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*H.B. 512 of the 134<sup>th</sup>  
General Assembly*

*Reps. Abrams and  
Baldrige*

*June 9, 2022*

Staff Recommendation

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## Summary of H.B. 512

H.B. 512 increases employer contribution rates for police and fire positions covered by the Ohio Police and Fire Pension Fund (OP&F). The employer rate for police officers would increase to 26.5% of salary (from 19.5% currently) and the rate for fire fighters would increase to 26.5% of salary (from 24% currently). The contribution rates would be phased in over a five-year period. The phase-in would be fully implemented on January 1, 2027, when both rates would be 26.5%.

According to an analysis letter by Cavanaugh Macdonald (the OP&F actuary), as a result of the OP&F assumed rate of return lowering to 7.5% (from 8%), OP&F has an estimated funding period of 39 years.<sup>1</sup> This funding period is over that required by R.C. 742.16 and will require a plan under that section to reduce the period to less than 30 years. Cavanaugh Macdonald estimates that H.B. 512 would reduce the amortization period to 25 years.

Because of this increase in funding period and absent some change, OP&F will be required to submit a 30-year amortization plan to the Ohio Retirement Study Council (ORSC). Additionally, the OP&F Board will have the opportunity to use existing board authority provided under section R.C. 742.161 to raise employee contribution rates and age and service requirements after the five-year experience review due in the fall of 2022.

## Summary of Analysis

H.B. 512 is a straightforward bill but one with a major policy change to Ohio retirement law. H.B. 512 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 an increase 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. 512, this analysis attempts to provide as much history and context as possible in order to furnish the ORSC with the information necessary to provide a recommendation. The analysis has the following broad sections:

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<sup>1</sup> Letter from OP&F Executive Director Mary Beth Foley to Legislative Service Commission Director Wendy Zahn (February 14, 2022), pg. 2.

- 1) Stability of employer contribution rates;
- 2) Prior guidance on employer rate increases;
- 3) Board authority components of pension reform;
- 4) Disparity of rates (equalization of employer rate).

Because health care is a discretionary benefit, this analysis largely excludes changes in the health care plans provided by any state retirement system as it centers on an analysis of funding the basic, statutorily required benefits, rather than optional post-employment benefits, of the plans.

## Stability of Employer Contribution Rates

Ohio has provided fixed rate employer contributions to fund its retirement plans for multiple decades. Even when approached as a floating cap, employer contribution rates in Ohio have stayed in a very tight range. This is a deliberate policy and funding choice that contrasts with plans with a variable employer rate.<sup>2</sup> Contribution rates have shown remarkable stability for employers and taxpayers in Ohio over the past 40 years, and only with pension reform have employee rates seen significant increases in Ohio. The table below provides percentage contribution rates for 2022.

Fund	Employees	Employers
PERS State and Local	10.00%	14.00%
PERS-LE	13.00%	18.10%
PERS-PS	12.00%	18.10%
STRS	14.00%	14.00%
SERS <sup>3</sup>	10.00%	14.00%
OP&F Police	12.25%	19.50%
OP&F Fire	12.25%	24.00%
HPRS	14.00%	26.50%

The following table details employer rates since 1986, when OP&F employer rates were fixed in statute.<sup>4</sup> 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 with the

<sup>2</sup> 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)).

<sup>3</sup> 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).

<sup>4</sup> Note that this is a percentage increase. While the percentage rate has been fixed, the actual 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 \$530 million in 2020 (OP&F CAFR for Year Ended December 31, 2020, pg. 9).



variations seen in other state’s pension systems (for one extreme example, Kentucky employer contributions to the State Police Retirement System in 2000 were 1%, whereas in 2021, it was 146%).<sup>5</sup>

Year	OP&F Police	OP&F Fire	HPRS	PERS-LE & PS
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%

H.B. 512 would mark the first General Assembly directed contribution 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.<sup>6</sup>

*ORSC Staff Comments*

The historical stability of rates raises two changes in precedent under H.B. 512. The first is that employees, employers, and the retirement systems have consistently received a reliable 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 retirement system law. Many of the employer level consequences of a roughly 35% increase in police officer employer contribution rates envisioned under H.B. 512 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). Because of the long consistency of employer rates in Ohio, ORSC staff do not have historical data on the potential consequences of a rate increase of this size.

<sup>5</sup> <https://kyret.ky.gov/About/Board-of-Trustees/Actuarial%20Valuations/2021%20Actuarial%20Valuation.pdf>, pg. 3 and <https://kyret.ky.gov/Publications/Books/2000%20Annual%20Report.pdf>, pg. 63.

<sup>6</sup> Unlike all the other systems, HPRS is a single employer system (State of Ohio), which directly pays the employer rates.

The second change in precedent involves future ORSC analyses. ORSC staff draft analyses 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. 512 become law, any future analyses to any retirement system would include an assumption that employer funds are possible, even if unlikely. This would greatly effect analyses regarding intergenerational equity, particularly in STRS, and ORSC staff would advise the ORSC to consider the cost increases that may be necessary in 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. 512, ORSC staff would recommend disapproval of H.B. 512. At a minimum, ORSC staff 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**

### *S.B. 82, 30-Year Amortization Requirement, and 30-Year Plans*

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)<sup>7</sup> in which the system exceeds a 30-year amortization period. Enacted under S.B. 82 in 1997, this minimum standard<sup>8</sup> is intended to ensure that plan liabilities are not simply extended onto future generations, thereby violating intergenerational equity.<sup>9</sup> As discussed above and according to Cavanagh MacDonald, OP&F has a current estimated funding period of 39 years, necessitating a plan in the near future to reduce that period to a minimum of 30 years.

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 H.B. 512 have previously been vetted 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.

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<sup>7</sup> R.C. 742.16.

<sup>8</sup> 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.

<sup>9</sup> 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>.

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.”<sup>10</sup> A similar approach was used in the year 2000 plan.<sup>11</sup> 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 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.<sup>12</sup> The General Assembly did not increase statutory employer rates during this period.

OP&F recommended waiting to see if market returns would successfully restore the plan to a 30-year funding status.<sup>13</sup> 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.<sup>14</sup> ORSC staff note that over 25% of employer contributions made between 2000-2012 were diverted to the optional health care fund.

In 2006, with a continuing infinite funding period, OP&F requested a raise in employer rates among other changes, a request that was not accepted by the ORSC.<sup>15</sup> OP&F submitted substantively similar plans in 2007 and 2008, both again rejected by ORSC.<sup>16</sup> With the great financial crisis in late 2008 and a substantial review in 2009, the OP&F Board approved a comprehensive plan, including employee and employer rate increases, again rejected by ORSC.<sup>17</sup> The General Assembly did not increase statutory employer rates during this period.

In 2011, with an infinite 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 approved by the General Assembly and the ORSC in S.B. 340, which was effective

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<sup>10</sup> Allen J. Proctor memorandum dated February 24, 1999, to Members of the House Retirement Subcommittee, pg. 1.

<sup>11</sup> Allen J. Proctor memorandum dated February 21, 2000, to the Ohio Retirement Study Council.

<sup>12</sup> ORSC of the time noted in its analysis of Sub. S.B. 340, (<https://orsc.org/Assets/Reports/185.pdf>), pg. 3.

<sup>13</sup> William J. Estabrook memorandum to Aristotle Hutras dated November 5, 2003.

<sup>14</sup> November 17, 2004, report to OP&F and ORSC from Kim Nicholl (Mellon Consultants), pg. 1, 5-6.

<sup>15</sup> William J. Estabrook memorandum to Aristotle Hutras, dated June 26, 2006.

<sup>16</sup> William J. Estabrook memorandum to Aristotle Hutras, dated April 25, 2007, and William J. Estabrook memorandum to Aristotle Hutras, dated February 27, 2008.

<sup>17</sup> 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.

January 7, 2013.<sup>18</sup> 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.<sup>19</sup> (emphasis added)

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

#### *ORSC Staff Comments*

In summary, between 1997-2013, even in a sustained period of infinite funding, the General Assembly and the ORSC consistently rejected employer increases. Based on this legislative precedent and ORSC guidance, ORSC staff would recommend disapproval of H.B. 512 to raise employer rates. Further, ORSC staff recommend that OP&F submit a 30-year amortization plan for ORSC vetting and comment, as it has been consistent ORSC practice to provide a holistic range of options for ORSC review.

## **Board Authority Components of Pension Reform**

H.B. 512 would undermine the board authority components of pension reform, components that have been extremely successful in managing system liabilities over the past 10 years. This section will outline these post-pension reform plan design changes at the board level in State Teachers Retirement System (STRS), School Employees Retirement System (SERS), and Highway Patrol Retirement System (HPRS). The Public Employees Retirement System (PERS) does not have board authority provisions to modify plan design. Because the OP&F Board has failed to use their existing board authority to maintain a 30-year funding period, providing an employer increase under H.B. 512 would undermine the board authority components in all the state retirement systems granted this authority, causing a significant oscillation in policy. STRS, SERS, and HPRS have used their authority to maintain a stronger funding period.

Pension reform and later legislation authorized the boards of STRS, OP&F, SERS, and HPRS to make further plan design changes as the boards deemed necessary or possible.<sup>20</sup> While the ORSC actuary has repeatedly advised that OP&F will likely need additional reductions, no further reductions have been made since pension reform.<sup>21</sup> Conversely, additional reductions have been made by STRS, SERS, and HPRS in the intervening period through their board authority provisions. The following provide a summary of those actions and the significance of them when compared with funding

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<sup>18</sup> William J. Estabrook memorandum to Aristotle Hutras, dated January 26, 2011.

<sup>19</sup> ORSC Analysis, Sub. S.B. 340 of the 129<sup>th</sup> General Assembly, pg. 4.

<sup>20</sup> Some of this authority is to *improve* the plan design benefits, not just to reduce benefits.

<sup>21</sup> 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, and 2021.



improvements made in pension reform. The chart below demonstrates that, while difficult, the use of board authority provisions in STRS, SERS, and HPRS have allowed continued funding progress.<sup>22</sup>

Summary of Fiscal Effect of Pension Benefit Changes to State Retirement Systems			
	Liability Reductions from 2012 Reform <sup>23</sup>	As Percent of total Actuarial Accrued Liability <sup>24</sup>	Reductions from direct Board actions post-2012
<b>PERS</b>	\$3.228 billion <sup>25</sup>	<b>3.8%</b> Total AAL of \$84.325 billion <sup>26</sup>	\$0—No board authority provisions
<b>STRS</b>	\$15.662 billion <sup>27</sup>	<b>14.7%</b> Total AAL of \$106.302 billion <sup>28</sup>	\$12.770 billion <sup>29</sup>
<b>OP&amp;F</b>	\$0.781 billion <sup>30</sup>	<b>4.8%</b> Total AAL of \$16.347 billion <sup>31</sup>	\$0
<b>SERS<sup>32</sup></b>	\$0.222 billion	<b>1.3%</b> Total AAL of \$16.755 billion	\$1.356 billion
<b>HPRS</b>	\$0.117 billion <sup>33</sup>	<b>11.2%</b> Total AAL of \$1.048 billion <sup>34</sup>	\$0.032 billion <sup>35</sup>

<sup>22</sup> Note that the STRS, SERS, and HPRS Boards have been able to make benefit improvements recently after taking action earlier to improve funding.

<sup>23</sup> As reported in actuarial valuations immediately after pension reform. ORSC staff believe this provides as close to an “apples to apples” comparison as possible of actuarial accrued liability cuts made *at the time of* pension reform.

<sup>24</sup> Because the various sizes of the systems, this column is used to provide a sense of the proportional scale of changes in pension reform. The scale of changes in both PERS and SERS are less than the other systems as PERS and SERS did not exceed the 30-year amortization limit prior to pension reform in 2012.

<sup>25</sup> 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 Gaten, PERS and Jeff Bernard, ORSC.

<sup>26</sup> PERS, Actuarial Valuation of Defined Benefit Allowances, Traditional, Combined, and Member Directed Plans December 31, 2011, pg. I-3.

<sup>27</sup> 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.

<sup>28</sup> STRS, July 1, 2012, Actuarial Valuation Report, pg. 2.

<sup>29</sup> Board action in March 2022 to provide a COLA and eliminate an age 60 requirement is estimated to have added \$2,119,177,000, thus leading a net reduction of approximately \$10.651 billion under direct board action.

<sup>30</sup> 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.

<sup>31</sup> OP&F, January 1, 2012, Actuarial Valuation of Pension Benefits, pg. 2.

<sup>32</sup> 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.

<sup>33</sup> 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.

<sup>34</sup> HPRS, Annual Actuarial Valuation Report, December 31, 2011, pg. A-7.

<sup>35</sup> Email correspondence dated April 13, 2022, between Brian Fike, HPRS, and Jeff Bernard, ORSC.



The following details the specific plan design changes undertaken by the retirement boards after pension reform.

Post-2012 Plan Design Changes (by elective board action)		
<b>PERS</b>	No plan design changes subsequent to pension reform and no authority to do so	
<b>STRS</b>	2017-2021	0% COLA
	2022	3% COLA and elimination of age 60 requirement
<b>OP&amp;F</b>	No plan design changes subsequent to pension reform	
<b>SERS</b>	2018-2020	0% COLA
	2021	0.5% COLA
	2022	2.5% COLA
<b>HPRS<sup>36</sup></b>	2014	Employee rate 11.5%; COLA reduced to 1.5%
	2015-2019	Employee rate to 12.50%; COLA reduced to 1.25%
	2020-2021	Employee rate to 14%; COLA reduced to 0%
	2022	COLA increased to 3%

The board authority provisions have likely prevented 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).

<sup>36</sup> 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	Amortization 2020/2021
PERS (6.90%)	30	26 <sup>37</sup>	18
STRS (7.00%)	Infinite	40 <sup>38</sup>	14 <sup>39</sup>
OP&F (7.50%)	Infinite	47 <sup>40</sup>	39 <sup>41</sup>
SERS (7.00%)	28	29 <sup>42</sup>	23
HPRS (7.25%)	Infinite	30 <sup>43</sup>	22

Even with pension reform and further board actions, the systems have, by and large, been able to provide pension benefits exceeding the average provided under Social Security. In three systems, the benefit exceeds the maximum provided by Social Security at the full retirement age of 67.

*Average Pension Benefit, Age and Service Retiree*

System	Average Age and Service Benefit (most recent valuation)
PERS	\$28,860 <sup>44</sup>
STRS	\$46,938 <sup>45</sup>
OP&F	\$51,552 <sup>46</sup>
SERS	\$16,155 <sup>47</sup>
HPRS	\$46,932 <sup>48</sup>
2022 Social Security (Average)	\$19,884 <sup>49</sup>
2022 Social Security (Maximum at full retirement age of 67)	\$40,140

<sup>37</sup> PERS Valuation as of December 31, 2012.

<sup>38</sup> STRS Valuation as of July 1, 2013.

<sup>39</sup> Amortization period prior to 3% COLA and age and service changes made in March 2022. Absent pension reform and COLA reductions in 2017, STRS would have an estimated funding ratio of 57%.

<sup>40</sup> OP&F Valuation as of January 1, 2013.

<sup>41</sup> Projected under assumed rate of return change.

<sup>42</sup> SERS Valuation as of June 30, 2013.

<sup>43</sup> HPRS Valuation as of December 31, 2012.

<sup>44</sup> PERS Actuarial Valuation December 31, 2020, pg. IX-1.

<sup>45</sup> STRS, Actuarial Valuation Report as of June 30, 2021, pg.50. This figure is the average benefit after Partial Lump Sum payments and includes both single and joint life annuities. The average single life annuity for a FY2021 retiree is \$64,000.

<sup>46</sup> Pension Funding Report, Ohio Police & Fire Pension Fund Actuarial Valuation as of January 1, 2021, pg. 29.

<sup>47</sup> May 20, 2022, email correspondence between Chris Collins, SERS and Jeff Bernard, ORSC.

<sup>48</sup> HPRS, Actuarial Valuation as of December 31, 2020, pg. 17.

<sup>49</sup> Social Security, "2022 Fact Sheet" (available online at: <https://www.ssa.gov/news/press/factsheets/colafacts2022.pdf>).

### *ORSC Staff 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 has not elected to use their authority. Providing an employer increase to the one system that has not utilized its board authority to manage liabilities would, logically, discourage other boards from taking future action related to board authority. Because H.B. 512 would undermine a highly successful component of pension reform and result in a significant oscillation of ORSC policy regarding board authority provisions, ORSC staff recommend disapproval of H.B. 512.

### **Disparity of rates (equalization of employer rates)**

As discussed above, police and fire employers do not contribute the same rate to OP&F. The disparate, actuarially determined, rates had 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. ORSC staff have been unable to find in the historical record the reason for this policy decision, although it appears to have resulted from the valuations noting a higher percent contribution required for fire funding.<sup>50</sup> Without an underlying policy reason, the ORSC actuary as early as 2002 had recommended that the rates be blended and equalized.<sup>51</sup> This has not been expressed as a goal "at any cost" (i.e., the ORSC has not advocated that there be a reduction of rates to 19.50% or increased to 24% to resolve this disparity).

Lacking a reason for the disparity and in accordance with ORSC guidance, ORSC staff would recommend approval of the *policy* change expressed in H.B. 512 to equalize the rate for police and fire employers in OP&F. Staff do not, however, have a clear opinion on either what that rate should be or what the appropriate method for determining that blended rate should be.

### **Transfer of Credit**

A member of another state retirement system may transfer service credit to OP&F. 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 (14% or 18.10%) and what an OP&F employer would pay (either 19.5% or 24%), as well as interest on those amounts.<sup>52</sup> In other words, the credit from the transferring non-

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<sup>50</sup> 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 and it appears illogical to treat the employers and their employees differently.

<sup>51</sup> Milliman USA letter to ORSC dated June 6, 2002.

<sup>52</sup> R.C. 742.21(C), (D), and (I).

uniform system may be prorated in OP&F if the member does not make additional contributions.

H.B. 512 would not effect this long precedent,<sup>53</sup> but the reduction in credit for transferring into OP&F as a result of the employer rate increases in H.B. 512 will become more apparent to those transferring credit.<sup>54</sup>

## Actuarial Analysis

The ORSC actuary (PTA/KMS Actuaries) confirms that the findings of the OP&F actuary are reasonable. After reducing the assumed rate of return from 8.00% to 7.50%, based on current contribution rates, the funding period is estimated to be 39 years. Reducing the assumed rate of return from 8.00% to 7.50%, based on contribution rates under HB 512, would result in a funding period estimate of 25 years. PTA also indicated that:

“The [OP&F] actuaries indicated that the quinquennial review will take place this year and be incorporated into the actuarial valuation as of January 1, 2022 which will be completed in the fall. There is some possibility that this review would result in periods somewhat longer than the 39 and 25 year periods estimated [in this review]. And of course, should investment returns for 2022 continue to be poor, the results as of January 1, 2023 would also increase the funding period.”

### *ORSC Staff Comments*

Based on these comments and ORSC staff recommendations under “Prior Guidance on Employer Rate Increases” above, ORSC staff would recommend that any 30-year plan include the updated analysis in the quinquennial review to provide the ORSC with the greatest amount of information necessary to make a thorough analysis and recommendation to the General Assembly.

## Staff Recommendation

ORSC staff make the following recommendation on H.B. 512:

- 1) Based on legislative precedent and ORSC guidance, ORSC staff would recommend disapproval of H.B. 512 to raise employer rates and instead recommend that OP&F submit a 30-year amortization plan for thorough ORSC vetting and comment, consistent with prior ORSC practice;

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<sup>53</sup> 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).

<sup>54</sup> 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).



- 2) Based on the ORSC actuary's review, ORSC staff recommend that the 30-year plan include any assumption changes in the upcoming quinquennial review;
- 3) Because H.B. 512 would undermine the board authority provisions of pension reform and result in a significant oscillation of ORSC policy, ORSC staff recommend disapproval of H.B. 512;
- 4) Ohio retirement policy has provided remarkable stability in employer contribution rates relative to other jurisdictions. ORSC staff recommend that consideration be made on potential employer level consequences prior to approval of H.B. 512. In particular, a delayed effective date may provide localities time to adjust to the change, as well as negate any effect on current collective bargaining agreements;
- 5) Consistent with ORSC policy, ORSC staff recommend the ORSC approve the policy goal of equalizing employer rates in OP&F contained in H.B. 512;
- 6) Consistent with prior ORSC recommendations, ORSC staff recommend OP&F be required to provide annual valuations (rather than triennially);
- 7) Consistent with prior ORSC recommendations, ORSC staff recommend OP&F be required to provide a 30-year amortization plan in any year in which OP&F exceeds 30-years (rather than the requirement only being triggered triennially).