



140 East Town Street / Columbus, Ohio 43215-5164 / Tel. (614) 228-2975 / www.op-f.org

## **Mary Beth Foley – HB 512 Testimony**

*Ohio House Insurance Committee, March 30, 2022*

Chairman Brinkman, Ranking Member Miranda, members of the committee – On behalf of the Trustees of the Ohio Police & Fire Pension Fund (OP&F) and the 60,000 active and retired first responders they represent, thank you for hearing from us today on this vitally important public safety pension modernization bill. I'm honored to be here representing the men and women of public safety and their families and beneficiaries who make their work possible.

We thank rep Abrams and Rep Baldrige for their sponsorship and their testimony last week.

We are here today to help avoid a funding crisis, and to protect the pensions of our first responders. Too often people come to this body when the horse is out of the barn, the train has left the station or the pot has boiled over. Our Board wishes to give you and our employer partners an early warning that the fund public safety officers rely upon throughout their careers when injured and to assure a retirement with dignity when their careers are over, requires immediate attention.

The great American economy which has fueled our success is headed towards a decade or more of choppy waters. The predicted capital market assumptions for the five, ten- and thirty-year period are below the relied upon 8%. That alone would bring us here. In addition, the pandemic and the civil unrest of the last several years has resulted in higher police and fire retirements and fewer new recruits, as has low or stagnant payroll growth. These factors which are not in the control of our trustees, indicate that the underfunding we have persevered with for years must finally be addressed.

OP&F Members have done their part and more to address the shortfall. Members have absorbed 3.2 BILLION in benefit cuts in recent years to maintain the health of the pension fund in order to provide a stable system for the next generation of police and firefighters. Member contributions were raised 2.25 percent for police and fire. In addition:

- The minimum retirement age was increased four years
- Members have seen their cost-of-living rates tied to the CPI and capped at 3%
- COLAs were eliminated until at least age 55
- Members lost their group insurance plan and were moved to a stipend based HRA to purchase insurance in the marketplace.

Over that same period the municipalities haven't increased their share at all. In fact, we are approaching 40 years since there has been an increase. The last time the employers saw their contribution increase was in 1986. The increase called for in HB 512 amounts to just 1.4 percent per year for police employers and only 0.5 percent per year for fire employers.

The increase we're seeking brings OP&F in line with the Ohio Highway Patrol Retirement system. And even after HB 512 is passed and implemented our member's contribution will be higher than many comparable systems while the employer share will still be lower (please see attached chart).

All that to say – this is a responsible, reasonable solution. It's good government. Working in partnership to avoid a crisis instead of responding to one.

I'll end by addressing one likely question: why now?

The trustees of OP&F have provided excellent stewardship. As of January 1, 2021 we stand at 25 years. We have regularly beaten the return predictions, as the chart in my testimony shows:

10-year periods (ending Dec. 31):			
	Dec. 2009- Dec, 2018	Dec. 2010- Dec.2019	Dec.2011- Dec.2020
10-year actual return (gross)	10.01%	9.95%	9.10%
10-year forecast	7.72%	7.36%	7.11%

We have lived in a good investment market for a long period. A market that was able to correct for challenges like stagnant payrolls resulting in fewer dollars coming into the system. But the market can't be depended upon now for this level of investment income. Our actuarial advisors recently recommended that we lower our assumed rate of return from eight percent to seven-point-five percent. Our five-year review in October of actuarial factors will likely show additional headwinds which the fund will need to be overcome.

The lowering of the assumed rate of return by just one half of one percent takes the funding of our liabilities from 25 years to over 39 years. Investment returns make up 63 percent of our budgeted income. Lowering our expected return by a half of a percent makes a significant difference.

Why now? Because we must address this deficit before it reaches a crisis point. Our members have already sacrificed in HB 340. HB 512 is a reasonable request, especially after a 36 year pause in any increase from employers.

The time is now. I thank you for supporting HB 512.



Mary Beth Foley, Esq.  
Executive Director, Ohio Police & Fire Pension Fund

Attachments: *Legislative fact sheet*  
*Contribution comparison sheet*  
*Letter to ORSC*

## RETURN ON INVESTMENT



\* As of 12/31/2020

Funding period as of 1/1/2021 25 YEARS	
Calculated using the 8.0% assumed investment return	Funding ratio is 71.2 percent
Improvement from 28 years last year	Unfunded liabilities currently \$6.5 billion -if assumptions are met these will eventually be zero in 25 years
Remains in compliance with Ohio's funding requirement	

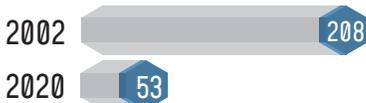
## DISABILITY BENEFITS

In the last 18 years, OP&F has dramatic decreases in disability retirements

### Permanent and Total disability grants



### On-duty partial grants



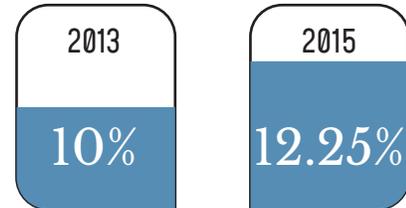
Reasons: Non-disabling conditions not considered in calculations (2013); retiree health care increases (2004); evaluation doctors using newer versions of AMA Guides (2010), psychological testing incorporated into mental health evaluations (2011), and change to a stipend based health care model (2019).

## PENSION REFORM

Enacted in 2012 is working as intended

**\$3.2 BILLION** removed from unfunded liabilities due to changes made in the legislation

### MEMBER CONTRIBUTIONS INCREASED



## COST OF LIVING ADJUSTMENT

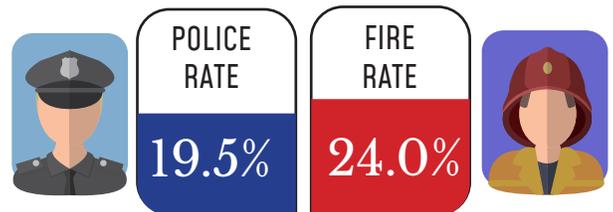
Pension reform in 2012 changed COLAs for OP&F members. **No members receive a COLA until they are age 55\***

(\*Exceptions are P&T disability benefit recipients and survivors)

COLA is matched to the CPI, with a cap of 3.0% for members with less than 15 years of service on 7/1/2013

## EMPLOYER CONTRIBUTIONS

UNCHANGED since 1986



## HEALTH CARE +

+ OP&F continues to contribute a small amount toward retiree health care (0.5 percent of employer contributions)

+ OP&F's move to a stipend based model has extended the life of the health care stabilization fund. The most recent actuarial study conducted as of Jan. 1, 2021 found that implementation of the new stipend model increased the health care fund's solvency to 17 years..

# HOW DO OTHER STATES VALUE FIRST RESPONDERS?

According to data from the National Association of State Retirement Administrators, OP&F's employer contribution rate is well below the median public safety rate. Below are contribution rates of some other systems compared with OP&F.



System	State	Employee Contribution Rate (%)	Employer Contribution Rate (%)	Total Normal Cost (%)
<b>Ohio Police &amp; Fire Pension Fund</b>	<b>OH</b>	<b>12.25</b>	<b>21.12</b>	<b>15.98</b>
Ohio Highway Patrol Retirement System	OH	12.5	26.5	19.1
Police Officers' & Firefighters Retirement Plan	DC	8.0	32.96	31.71
State Police Pension Plan	DE	7.0	24.12	16.89
Miami Police Officers' & Firefighters' Retirement Trust	FL	10.0	35.07	35.39
Municipal Fire & Police Retirement System of Iowa	IA	9.4	26.02	17.53
Municipal Police Retirement System	LA	10.0	38.18	18.85
Firefighters Retirement System	LA	10	36.07	23.68
Kansas City Police Employees' Retirement System	MO	11.55	35.05	26.1
Municipal Police Officers' Retirement System	MT	9.0	43.78	25.78
Omaha Police & Fire Pension System	NE	15.35 (Police) 17.15 (Fire)	33.346	21.99
State Police Retirement System	NJ	9.0	19.08	20.76
Houston Firefighters Relief & Retirement Fund	TX	10.5	31.88	25.8
Houston Police Officers' Pension System	TX	10.5	33.22	24.01

# Ohio Police & Fire Pension Fund

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Feb. 24, 2022

The Honorable Kirk Schuring  
Vice Chair, Ohio Retirement Study Council  
1 Capitol Square  
Senate Building, 2nd Floor  
Columbus, OH 43215

Dear Senator Schuring,

At our Board of Trustees meeting on Feb. 23, trustees unanimously voted to lower our assumed rate of return for our investment portfolio to 7.5 percent. As you are aware, this action was not unexpected and the Board has been carefully monitoring the capital market assumptions for several years. The recent years of positive performance in the markets justified the previous assumed rate of return of 8.0 percent.

Analysts do their best to predict future returns. For the past 10 years lower returns were forecast, *but* OP&F was able to better those predictions and see returns above the 8.0 percent assumed rate (see chart below):

<b>10-year periods (ending Dec. 31):</b>			
	<b>Dec. 2009- Dec, 2018</b>	<b>Dec. 2010- Dec.2019</b>	<b>Dec.2011- Dec.2020</b>
<b>10-year actual return (gross)</b>	10.01%	9.95%	9.10%
<b>10-year forecast</b>	7.72%	7.36%	7.11%

In past years, the Board, working with our OP&F investment staff, investment managers and actuarial experts, did not recommend lowering the rate as many peers did. Our team has met the 8.0 percent target, and with expertise from them and our managers, we have been able to outperform the 8.0 percent rate.

However, reports from these trusted investment advisors now indicate that future expected returns will not support this rate. OP&F's assumed rate of return has been 8.0 percent for more than four years, the date of our last experience study (the next study is scheduled for this year). As of the end of 2020, our annualized return for the previous five years was 9.95 percent (for the last 10 years, it's been 9.1 percent and for 30 has been 8.84 percent).

Currently, we are in compliance with Ohio's 30-year funding requirement. However, moving to an assumed rate of 7.5 percent will have a negative impact. As the Council well knows, though, many additional different assumptions are evaluated when calculating the 30-year funding

period. Therefore, we will not know the new funding period until the next actuarial valuation is conducted and reported to the Board this fall. We write to notify you and the Council, as we expect it will exceed 30 years, as increased retirements, fewer new hires and lower payroll growth may also be issues. The potential negative impacts are one of the reasons OP&F and our stakeholders are pursuing HB 512.

I am available to discuss and review this decision with you and the council and can answer any questions you or they may have.

Best regards,

A handwritten signature in blue ink that reads "Mary Beth Foley". The signature is written in a cursive, flowing style.

Mary Beth Foley, Esq.  
Executive Director

cc: Ohio Retirement Study Council  
Bethany Rhodes, Director/General Counsel, Ohio Retirement Study Council  
Rep. Thomas Brinkman, Chair, House Insurance Committee