



Dave Yost • Auditor of State

November 29, 2017

Ms. Bethany Rhodes
Director and General Counsel
Ohio Retirement Study Council
30 E. Broad Street, 2nd Floor
Columbus, Ohio 43215

Dear Director Rhodes:

Much has been written in recent years concerning the expected rate of return used by public pension systems used for funding and discounting for financial reporting purposes. Many articles have asserted that public pension funds continue to use expected rates of return that are overly optimistic given the recent investment environment.

Earlier this year articles published in *Pension & Investments* and *The American Interest* magazines discussed a change by Fitch Ratings on the rate of return assumption in public pension plans. Fitch revised their rating process to use a 6 percent investment return assumption in their evaluation of pension plan liabilities, down from the previous 7 percent for a more conservative and consistent approach in their ratings methodology.

As you are aware, each of the retirement systems are required under Ohio statutes to have prepared an "actuarial investigation" (experience study) to update actuarial assumptions used in actuarial valuations at least once in a five year period. The resulting reports are filed with Ohio Retirement Study Council. The Council should review the statutes and consider if the current requirement to complete experience studies at least once every five years is sufficient.

Ohio's state retirement systems have recently reduced the expected rate of return assumptions as a result of the most recent experience studies required by state statute for each of the retirement systems. The reduced assumed investment return rates range from 7.45% to 8.0% with the Ohio Police and Fire Pension Fund reducing their assumption from 8.25% to 8.0% in October 2017. A comparison of the 20 year annualized rates of return for each of Ohio's statewide retirement systems since the recession identified the actual 20 year annualized returns regularly fell below the expected returns. While the pension plans generally take a long-term 30+ year approach for funding, the 20 year annualized returns appear to be indicative of a market that is producing lower returns in general since the

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recession. As a result, it may become more difficult to achieve even the reduced expected rates of return over the next several years.

The Ohio Retirement Study Council plays a vital role in helping to protect the current and future retirees within these public pension plans. Current statutory requirements require the abovementioned experience studies to be completed at least once every five years.

Given the various market factors and widely existing concerns on the expected rate of return assumptions of public pension plans as a whole, more frequent experience studies may provide better assumptions used in funding decisions and financial reporting. I am requesting you consider if the current statutory requirement to complete experience studies at least once every five years is still appropriate, or if more frequent experience studies may be beneficial in the current environment.

Very truly yours,



Dave Yost
Auditor of State

CC: Members of the Ohio Retirement Study Council