The Police and Firemen's Disability and Pension Fund
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MEMORANDUM

Date: February 21, 2000

To: Members of the Health, Retirement & Aging Committee, Retirement Sub- Committee, and The Ways and Means Committee, and Ohio Retirement Study Council,

From: Allen J. Proctor, Executive Director Allen Proctor

Subject: 30 Year Amortization Plan

Pursuant to Ohio Revised Code (ORC) 742.16, Ohio Police and Firemen's Pension Fund (OPFPF) is submitting its plan for reducing the amortization period of unfunded actuarial accrued pension liability to not more than thirty years not later than December 31, 2006.

In the actuarial evaluation by Watson Wyatt dated December 6, 1999, OPFPF has an amortization period of 47.26 years and a funding ratio of 86%. This represents an <u>improvement</u> of 9 years in the amortization period and five percentage points in the funding ratio compared with the actuarial evaluation for the previous year.

The Assumptions

The passage of HB194 and HB275, which provided $550 per month to all current and future survivors and a COLA benefit to all pre-1986 retirees, is reflected in the improved numbers above. Any further legislation to increase benefits, to decrease member or employer contributions, or to mandate refunds to members would adversely affect the Fund's ability to meet its plan.

The main thrust of our financing plan is the expectation of strong investment returns. We have assumed 8.5 percent annual investment returns based on the Trustees' adoption in 1997 of an asset allocation anticipated to achieve that return.

The Plan

We estimate that our actuarial asset target of $12.7 billion as of December 31, 2006 will be sufficient to attain 30-year amortization. This is the same target as last year, as the benefit increases mentioned earlier were previously factored in. The annual targets are presented in Exhibit 1. We have "front-loaded" the targets by using a fixed annual net asset growth of $636 million per year. This provides us protection against weak investment markets in future years. The annual asset growth targets require a steadily <u>declining</u> annual net asset return, starting at 7.7 percent in 2000 and dropping to 5.3 in 2006. These returns are all below our actuarial investment rate (8.25%) and our expected long-term return on investment (8.5%).

The far right column of Exhibit 1 indicates the progress towards meeting the targets on a cumulative basis. The Fund is currently over $1 billion ahead of the required net asset value required to reach the December 31, 2006 target. This can be seen graphically in Exhibit 2, which shows the target growth line to $12.7 million and the actual growth line showing progress to date.

The Fund began implementing its plan to gradually reduce the share of contributions applied to amortization of the unfunded liability and equivalently increase the contributions to the health care fund in 1999 by .5 percentage points of payroll. Under this plan, the Fund will reduce contributions applied to amortization from 5.7 percent of payroll in 1998 to 3.6 percent in 2003 and it will increase contributions allocated to health care from 6.5 percent of payroll in 1998 to 8.0 percent of payroll in 2003. Exhibit 3 details the gradual increase. This will be reassessed annually. We expect that these shifts and an accompanying gradual increase in recipient premiums will allow the healthcare fund to grow through 2024 before net draw downs are required to maintain benefits.

Contingency Plans

The Fund has established several contingency plans. First, the Fund has investment gains reserved for future phase-in of $655,212,308. If the annual investment gains are not sufficient to keep the Fund at the asset level targeted in our financing plan, the Fund may recognize up to 100% of the unrecognized gain on stocks in any year in order to meet our statutory funding objectives. We would reasonably expect some significant percentage of recognition to be utilized before December 31, 2006.

As a second contingency, The Fund has the ability to change the percentage of payroll used to fund healthcare. Our actuary estimates that a one percentage point increase in the share of payroll going to amortization would decrease the amortization period 14 to 18 years. This powerful contingency should provide strong assurance that the 30-year amortization target is within reach.

The Fund does <u>not</u> contemplate asking for increases to employer or employee contributions to meet the 30 year amortization target.

Summary

The Fund feels that the plan outlined is reasonable and obtainable. The Fund will review the plan each year and make adjustments as necessary.

Exhibit 1
SB 82 ASSET TARGET SCHEDULE
Asset Growth Schedule To Obtain 1/1/2007 Market Value Asset Target
(Based upon 1/1/2000 SB82 Funding Plan)

	Expected Beg of Year Market Value of Assets	Net Asset Growth Needed to meet 2006 Goal	End of Year Planned Market Value Targets	Net Asset Growth Expected Return	End of Year Actual Market Value of all Assets	SB82 Financing Plan Cumulative Progress Ahead (Behind) Schedule
1997	$6,335,032,003	$636,496,800	$6,971,528,803	10.05%	$7,663,656,153	$692,127,350
1998	$6,971,528,803	$636,496,800	$7,608,025,603	9.13%	$8,478,852,115	$870,826,512
1999*	$7,608,025,603	$636,496,800	$8,244,522,403	8.37%	$9,296,606,940	$1,052,084,537
2000P	$8,244,522,403	$636,496,800	$8,881,019,203	7.72%		
2001P	$8,881,019,203	$636,496,800	$9,517,516,003	7.17%		
2002P	$9,517,516,003	$636,496,800	$10,154,012,803	6.69%		
2003P	$10,154,012,803	$636,496,800	$10,790,509,603	6.27%		
2004P	$10,790,509,603	$636,496,800	$11,427,006,403	5.90%		
2005P	$11,427,006,403	$636,496,800	$12,063,503,203	5.57%		
2006P	$12,063,503,203	$636,496,797	$12,700,000,000	5.28%		

* Unaudited.
P Projected

The planned market value targets include the Health Care Stabilization Fund.

Exhibit 2
SB82 Plan