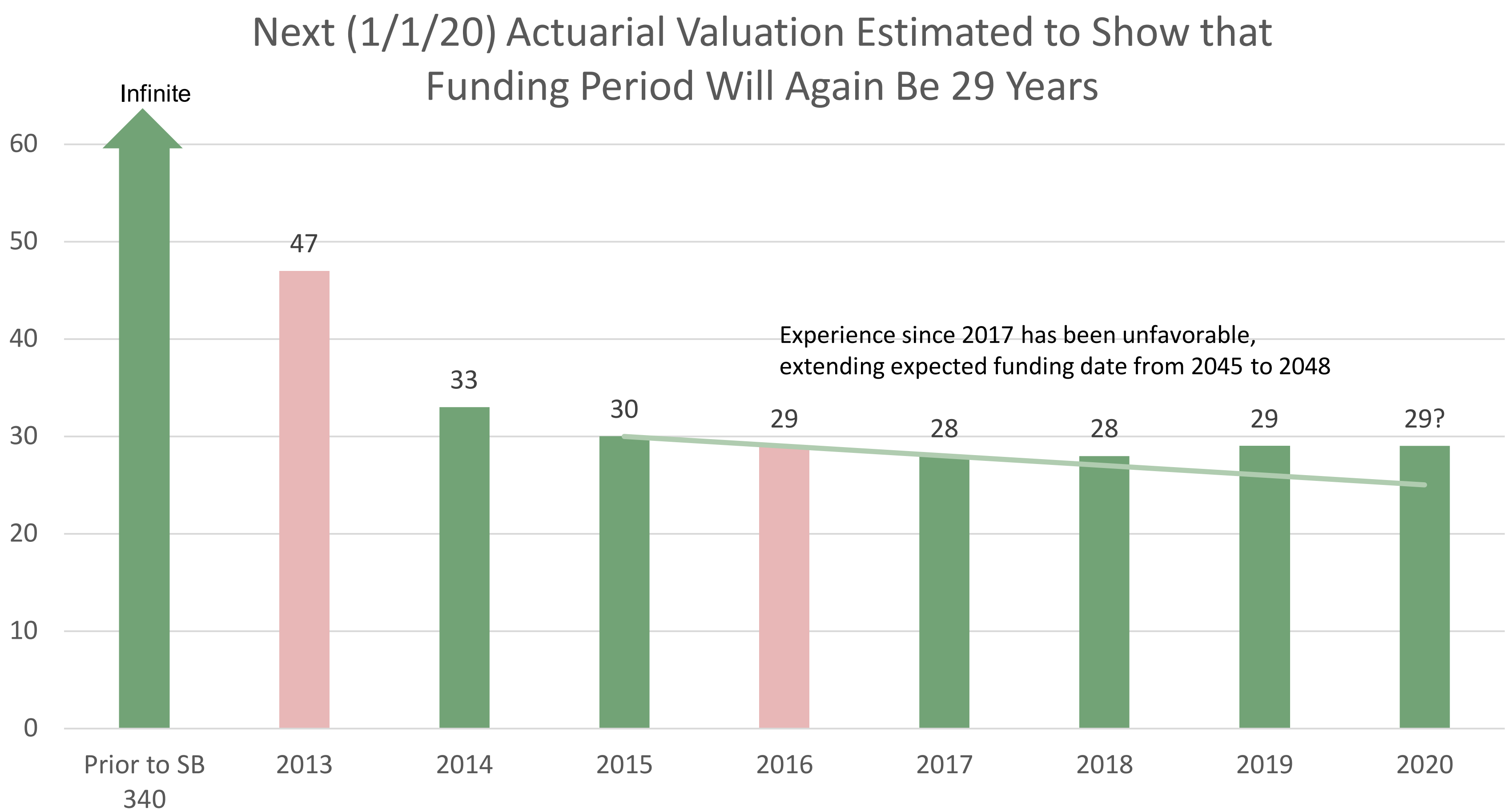
# Summary

- Adequacy of Current Statutory Contribution Rates to Fund Current Statutory Benefits – 30 Year Funding Requirement
  - January 2019 – We estimate 32 years based on 12/31/18 assets
    - As a result of strong payroll growth actual years was 29
  - January 2020 – Based on strong returns (15%+), we estimate that will remain at 29
- Likelihood of Necessity for Future Changes in Benefits or Contributions – 2022
  - Likely future changes to actuarial assumptions, particularly 8% return, will exacerbate funding position
  - Although Board scheduled change is 2022, actuary has obligation to assess reasonableness of 8% assumption

# Current OP&F Contributions Are Adequate for 30-Year Requirement

- Cavanaugh MacDonald (OP&F Actuary) calculated a 29-Year Funding Period as of 1/1/2019
- We replicate CMC's projections
- Poor 2018 Investment Return combined with Strong 2019 Investment Return will likely keep the funding period stable (all other things being equal)
  - We estimate that based on 15% return during 2019, period will be 29 years as of January 1, 2020
  - Next actuarial valuation will determine the actual funding period

# History of Funding Periods

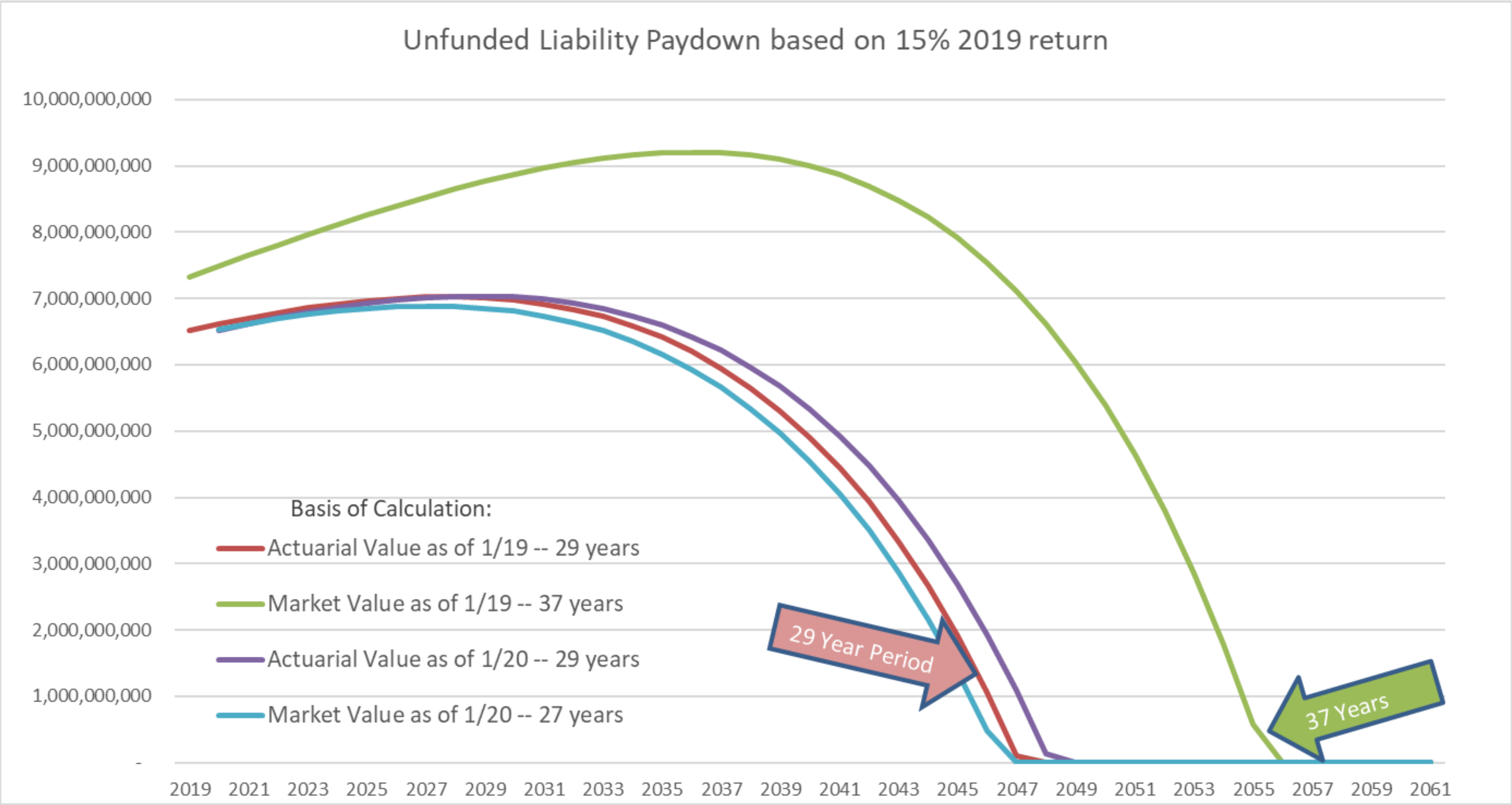



Statutory Measurement Required Every Three Years Under ORC 742.14

# Does OP&F Meet 30 Year Funding?

- OP&F does meet 30 year funding, because:
  - Measurement is as of January 1, 2019
  - Health care stabilization fund is tapped
  - Members hired after July 1, 2013 have lower benefits, allowing higher share of contribution toward unfunded liability
  - Strong 2019 returns helped offset weak 2018 returns
- Concerns that 30 year funding will be jeopardized by 2022
  - Likely decrease in 8% assumed rate of return on assets

# 30 Year Funding Met as of 1/1/2019, And Estimated also for 1/1/2020



# Concerns with Discount Rate

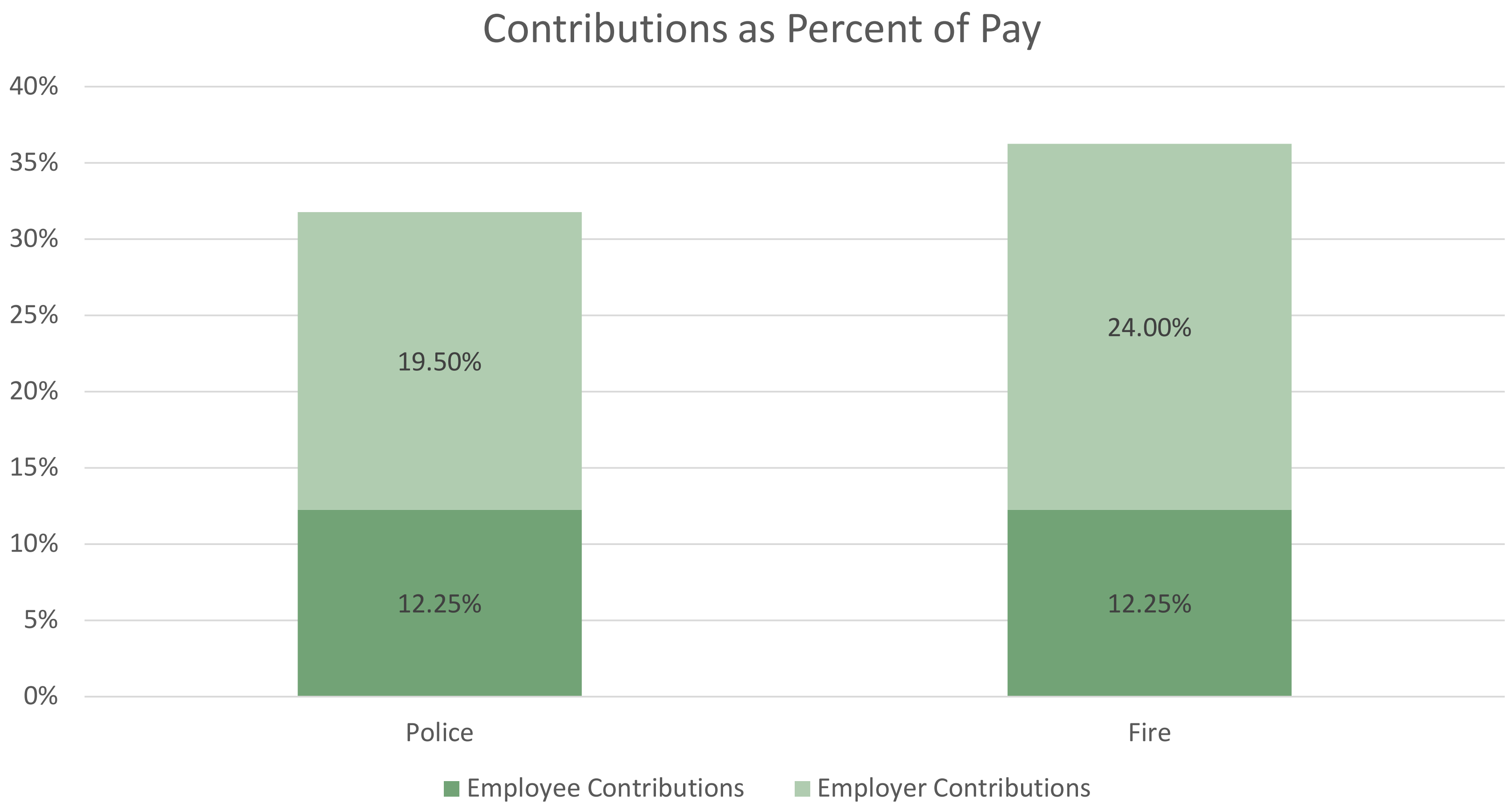
- OP&F continues to assume 8.00% investment return on plan assets
- This is among the highest of US pensions
  - Used by only about 5% of plans
- Underlying inflation and bond returns continue to be low
- We would expect that OP&F will reduce this assumed rate, which would have substantial impact on funding period
  - Was lowered as of 2017 valuation, so possibly not until 2022 actuarial valuation, following five-year experience study

# Likely Results of 2020 Actuarial Valuation

- Actuarial Valuations typically completed in October
  - Reported to ORSC by November 1

- We estimate that this will show that 30 year funding target is met
  - We estimate again at 29 years
  - Actual experience could impact this by 2-3 years

# Note also Differences between Police and Fire Contribution Structure



# Conclusions

- OP&F calculates that 30-year funding met as of January 1, 2019. We concur.

- We estimate that 2020 valuation will show that 30-year funding is met.

- Expected return on assets of 8.0% is among the highest in the country – will likely be reduced by 2022, making 30-year period difficult to attain.