

# Ohio Police & Fire Pension Fund

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February 27, 2008

Aristotle Hutras  
Ohio Retirement Study Council  
88 East Broad St. Suite 1175  
Columbus, OH 43215

Dear Mr. Hutras,

As you are aware, Ohio's public retirement systems are required to maintain a 30-year funding period or submit a plan outlining how the system can become compliant with this requirement. The Ohio Police & Fire Pension Fund (OP&F) actuarial valuation for January 1, 2007, indicates our funding status is again "infinity." Therefore, we respectfully submit the enclosed recommendations as our plan to comply with the 30-year funding rule.

While these recommendations are the same as the plan originally submitted in 2006 and then re-submitted in 2007, we have updated data in the charts to reflect our current funding situation and the positive affect these proposals will have on our funding.

As intended in the first submission of the plan, OP&F has acted within the limit of its own authority to implement some of these recommendations. These changes include revised subsidies for dependents of retirees enrolled in the OP&F-sponsored health care plan, establishing a new supplemental health care option for those members who are eligible for Medicare, and most recently, the implementation of a new retiree health care plan design. Each of these initiatives has resulted in cost savings.

These savings have not brought us to the 30-year funding level. However, as the enclosed plan illustrates, the remaining recommendations would have a significant impact. Each of these remaining recommendations requires legislative action for implementation.

In the past year the OP&F investment portfolio has again achieved positive returns that are above actuarial assumptions. While we still have confidence in our investment portfolio to provide positive returns, this is the extent of our ability to improve the funding status. In order to make substantial headway toward complying with the state's mandate, the remaining recommendations need to be addressed by the General Assembly.

## RETIREES

### Health Care

- Currently, 6.75% of the employers contributions are directed toward health care (reduced from 7.75% effective 1/1/2007)
- Additional plan changes included:
- Elimination of HMOs
  - Medicare-eligible members will receive subsidized coverage on a 3rd party basis only (implemented 1/1/2008)
  - A revised health care subsidy percentage
  - A lifetime maximum established at \$2.5 million
  - Health care plan changes effective Jan. 1, 2007

### 2008 Health Care Plan

#### COVERAGES & OPTIONS REDUCED:

- One option, one provider in 2008  
(Previously, 3 option levels and 5 providers available)
- five providers were available)
- Annual Deductible—Individual and Family
- Annual out of pocket—Individual and Family
- Physician Office Visit
- Emergency Department
- Urgent Care
- Hospital In-patient Services:
- Prior Admission testing
  - Scheduled in-patient admit
  - Emergency in-patient admit
- Ambulatory surgery center
- Mental Health (no annual maximum):
- Scheduled in-patient admit
  - Emergency in-patient admit
  - Out-patient
- Substance Abuse (\$3,100 annual maximum):
- Scheduled in-patient admit
  - Emergency in-patient admit
  - Out-patient

For 2008, OP&F sponsors a one-plan, one-provider health care plan through UnitedHealthcare

- Therapies
- Chiropractor
- Skilled nursing facility
- Sub-acute rehabilitation center
- Prescription Drugs, for both Retail and Mail
  - Generic, Preferred and Non-preferred

## GENERAL ASSEMBLY

### Active Member Contributions

- The OP&F Board recommends a contribution rate increase of two percent for all active members
- The current rate is **10%** for active members
  - The increase to **12%** will be implemented gradually, over a five-year period

### Retiree Medical Trust

- The establishment of a Retiree Medical Trust will assist our active members in paying for health care expenses in retirement
- A cost-neutral benefit to OP&F members
  - Provides a funding source for medical expenses in retirement
  - Active members will contribute to their individual trusts through out their careers
  - Funding for the Retiree Medical Trust requires an additional contribution from active members

## ACTIVE MEMBERS

### Employer Contributions

- The OP&F Board recommends equalizing the police and fire employer contribution rates
- Current Fire employer rate is 24%
  - Current Police employer rate is **19.5%**
  - Equalize the Fire and Police rates at 24%
  - The increase to 24% will be implemented over a five-year period

### Cap On Medicare Part B Reimbursements

- The OP&F Board recommends capping Medicare Part B reimbursements.
- The 2007 monthly premium is \$96.40
  - Annual increases average 10 to 12 %

Exhibit B: 10 year projection with assumed investment return of 8.25%

**Ohio Police & Fire Pension Fund**  
**Simplified 10-Year Projection of Pension Liability, Assets and Funding Period**  
*(\$ amounts in billions)*

	<b>Valuation Rate of Return of 8.25% on the Market Value of Assets</b>											
	<b>Actual</b>	<b>Projected</b>										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
<b>Asset Performance During Year</b> Actual investment return during the year	10.50%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	n/a
<b>Contributions During Year</b> Police - Employer Rate	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%
Fire - Employer Rate	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%
Health Care Allocation	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
<b>Valuation Results As of January 1</b>												
Actuarial Accrued Liability	\$ 13.0	\$ 13.6	\$ 14.2	\$ 14.9	\$ 15.6	\$ 16.4	\$ 17.1	\$ 18.0	\$ 18.8	\$ 19.7	\$ 20.7	\$ 20.7
Market-Related Value of Assets	10.2	11.2	12.1	12.9	13.7	14.4	15.1	15.8	16.6	17.4	18.3	18.3
Unfunded Accrued Liability	\$ 2.8	\$ 2.4	\$ 2.2	\$ 2.0	\$ 1.9	\$ 2.0	\$ 2.0	\$ 2.1	\$ 2.2	\$ 2.3	\$ 2.4	\$ 2.4
Funded Ratio	78.2%	82.3%	84.7%	86.3%	87.7%	88.0%	88.1%	88.1%	88.2%	88.2%	88.3%	88.3%
<b>Funding Period (Years)</b>	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite
Extra Assets Needed to Reach 30-Year Funding	\$ 1.9	\$ 1.4	\$ 1.1	\$ 0.9	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.9

Other Assumptions:  
8.25% valuation interest rate  
Service-related salary increase assumption first 4 years (11%, 9.5%, 8.5%, 6.5%), 5% thereafter  
4% payroll growth for measuring funding period  
No liability gains or losses

Prepared: February 15, 2008

Exhibit C, page 1: 10 year projection with assumed investment return of 9.00%

**Ohio Police & Fire Pension Fund**  
**Simplified 10-Year Projection of Pension Liability, Assets and Funding Period**  
(\$ amounts in billions)

	Sensitivity Rate of Return of 9.00% on the Market Value of Assets											
	Actual 2007	Projected										
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
<b>Asset Performance During Year</b> Actual investment return during the year	10.50%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	n/a
<b>Contributions During Year</b> Police - Employer Rate	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%
Fire - Employer Rate	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%
Health Care Allocation	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
<b>Valuation Results As of January 1</b>												
Actuarial Accrued Liability	\$ 13.0	\$ 14.2	\$ 14.9	\$ 15.6	\$ 16.4	\$ 17.1	\$ 18.0	\$ 18.8	\$ 19.7	\$ 20.7		
Market-Related Value of Assets	10.2	12.1	12.9	13.8	14.6	15.5	16.3	17.3	18.3	19.4		
Unfunded Accrued Liability	\$ 2.8	\$ 2.4	\$ 2.2	\$ 1.8	\$ 1.7	\$ 1.7	\$ 1.6	\$ 1.5	\$ 1.4	\$ 1.3		
Funded Ratio	78.2%	82.3%	84.8%	86.7%	88.5%	89.5%	90.2%	91.0%	91.8%	92.7%		
<b>Funding Period (Years)</b>	Infinite	Infinite	Infinite	Infinite	68.0	51.5	41.2	33.6	27.5	22.3		
Extra Assets Needed to Reach 30-Year Funding	\$ 1.9	\$ 1.4	\$ 1.1	\$ 0.8	\$ 0.6	\$ 0.5	\$ 0.3	\$ 0.2	\$ (0.1)	\$ (0.3)		

Other Assumptions:  
8.25% valuation interest rate  
Service-related salary increase assumption first 4 years (11%, 9.5%, 8.5%, 6.5%), 5% thereafter  
4% payroll growth for measuring funding period  
No liability gains or losses

Prepared: February 15, 2008

Exhibit C, page 2: 10 year projection with assumed investment return of 12.11% in 2008, and 8.25% thereafter

**Ohio Police & Fire Pension Fund**  
**Simplified 10-Year Projection of Pension Liability, Assets and Funding Period**  
(\$ amounts in billions)

	Market Rate of Return of 12.11% in 2008 and 8.25% in Subsequent Years to Result in 30-Year Funding in 2017										
	Actual 2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Asset Performance During Year</b> Actual investment return during the year	10.50%	12.11%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	n/a
<b>Contributions During Year</b> Police - Employer Rate	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%
Fire - Employer Rate	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%
Health Care Allocation	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
<b>Valuation Results As of January 1</b>											
Actuarial Accrued Liability	\$ 13.0	\$ 13.6	\$ 14.2	\$ 14.9	\$ 15.6	\$ 16.4	\$ 17.1	\$ 18.0	\$ 18.8	\$ 19.7	\$ 20.7
Market-Related Value of Assets	10.2	11.2	12.1	13.1	14.0	14.9	15.7	16.5	17.3	18.2	19.1
Unfunded Accrued Liability	\$ 2.8	\$ 2.4	\$ 2.1	\$ 1.8	\$ 1.6	\$ 1.5	\$ 1.4	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.6
Funded Ratio	78.2%	82.3%	85.3%	87.7%	89.9%	91.0%	91.7%	91.9%	92.1%	92.2%	92.4%
<b>Funding Period (Years)</b>	Infinite	Infinite	Infinite	Infinite	54.7	40.0	33.7	32.7	31.8	30.9	30.0
Extra Assets Needed to Reach 30-Year Funding	\$ 1.9	\$ 1.4	\$ 1.0	\$ 0.7	\$ 0.3	\$ 0.2	\$ 0.1	\$ 0.1	\$ 0.0	\$ 0.0	\$ (0.0)

Other Assumptions:  
8.25% valuation interest rate  
Service-related salary increase assumption first 4 years (11%, 9.5%, 8.5%, 6.5%), 5% thereafter  
4% payroll growth for measuring funding period  
No liability gains or losses

Prepared: February 15, 2008

**Ohio Police & Fire Pension Fund**  
**Simplified 10-Year Projection of Pension Liability, Assets and Funding Period**  
 ( \$ amounts in billions)

	Market Rate of Return of 0% in 2008 to Model a Pessimistic Year, then Market Returns of 21.83% in 2009 and 8.25% in Subsequent Years to Result in 30-Year Funding in 2017										
	Actual	Projected									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Asset Performance During Year</b>											
Actual investment return during the year	10.50%	0.00%	21.83%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	n/a
<b>Contributions During Year</b>											
Police - Employer Rate	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%	19.50%
Fire - Employer Rate	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%
Health Care Allocation	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
<b>Valuation Results As of January 1</b>											
Actuarial Accrued Liability	\$ 13.0	\$ 13.6	\$ 14.2	\$ 14.9	\$ 15.6	\$ 16.4	\$ 17.1	\$ 18.0	\$ 18.8	\$ 19.7	\$ 20.7
Market-Related Value of Assets	10.2	11.2	11.9	12.7	13.7	14.5	15.4	16.5	17.3	18.2	19.1
Unfunded Accrued Liability	\$ 2.8	\$ 2.4	\$ 2.4	\$ 2.2	\$ 1.9	\$ 1.8	\$ 1.7	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.6
Funded Ratio	78.2%	82.3%	83.3%	85.2%	87.6%	89.0%	89.9%	91.9%	92.0%	92.2%	92.4%
<b>Funding Period (Years)</b>	Infinite	Infinite	Infinite	Infinite	Infinite	95.6	57.7	32.8	31.9	30.9	30.0
Extra Assets Needed to Reach 30-Year Funding	\$ 1.9	\$ 1.4	\$ 1.3	\$ 1.1	\$ 0.7	\$ 0.5	\$ 0.4	\$ 0.1	\$ 0.0	\$ 0.0	\$ 0.0

**Other Assumptions:**  
 8.25% valuation interest rate  
 Service-related salary increase assumption first 4 years (1%, 9.5%, 8.5%, 6.5%), 5% thereafter  
 4% payroll growth for measuring funding period  
 No liability gains or losses

Prepared: February 15, 2008

**Reaching the 30-year funding period**  
(recommendations and estimates)

Proposed Items Each item builds on the item before	OP&F's UAL	Projected Funding Period	Funding Ratio	OP&F Health Care Expenses	Where employer contributions go:				Employer Contribution % required for a 15-year solvency period for health care	Funding Period if additional portion of employer contribution is allocated to UAL (year when 30-yr. funding achieved)
					Pensions	To UAL	Health Care	Total		
Current	\$2,207,588,000	Infinite	80.9%	\$133,494,000	10.94%	2.87%	7.75%	21.56%	N/A	Infinite (NA)
HC Plan Implementation 11/2007	\$2,207,588,000	Infinite	80.9%	\$118,296,000	10.94%	2.87%	7.75%	21.56%	7.50%	Infinite (NA) (additional 0.25%)
Revised HC Subsidies -Pre-1986 retirees: 75% for members, 50% for dependents -Post-1986 retirees: 75% for members, 25% for dependents	\$2,207,588,000	Infinite	80.9%	\$99,701,000	10.94%	2.87%	7.75%	21.56%	6.90%	Infinite (NA) (additional 0.85%)
Medicare Part B Cap reimbursement at \$115	\$2,207,588,000	Infinite	80.9%	\$99,701,000	10.94%	2.87%	7.75%	21.56%	6.75%	Infinite (NA) (additional 1.0%)
Increase Police Employer contribution rate 2007: to 20% 2008: to 21% 2009: to 22% 2010: to 23% 2011: to 24%	\$2,207,588,000	Infinite	80.9%	\$99,701,000	10.94% 10.94% 10.94% 10.94% 10.94%	3.14% 3.68% 4.22% 4.77% 5.31%	7.75% 7.75% 7.75% 7.75% 7.75%	21.83% 22.37% 22.91% 23.46% 24.00%	6.75%	54 yrs. (45 yrs. in 2015) (additional 1.0%)
Increase Active Member contribution rate 2007: to 10.5% 2008: to 11% 2009: to 11.5% 2010: to 11.75% 2011: to 12%	\$2,229,227,000	41 (33 yrs: 2015)	80.7%	\$99,701,000	10.59% 10.09% 9.59% 9.34% 9.09%	3.49% 4.53% 5.57% 6.37% 7.16%	7.75% 7.75% 7.75% 7.75% 7.75%	21.83% 22.37% 22.91% 23.46% 24.00%	6.75%	31 yrs. (30 yrs. in 2008) (additional 1.0%)
Coverage for Medicare-eligibles These members receive subsidized medical coverage on a 3 <sup>rd</sup> party basis only	\$2,229,227,000	41 (33 yrs: 2015)	80.7%	\$99,701,000	9.09%	7.16%	7.75%	24.00%	6.75%	31 yrs. (30 yrs. in 2008) (additional 1.0%)

The Board of Trustees remains committed to these recommendations. If the gradual contribution increases for active members and employers are implemented, along with a cap for Medicare Part B reimbursements, we are confident that OP&F will be able to reach the 30-year goal within a few years of the implementation of these new rates.

As we have discussed in previous ORSC meetings, poor investment returns from 2000-2002 are still actuarially accounted for due to the "smoothing" technique used when calculating our valuation report. The last of these negative investment years (2002) has been accounted for in the most recent valuation. We anticipate our funding status will gradually improve when the next report is released.

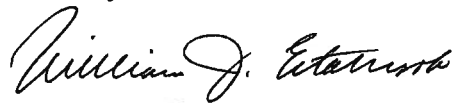
If no action is taken in regards to the contribution recommendations presented last year, and assuming an actuarial rate of return of 8.25 percent annually, our projections show no change from the current "infinite" status. However, if annual investment returns were to average 9.00 percent over the next 10 years, our actuarial analysis projects a funding period of 27.5 years by 2016. We have included these and other projections among our exhibits.

Enclosed are the following materials:

- An updated copy of the funding recommendations presented to the ORSC in April 2006 (Exhibit A)
- A 10-year projection of our funding period and funded ratio if contribution rates remain unchanged and our current assumed investment rate of return (Exhibit B)
- A series of 10-year projections if contribution rates remain unchanged and using varying investment performance scenarios (Exhibit C, pages 1-3)

If there are any questions concerning our recommendations, please do not hesitate to contact me. As always, we will reply promptly.

Sincerely,



William J. Estabrook  
Executive Director

cc: OP&F Board of Trustees

*Enclosures*