The Police and Firemen's Disability and Pension Fund
140 East Town Street / Columbus, Ohio 43215-5164 / Tel. (614) 228-2975

MEMORANDUM

Date: February 24, 1999

To: Members of the House Retirement Subcommittee

From: Allen J. Proctor, Executive Director Allen Proctor

Subject: 30 Year Amortization Plan

Pursuant to ORC 742.16 the Police and Firemen's Disability and Pension Fund (PFDPF) is submitting its plan for reducing the amortization period of unfunded actuarial accrued pension liability to not more than thirty years not later than December 31, 2006.

In the actuarial evaluation by Watson Wyatt dated November 1, 1998, the PFDPF has an amortization period of 56.71 years and a funding ratio of 81 percent. These results represent an improvement of 7 years in the amortization period and an improvement of one percentage point in the funding ratio compared with the actuarial evaluation for the previous year.

The Assumptions

The Fund's ability to meet its plan is dependent upon liabilities adhering to forecasted values and investments meeting targeted values. On the liability side the Fund's plan is conservative: we have assumed regular improvements in the life expectancy of retirees and we have assumed passage of a follow-up bill to HB 194, providing $550 per month to all current and future survivors and a COLA benefit to all pre-1986 retirees. In other words, passage of a follow-up bill will not adversely affect this funding plan. Any further legislation to increase benefits or to mandate refunds to members (such as SB 287 last session) would adversely affect the Fund's ability to meet its plan.

The main thrust of our financing plan is the expectation for strong investment returns. We have assumed no material benefit in this plan from our current program to allow discounted prepayments by employers of their pre-1967 obligations to the Fund. We have assumed 8.5

percent annual investment returns based on the Trustees' adoption in 1997 of an asset allocation anticipated to achieve that return.

The Plan

Our annual asset targets are presented on Exhibit 1. As you can see, we estimate actuarial assets of $12.7 billion as of December 31, 2006 will be sufficient to attain 30-year amortization. We have assigned annual market value asset targets that are conservative because they require a steadily declining annual investment return, starting at 9.1 percent in 1998 and declining to an annual required investment return of only 5.6 and 5.3 percent in 2005 and 2006 respectively. You should note that, from 2000-2006, our asset targets do not require us to reach our actuarial investment rate (8.25%) nor our expected long-term return on investment (8.5%) in order to achieve 30-year amortization by 2006. This "front-loading" of our asset targets provides protection against weak investment markets in future years. This "front-loading" comes largely from our using a fixed annual investment income target of $636 million per year.

This year's financing plan is compared to last year's plan in Exhibit 2 where the solid line represents last year's annual asset targets and the dotted line represents our revised plan. The plan is virtually unchanged from last year. Currently the Fund is substantially ahead of both schedules. As of the end of 1998 we needed to reach $7.6 billion of assets in the revised schedule yet we reached $8.2 billion despite the difficult investment environment in the third quarter. The difference between these two numbers is what we have referred to over the past year as "being ahead of schedule," currently by $583 million.

Based on these estimates and the 1998 Forecast Study prepared for the Fund in April 1998, the Fund plans to gradually reduce the share of member contributions going to amortization of unfunded liability and equivalently increase the share of contributions going to our Healthcare Stabilization Fund. Under this plan, the Fund will reduce contributions going to amortization from 5.7 percent of payroll in 1998 to 3.6 percent in 2003 and it will increase contributions going to healthcare from 6.5 percent of payroll in 1998 to 8.0 percent of payroll in 2003. Further shifts in contributions after 2003 will be reassessed annually. Planned annual contributions to the Healthcare fund are shown in Exhibit 3 as a percentage of active member payroll. These shifts in payroll contributions are being taken to extend the probable life of our healthcare fund. Without this shift in contributions, we anticipate that our healthcare fund will be exhausted around 2014, requiring draconian changes in benefits or recipient premiums to continue the program. On the other hand, this shift, and an accompanying, gradual increase in recipient premiums, will allow the healthcare fund to grow through 2024 before net drawdowns are required to maintain benefits.

Contingency Actions to Maintain Compliance

Since forecasts are not guarantees of future results, we have several contingency plans. First, as you know, annual actuarial evaluations only gradually recognize investment gains. As of 1998, the Fund has investment gains reserved for future phase-in of $980,452,921. In the eventuality that annual investment gains are not sufficient to keep the Fund at the asset level targeted in our financing plan, the Fund may recognize up to 100% of the unrecognized gain on stocks in any year in order to meet our statutory funding objectives. We would reasonably expect some significant percentage of recognition to be utilized before December 31, 2006.

As a second contingency, the Fund is prepared to reverse its decision to shift payroll contributions from amortization to healthcare. If the Fund anticipates not meeting its 30 year amortization target, the percentage of payroll going to healthcare will be reduced. This is a powerful contingency. Our actuary estimates that a one percentage point increase in the share of payroll going to amortization would lead to a simultaneous decrease in the amortization period of 14 to 18 years. Since the Fund anticipates regular improvements in its amortization period in the evaluations for 1999 through 2005 (we have 26 years to go and have improved by 7 years in the past 12 months), the ability to pick up 14 to 18 years in 2006 through a simple Board resolution should provide strong assurance the 30 year target is within reach.

There are two potential developments for which the Fund has no reasonable contingency: the possible enactment of mandatory Social Security by the Congress and the possible enactment of Representative Cates' bill to allow alternative retirement plans for our members. The possible enactment of mandatory Social Security coverage for Fund members would reduce payroll contributions by 12.4 percentage points. If such legislation were passed, the Fund would need to submit a radically different funding plan that would eventually remove all payroll support for healthcare in order to meet the amortization requirements for our pension benefits. The possible enactment of Representative Cates bills would eliminate healthcare contributions from active members opting for the alternative plan (currently 7.0 percent of payroll). If such legislation were passed, the Fund would have to submit a radically different plan for shifting payroll from amortization to healthcare.

Inappropriateness of Annual Targets for Amortization Periods

In testimony before the Ohio Retirement Study Council, the ORSC's actuary suggested that, to reach a 30 year amortization period ten years hence, the Fund ought to have a 40 year amortization period today. We strongly disagree with that interpretation of law and we disagree that it is a valid method to evaluate the likelihood of our attaining 30 year amortization by 2006. Our contingency plan to shift payroll contributions from healthcare back to amortization is a prime illustration of how empty such a standard would be. We could easily convert a 40 year amortization period to a 30 year period by adjusting the distribution of our payroll contributions by one percentage point: with no drop in liabilities, with no increase in assets, and, in essence, with no material change in the balance sheet of our Fund. Rather, in this plan, we are providing annual asset targets that can be objectively measured each year with our commitment to take action if those assets fall short of plan. Therefore, with this plan, we maintain that we are in compliance with SB 82 (ORC 742.16) if, in any year, our market value assets are at or above the annual targets presented in this plan.

Our actuary has provided the following more detailed explanation of this view:

"An additional 1% of payroll made available for amortization can have a small or large impact on the amortization period depending on the size (as a percentage of payroll) of the unfunded actuarial accrued liability (UAAL). The attached Chart 1 illustrates this point.

"For example, if UAAL equal 60% of payroll, the amortization period is 42 years if 3% (of payroll) is available for amortization and only 24 years if 4% is available. This 18-year difference shrinks to only 4 years (13 less 9) if the UAAL equals 30% of payroll.

"So, the relationship between amortization period and size of UAAL for a given level of available payroll is nonlinear. And so is the relationship between amortization period and available payroll, for a given size of UAAL. These relationships imply that there is little difference between one amortization limit and another one 'close' to it in so far as helping one decide if the Fund is being financed properly. For example, at the 60% UAAL level there's not much of a difference between a 30-year limit and say a 34-year limit. And this then implies that there is no reason to accept a linearization of the 30-year level from 40 years in 1997 to 30 years in 2007 as having **any value** (his emphasis). For example, failure to satisfy a 34-year level in 2003 does not say much, if anything, about whether or not the 30-year level will be satisfied in 2007 (because a relatively small amount of additional available percentage in one year could lead to a large change in amortization period)."

Exhibit 1
SB 82 ASSET TARGET SCHEDULE
Asset Growth Schedule To Obtain 1/1/2007 Market Value Asset Target
(Based upon 1/1/1999 SB82 Funding Plan)

	Beg of Year Market Value of Assets	Expected Income Needed to meet 2006 Goal	End of Year Planned Market Value Targets	Annual Expected Return	End of Year Actual Market Value of Assets	SB82 Financing Plan Cumulative Progress Ahead (Behind) Schedule
1997	$6,335,032,003	$636,496,800	$6,971,528,803	10.05%	$7,663,656,153	$692,127,350
1998*	$6,971,528,803	$636,496,800	$7,608,025,603	9.13%	$8,191,365,765	$583,340,162
1999P	$7,608,025,603	$636,496,800	$8,244,522,403	8.37%		
2000P	$8,244,522,403	$636,496,800	$8,881,019,203	7.72%		
2001P	$8,881,019,203	$636,496,800	$9,517,516,003	7.17%		
2002P	$9,517,516,003	$636,496,800	$10,154,012,803	6.69%		
2003P	$10,154,012,803	$636,496,800	$10,790,509,603	6.27%		
2004P	$10,790,509,603	$636,496,800	$11,427,006,403	5.90%		
2005P	$11,427,006,403	$636,496,800	$12,063,503,203	5.57%		
2006P	$12,063,503,203	$636,496,797	$12,700,000,000	5.28%		

* Unaudited.
P Projected
The planned market value targets include the Health Care Stabilization Fund and represents investment assets only.

Exhibit 2

Current SB82 Plan

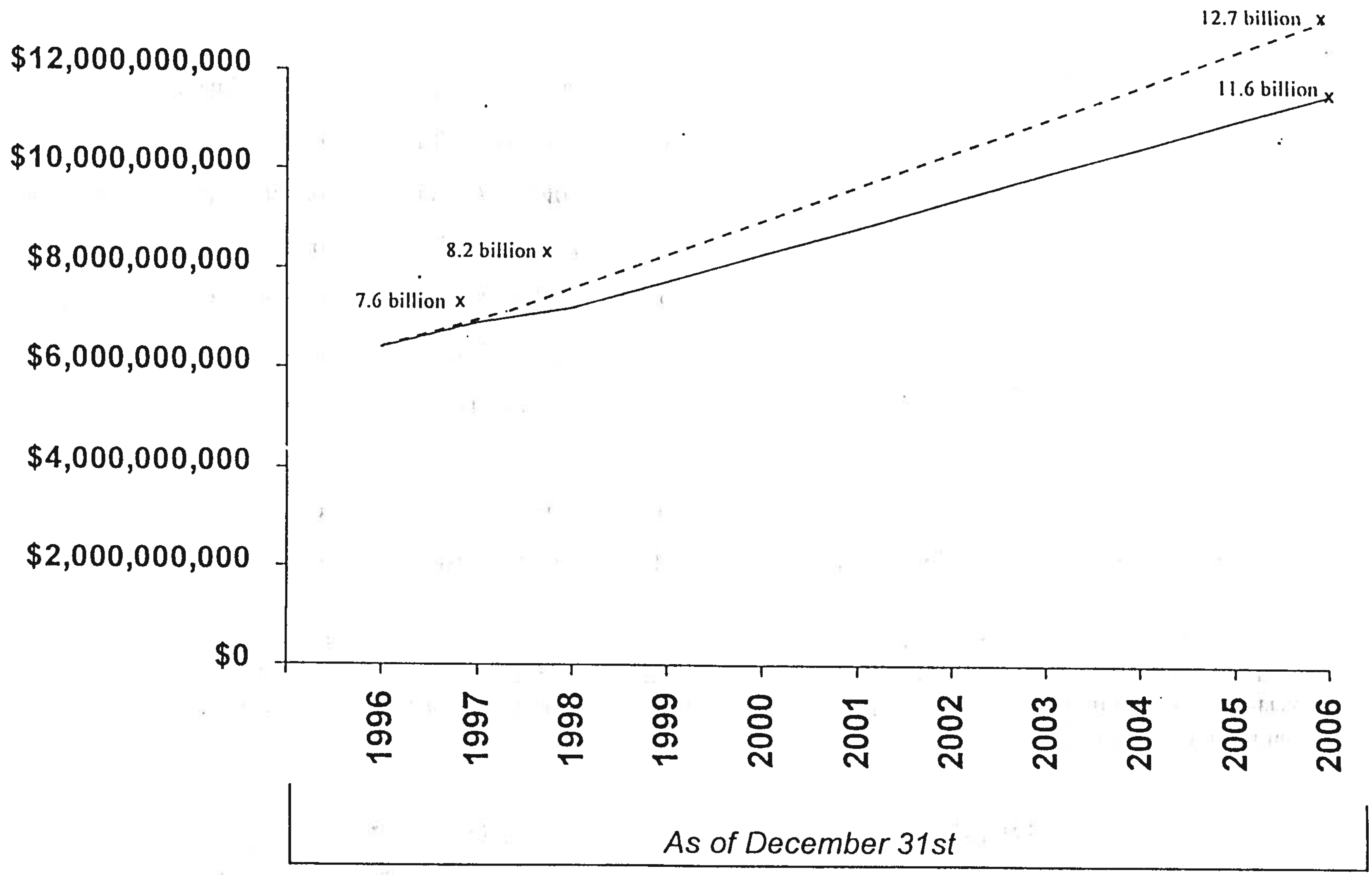

Exhibit 3

Healthcare Forecast Study

Actuary Recommendation

Year	Recommended Employer Cost as a % of Payroll
1998	6.5%
1999	7.00%
2000	7.25%
2001	7.50%
2002	7.75%
2003	8.00%
2004	8.00% - 8.25%
2005	8.00% - 8.50%
2006	8.00% - 8.75%
2007 & After	8.00% - 9.00%

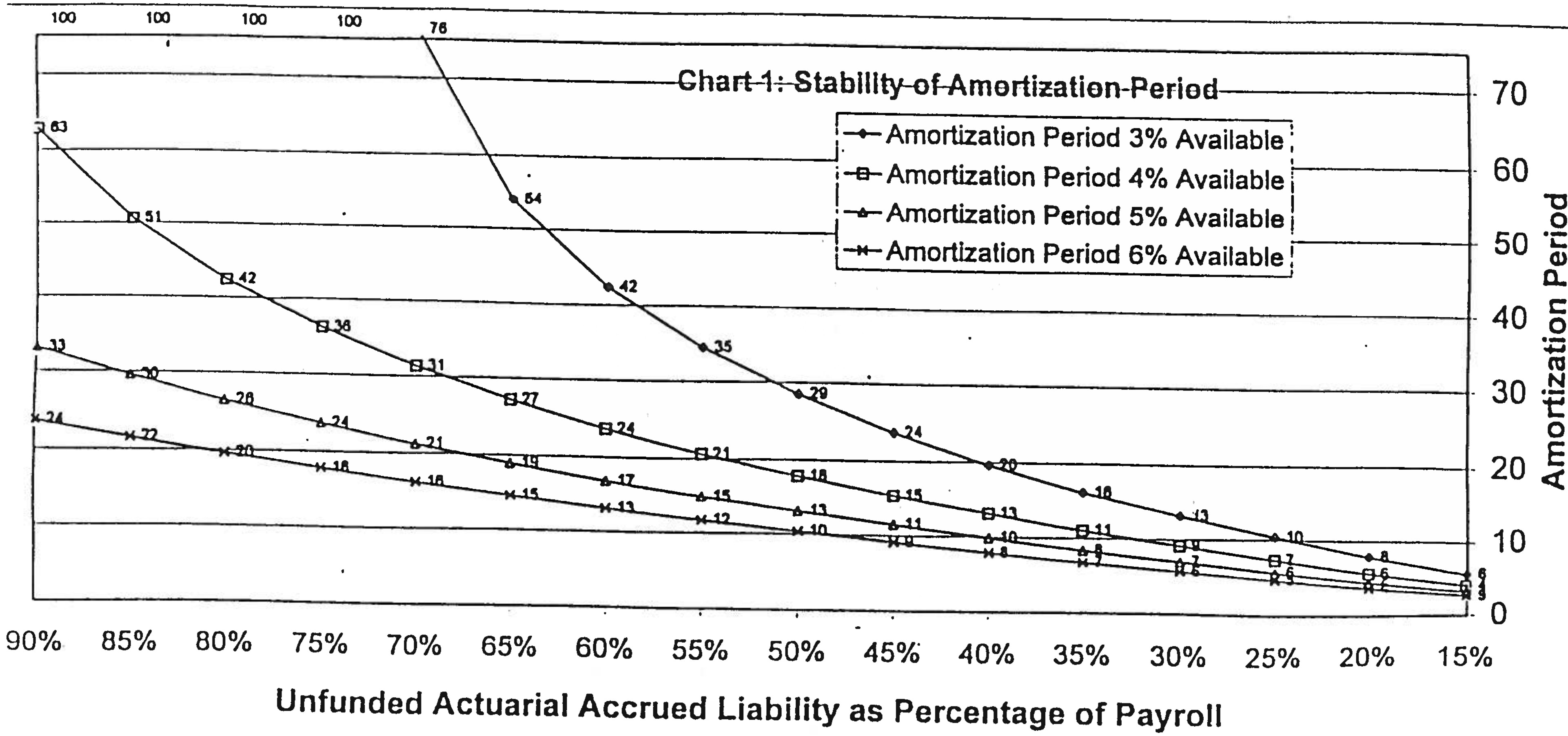
Chart 1: Stability of Amortization Period
Amortization Period 3% Available
Amortization Period 4% Available
Amortization Period 5% Available
Amortization Period 6% Available
Amortization Period
Unfunded Actuarial Accrued Liability as Percentage of Payroll
90%
85%
80%
75%
70%
65%
60%
55%
50%
45%
40%
35%
30%
25%
20%
15%
0
10
20
30
40
50
60
70

MANDATORY SOCIAL SECURITY OPPOSITION GROUPS

STATE AND LOCAL ASSOCIATIONS

- Association of California Water Agencies
- City of Chicago, Illinois
- City of Fort Worth, Texas
- City of Los Angeles, California
- City of New York, New York
- City of Plano, Texas
- City of San Jose, California
- City of Tallahassee, Florida
- Colorado Association of Public Employees
- Colorado Association of School Executives
- Colorado Classified School Employees' Association
- Colorado Education Association
- Colorado Retired School Employees Association
- Denver Public School Employees' Pension and Benefit Association
- Fire and Police Pension Association of Colorado
- Illinois Education Association
- Las Vegas Police Protective Association, Civil Employees, Inc.
- Los Angeles County
- Louisiana Sheriffs' Association
- Maine State Employees Association
- Massachusetts Government Finance Officers Association
- Massachusetts Municipal Association
- Massachusetts Teachers' Association
- Minneapolis Police Relief Association
- Ohio Education Association
- San Antonio Police Officers' Association
- Tangipahoa, Louisiana Parish School System
- United Teachers of Los Angeles

NATIONAL ASSOCIATIONS

- American Association of School Administrators
- American Council on Education
- American Federation of State, County and Municipal Employees
- American Federation of Teachers
- Council of Great City Schools
- Fraternal Order of Police
- International Association of Fire Fighters
- International Brotherhood of Police Officers

- International City/County Management Association
- International Personnel Management Association
- International Union of Police Associations
- League of California Cities
- National Association of Counties
- National Association of Government Deferred Compensation Administrators
- National Association of Government Employees
- National Association of Police Organizations
- National Association of State Retirement Administrators
- National Association of Towns and Townships
- National Conference of State Legislatures
- National Conference of State Social Security Administrators
- National Conference on Public Employee Retirement Systems
- National Council on Teacher Retirement
- National Education Association
- National League of Cities
- National Public Employer Labor Relations Association
- Service Employees International Union
- United States Conference of Mayors

PUBLIC EMPLOYEE PENSION PLANS

- Alaska Public Employees' Association
- Alaska Supplemental Benefits System
- California Public Employees' Retirement System
- California State Teachers' Retirement System
- Colorado Public Employees' Retirement Association
- District Attorney Retirement System of Louisiana
- Employees' Retirement System of Baton Rouge
- Kentucky Teachers' Retirement System
- Louisiana Clerks of Court Retirement And Relief Fund
- Louisiana Municipal Police Employees' Retirement System
- Louisiana Public Employees' Retirement System
- Louisiana State Employees' Retirement System
- Louisiana State Police Retirement System
- Massachusetts Association of Contributory Retirement Systems
- Massachusetts Public Employee Retirement Administration Commission
- Massachusetts' Teachers Retirement Board
- Ohio Highway Patrol Retirement System
- Ohio Police And Firemen's Disability & Pension Fund
- Ohio School Employees Retirement System
- Parochial Employees' Retirement System of Louisiana
- Public Employees' Retirement System of Nevada
- Public Employees' Retirement System of Ohio

- Public School Retirement System of Missouri
- San Diego City Employees' Retirement System
- State Teachers Retirement System of Ohio
- Teachers' Retirement Board of Connecticut
- Teachers' Retirement System of Illinois
- Teachers' Retirement System of Louisiana
- Texas Association of Public Employee Retirement Systems
- Texas Teacher Retirement System

APPROVED, BUT NOT FILED WITH JCARR. LSC. AND ORSC

742-1-02 MEMBER MINIMUM MEDICAL TESTING AND DIAGNOSTIC PROCEDURES.

(A) Pursuant to section 742.38 of the Revised Code, all employers shall file with the fund, within the time period provided for in paragraph (D) of this rule, the physician's report of a physical examination of a prospective member of the fund that incorporates the standards and procedures described in paragraph (B) of this rule and in a form provided by the fund.

(B) The minimum medical testing and diagnostic procedures to be incorporated into a member's physical examination administered by physicians to prospective members of the fund shall include the following:

(1) Medical questionnaire to include past medical history, family history and occupational history;

(2) Physical examination;

(3) Minimum medical testing, which shall include the following:

(a) Spirometry;
(b) Chest x-ray;
(c) Lipids;
(d) Electrocardiogram (EKG); and
(e) Cardiac stress test;

(4) Diagnoses/conclusions of identified and past conditions;

(5) Diagnosis and evaluation of the existence of any heart disease, cardiovascular disease, or respiratory disease;

(6) The attending physician's opinion of whether applicant is or is not capable of performing duties as defined in the U.S. deparment of labor's occupational characteristics for police officer (government service) and fire fighter (any industry) positions; and

(7) Any other information which may be deemed necessary by the board.

(C) From and after December 1, 1998, the employer of prospective members of the fund shall cause each prospective member to submit to the tests and procedures set forth in paragraph (B) of this rule prior to one minute before twelve p.m. on the day immediately preceding the occurrence of the following events, whichever is the first to occur:

(1) The member's appointment as a "member of the police department" or "member of the fire department," as such terms are defined in divisions (A)(2) and (B)(2) of section 742.01 of the Revised Code respectively, or

(2) The date on which the prospective member became a "member of the fund," as defined in division (E) of section 742.01 of the Revised Code, but in no event shall the examination be conducted more than one hundred eighty days before the first to occur of the preceding events.

(D) From and after January 1, 1999, the employer shall submit copies of the attending physician's report of a physical examination of a prospective member of the fund, as defined in paragraph (C) of this rule, that meets the requirements of paragraph (A) of this rule. The employer shall file such form with the fund in accordance with the terms of paragraph (C) of this rule.

(E) If the employer fails to timely file the physician's report required by the terms of section 742.38 of the Revised Code and paragraph (D) of this rule, the fund shall assess a fine against such employer in the amount of one hundred dollars per day, as more fully provided for in division (A)(2) of section 742.38 of the Revised ~~Code.~~ CODE; PROVIDED, HOWEVER, THAT THE FUND SHALL NOT IMPOSE ANY FINES FOR NON-COMPLIANCE UNTIL MAY 1, 1999. BEGINNING ON MAY 1, 1999, THE FUND SHALL IMPOSE FINES FOR ANY FAILURE TO FILE THE PHYSICIAN'S REPORT MORE FULLY REFERRED TO IN PARAGRAPH (A) OF THIS RULE, INCLUDING THOSE DUE FROM AND AFTER JANUARY 1, 1999.

EFFECTIVE:

CERTIFICATION:

Allen J. Proctor, Executive Director
Date:

Promulgated under:	Section 111.15
Rule authority:	Section 742.10
Rule amplifies:	Section 742.38(A)(1)
119.032 Review Date:	9/16/2003
Prior effective date:	9/16/98 (Emerg.); 12/10/98