Ohio Police & Fire Pension Fund
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Feb. 27, 2020

The Honorable Jack Cera
Ohio House of Representatives
77 S. High Street
Columbus, OH 43215

Dear Representative Cera,

Please find the answers below to the questions you posed to the Ohio Police & Fire Pension Fund and other retirement systems during the Feb. 13, 2020 meeting of the Ohio Retirement Study Council (ORSC).

Do pension plans utilize their actuarial valuation when planning for beneficiaries' health care benefits?

Yes, the actuarial valuations are valuable planning tools. As a matter of best practice, the OP&F Board contracts with an independent actuary to provide annual actuarial valuations on each of the two trusts managed by the Board. Our statutory mandate to provide retirement benefits is our pension trust (as set forth in the Ohio Revised Code, Section 742), while the Health Care Stabilization Fund (HCSF) is a discretionary benefit.

Our clearest example of the Board balancing the needs of both trusts was how the Board used its discretionary authority to reduce the share of the employer contributions allocated to the HCSF to 0.5 percent of the total employer contribution as of Jan. 1, 2016. This change was done following the implementation of pension reform legislation (SB 340). It became necessary to reduce the allocation to the health care fund in order to keep the pension trust within the 30-year amortization mandate. Once the change was made, it predictably and unfortunately created a solvency problem with the HCSF. The health care trust began to lose solvency at a rapid rate, and in response, the Board approved the elimination of the self-insured group plan for retirees, which had existed since 1974. In its place, on Jan. 1, 2019, OP&F began providing stipends for retirees to purchase health care plans from the private individual markets (stipend chart below). The individual insurance market for Medicare-eligible retirees is competitive and has been a significant benefit to this population, which makes up approximately two-thirds of our retirees. Unfortunately, the private market insurance plans available to our retirees who are not Medicare-eligible are few and very expensive. The plans that are available to this group are primarily HMOs with high premiums and high deductibles.

Our stipend support provides significant assistance to all our retirees, but the actuarial valuation since the enactment of the stipend-based plan shows that health care funding is still perilous. The Jan. 1, 2019 valuation shows that funding for retiree health care has a 16-year solvency projection. While far from ideal, the solvency period is double what it would have been had we maintained the self-insured group plan for retirees.

2020 OP&F Retiree Health Care Plan Monthly Stipend levels

	Medicare Status Retiree	Spouse	Monthly Medical/Rx Stipend	Monthly Medicare Part B Reimbursement	Total OP&F Monthly Support for Health Care
Retiree only:	Medicare		$143	$107	**$250**
	Non-Medicare		$685	$0	**$685**
Retiree + Spouse:	Medicare	Medicare	$239	$107	**$346**
	Medicare	Non-Medicare	$525	$107	**$632**
	Non-Medicare	Medicare	$788	$0	**$788**
	Non-Medicare	Non-Medicare	$1,074	$0	**$1,074**
Retiree + Dependent(s):	Medicare		$203	$107	**$310**
	Non-Medicare		$865	$0	**$865**
Retiree + Spouse + Dependent(s)	Medicare	Either Medicare or Non-Medicare	$525	$107	**$632**
	Non-Medicare	Either Medicare or Non-Medicare	$1,074	$0	**$1,074**
Surviving Spouse:	Medicare		$143	$107	**$250**
	Non-Medicare		$685	$0	**$685**

**The OP&F Medicare Part B reimbursement is an ongoing benefit that has been in place for many years, but should be included in the support provided for health care coverage. The Med B reimbursement is added to a member's monthly pension benefit.*

Do the pension plans support the Affordable Care Act? How would beneficiaries be impacted if the ACA is overturned, as many non-Medicare retirees use the ACA marketplace.

When passed, the Affordable Care Act (ACA) established a critical standard for our members. Specifically and most important, those with pre-existing conditions could not be denied coverage. Pre-Medicare market participants can now acquire ACA compliant plans without the disclosure of pre-existing conditions when shopping for coverage (short term plans can take pre-existing conditions into account). This provision is critical for our retirees, even more so since they were moved to the private marketplace from the self-insured group plan we had maintained until 2019.

When Medicare began more than 50 years ago, the enacting legislation was worked on over the next several years by the federal government to address implementation issues, coverage limitations or clarifications. The ACA post-enactment has been a political hot potato that has now been mostly overturned, either in law or practice, leaving a volatile private marketplace for pre-Medicare retirees. The market needs more competition to produce lower costs but each year post ACA interested parties have no real clarity to the future of coverage options and related costs for compliant coverage in the private marketplace.

How have hedge funds impacted the pension plans' investments?

OP&F uses hedge funds as a tool to add value above and beyond what either active management or index funds can provide. OP&F's approach to using hedge funds has benefitted the plan historically by providing excess returns above U.S. stock and inflation-protected bond asset class returns. These asset class returns are essentially the equivalent of passive index fund returns and OP&F's returns have soundly beaten these index returns even after OP&F has paid the hedge fund fees. For the U.S. Equity and Treasury Inflation Protected Securities classes where OP&F uses hedge funds, please see below the excess returns earned over the 10-year and since inception periods as of Dec. 31, 2019:

Annualized Performance (%) net of fees

Periods ending December 31, 2019

U.S. Equity

	10-Year	Since Inception (1/1/2007)
OP&F's Portable Alpha Program	15.59%	9.53%
S&P 500 Index	13.56%	8.81%
OP&F's Excess Returns	**2.03%**	**0.72%**

Treasury Inflation Protected Securities

	10-Year	Since Inception (1/1/2004)
OP&F's TIPS Composite	9.48%	8.08%
TIPS Policy Benchmark	6.96%	6.36%
OP&F's Excess Returns	**2.52%**	**1.72%**

OP&F's approach has also compared favorably to the universe of traditional active managers within the U.S. Equity asset class (there is no representative peer group for inflation-protected bond managers). As shown in the chart below, for the past 1, 3, 5 and 10 year periods, OP&F's U.S. Equity Portable Alpha Program has ranked in the top 26th, 24th, 15th, and 4th percentiles, respectively, of a universe of hundreds of active U.S. large cap equity managers.

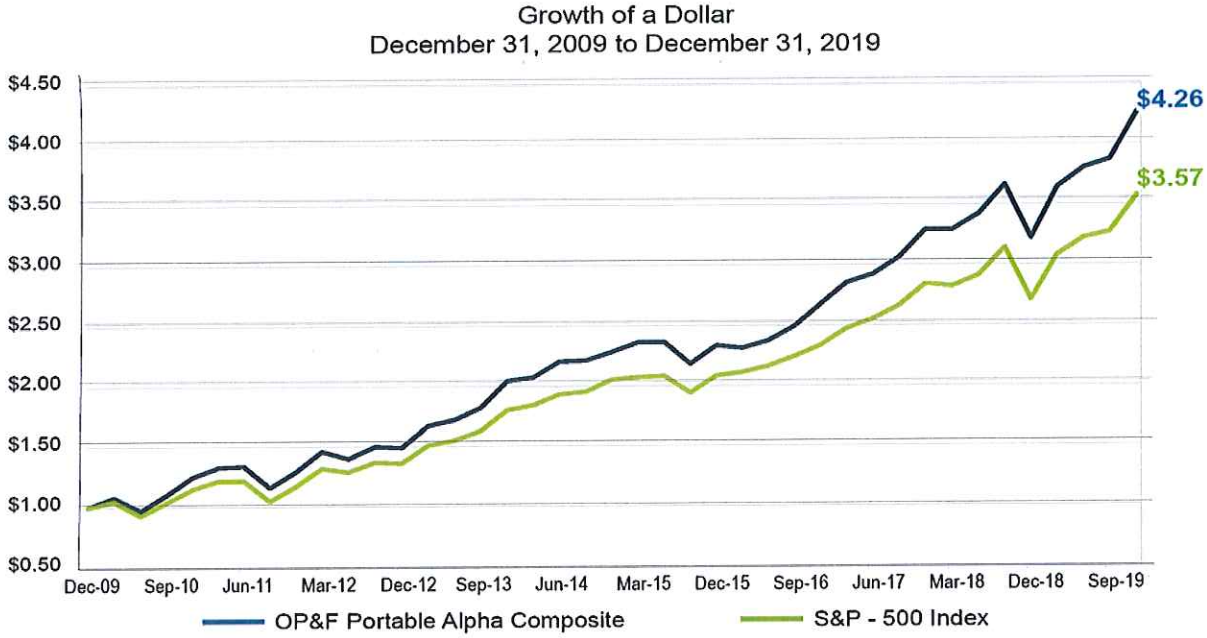
OP&F staff also compiled a simple "dollar value added" statistic for the Portable Alpha Program over the past 10 year period. By converting the excess return for each of the past 10 years into dollars and then summing these amounts, we came to a cumulative total of $212.3 million of added value beyond what simply investing in an S&P 500 index fund would have provided.

As of Dec. 31, 2019, total hedge fund exposure is 9.21 percent of OP&F's total portfolio.

	1 Year	3 Years	5 Years	10 Years
■ Portable Alpha Composite	32.93 (26)	17.53 (24)	13.91 (15)	16.38 (4)
● S&P 500	31.49 (38)	15.27 (40)	11.70 (38)	13.56 (43)
5th Percentile	38.38	22.79	15.54	16.16
1st Quartile	32.96	17.10	12.55	14.36
Median	30.24	14.59	11.10	13.43
3rd Quartile	26.56	11.21	9.08	12.15
95th Percentile	21.17	8.01	6.66	10.14
Population	888	878	847	737

Parentheses contain percentile rankings.
Calculation based on monthly periodicity.
Gross of Fees

For every $1 invested on December 31, 2009, the Portable Alpha Program returned $0.69 more than the S&P 500 Index (approximately 19% more).



How do current retirees' vested benefits impact possible changes to pension benefits?

The vested benefits of current retirees receiving benefits cannot be changed. Vesting occurs for OP&F retirees when they received their first monthly pension benefit. Pursuant to Ohio Revised Code Section 742.46, the granting of a benefit or pension to any person vests a right in that person to obtain and receive the amount of the benefit or pension granted to the person subject to sections 742.01 to 742.61 of the Revised Code. Therefore, a retiree has a vested right to receive the amount of the service retirement pension or disability benefit that was granted to that retiree by OP&F. The amount of a pension or disability benefit is determined by applicable statutory formulas, and these formulas cannot be changed for persons who are already receiving benefits. These formulas can be changed for future retirees, as was done with pension reform in 2013. Ohio courts have held that the effect of a vested rights statute is to make a contractual obligation giving the retiree a right to a vested benefit that cannot be subsequently impaired or revoked. Consequently, a change in a state law altering a vested benefit may violate the Contract Clause of the U.S. Constitution. While statutory benefit formulas for those already retired cannot be altered for those persons who have already retired, other discretionary statutory provisions (e.g. health care and cost-of-living allowance (COLA)) can be, and have been, modified by the systems. Courts have held that a COLA is not a vested benefit until it is paid; it appears COLA may be modified by statute for OP&F.

For PERS, the proposed COLA change would decrease unfunded liability by $3.44 billion. What change would be needed to raise this amount of money from changing the employer and/or employee contribution? Are there any other levers that could be utilized?

While this question is OPERS-specific, this provides an opportunity to restate that the employer contribution rate at OP&F has not changed since 1986. However, member contributions increased three consecutive years from 2013-2015.

What are the number of retirees eligible for COLAs?
At OP&F, all retirees are eligible for COLAs once they reach age 55 and have been receiving a pension benefit for at least a year.

Below are the number of OP&F members who received a COLA in 2019:

Service retirees:	14,107
Disability benefit recipients:	4,748
Beneficiaries and survivors:	7,472
Total:	26,327

The amount of COLAs paid in 2019 for these members:

Service retirees:	$14,185,925.52
Disability benefit recipients:	3,963,301.08
Beneficiaries and survivors:	438,159.84
Total	$18,587,386.44

Thank you for the opportunity to respond and share this information about OP&F. If any of these answers needs additional clarification, please contact me at your convenience at (614) 628-8399.

Sincerely,

John J. Gallagher, Jr.
Executive Director

cc: The Honorable Kirk Schuring, Chair ORSC
Bethany Rhodes, ORSC Director