

Ohio Police & Fire Pension Fund

140 East Town Street / Columbus, Ohio 43215-5164 / Tel. (614) 228-2975 / www.op-f.org

Feb. 14, 2022

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 512, which was introduced Dec. 14, 2021. The bill as introduced increases employer contributions to the Ohio Police & Fire Pension Fund (OP&F). These employer rates have remained unchanged since 1986.

As of our most recent actuarial valuation (as of Jan. 1, 2021), OP&F remains below the statutory funding requirement, at 25 years. That result has been achieved due to the sacrifice of members who supported benefit cuts totaling \$3.2 billion beginning in 2013. However, several factors outside our control will most certainly push us out of compliance with Ohio's 30-year funding mandate. Our independent consultants agree that capital market assumptions for the next decade point to lower returns.

In addition, we anticipate potential negative experience in our five-year actuarial study due this October. These results will likely reveal higher than expected retirements, difficulty in the recruitment of new members and lower payroll growth.

It is due to these factors that OP&F, with the support of the Ohio Fraternal Order of Police and the Ohio Association of Professional Fire Fighters, worked with legislators to introduce HB 512.

Sincerely,



Mary Beth Foley, Esq.
Executive Director

cc: Ohio Retirement Study Council
House Insurance Committee

enclosures

The Honorable Rick Carfagna
Chairman, Ohio Retirement Study Council
30 East Broad St., 2nd Floor
Columbus, OH 43215

The Honorable Thomas Brinkman, Jr.
Chair, House Insurance Committee
77 S High Street, 11th Floor
Columbus, OH 43215

Ohio Retirement Study Council
c/o Director Bethany Rhodes
Ohio Retirement Study Council
30 East Broad St., 2nd Floor
Columbus, OH 43215



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February 2, 2022

Mr. Scott Miller
Deputy Executive Director
Ohio Police and Fire Pension Fund
140 East Town Street
Columbus, OH 43215

**Re: Actuarial Impact of Increasing Employer Contributions to the Ohio Police & Fire Pension Fund -
HB 512**

Dear Mr. Miller:

We have estimated the impact on the funding period of the proposed legislation which increases employer contribution rates for the Ohio Police & Fire Pension Fund (the Fund). Based on the results of the January 1, 2021 Actuarial Valuation, we project a funding period as of January 1, 2022 of 24 years.

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, 2022	19.50%
January 1, 2023 – December 31, 2023	20.90%
January 1, 2024 – December 31, 2024	22.30%
January 1, 2025 – December 31, 2025	23.70%
January 1, 2026 – December 31, 2026	25.10%
Beginning on or after January 1, 2027	26.50%

Section 742.34 to increase the firefighter employers' contributions to the Fund from 24.00% of pay for all years to the following schedule:

Salaries Earned for Pay Period	Rate
Beginning before December 31, 2022	24.00%
January 1, 2023 – December 31, 2023	24.50%
January 1, 2024 – December 31, 2024	25.00%
January 1, 2025 – December 31, 2025	25.50%
January 1, 2026 – December 31, 2026	26.00%
Beginning on or after January 1, 2027	26.50%



Please note that a scheduled quinquennial review of actuarial assumptions will be performed in calendar year 2022 for the period January 1, 2017 – December 31, 2021 and will be first used for the January 1, 2022 actuarial valuation. Absent this legislation, the review is expected to push the funding period over 30 years. For example, if the discount rate is lowered to 7.50%, the resulting January 1, 2022 funding period absent this legislation is estimated to be 39 years. Including this legislation, it is estimated to be 25 years.

When the actual quinquennial review is completed in the fall of 2022, we will have completed the results of the January 1, 2022 actuarial valuation. While estimated return during 2021 will reduce the funding period, it is unclear if the funding period will be lower when all experience from 2021 is reflected in the valuation. In addition, our recommendation for other assumptions in the quinquennial review will likely increase the funding period. As a result, it is likely that the funding period as of January 1, 2022 without the proposed legislation will be higher than the 39 years noted above.

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 that are outlined in the January 1, 2021 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.

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,

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

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