Report to the Ohio Retirement Study Council on Sub House Bill 296

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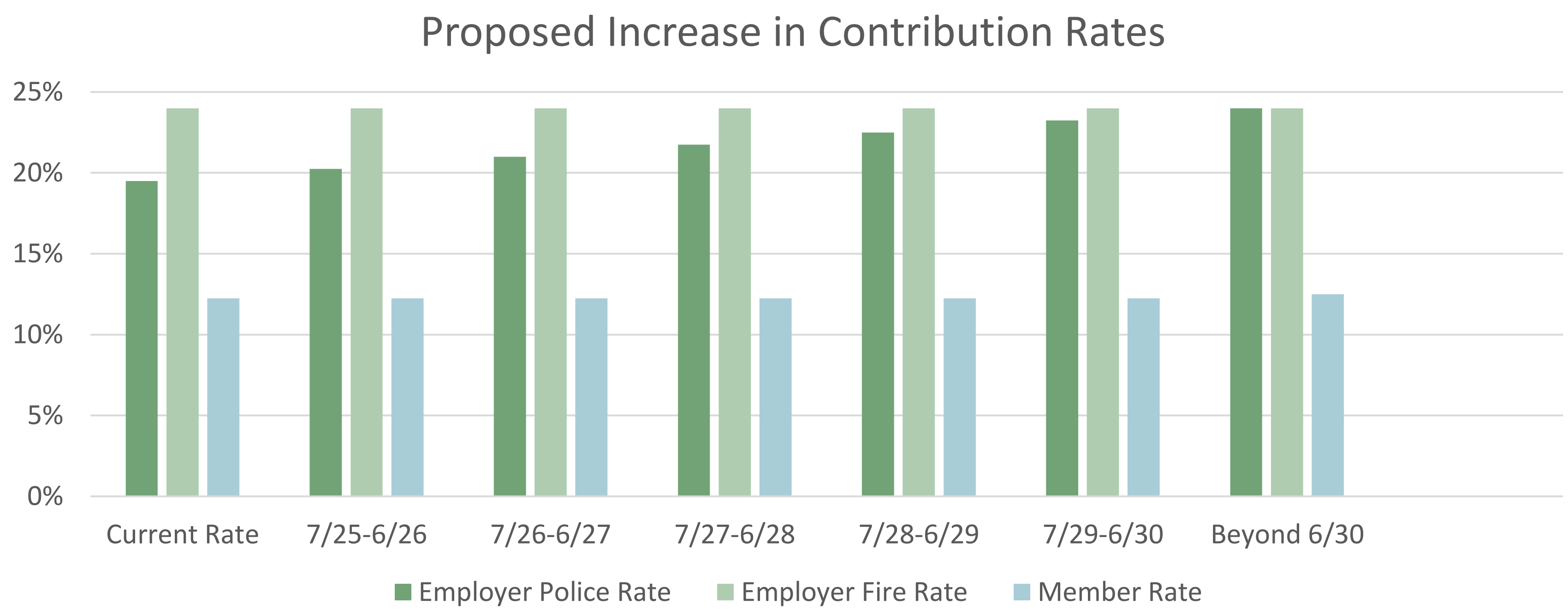
Findings

- OP&F actuary (CMC) calculated that 30-year funding met as of January 1, 2024
  - Period was **29.77** Years
  - We find that 30-year funding was satisfied under CMC assumptions used in 1/1/24 valuation
  - Our complete annual adequacy report is in progress
- HB 296 would increase employer contributions on behalf of police members and increase member contributions for both police and firefighters
  - We calculate that this improves the funding period to **24.57** years
- But this calculation is based on many assumptions which are likely not to be satisfied.

Background

- Each year, the OP&F's actuary performs an actuarial valuation
  - Based on assets, population, assumptions and benefit structure
- This determines unfunded liability (UL)
- Law requires that statutory contribution rate be sufficient to extinguish UL within 30 years
- ORSC actuary reviews OP&F's calculation each year *(R.C. 742.311 Annual adequacy report)*
- Our review as of 1/1/2024 is in progress, based on actuarial report received in November 2024
- Our review provides information which can be used to evaluate Sub HB 296

Sub HB 296 would increase contributions



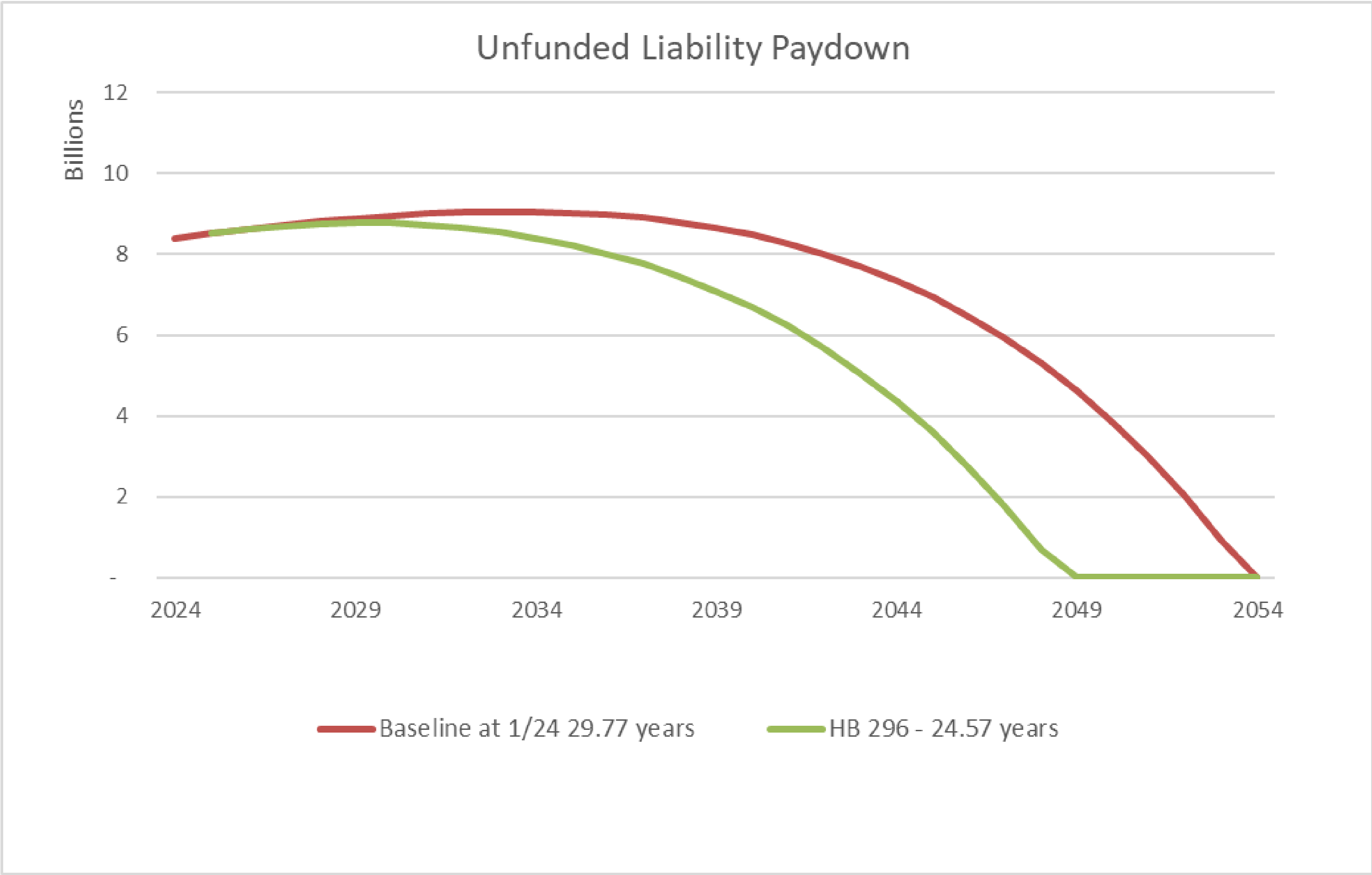
Major Findings

- We calculate that HB 296 would improve the funding period to 24.57 years
- But potential unfavorable experience could lengthen this period
  - $1 billion of asset smoothing
  - Likely reduction in 7.5% discount rate
  - Possible increased contributions to Health Care
  - Reduction in payroll as a result of city and town budget constraints
- And potential favorable experience could shorten this period
  - Strong 2024 investment return
  - Longevity improvement not being realized

Summary of Findings

Potential Future Experience	Impact on Funding Period	Resultant Funding Period
All actuarial experience as anticipated (including recovery of $1 billion disparity between AVA and MVA)	NA	24.57
Recognize $1 billion disparity between AVA and MVA	+5.83	30.40
Reduce 7.50% rate to 7.25%	+2.77	27.34
Increase HCSF from 0.50% to 1.00%	+1.16	25.73
Reduce total payroll by 1%	+0.43	25.00
10% investment return in 2024, but $1 billion AVA-MVA otherwise not recovered	+3.50	28.07
Actuarial assumptions are 1% too conservative	-1.26	23.31

Sub HB 296 Improves Funding Period Calculation



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Potential unfavorable experience could lengthen this period

- **$1 billion of asset smoothing**

- Likely reduction in 7.5% discount rate

- Possible increased contributions to Health Care

- Reduction in payroll as a result of city and town budget constraints

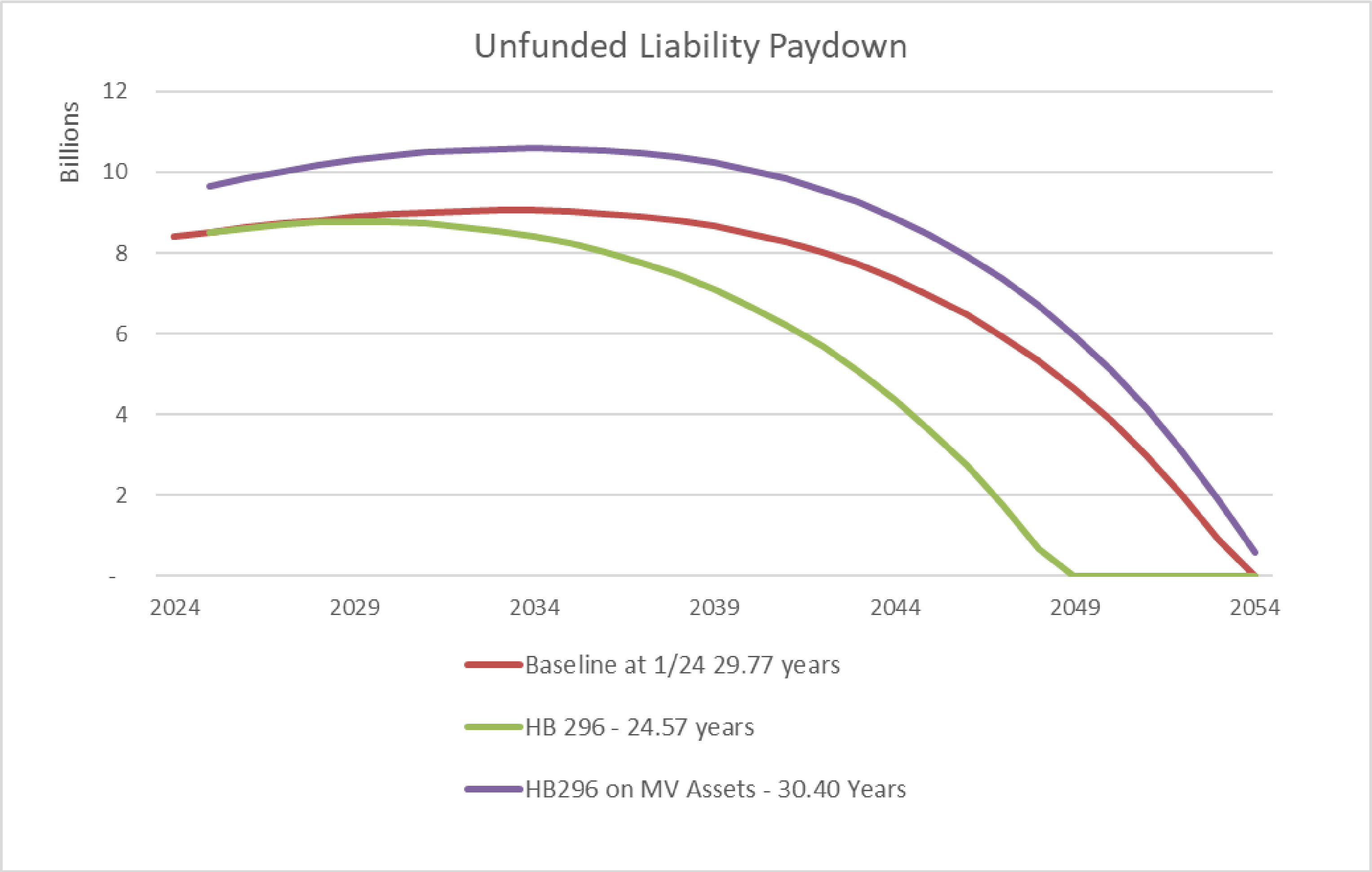
Asset Smoothing Is A Process For Stability of Measurements

- Asset Smoothing is Widely Accepted Practice for Reducing Volatility of Contribution Fluctuations
- But OP&F Is A Fixed Rate Plan
  - With Only Tri-annual Significant Measurement
- With Major Changes Such as HB 296, Asset Smoothing Impact Should Be Considered
- Currently $1 billion Included in Actuarial Value of Assets (AVA) which is Not In Fair Market Value of Assets (MVA)

Five Year History of Fair Market Value and Actuarial Value of Assets as of January 1 ($billions)

Source: CMC 2024 Actuarial Valuation Report

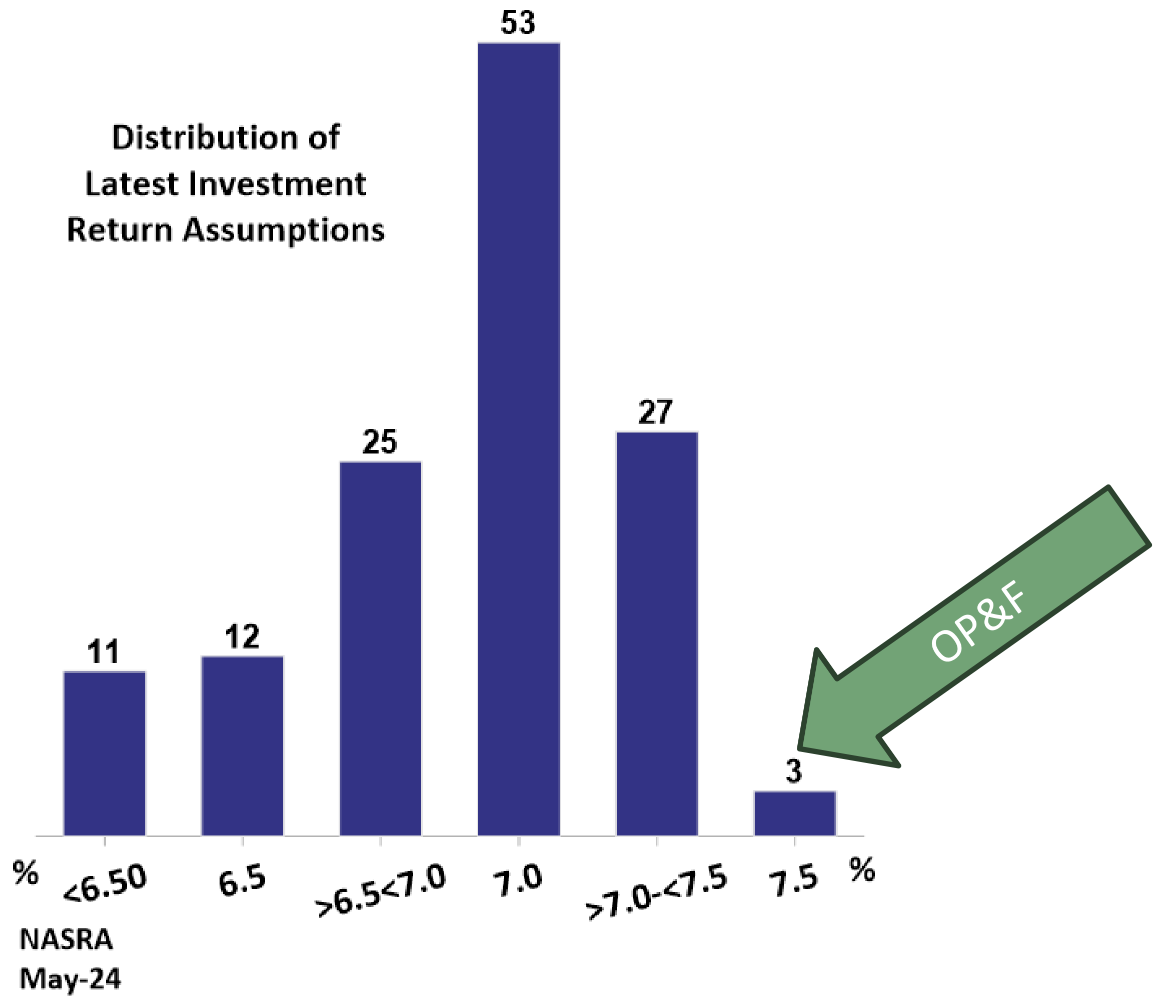
But On Market Value Basis, 30 Years Not Attained



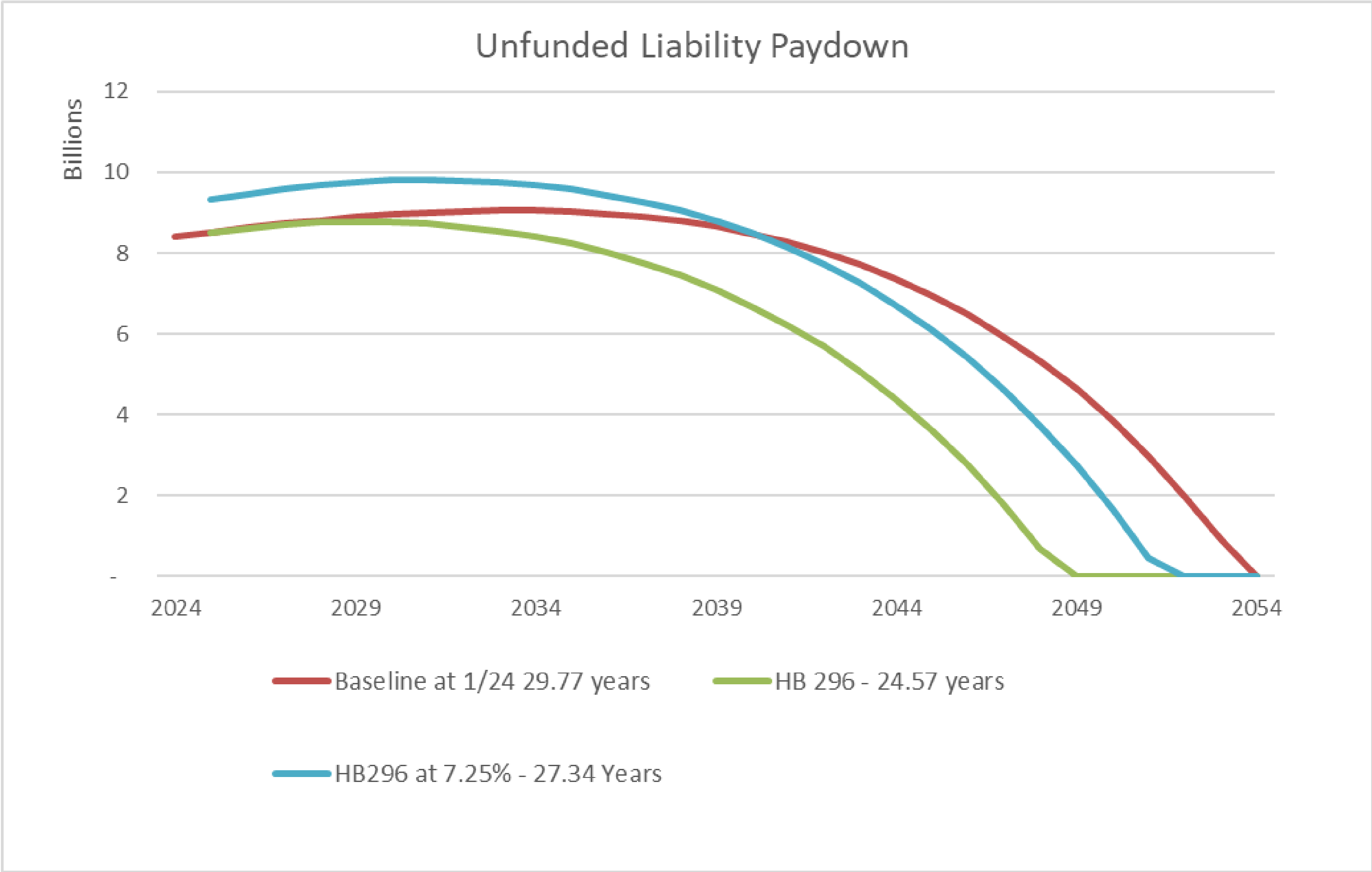
Potential unfavorable experience could lengthen this period

- $1 billion of asset smoothing
- **Likely reduction in 7.5% discount rate**
- Possible increased contributions to Health Care
- Reduction in payroll as a result of city and town budget constraints

7.50% Return Is An Outlier



Reduction in 7.50% Rate Would Also Lengthen Period



Potential unfavorable experience could lengthen this period

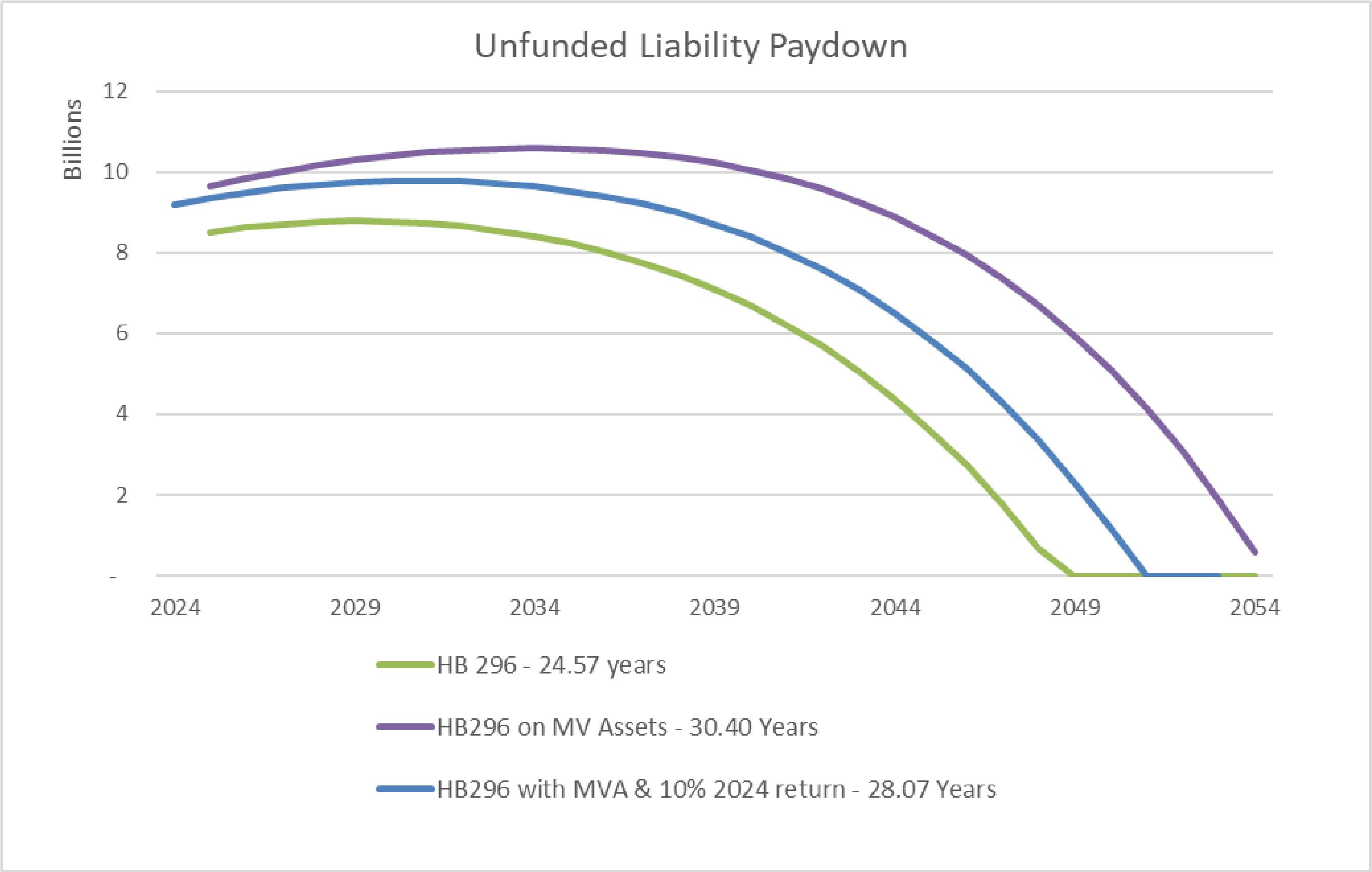
- $1 billion of asset smoothing
- Likely reduction in 7.5% discount rate
- **Possible increased contributions to Health Care**
  - Increasing contribution from 0.50% to 1.00% adds about a year to funding period
- **Reduction in payroll as a result of city and town budget constraints**
  - One time 1% reduction in payroll adds about half a year to funding period

Potential favorable experience could shorten this period

- **Strong 2024 investment return**
  - If return is 10%, for example, this extra 2.50% return improves funding period by about 3 years relative to the 6-year delay from recognizing $1 billion of deferred asset losses

- Longevity improvement not being realized

Strong 2024 Return Would Help Offset $1 billion in Unrecognized Asset Losses



Potential favorable experience could shorten this period

- Strong 2024 investment return
- **Longevity improvement not being realized**
  - Any 1% decrease in actuarial liability relative to current best estimate would shorten funding period by about one year
  - One possible favorable experience would be that actuary is currently overestimating longevity improvement
  - Many other actuarial assumptions could be overstating or understating actuarial liabilities also

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Conclusions

- We calculate that HB 296 would improve the funding period to 24.57 years
- But potential unfavorable experience could lengthen this period
  - $1 billion of deferred asset losses not reversed (+6 years)
  - Likely reduction in 7.5% discount rate (+3 years)
  - Possible increased contributions to Health Care (+1 year)
  - Reduction in payroll as a result of city budget constraints (<1 year)
- And potential favorable experience could shorten this period
  - Strong 2024 investment return (3 years sooner than MVA basis)
  - Longevity improvement not being realized by 1% (1 year sooner)