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OHIO RETIREMENT STUDY COUNCIL

The Police and Firemen's Disability and Pension Fund
140 East Town Street / Columbus, Ohio 43215-5164 / Tel. (614) 228-2975

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Allen J. Proctor
Executive Director

November 17, 1997

Mr. Aris Hutras
ORSC
88 E. Broad Street, Suite 1175
Columbus, OH 43215

Dear Mr. Hutras:

Under S.B. 82 the PFDPF is required to submit a plan each year on how it intends to reach a 30 year amortization of its unfunded liability by the end of the year 2006. This plan is due within 90 days of our receiving our annual actuarial valuation.

On August 29, 1997 our actuary, Watson Wyatt, prepared an actuarial evaluation as of January 1, 1997 under the Entry Age Normal Cost Method required under S.B. 82. This report was sent to you on September 24. Our amortization period estimated in that report as of January 1, 1997 is 43.49 years, hence we are required to provide to you our plan to attain an amortization period of 30 years by the end of 2006. This letter constitutes our plan in compliance with this requirement.

At the most basic level, Watson Wyatt has written on page 11 of their report that "the Fund is currently on track to satisfy the provisions of SB 82." That opinion is premised on our ability to attain no less than an 8.8% to 8.9% annual rate of return on our investments in every year. We attach a table which shows the investment returns needed each year to meet that target. We hope those returns occur. Indeed, the past five years have been very good for investing. Unfortunately, our investment consultant, Wilshire Associates, estimates that our current asset allocation will yield less than 8.4% on average over the next decade. Without changes, therefore, PFDPF cannot expect the average yields anticipated from our current asset mix to meet the rate of return assumptions in our actuarial certification and the attached table.

PFDPF has taken or will take several steps to meet the 30 year requirement by 2006. First, in August the Board of Trustees approved a reallocation of five percent of our portfolio from domestic bonds to emerging markets equities. We hope this reallocation can be effected by the summer of 1998 and we expect this change will boost our investment yield to 8.5%. Obviously, additional actions are necessary.

Second, in consultation with the other Ohio retirement systems and Representative Van Vyven, we are drafting, for inclusion in the disability draft legislation, language that will substantially reduce the amount of unfunded liability which we accrue each year as a result of member transfers into our system from other retirement systems. We are grateful for the cooperation of Representative Van Vyven and especially the Public Employees Retirement System and our member organizations for facilitating this change in funding.

Third, the SB 82-mandated shift in actuarial method from aggregate cost to entry age normal has raised the unfunded liability created by the current repayment schedule for the pre-1967 debt owed us by many employers. As you know, this unfunded liability is being repaid through 2035 at an interest rate of 4.25 percent. Given the requirement to reach 30 year status by 2006 regardless of this slower payment schedule and regardless of an interest rate below our actuarially assumed investment return of 8.25 percent, this arrangement hobbles our ability to improve our funding status. We will seek acceleration of payment of this liability or increase in the rate of interest paid to us to make this schedule at least actuarially neutral to our ability to meet the 30 year target.

Fourth, we will continue to look for ways to reduce operating expenditures. For example, we have retained the firm Plexus to monitor securities trading activity by our domestic and international equity managers. This should enhance our ability to evaluate the value we receive from our brokerage relationships by looking at how competitive our purchase and sales prices are as well as by looking at commission rates. We are also strengthening our internal budgetary process and creating our first human resources department in efforts to maximize the service levels we provide to our members at the most effective cost.

However many actions we may take, we must emphasize that the most important factors influencing our ability to meet the 30 year requirement do not lie within our control. We need a moratorium on any new legislation that seeks to raise benefits without providing new revenues or any new legislation that seeks to limit our investment options from the prudent person standard that SB 82 put into place.

Specifically, we need a consistent message from the Legislature. We hear a strong message to hold down our disability benefits yet we continue to see bills introduced to raise other benefits. It is essential that legislation such as HB 194 include outside funding for any benefit increase, otherwise our unfunded liability will increase and our ability to meet the 30 year standard will be eroded.

We have been given prudent person authority to manage our assets independently in order to maximize the investment return on our assets while maintaining prudent risks; yet legislation is expected to be introduced which will reimpose restrictions on our investment activities and

introduce new restrictions on our operating expenditures to favor Ohio firms. We already have strong incentives to give business to local firms who provide the best service at the best price. The only effect of such legislation would be to force us to give business to firms that do not provide the best service or do not charge the lowest price. We are concerned that Representative Tiberi's proposed draft legislation may restrict our ability to select the vendors that best meet our needs. We believe we can justify our spending decisions, and legislation which requires us to provide justification for our decisions rather than directing our decisions is a preferred avenue if legislation must be enacted.

Finally, we have been given a strong message from the ORSC through its advisor Milliman Roberts that we should build future improvements in mortality and other experience into our actuarial assumptions. The Board is currently reviewing its 1992-1996 experience study which shows numerous improvements in experience. Taking any actions to change actuarial assumptions would increase our normal cost and put increased funding pressure on PFDPF.

I will be happy to discuss our plans further at any time you find convenient.

Sincerely yours,

Allen J. Proctor
Executive Director

AJP/mks

Enclosure

SB 82 ASSET TARGET

ASSET GROWTH NEEDED TO ATTAIN 30 YEAR AMORTIZATION PERIOD

	BEGINNING MARKET VALUE OF PFDPF ASSETS *	NON-INVESTMENT CASH FLOW				END OF YEAR PROJECTION OF REQUIRED ASSETS *	INVESTMENT INCOME REQUIRED
		NON-INVESTMENT REVENUES	EMPLOYER ACCRUED LIABILITY PAYMENTS	EXPENSES & BENEFIT PAYMENTS	NET CASH FLOW		
	A	B	C	D	E=B+C-D	F	G=F-A-E
1992	$3,835,451,258	$288,991,478	$20,375,967	$341,182,166	($31,814,721)	$4,044,321,307	$240,684,770
1993	$4,044,321,307	$308,285,623	$21,509,049	$355,335,766	($25,541,094)	$4,429,556,164	$410,775,951
1994	$4,429,556,164	$327,881,381	$130,338,472	$380,080,766	$78,139,087	$4,422,631,768	($85,063,483)
1995	$4,422,631,768	$342,339,693	$12,924,783	$415,678,173	($60,413,697)	$5,415,865,811	$1,053,647,740
1996	$5,415,865,811	$362,660,892	$10,941,742	$443,505,085	($69,902,451)	$6,108,258,462	$762,295,102
1997	$6,108,258,462					$6,633,177,816	$524,919,354
1998P						$7,158,097,170	$524,919,354
1999P						$7,683,016,523	$524,919,354
2000P						$8,207,935,877	$524,919,354
2001P						$8,732,855,231	$524,919,354
2002P						$9,257,774,585	$524,919,354
2003P						$9,782,693,939	$524,919,354
2004P						$10,307,613,292	$524,919,354
2005P						$10,832,532,646	$524,919,354
2006P						$11,357,452,000	$524,919,354

* Excludes Health Care Stabilization Fund.

Projected years are actuarially estimated required assets to meet 30 year amortization by Dec. 31, 2006.