

Ohio Police & Fire Pension Fund

140 East Town Street / Columbus, Ohio 43215-5164 / 1-888-864-8363 / www.op-f.org

December 1, 2023

Wendy Zahn
Director, Legislative Service Commission
77 S High Street
Columbus, OH 43215

Dear Ms. Zahn,

Pursuant to Ohio Revised Code 742.14(C), enclosed, please find the actuarial analysis of the implementation of HB 296, which was introduced October 5, 2023 to equalize the employer contributions of police and fire members. The bill, as introduced, increases police employer contributions to the Ohio Police & Fire Pension Fund (OP&F) to 24% over a phase in period. These employer rates have remained unchanged since 1986.

Sincerely,



Mary Beth Foley, Esq.
Executive Director

cc:

Ohio Retirement Study Council
House Pension Committee
OP&F Board of Trustees
The Honorable Matt Huffman, Senate President
The Honorable Jason Stephens, House Speaker

Attachment: Cavanaugh McDonald Analysis



Cavanaugh Macdonald

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December 1, 2023

Ms. Mary Beth Foley
Executive Director
Ohio Police and Fire Pension Fund
140 East Town Street
Columbus, OH 43215

Re: Actuarial Impact of Increasing Police Employer Contributions to the Ohio Police & Fire Pension Fund - HB 296

Dear Ms. Foley:

We have estimated the impact on the funding period of the proposed legislation which increases contribution amounts that employers of full-time municipal police officers must make to the Ohio Police and Fire Pension Fund. Ohio Revised Code 742.14 (C) states an actuarial analysis of any introduced legislation be completed not later than sixty days from the date of introduction of the legislation.

Proposed Change

Section 1 of the bill appears to revise:

Section 742.33 to increase the police officer employers' contributions to the Fund from 19.50% of pay for all years to the following schedule:

Salaries Earned for Pay Period	Rate
Beginning before December 31, 2023	19.50%
January 1, 2024 – December 31, 2024	21.00%
January 1, 2025 – December 31, 2025	22.00%
January 1, 2026 – December 31, 2026	23.00%
Beginning not earlier than January 1, 2027	24.00%

Note that Firefighter employers' contributions remain unchanged at 24.00%

Actuarial Impact on OP&F

Based on the results of the January 1, 2023 Actuarial Valuation, we project a funding period as of January 1, 2023 of 26.71 years. Section 742.14 of the ORC, as amended by Senate Bill No. 340, sets forth that the 30-year funding analysis be performed every three years and the 30-year funding plan, if necessary, be developed and presented not later than 90 days after the Board of Trustees' receipt of the actuarial



valuation and 30-year funding analysis. The next analysis will be performed based on the January 1, 2025 actuarial valuation. As noted in our presentation delivered to the OP&F Board of Trustees on November 1, 2023, the funding period is projected to increase to 31.44 years as of January 1, 2025; however, the structured underfunding of OP&F is an issue unrelated to that 30 year funding rate.

This legislation does not increase the actuarial accrued liabilities or the employer normal cost percentage and as a result there is no increase in the level percent of payroll required to amortize the increase in the actuarial accrued liabilities. Implementing HB 296 results in an estimated reduction in the January 1, 2025 funding period from 31.44 years to 24.87 years.

The exhibit below contains employer contributions before and after HB 296 for calendar years 2024 through 2028. Note that the employer rates for both Police and Fire are 24.00% beginning with calendar year 2027 under HB 296.

Ohio Police & Fire Fund					
Projected Employer Contributions Under HB 296					
\$ Millions					
	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028
Police					
Current Provisions	\$ 285	\$ 294	\$ 304	\$ 314	\$ 324
Proposed increase under HB 296	<u>22</u>	<u>38</u>	<u>55</u>	<u>72</u>	<u>75</u>
Proposed Contributions under HB 296	\$ 307	\$ 332	\$ 359	\$ 386	\$ 399
Fire					
Current Provisions (no Change under HB 296)	\$ 339	\$ 350	\$ 361	\$ 373	\$ 385
Total					
Current Provisions	\$ 624	\$ 644	\$ 665	\$ 687	\$ 709
Proposed increase under HB 296	<u>22</u>	<u>38</u>	<u>55</u>	<u>72</u>	<u>75</u>
Proposed Contributions under HB 296	\$ 646	\$ 682	\$ 720	\$ 759	\$ 784
Employer Contribution Rates					
Current					
Police	19.50%	19.50%	19.50%	19.50%	19.50%
Fire	24.00%	24.00%	24.00%	24.00%	24.00%
Proposed Under HB 296					
Police	21.00%	22.00%	23.00%	24.00%	24.00%
Fire	24.00%	24.00%	24.00%	24.00%	24.00%

The employer contribution rate for the employer normal cost, which is the cost of benefits accruing, is currently 4.07% for Police and 4.15% for Fire. This suggests that the current employer rates of 19.50% for Police and 24.00% for Fire results in Fire employers subsidizing Police Employers. HB 296, by making the Employer Rates the same for Police and Fire at 24.00% results in removing this inequity.

Comparison to previous proposed legislation - HB 512

In 2022 HB 512 was being considered and included increasing both the Police and Fire employer contribution rates to an ultimate rate of 26.50%. The chart below shows the giveback between HB 512 and HB 296. Note that for this purpose we have assumed the increases in HB 512 begin in 2024, as opposed to in 2022 from the original legislation. Under this scenario the HB 512 funding period is projected to be 20.75 years as of January 1, 2025.



Ohio Police & Fire Fund					
Projected Employer Contribution Giveback Under HB 296 Relative to HB 512					
\$ Millions					
	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028
Police					
HB 512 Provisions	\$ 306	\$ 337	\$ 369	\$ 404	\$ 440
Proposed change under HB 296	<u>(307)</u>	<u>(332)</u>	<u>(359)</u>	<u>(386)</u>	<u>(399)</u>
Proposed Contributions Giveback under HB 296	\$ (1)	\$ 5	\$ 10	\$ 18	\$ 41
Fire					
HB 512 Provisions	\$ 346	\$ 364	\$ 384	\$ 404	\$ 425
Proposed change under HB 296	<u>(339)</u>	<u>(350)</u>	<u>(361)</u>	<u>(373)</u>	<u>(385)</u>
Proposed Contributions Giveback under HB 296	\$ 7	\$ 14	\$ 23	\$ 31	\$ 40
Total					
HB 512 Provisions	\$ 652	\$ 701	\$ 753	\$ 808	\$ 865
Proposed change under HB 296	<u>(646)</u>	<u>(682)</u>	<u>(720)</u>	<u>(759)</u>	<u>(784)</u>
Proposed Contributions Giveback under HB 296	\$ 6	\$ 19	\$ 33	\$ 49	\$ 81
Employer Contribution Rates					
HB 512					
Police	20.90%	22.30%	23.70%	25.10%	26.50%
Fire	24.50%	25.00%	25.50%	26.00%	26.50%
Proposed Under HB 296					
Police	21.00%	22.00%	23.00%	24.00%	24.00%
Fire	24.00%	24.00%	24.00%	24.00%	24.00%

Proposed Contributions Giveback:

Police	\$73 million
Fire	\$115 million
Total	\$188 million

Important Disclosures

In order to prepare the results in this letter we have utilized appropriate actuarial models that were developed for this purpose. These models use assumptions about future contingent events along with recognized actuarial approaches to develop the needed results.

The estimates above are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present plan provisions and actuarial methods that are outlined in the January 1, 2023 actuarial valuation reports and proposed plan provisions outlined in this actuarial note. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this actuarial note prior to relying on this information.



Ms. Mary Beth Foley
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Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. Because of limited scope, Cavanaugh Macdonald performed no analysis of the potential range of such future differences.

The undersigned are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions concerning this information, please let us know.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'LL', enclosed in a thin black rectangular border.

Larry Langer, ASA, EA, FCA, MAAA
Principal and Consulting Actuary

A handwritten signature in blue ink, appearing to read 'Wendy Ludbrook', written in a cursive style.

Wendy Ludbrook, FSA, EA, FCA, MAAA
Consulting Actuary