Report to the Ohio Retirement Study Council on OP&F 30 Year Funding, Actuarial Status as of January 1, 2024, and Anticipated Position as of January 1, 2025

Based on Adequacy Report Prepared as of January 21, 2025

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May 8, 2025

Findings

- OP&F actuary (CMC) calculated that 30-year funding met as of January 1, 2024
  - We find that 30-year funding was satisfied under CMC assumptions used in 1/1/2024 valuation
- We continue to be concerned with likely 1/1/2025 positions
  - Our estimate, based on 7.5% investment return through December, 2024 is that funding period will exceed 30 years
  - This would trigger plan to improve funding position

Background

- Each year, the OP&F's actuary performs an actuarial valuation
  - Based on assets, population, assumptions and benefit structure
- This determines unfunded liability (UL)
- Law requires that statutory contribution rate be sufficient to extinguish UL within 30 years
- ORSC actuary reviews OP&F's calculation each year *(R.C. 742.311 Annual adequacy report)*
- Typically, OP&F actuary complete actuarial valuation in fourth quarter of the year (November 2024)
  - Our review is completed in subsequent year
  - Therefore, this report is based on information as of January 1, 2024
  - We make estimates as to anticipated funding period as of January 2025

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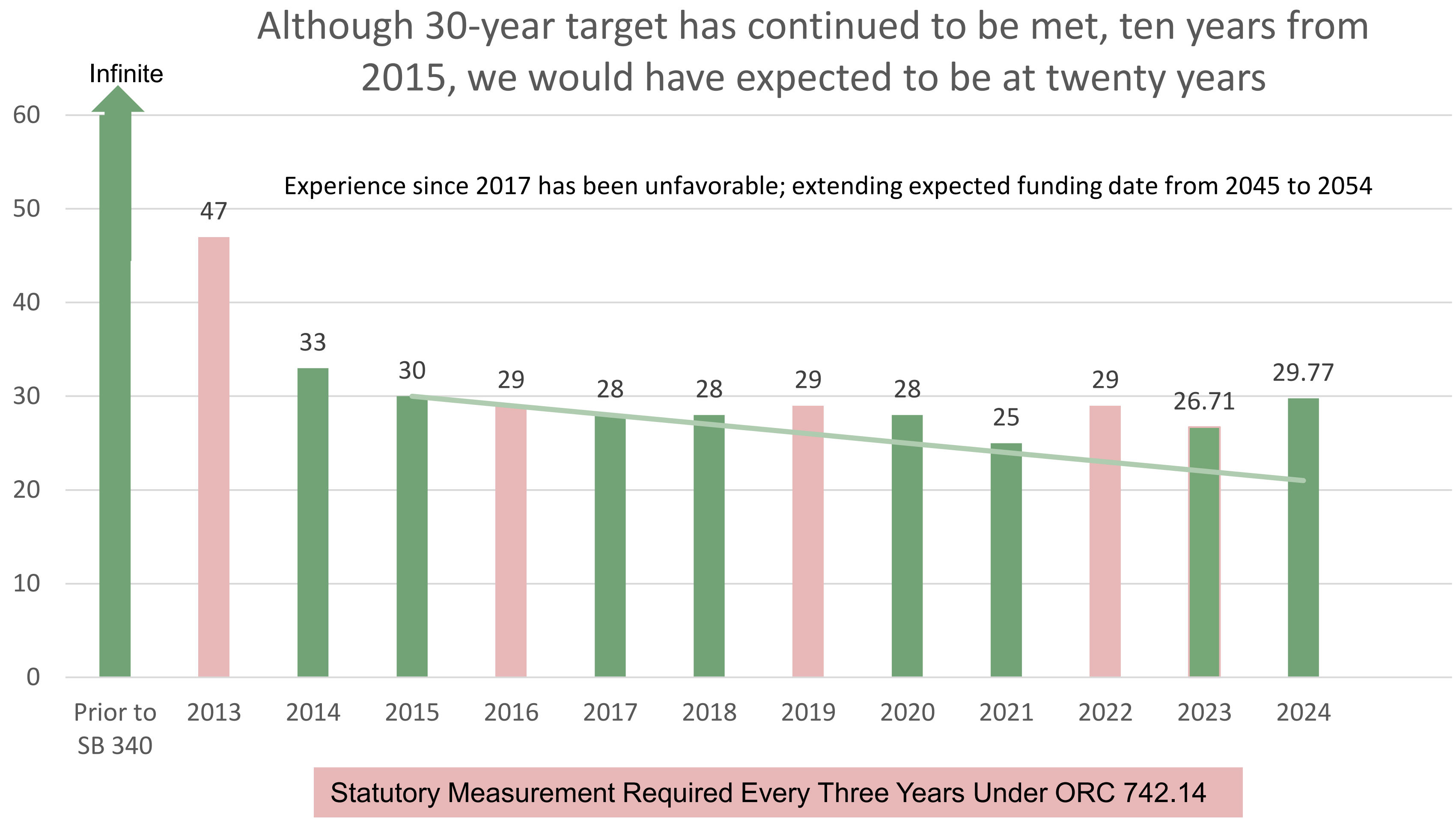
Current OP&F Contributions Are Adequate for 30-Year Requirement

- Cavanaugh MacDonald (OP&F Actuary) calculated a 29.77-Year Funding Period as of 1/1/2024.
  - Previously, 26.71 years (as of 1/1/2023).
- We replicate CMC's projections
- Strong 2024 Investment Return will likely not improve the funding period as of 1/1/2025
  - We estimate that based on 7.5% return during 2024, period will be 32 years as of January 1, 2025
  - This next actuarial valuation will determine the actual funding period

Major Findings

- Statutory requirement as of 1/1/2024 is satisfied
- Reasonable likelihood that 1/1/2025 will not satisfy 30-year requirement
  - Due to delayed recognition (through actuarial smoothing) of poor returns in 2022

History of Funding Periods



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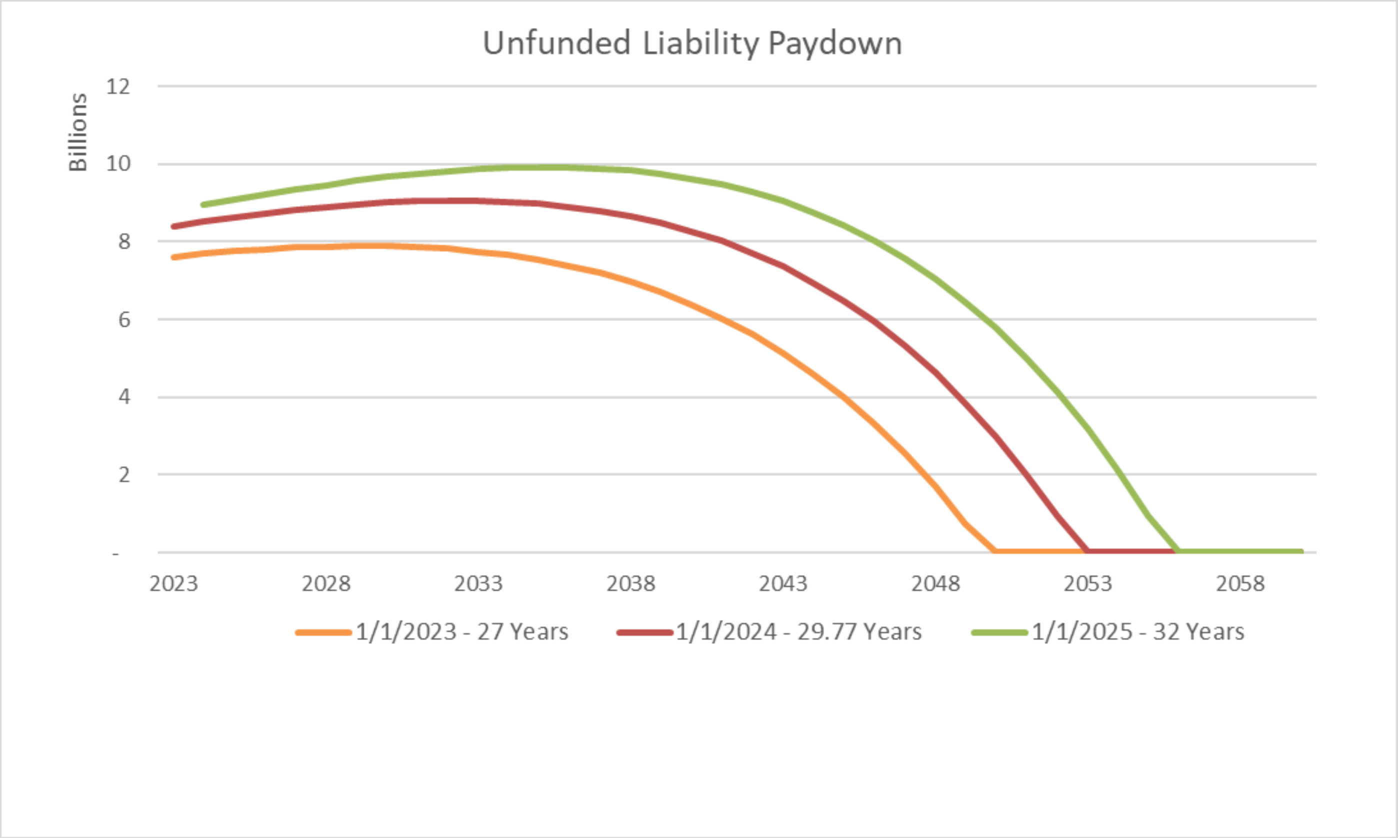
What about favorable 2024 returns?

Actuarial smoothing has delayed recognition of 2022 investment losses, but recovery not strong enough, and 1/1/25 funding period will likely exceed 30



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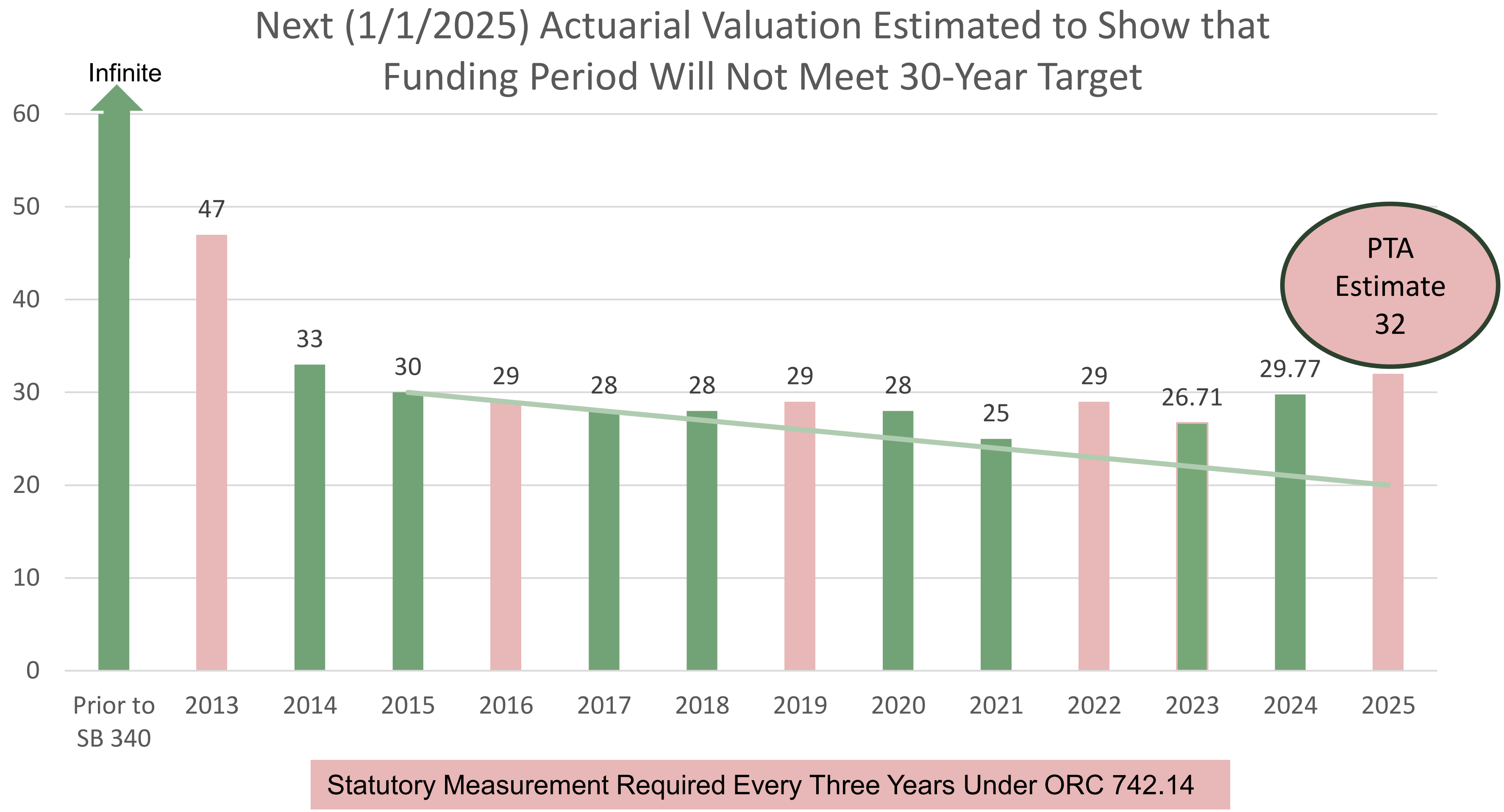

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Concerns with Discount Rate

- OP&F continues to assume 7.50% investment return on plan assets
- This is among the highest of US pensions
  - As of April 2025, OP&F was one of only three (of 131 plans) surveyed by NASRA to use an assumption this high
- Current economic outlook for inflation and bond returns continue to be fairly low
- Based on this, we would expect that OP&F will reduce this assumed rate, which would have substantial impact on funding period
  - Was lowered as of 2022 valuation, so possibly not until 2027 actuarial valuation, following five-year experience study

Conclusions

- OP&F actuaries calculated that 30-year funding met as of January 1, 2024. We concur.

- We do not anticipate that 30-year funding target will be met as of January 1, 2025

- Will the OP&F actuary reduce the 7.5% assumed rate of return in next few years? If so, will have an additional adverse impact on funding period