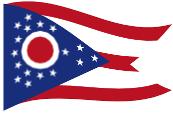

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Sub. H.B. 296 of the 135th General Assembly

Reps. Abrams and Hall

December 12, 2024

ORSC Recommendation

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Summary of Sub. H.B. 296

H.B. 296 increases employer contribution rates for police positions covered by the Ohio Police and Fire Pension Fund (OP&F). The employer rate for police officers would increase to 24% of salary (from 19.5% currently), equal to the current 24% employer rate for full-time firefighters. Firefighter employer rates are unaffected by the bill. The contribution rates would be phased in over a six-year period. The phase-in would begin July 1, 2025, and be fully implemented on July 1, 2030. Employee contribution rates would increase by 0.25% (from 12.25% to 12.50%) beginning July 1, 2030.

The bill is similar to H.B. 512 of the 134th General Assembly. A June 9, 2022, Ohio Retirement Study Council (ORSC) staff recommendation of that bill was not adopted by the ORSC. Instead, the ORSC voted to require OP&F to submit a plan to reduce the fund's amortization period to below 30 years. OP&F submitted H.B. 512 as their 30-year plan on June 29, 2022. OP&F's amortization period has remained below 30 for the 2021, 2022, and 2023 actuarial valuations.

There is limited information on the ability of H.B. 296, long-term, to maintain an amortization period below 30 years. According to an analysis letter by Cavanaugh Macdonald, OP&F's actuary, OP&F has an expected funding period of 31.44 years as of January 1, 2025.[1] This funding period is longer than prescribed under Revised Code (R.C.) 742.16 and will require a plan under that section to reduce the period to less than 30 years (30-year plan). A presentation from Cavanaugh Macdonald to the OP&F Board in 2023 anticipates that the amortization period will continue to rise to 37.73 years as of January 1, 2026, and remain above 30 years until 2034.[2] Cavanaugh Macdonald estimates that the "As Introduced" version of H.B. 296 would reduce the amortization period to 24.87 years as of January 1, 2025, but does not include an estimate for January 1, 2026. The ORSC actuary finds the actuarial analysis from Cavanaugh Macdonald reasonable.[3] Cavanaugh Macdonald, however, has not provided an actuarial analysis of the "As Reported by House Pensions" version of the bill. They also have not provided an updated estimate for January 1, 2025, based on this year's valuation.[4]

The ORSC actuary provided an analysis that the "As Reported by House Pensions" version of the bill would reduce the amortization period as of January 1, 2024, from 29.77 to 24.57 years. While an estimate for January 1, 2025, is unavailable, if the market value of assets is used for January 1, 2024, instead of the actuarial value, the

[1] Letter from Cavanaugh Macdonald to Director Mary Beth Foley (December 1, 2023), page 2.
[2] Presentation to the OP&F Board (November 1, 2023), page 13 of the document, page 177 of board materials.
[3] William B. Fornia and Linda B. Bournival, "Review of Ohio Police and Fire Proposed Bill HB 296," (January 12, 2024).
[4] https://orsc.org/Assets/Reports/1634.pdf.

amortization period increases to 30.40 years.[5] The market value of assets includes all losses/gains that OP&F has achieved as of the valuation date and can provide more current information than the actuarial value of assets.

OP&F Amortization Periods (smoothed)			
Valuation Year	**Current**	**"As Introduced" Bill**	**"As Reported by House Pensions"**
January 1, 2023	26.71	N/A	N/A
January 1, 2024	29.77	-	24.57
January 1, 2025 (Estimate)	31.44	24.87 years	-
January 1, 2026 (Estimate)	37.73	-	-

Summary of Analysis

H.B. 296 is a straightforward bill but one with a major policy change to Ohio retirement system law. H.B. 296 would be the first legislative increase in employer contribution rates for OP&F since those rates were frozen in 1986. This would be a significant change in precedent. For nearly 40 years, the ORSC and ORSC staff have operated under the assumption that employer increases or decreases are not an option to address funding challenges or to provide increased benefits. Providing a consistent employer rate in good times and bad has been a cornerstone of Ohio retirement policy. ORSC is heavily precedent driven, and a change in this precedent would be applied to any future analyses.

The General Assembly and the ORSC have consistently opposed increases of employer rates. To meet funding challenges, benefits have been reduced, employee contribution rates have increased, and significant board authority has been provided to the boards to self-manage the liabilities of their respective retirement systems. Because of the significant modification of this precedent as proposed in H.B. 296, this analysis attempts to provide as much history and context as possible in order to provide the necessary information for the recommendation.

This analysis has the following broad sections:

1) Stability of employer contribution rates;
2) Prior guidance on employer rate increases;
3) Prior action on employee rate increases;

[5] William B. Fornia and Linda L. Bournival, "Review of Ohio Police and Fire Proposed Bill HB 296-Expanded," (December 3, 2024).

4) Board authority components of pension reform;
5) Disparity of rates (equalization of employer rate).

This recommendation largely excludes changes in the health care plans provided by the state retirement systems to retiree beneficiaries as those benefits are discretionary. The analysis centers on a review of funding the basic, statutorily required benefits, rather than discretionary post-employment benefits, of the plans.

Stability of Employer Contribution Rates

Ohio's employer contribution rates have remained consistent and stable for multiple decades. This is a deliberate policy and funding choice that contrasts with plans with a variable employer rate.[6] Contribution rates have shown remarkable stability for employers and taxpayers in Ohio over the past 40 years, and only with pension reform have employee rate contributions seen significant increases in Ohio. The table below provides percentage contribution rates for 2024.

Fund	Employees	Employers
Public Employees Retirement System (PERS) State and Local	10.00%	14.00%
PERS-Law Enforcement (PERS-LE)	13.00%	18.10%
PERS-Public Safety (PERS-PS)	12.00%	18.10%
State Teachers Retirement System (STRS)	14.00%	14.00%
School Employees Retirement System (SERS)[7]	10.00%	14.00%
OP&F Police	12.25%	19.50%
OP&F Fire	12.25%	24.00%
Highway Patrol Retirement System (HPRS)	14.00%	26.50%

The following table details law enforcement employer rates since 1986, when OP&F employer rates were fixed in statute.[8] The most significant variation in the rates has been a decrease of PERS rates in the 1990s and a 2% increase in HPRS overall (with a slight decrease, again, in the 1990s). This has provided great stability when compared

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[6] According to the National Association of State Retirement Administrators (NASRA), 32% of plans use a fixed rate (NASRA, "Overview of Public Pension Plan Amortization Policies" (April 2022)).

[7] The SERS employer contribution rate is capped at 14%, which does not include the employer surcharge on the salaries of members earning below a minimum compensation amount in order to fund health care benefits; the employee contribution rate is capped by statute at 10% of compensation (R.C. 3309.47 and 3309.49).

[8] Note that this is a percentage increase. While the percentage rate has been fixed, the actual dollar amount of contributions has increased from $159 million in 1989 (OP&F Comprehensive Annual Financial Report for the Year Ended December 31, 1989, pg. 11) to $621 million in 2023 (OP&F ACFR for Year Ended December 31, 2023, pg. 108).

with the variations seen in other states' pension systems (for one extreme example, Kentucky employer contributions to the State Police Retirement System in 2000 were 1%, whereas for 2023, contributions were 99%).[9]

Year	OP&F Police	OP&F Fire	HPRS	PERS-LE & PS[10]
1986	19.50%	24.00%	24.66%	18.10%
1989			24.39%	
1991			24.00%	16.00%
1994				16.70%
1996			23.50%	
2000				1 year rollback to 14.70%
2003			24.50%	
2005			25.50%	
2006				16.93%
2007				17.17%
2008				17.40%
2009			26.50%	17.87%
2011				18.10%

The bill would mark the first General Assembly directed employer contribution rate increase to OP&F since its establishment in 1967. Prior to 1986, those rates were set by the actuary, meaning that the 1986 statutory rate was a freeze on any further increases or decreases.[11]

ORSC Comments

H.B. 296 changes the precedent of stable employer contribution rates. Employees, employers, and the retirement systems have consistently relied upon a stable employer contribution amount that can be used for budgetary and contract purposes. It would be fair to say that this solid commitment has been a great asset for the state and a bedrock of Ohio retirement system law. Many of the employer-level consequences of a roughly 23% increase in police officer employer contribution rates envisioned under H.B. 296 are outside the scope of this analysis but could potentially become apparent to the system in time (e.g., should pay rate growth decrease due to lower employee salary or fewer employees in OP&F, the long-term fiscal effect could be deleterious and long lasting).

[9] https://www.kyret.ky.gov/Publications/Actuarial%20Valuations/2022%20SPRS%20Actuarial%20Valuation.pdf, pg. 2 and https://kyret.ky.gov/Publications/Books/2000%20Annual%20Report.pdf, pg. 63.
[10] PERS-LE and PS contributions were capped at 18.1% during this period (R.C. 145.49).
[11] Unlike all the other systems, HPRS is a single employer system (State of Ohio), which directly pays the employer rates.

Because of the long consistency of employer rates in Ohio, the ORSC does not have historical data on the potential consequences of a rate increase of this magnitude.

The second change in precedent involves future ORSC analyses. The ORSC make recommendations on the assumption that no further employer funds are available for benefit increases or funding purposes. This is based on prior precedent ("Prior Guidance on Employer Rate Increases," below) and is a constraint on analyses of benefit expansions and funding challenges. Should H.B. 296 become law, any future analyses to any retirement system would include an assumption that employer funds are possible, even if unlikely. This would greatly affect analyses regarding intergenerational equity, particularly in STRS, and the ORSC would advise consideration of the cost increases that may be necessary in PERS, STRS, SERS, and HPRS in the future.

Based on the consistent and long-standing retirement funding policy of stable employer contribution rates, and the potential unpredictable consequences of an employer increase of the size proposed in H.B. 296, the ORSC would recommend disapproval of H.B. 296. At a minimum, the ORSC would recommend a delayed effective date for employer and employee groups to adjust to this change. However, the ORSC has traditionally disapproved of any employer increases.

Prior Guidance on Employer Rate Increases

While Ohio has adopted a general fixed employer rate model for pension funding, the ORSC has also explicitly commented on employer rate increases.

S.B. 82, 30-Year Amortization Requirement, and 30-Year Plans: Historical Review

Ohio law requires any state retirement system to submit a plan to achieve 30-years amortization in any year (or any third year for OP&F)[12] in which the system exceeds a 30-year amortization period. Enacted under S.B. 82 in 1997, this minimum standard[13] is intended to ensure that plan liabilities are not simply extended onto future generations, thereby violating intergenerational equity.[14] As discussed above and according to Cavanagh MacDonald, OP&F has a current estimated funding period of 31.44 years as of January 1, 2025.

Providing a brief summary of previous 30-year plans is helpful in understanding OP&F, ORSC, and General Assembly policy preferences on employer rate increases. Additionally, plan design changes as envisioned in the bill have previously been vetted

[12] R.C. 742.16.

[13] Note that in 2014, the Conference of Consulting Actuaries Public Plans Community recommended that unfunded liabilities be eliminated over a 15-20 year period rather than the longer 30-year period required under Ohio law.

[14] See ORSC Issue Briefs 1 and 4 "Measuring Pension Liabilities" and "Unfunded Accrued Actuarial Liability and its Amortization." Available online at: https://orsc.org/Assets/Reports/1188.pdf and https://orsc.org/Assets/Reports/1368.pdf.

by the ORSC prior to being crafted in legislation. As demonstrated in pension reform, there is typically a lengthy back and forth between the ORSC, the retirement systems, and their respective actuaries to vet plan changes prior to the legislative process. Therefore, 30-year plan submissions and ORSC responses provide more data on these policy preferences than is otherwise available in ORSC legislative analyses.

Two consistent issues in these 30-year plans have been a desire by the OP&F Board to increase employer rates (as well as an ORSC response not to do so), and a desire to rely on investment returns, rather than plan design changes, to achieve a 30-year amortization period. This was consistent from S.B. 82 enactment until pension reform.

By its own admission, the 1999 OP&F 30-year plan relied on continuing investment gains to achieve funding progress: "the main thrust of our financing plan is the expectation of strong investment returns."[15] A similar approach was used in the year 2000 plan.[16] With the dot-com crash in 2001, relying on continued investment gains was no longer feasible, and by 2003, the situation was serious enough that the ORSC voted to have its then-actuary, Milliman USA, conduct a thorough review of OP&F. That analysis generally concluded that one or more of the following actions would need to occur to achieve compliance with the 30-year funding requirement: contribution limits increased; mandated pension benefits reduced; state subsidies provided; and/or contributions reallocated from discretionary health benefits to mandated pension benefits.[17] The General Assembly did not increase statutory employer rates during this period.

OP&F recommended waiting on market returns to successfully restore the plan to a 30-year funding status.[18] In 2004, Mellon (the OP&F actuary at the time) advised no changes were necessary, including in the continuing 7.75% allocation to healthcare provided by OP&F, even though the plan had an infinite funding period.[19] The ORSC note that over 25% of employer contributions made between 1998-2012 were diverted to the optional health care fund.[20]

In 2006, 2007, and 2008, with continuing infinite funding periods, OP&F submitted a funding plan with employer rate increases, among other changes. These plans were not endorsed by the ORSC.[21] With the Great Financial Crisis (GFC) in late 2008 and a substantial review in 2009, the OP&F Board approved a comprehensive plan, including

[15] Allen J. Proctor memorandum dated February 24, 1999, to Members of the House Retirement Subcommittee, pg. 1.
[16] Allen J. Proctor memorandum dated February 21, 2000, to the Ohio Retirement Study Council.
[17] ORSC of the time noted in its analysis of Sub. S.B. 340, (https://orsc.org/Assets/Reports/185.pdf), pg. 3.
[18] William J. Estabrook memorandum to Aristotle Hutras dated November 5, 2003.
[19] November 17, 2004, report to OP&F and ORSC from Kim Nicholl (Mellon Consultants), pg. 1, 5-6.
[20] "Ohio Retirement Systems: 1998-2022, ORSC Staff Report on the Historical Experience of the Five Ohio Retirement Systems Since 1998," 72 (available online at: https://www.orsc.org/Assets/Reports/1606.pdf).
[21] William J. Estabrook memorandum to Aristotle Hutras, dated June 26, 2006. William J. Estabrook memorandum to Aristotle Hutras, dated April 25, 2007, and William J. Estabrook memorandum to Aristotle Hutras, dated February 27, 2008.

employee and employer rate increases. Again, this plan was not endorsed by the ORSC.[22] The General Assembly did not increase statutory employer rates during this period.

In 2011, with an infinite funding period that had continued for a decade, the OP&F Board approved a plan that improved funding while not increasing employer rates. This plan was enacted by the General Assembly through S.B. 340 (effective January 7, 2013).[23] This bill was also endorsed by the ORSC. That plan, as in all systems' pension reform plans in 2012, specifically excluded any employer rate increases. As noted in the ORSC analysis at the time:

> Increasing the employee contribution rate will create a better cost balance between the employee and the employer, thus **preventing an increase in state contributions** while simultaneously reducing taxpayer risk.[24] (emphasis added)

The exclusion of an increase in employer rates was a deliberate decision by the General Assembly and the ORSC.

Most recently, the ORSC and General Assembly did not act on a proposal to increase OP&F employer rates to 26.5% under H.B. 512 (134th General Assembly). That bill had been proposed as a result of OP&F anticipating the funding period increasing to 39 years as of January 1, 2022 (OP&F 2021 Valuation).[25] The final valuation for 2021, submitted in November of 2022, indicated a funding period of 28.07 years. Both the 2022 and 2023 valuations indicated OP&F remains below the required 30-year period (26.71 and 29.77, respectively). The OP&F actuary did not provide updated estimates for the OP&F valuation as of January 1, 2025, either with or without passage of H.B. 296, in the most recent OP&F valuation submitted November 1, 2024.

ORSC Comments

In summary, between 1997-2022, even in a prolonged term of infinite amortization periods, the General Assembly and the ORSC did not increase or recommend statutory employer rate increases, and the ORSC did not endorse plans that would increase those rates. Based on this legislative precedent and ORSC guidance, ORSC would recommend disapproval of H.B. 296 to raise employer rates.

Prior Action on Employee Rate Increases

The ORSC has recommended approval, and the General Assembly has adopted,

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[22] OP&F presentation to the ORSC dated September 9, 2009. An example of ORSC comments to raising employer rates may be seen in the December 10, 2008, ORSC minutes.
[23] William J. Estabrook memorandum to Aristotle Hutras, dated January 26, 2011.
[24] ORSC Analysis, Sub. S.B. 340 of the 129th General Assembly, pg. 4.
[25] Letter from OP&F Executive Director Mary Beth Foley to Legislative service commission Director Wendy Zahn (February 14, 2022), pg.2.

increases to employee contribution rates. During pension reform, STRS, OP&F, and HPRS were either required or authorized to increase employee contribution rates.[26] As discussed above, the ORSC analyses stated that "increasing the employee contribution rate will create a better cost balance between the employee and employer." Under the bill, OP&F employee members will have a contribution rate of 12.5% in 2030, which will continue to be lower than PERS-LE (13%) and HPRS (14%).

Based on prior recommendations from the ORSC and actions of the General Assembly, the ORSC recommend approval of the employee rate increase in H.B. 296.

Board Authority Components of Pension Reform

This section will outline post-pension reform plan design changes at the board level in STRS, SERS, OP&F, and HPRS. PERS was not provided board authority to modify plan design under pension reform. STRS, SERS, and HPRS have used their authority to maintain, and improve, the funding status of their respective funds. Because the OP&F board has not used their existing board authority to assist in managing liabilities, providing an employer increase under the bill would undermine the board authority components in all the state retirement systems granted this authority, causing a significant oscillation in policy.

Pension reform and later legislation authorized the boards of STRS, SERS, OP&F, and HPRS to make further plan design changes as the boards deemed necessary or possible.[27] While OP&F was provided authority to modify employee contributions and age and service requirements, it was not provided the authority to modify future COLA grants that was provided to STRS, SERS, and HPRS. The OP&F Board has elected not to use any of the board authority it was provided in pension reform in either 2017 or 2022, when that authority was authorized by statute.[28] The ORSC actuary has repeatedly advised that OP&F will likely need additional changes to maintain a 30-year or less amortization period.[29]

As the following table demonstrates, this authority has been hugely impactful in allowing STRS, SERS, and HPRS to self-manage liabilities post-pension reform. Again, PERS was not granted any board authority under pension reform.

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[26] Historic employee and employer contribution rates are available in the "Ohio Retirement Systems: 1998-2022, ORSC Staff Report on the Historical Experience of the Five Ohio Retirement Systems Since 1998" (available online at: https://orsc.org/Assets/Reports/1606.pdf.

[27] Some of this authority is to *improve* the plan design benefits, not just to reduce benefits.

[28] R.C. 742.161 and 742.31(B). The OP&F board may take action "following each quinquennial actuarial valuation."

[29] PTA/KMS, "Analyzing 30 Year Plans and Pension Reform" (2012), pg. 153 and 155; PTA/KMS, "Review of Policy and Operational Issues for Ohio Retirement Systems and OP&F Actuarial Status," (September 4, 2013), and PTA/KMS Annual Adequacy Report for years 2016, 2018, 2019, 2020, 2021, 2022, and 2023.

Summary of Fiscal Effect of Pension Benefit Changes to State Retirement Systems			
	Liability Reductions from 2012 Reform[30]	**As Percent of total Actuarial Accrued Liability in 2012**[31]	**Reductions from direct Board actions post-2012-2022**
PERS	$3.228 billion[32]	**3.8%** Total AAL of $84.325 billion[33]	$0—No board authority provisions
STRS	$15.662 billion[34]	**14.7%** Total AAL of $106.302 billion[35]	$10.651 billion[36]
SERS[37]	$0.222 billion	**1.3%** Total AAL of $16.755 billion	$1.356 billion
OP&F	$0.781 billion[38]	**4.8%** Total AAL of $16.347 billion[39]	$0-Limited board authority
HPRS	$0.117 billion[40]	**11.2%** Total AAL of $1.048 billion[41]	$0.032 billion[42]

The following details the specific plan design changes undertaken by STRS, SERS, and HPRS since 2012.

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[30] As reported in actuarial valuations immediately after pension reform. The ORSC believes this provides as close to an "apples to apples" comparison as possible of actuarial accrued liability cuts made *at the time of* pension reform.
[31] Because the various sizes of the systems, this column is used to provide a sense of the proportional scale of changes in pension reform.
[32] PERS, Actuarial Valuation of Defined Benefit Allowances, Traditional, Combined, and Member Directed Plans December 31, 2012, I-2 (see column on Pre-APD total vs. 2012 total) and email correspondence dated April 26, 2022, and May 27, 2022, between Gordon Gatien, PERS, and Jeff Bernard, ORSC.
[33] PERS, Actuarial Valuation of Defined Benefit Allowances, Traditional, Combined, and Member Directed Plans December 31, 2011, pg. I-3.
[34] STRS, Actuarial Valuation and Review as of July 1, 2013, pg. 34. Email correspondence dated April 29, 2022, between Marla Bump, STRS, and Jeff Bernard, ORSC, and email correspondence dated May 25, 2022, between Anne Erkman, STRS, and Jeff Bernard, ORSC.
[35] STRS, July 1, 2012, Actuarial Valuation Report, pg. 2.
[36] Does not include board action in 2023 to provide a 1% COLA and delay 35 years of service requirement or 2024 action to eliminate 35-year service requirement and provide a supplemental benefit payment (13th Check) of $306 million.
[37] SERS Valuation, Prepared as of June 30, 2012, pg. 7 and SERS Valuation, Prepared as of June 30, 2013, pg.7. Email correspondence dated May 20, 2022, between Chris Collins, SERS, and Jeff Bernard, ORSC.
[38] OP&F, January 1, 2013, Actuarial Valuation of Pension Benefits, pg. 13. OP&F provided additional, future accrual information in their response, including $1.280 billion for reduction in liability by reducing future benefit accruals, $509 million of future gains from increased member contributions, and $669 million gains from redirecting discretionary health care contributions to the statutory retirement benefits, for a total of $3.2 billion (email correspondence dated April 22, 2022, and May 26, 2022, between Mary Beth Foley, OP&F, and Jeff Bernard, ORSC). The other retirement systems were not asked and did not report comparable figures.
[39] OP&F, January 1, 2012, Actuarial Valuation of Pension Benefits, pg. 2.
[40] HPRS, Annual Actuarial Valuation Report December 31, 2012, pg. C-2. Note that this figure includes the board decisions made August 2013 after passage of S.B. 345 (pg. 3). Because of this simultaneous change, the figure for HPRS includes both S.B. 345 and the immediate board action as they cannot be separated in this column.
[41] HPRS, Annual Actuarial Valuation Report, December 31, 2011, pg. A-7.
[42] Email correspondence dated April 13, 2022, between Brian Fike, HPRS, and Jeff Bernard, ORSC.

Post-2012 Plan Design Changes (by elective board action)		
STRS	FY2018-2022	0% COLA
	FY2023	3% COLA and elimination of age 60 requirement
	FY2024	1% COLA, delay of 35-year service requirement
	FY2025	35-year service requirement eliminated, supplemental payment (“13th Check” of $306 million in total); minimum years of service required to retire reduced to 33 years for a 3-year period; early retirement minimum years reduced to 28 for a 3-year period
SERS	2018	Eligible for COLA on 4th retirement anniversary
	2018-2020	0% COLA
	2021	0.5% COLA
	2022-2025	2.5% COLA
HPRS[43]	2014	Employee rate 11.5%; COLA reduced to 1.5%
	2015-2018	Employee rate to 12.50%; COLA reduced to 1.25%
	2019-2021	Employee rate to 14%; COLA reduced to 0%
	2022	3% COLA
	2023	Employee rate to 13%; 3% COLA
	2024-2025	Employer rate to 14%; 0% COLA

The board authority provisions have greatly assisted STRS, SERS, and HPRS from exceeding their funding periods during a period when all the systems made significant reductions in their assumed rates of return (all things being equal, reductions in assumed rates negatively affect the retirement systems’ amortization periods).

[43] HPRS is required to grant a 3% COLA for a recipient age 65 or older whose benefit is less than 185% of federal poverty limit for a family of two.

Board authority has maintained or improved funding in STRS, SERS, and HPRS

System (assumed rate of return)	Amortization Pre-2012	Amortization Post-Pension Reform	2023 Amortization Periods
PERS (6.90%)	30	26[44]	15
STRS (7.00%)	Infinite	40[45]	11.2
SERS (7.00%)	28	29[46]	21
OP&F (7.50%)	Infinite	47[47]	29.77
HPRS (7.25%)	Infinite	30[48]	19

ORSC Comments

The General Assembly provided significant board authority to allow the retirement boards, excluding PERS, to self-manage their liabilities. Discipline in using this authority has been extremely successful in managing liabilities in STRS, SERS, and HPRS, particularly as assumed rates of return have declined. OP&F lacks the authority to modify future COLA increases, but OP&F does have the authority to manage liabilities through changes to employee contribution rates or changes to age and service requirements following each 5-year experience study. The OP&F board has not elected to use what authority they do have to manage those liabilities. Providing an employer increase to OP&F would, logically, discourage other boards from taking future action related to board authority, undermining a successful component of pension reform and resulting in a significant oscillation of policy regarding board authority provisions.

Because H.B. 296 would undermine a highly successful component of pension reform and result in a significant oscillation away from prior ORSC recommendations and legislative actions of the General Assembly, the ORSC would recommend disapproval of H.B. 296. A more consistent approach to the funding challenges of OP&F would be to provide OP&F the same board authority already provided to STRS, SERS, and HPRS.

Disparity of rates (equalization of employer rates)

As discussed above, OP&F contributing employers contribute different rates for

[44] PERS Valuation as of December 31, 2012.
[45] STRS Valuation as of July 1, 2013.
[46] SERS Valuation as of June 30, 2013.
[47] OP&F Valuation as of January 1, 2013.
[48] HPRS Valuation as of December 31, 2012.

their police employees than for their fire employees. The disparate, actuarially determined, rates have existed since 1967, but until 1980, were within 1.5% of each other. It was only in 1980, 1981, 1982, 1983, and 1985 that the rates significantly diverged and then were fixed in statute. The ORSC have been unable to find in the historical record the reason for this policy decision, although it appears to have resulted from valuations noting a higher percent contribution required for fire funding.[49] Without an underlying policy reason, the ORSC actuary had recommended as early as 2002 that the rates be blended and equalized.[50] This has been a consistent area of interest in the ORSC annual reports, the annual review of OP&F contribution rates, and the 2014 ORSC request to list previously raised recommendations and actions.[51] Further, in September of 2018, the ORSC voted to recommend maintaining OP&F's Annual Adequacy Report with the highlighted reason that it provides an impartial review of the disparate employer rates between police and fire in OP&F.[52] However, the ORSC has not previously *explicitly* voted on a *legislative* recommendation to equalize the employer rates, nor has the ORSC specified a rate to resolve this disparity.

Lacking a reason for the disparity and in accordance with consistent interest from the ORSC on this issue, the ORSC explicitly recommend approval of the policy expressed in the bill to equalize police and fire employer contribution rates in OP&F. The ORSC does not have a specific rate recommendation or recommendation on how that rate should be determined.

Actuarial Analysis

The following contains two sets of analyses on the funding impact of H.B. 296. The first is from the "As Introduced" version of the bill and is based on the 2022 OP&F Valuation (Valuation as of January 1, 2023). These figures were provided by the OP&F actuary and confirmed by the ORSC actuary. The second set of figures is for the "As Reported by House Pensions" version of the bill and based on the 2023 OP&F Valuation (Valuation as of January 1, 2024). These figures were provided by the ORSC actuary. The ORSC include both sets of figures to provide as much information as possible, as the likelihood of OP&F maintaining an amortization period below 30 years, even with passage of the bill, is unclear.

As Introduced H.B. 296 based on January 1, 2023 Valuation

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[49] The actuarial valuation dated 1985 provided a higher cost for fire fighters, though that had largely dissipated by the 1990 valuation and so may have been an artifice of a momentary measurement. In any case, the system is now "one fund" with blended assets.
[50] Milliman USA letter to ORSC dated June 6, 2002.
[51] See, for example, William B. Fornia, "Review of Ohio Police and Fire Funding Period and Actuarial Status as of January 2023," pg. 9-10, "2023 ORSC Annual Report," pg. 13, and "List of previously raised recommendations/actions" (ORSC Meeting on November 3, 2014).
[52] September 20, 2018, ORSC Minutes.

Based on current contribution rates, the OP&F actuary estimated OP&F's amortization period to be 31.44 years as of January 1, 2025. Based on contribution rates under the "As Introduced" bill, the amortization period would decrease to 24.87 years as of January 1, 2025. The ORSC actuary confirmed the reasonableness of the findings of the OP&F actuary.[53]

As Reported by House Pensions H.B. 296 based on January 1, 2024 Valuation

Updated figures from the OP&F actuary for the "As Reported by House Pensions" were not provided. The ORSC actuary estimates that the bill would reduce the amortization period from 29.77 years to 24.57 years as of January 1, 2024.[54]

While an estimate for OP&F's amortization period as of January 1, 2025, is not available for the "As Reported by House Pensions" version of the bill, the ORSC actuary did provide estimates on potential favorable and unfavorable experience that may impact the funding period of OP&F. The ORSC actuary stated "that these figures are not precisely additive. But our best anticipation is that the unfavorable considerations would outweigh the favorable considerations. It is very possible that even if [H.B. 296] contribution increases are put into effect, OP&F would exceed a 30-year funding period in the next decade."[55]

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)	0.00	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

Note on Transfer of Credit

A member of another state retirement system may transfer service credit to OP&F.

[53] William B. Fornia and Linda B. Bournival, "Review of Ohio Police and Fire Proposed Bill HB 296," (January 12, 2024).

[54] William B. Fornia and Linda L. Bournival, "Review of Ohio Police and Fire Proposed Bill HB 296-Expanded," (December 3, 2024).

[55] William B. Fornia and Linda L. Bournival, "Review of Ohio Police and Fire Proposed Bill HB 296-Expanded," (December 3, 2024).

When they do, the credit may be reduced by OP&F if the member does not provide funds to make up the difference between what the non-uniform employer paid (10%, 14%, or 18.10%) and what an OP&F employer would pay (either 19.5% or 24%), as well as interest on those amounts.[56] In other words, the credit from the transferring non-uniform system may be prorated in OP&F if the member does not make additional contributions. The reduction in credit for transferring into OP&F as a result of the employer rate increases in H.B. 296 will become more apparent to those transferring credit.[57]

ORSC Recommendation

At its December 12, 2024, ORSC meeting, the ORSC made the following recommendations on H.B. 296:

1) Based on legislative precedent and ORSC guidance, the ORSC recommends disapproval of the employer rate increase in H.B. 296;
2) Based on legislative precedent and prior ORSC recommendations, the ORSC recommends approval of the employee rate increase in H.B. 296;
3) Because H.B. 296 would undermine the board authority provisions of pension reform and result in an oscillation of policy regarding the board authority provided to the retirement systems, the ORSC recommends disapproval of H.B. 296;
4) Ohio retirement policy has provided remarkable stability in employer contribution rates relative to other jurisdictions. The ORSC recommends that consideration be made on potential employer level consequences prior to approval of H.B 296. In particular, a delayed effective date may provide local governments time to adjust to the change, as well as negate any effect on current collective bargaining agreements;
5) Consistent with long-term ORSC interest in the disparate employer contribution rates in OP&F, the ORSC recommends approval of the policy goal contained in H.B. 296 to equalize police and fire employer rates;
6) The ORSC reaffirms its prior recommendation that OP&F be required to provide annual valuations (rather than triennially);[58]
7) The ORSC reaffirms its prior recommendation that OP&F be required to provide a 30-year amortization plan in any year in which OP&F exceed a 30-year amortization (rather than the requirement only being triggered

[56] R.C. 742.21(C), (D), and (I).
[57] This provision of law has been in effect since the current transfer of credit provisions were put in place in 2001 (Sub. H.B. 535, effective April 1, 2001). Note that this mostly applies to PERS, as SERS and STRS transfers to OP&F are minimal (19 for SERS since 2017; 6 for STRS since 2019-2020 fiscal year).
[58] ORSC Analysis, Sub. S.B. 340 of the 129th General Assembly, pg. 14-15.

triennially).[59]

Additional Materials for Review

At its October 30, 2024, OP&F Board meeting, the OP&F actuary indicated that OP&F will, at some point in the future, exceed an amortization period of 30 years. The ORSC recommends the following types of information to be available in making any future recommendation similar to H.B. 296:

1) What is the bulk, lump sum amount needed to maintain a 30-year amortization period as of January 1, 2026? What is the gap between where OP&F assumes it will be and where the asset base needs to be to maintain a 30-year amortization period as of that date?
2) If the OP&F Board used their authority to increase employee rates or increase years of service, what would the increase need to be to maintain a 30-year amortization as of January 1, 2026?
3) If the objective is to simply maintain an amortization period of less than 30 years, how long would an employer increase need to last to return OP&F to a 30-year amortization before reverting back to a 19.5% rate?
4) What other changes (i.e., a one year or multiple year reduction in newly granted COLAs, employee rate increase, etc.), would achieve an amortization period of 30 years as of January 1, 2026?
5) What is an equal employer contribution rate between police and fire that would provide OP&F the same amount of funds as under current law?
6) What equalized employer rate would be needed to achieve an amortization period of 30 years as of January 1, 2026?
7) If OP&F's discount rate of 7.5% were reduced to the highest of the four other pension systems (currently HPRS has the next highest rate after OP&F at 7.25%), how would it change the figures under 1-7?
8) Any other information necessary to make an evaluation of the proposal.

The above is not an exclusive or determinative list, but is meant as a guide to determine: 1) How much additional funding is necessary? 2) Does the bill provide that funding? and 2) What are the other options available to achieve similar objectives?

[59] ORSC Analysis, Sub. S.B. 340 of the 129th General Assembly, pg. 14-15.