

**Ohio Retirement Study Council
30 East Broad Street, 2nd Floor
Columbus, Ohio 43215**

**Minutes
September 12, 2019**

The meeting was called to order by Chairman Schuring at approximately 10:00 a.m. in room 121, the Statehouse, Columbus, Ohio.

The following members attended the meeting:

Voting members

Jack Cera
Rick Carfagna, Vice-Chair
Hearcel Craig
Jay Hottinger
Derek Merrin
Kirk Schuring, Chair

Non-voting members

Mark Atkeson, HPRS
Karen Carraher, PERS
John Gallagher, OP&F
Kari Hertel, Attorney General
Mike Nehf, STRS
Richard Stensrud, SERS

Absent

Lora Miller, Excused
Angel Mumma, Excused

Staff

Jeff Bernard
Bethany Rhodes
Ali Yogmour

With a quorum present, Chairman Schuring moved that the minutes of the previous meeting be approved. The minutes were approved without objection.

Chairman Schuring asked William Fornia from Pension Trustee Advisors/KMS Actuaries (PTA/KMS) to provide the 2018 Ohio Police and Fire (OP&F) Annual Adequacy Report. Mr. Fornia provided a detailed review of OP&F's actuarial status as of January 1, 2018, and the anticipated shortfalls that PTA/KMS have projected as of January 1, 2019. Mr. Fornia stated that due to poor 2018 investment returns, the funding period will probably be lengthened. Mr. Fornia said that PTA/KMS estimated that based on reported assets, the funding period will be at approximately 32 years and the next actuarial valuation would determine the exact number. Mr. Fornia also provided a detailed history of OP&F's funding periods.

Chairman Schuring noted that OP&F's actuary will not come out with their funding period calculation until October and that report would be the official calculation.

Ms. Hertel arrived at 10:04 am.

Mr. Fornia responded to Chairman Schuring and agreed the official calculation will be provided next month, but he believes OP&F's actuary will report a funding period of over 30 years. Chairman Schuring echoed that he still would like to hear from OP&F's actuary and the official calculation. Mr. Fornia finished the report from PTA/KMS.

Representative Cera said that he was interested in learning more about the smoothing process involved in estimating the funding period and why it seemed that years of poor return lengthen the funding period disproportionately compared to good years of investment return improving the funding period. Mr. Fornia explained that pension funds never hit exactly their rate of return. To acknowledge that, actuaries will smooth investment returns over time to provide a more stable figure of system assets rather than having them bounce around year after year. He said that poor investment years do hurt the funding period more than good investment years. He brought up the analogy of a home mortgage and that when you change from a 30 to a 15 year mortgage, your monthly payments increase dramatically, but when you extend a mortgage out to 40 years, your payments don't change much at all. Similarly with a funding period, poor returns can quickly increase your funding period but even great investment return years cannot pay off the liability that much more quickly. Chairman Schuring complimented Mr. Fornia's analogy and thorough explanation.

Mr. Fornia discussed concerns with OP&F's assumed rate of return, which is currently set at 8.00%. Mr. Fornia noted that this is among the highest rates in the United States. He also noted that underlying inflation and bond returns continue to be low. Mr. Fornia said that PTA/KMS would expect OP&F to reduce the assumed rate of return, which would have a substantial impact on the funding period and that the board will likely be faced with making difficult decisions. He further noted the differences between OP&F's Police and Fire contribution structure, with fire employers paying more in employer contributions than police employers. Mr. Fornia concluded that even with strong 2019 investment returns, the 30-year funding requirement will likely not be met as of year-end 2019.

Senator Hottinger asked when OP&F last lowered their assumed rate of return. Mr. Fornia said the last rate of return change occurred in January of 2017 when the rate of return was lowered from 8.25% to 8.00%.

Chairman Schuring asked Director Carraher to provide the PERS 2018 Actuarial Valuation Report. Director Carraher reviewed the report, noting the change in the assumed rate of return from 7.5% to 7.2% at the end of 2017. She added this change was made without waiting for the five year experience study.

Representative Cera asked about the recent reduction in state and local employees and how that has affected the system. Director Carraher said the active to retiree ratio has been significantly impacted and told Representative Cera she would get him more data.

Chairman Schuring asked Director Atkeson to provide the HPRS 2018 Actuarial Audit. Director Atkeson reviewed the report and highlighted the recent assumed rate of return change from 7.75% to 7.25%. He also noted the increased employee contribution rate to 14.00%, a COLA reduction to 0.00%, and a reduction of the employer contribution to the health care fund to 0.00%. There were no questions.

Chairman Schuring asked Director Carraher to provide the PERS 2018 Health Care Report. Director Carraher reviewed the report and stated that currently, PERS is not providing additional employer contributions to health care, but the board has decided to continue to offer coverage to members and that changes will be implemented by January 1, 2022. There were no questions.

Chairman Schuring asked Director Gallagher to provide the OP&F 2018 Health Care Report. Director Gallagher reviewed the report and highlighted Medicare and non-Medicare coverage options. Director Gallagher also took this time to respond to the report from PTA/KMS. He stated that he did not anticipate having to submit a funding plan to ORSC. There were no questions.

Chairman Schuring asked Director Atkeson to provide the HPRS 2018 Health Care Report. Director Atkeson reviewed the report and there were no questions.

Chairman Schuring asked Director Nehf to provide the STRS 2018-2019 Disability Report. Director Nehf reviewed the report and there were no questions.

Chairman Schuring asked Director Stensrud to review the SERS 2018-2019 Disability Report. Director Stensrud reviewed the report and there were no questions.

Chairman Schuring asked ORSC staff to provide the Rules report. Mr. Bernard said that the rules were in compliance with the Revised Code and had no further comments.

Chairman Schuring announced the formation of the Subcommittee to Establish an RFP & Review Responses to the RFP for the OP&F Fiduciary Audit. Chairman Schuring appointed Representative Carfagna as the Subcommittee Chair and appointed Senator Craig and Ms. Miller to serve on the committee. Director Gallagher will serve as a non-voting member.

Chairman Schuring announced the formation of the Subcommittee to Establish an RFP & Review Responses to the RFP for the HPRS Actuarial Audit. Chairman Schuring appointed Representative Carfagna as the Subcommittee Chair and appointed Senator Craig and Ms. Miller to serve on the committee. Director Atkeson will serve as a non-voting member.

Chairman Schuring reviewed the budget memo from ORSC staff on Amended Substitute House Bill 166 that highlighted administrative changes to Senate Bill 296 (Death Benefit Fund) from the 132nd General Assembly.

Chairman Schuring asked ORSC staff to review new business. Mr. Bernard highlighted the continuation of the standardization of reports. The next report to be standardized is the Disability Report. Mr. Bernard noted that staff have been working with the non-uniform systems to provide a base for these reports and will continue to work with the systems on the standardization. He also mentioned that the PERS fiduciary audit is complete and staff are working on scheduling availability to present the report to the ORSC.

Chairman Schuring announced that the next meeting would be October 10, 2019, at 10:00 a.m. or at the call of the Chairman.

The meeting adjourned at approximately 11:03 a.m.

Date Approved

Kirk Schuring, Chair

Bethany Rhodes, Secretary

Rick Carfagna, Vice Chair