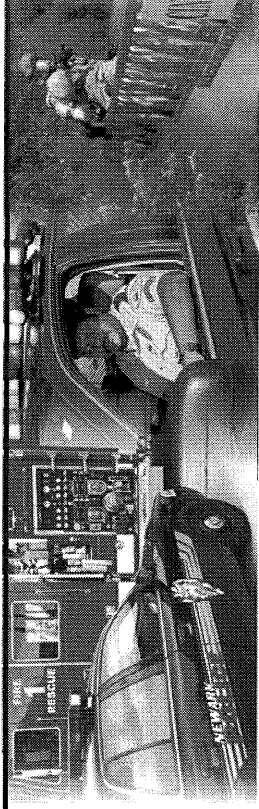


A CRITICAL REVIEW: Achieving 30-year funding

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?

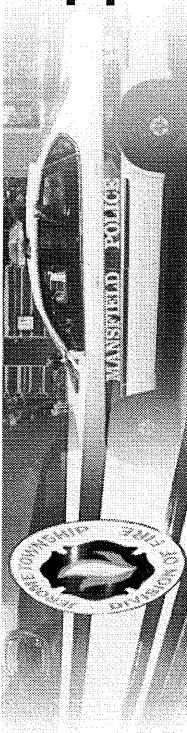
Items that could:

- 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 benefits
- 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 | | UAL Contribution | | 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 | | |
|---|----------------------------|----------|-----------------|----------|------------------|------------------|---------------------------------|----------|--------------------------|----------|--------------------------------|---------------|---------------------|---------------|---|--|-----------------------------|--|--|
| | \$5.08 billion | In nite | 64.7% | In nite | 2.75% | 14.81% | 6.75% | 20 years | 21.56% | 21.56% | 20 years | 21.56% | 21.56% | \$1.2 billion | \$4.17 billion | | | | |
| Proposed Recommendations... (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 | In nite | 64.5% | In nite | 2.59% (5.03%)* | 14.81% (17.25%)* | 6.75% | 20 years | 21.56% (24%)* | 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 | In nite | 64.2% | In nite | 3.38% (5.82%)* | 14.81% (17.25%)* | 6.75% | 20 years | 21.56% (24%)* | 20 years | 21.56% (24%)* | \$190 million | \$2.79 billion | | | | | | |
| Delay Cost of Living Adjustments until age 55 (excluding bene ciaries) | \$4.73 billion | In nite | 66.3% | In nite | 4.61% (7.05%)* | 14.81% (17.25%)* | 6.75% | 20 years | 21.56% (24%)* | 20 years | 21.56% (24%)* | \$860 million | \$1.93 billion | | | | | | |
| Additional Police and Fire Employer contribution increase of 1% | \$4.73 billion | In nite | 66.3% | In nite | 4.61% (8.05%)* | 14.81% (18.25%)* | 6.75% | 20 years | 21.56% (25%)* | 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% | 60 years | 6.11% (9.55%)* | 16.31% (19.75%)* | 5.25% | 15 years | 21.56% (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% | 54 years | 6.23% (9.67%)* | 16.31% (19.75%)* | 5.25% | 15 years | 21.56% (25%)* | 15 years | 21.56% (25%)* | \$120 million | \$1.04 billion | | | | | | |
| Reduce "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% | 45 years | 6.94% (10.38%)* | 16.31% (19.75%)* | 5.25% | 15 years | 21.56% (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% | 43 years | 7.04% (10.38%)* | 16.31% (19.75%)* | 5.25% | 15 years | 21.56% (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% | 39 years | 7.49% (10.38%)* | 16.31% (19.75%)* | 4.80% | 15 years | 21.56% (25%)* | 15 years | 21.56% (25%)* | \$149 million | \$602 million | | | | | | |

* Once contribution increase is fully phased in



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