



# **A CRITICAL REVIEW:** *Achieving 30-year funding*

**Process • Results • Recommendations • Estimates**

**A presentation to the Ohio Retirement Study Council, 9-9-2009**





# The Process:

## Timeline...

- **December 2008:** ORSC motioned for the Ohio Retirement Systems to evaluate all plan options
- **December 2008:** OP&F formed a working group (that included ORSC staff) to outline options that could improve funding
- **April 2009:** 28 items were identified to be studied by OP&F's actuary and an additional 18 items to be studied internally by OP&F staff
- **May-July 2009:** OP&F's Board of Trustees examined all options and asked for additional analysis on specific items
- **August 2009:** The Board selected 9 items to be combined within a single scenario
- **August 25, 2009:** Board unanimously approved the 30-year funding plan as a package to ensure shared accountability in reaching 30-year funding target

## What did OP&F review?

Items that could:

**Increase revenues;**  
**Decrease expenditures;**  
**Reducing, eliminating, or adjusting benefits**

1. Contribution increases for employers and members  
Employer contributions unchanged since **1986**  
Member contributions unchanged since **1988**
2. Minimum age requirements
3. Benefit formula calculations
4. Cost-of-living adjustments
5. DROP plan parameters
6. Health Care benefits, subsidies and costs
7. Additional employer contribution charges for hiring practices
8. The \$1,000 lump-sum death benefit

## What was not reviewed...

- Assuming an investment market recovery
- Increasing investment return assumptions above the current 8.25 percent
- Changing actuarial assumptions
- Establishing workers compensation off-sets for disabilities
- Eliminating the monthly statutory benefit
- Requesting retired police and fire members be covered under a state health insurance plan



## Results:

### Already implemented or approved...

- **Major changes to the retiree health care plan:**
  - *Implemented in 2006 by Board of Trustees as the non-legislative portion of the 2006 30-year funding plan*
    - *Reduced expenses;*
    - *Increased contribution sharing*
- **Reduced the employer contribution allocation to health care funding to 6.75% (from 7.75%)**
  - *Implemented in 2007*
  - *This 1% allocated to our Unfunded Accrued Liability for pensions*
- **Approved salary spiking controls**
  - *Approved in 2008*
- **Revised mortality tables**
  - *Implemented in 2009*
- **Approved new formulas to limit the impact of non-disabling conditions**
  - *Approved in 2009*

### Items requiring legislation...

- **Member Contribution increases**
- **Equalizing and Increasing Employer Contributions**
- **Increase in minimum retirement age**
- **Delay cost-of-living adjustments**
- **Adjust the “average annual salary” formula for benefit calculations**
- **Increase the minimum number of years for DROP participation**

### To be implemented following legislation...

- Change in DROP interest rate
- Reduce the employer contribution rate allocated to fund health care
  - Reallocated to our Unfunded Accrued Liability
- Tie health care plan premiums to years of service



# Our Recommendations:

## For EMPLOYERS:

### Equalize police and fire employer contribution rates

as recommended by ORSC actuaries

- Current Fire employer rate is 24%
- Current Police employer rate is 19.5%
- Police rate increase implemented over a 3-year period beginning 1-1-2010

### Additionally...

### Increase both police and fire employer rates an additional 1%

- Prior to 1986 rates were actuarially determined each year
- Since 1986 rates locked at the current levels for employer budget planning purposes, not OP&F funding adequacy
- Actuaries are required to determine the adequacy of employer rates annually
- **Police and Fire rates would be set at 25%**



## For ACTIVE MEMBERS:

### Increase member contribution rates 2% for all active members

- Increase from 10% to 12%
- Implemented over a 5-year period, beginning 1-1-2010

### Raise the normal service retirement age to 52 for newly hired members

- Beginning 1-1-2011
- Current age is 48 with 25 years of service
- Members could retire as early as 48 with reduced benefit
- Members would not be DROP eligible until age 52

### Adjust pension calculation formula

- Average Annual Salary changed to the average of the 5 highest years of contributions, not highest 3 years
- Only for members with less than 15 years of service at the implementation date

### Increase the minimum period for DROP participation to 5 years

- For all new participants
- Interest is forfeited by leaving DROP before 5 years

### Reduce DROP interest rate from 5% to 3%

- Effective 1/1/2010 for all DROP participants



## For RETIRED MEMBERS:

### Delay Cost-of-Living Adjustments for all members until 55

- Excluding survivors and beneficiaries
- No grandfathering... would impact all retirees under age 55

### Reduce the 6.75% of employer contributions allocated to health care by 1.5%

- To be allocated toward Unfunded Accrued Liability
- Health care solvency projected at 15 years (from 20)

### Tie health care premiums to years of service

- Will further reduce the employer contribution to health care funding to 4.8% from 5.25%
- Health care solvency still projected at 15 years

## Funding estimates with recommendations implemented *(as of 1-1-2009 valuation estimates)*

	Unfunded Accrued Liability	30-year Funding	% Funded	UAL Contribution rate	Total Pension Contribution Rate	Health Care Funding Rate	Health Care Solvency Remaining	Total Employer Rate	Progress Toward UAL Reduction to Reach 30 Years	Additional Reduction Needed
<b>CURRENT OP&amp;F PLAN:</b>	<b>\$5.08 billion</b>	<b>Infinite</b>	<b>64.7%</b>	<b>2.75%</b>	<b>14.81%</b>	<b>6.75%</b>	<b>20 years</b>	<b>21.56%</b>		<b>\$4.17 billion</b>
<b>Proposed Recommendations...</b> (Assumes legislation by 12/31/2009. Each item builds on the item before.)										
Increase Active Member Contribution Rate from 10% to 12%, and Increase Police Employer Contribution Rate from 19.5% to 24%	\$5.11 billion	Infinite	64.5%	2.59% (5.03%)*	14.81% (17.25%)*	6.75%	20 years	21.56% (24%)*	\$1.2 billion	\$2.98 billion
Raise normal Service Retirement Age from 48 to 52 for new hires only	\$5.18 billion	Infinite	64.2%	3.38% (5.82%)*	14.81% (17.25%)*	6.75%	20 years	21.56% (24%)*	\$190 million	\$2.79 billion
Delay Cost of Living Adjustments until age 55 (excluding beneficiaries)	\$4.73 billion	Infinite	66.3%	4.61% (7.05%)*	14.81% (17.25%)*	6.75%	20 years	21.56% (24%)*	\$860 million	\$1.93 billion
Additional Police and Fire Employer contribution increase of 1%	\$4.73 billion	Infinite	66.3%	4.61% (8.05%)*	14.81% (18.25%)*	6.75%	20 years	21.56% (25%)*	\$280 million	\$1.65 billion
Reallocate 1.5% from the health care contribution rate toward the UAL	\$4.73 billion	60 years	66.3%	6.11% (9.55%)*	16.31% (19.75%)*	5.25%	15 years	21.56% (25%)*	\$490 million	\$1.16 billion
Change the DROP interest rate to 3%	\$4.65 billion	54 years	66.7%	6.23% (9.67%)*	16.31% (19.75%)*	5.25%	15 years	21.56% (25%)*	\$120 million	\$1.04 billion
Redefine "Average Annual Salary" as the highest 5 years of contributions (Only for members with less than 15 years of service at the implementation date)	\$4.68 billion	45 years	66.6%	6.94% (10.38%)*	16.31% (19.75%)*	5.25%	15 years	21.56% (25%)*	\$213 million	\$827 million
Change the minimum DROP participation period to 5 years	\$4.63 billion	43 years	66.8%	7.04% (10.38%)*	16.31% (19.75%)*	5.25%	15 years	21.56% (25%)*	\$76 million	\$751 million
Tie health care premium subsidy to years of service	\$4.63 billion	39 years	66.8%	7.49% (10.38%)*	16.31% (19.75%)*	4.80%	15 years	21.56% (25%)*	\$149 million	\$602 million

\* Once contribution increase is fully phased in