

Ohio Police & Fire Pension Fund

Benefit Funding Policy & Administration Guide



Ohio
Police
& Fire Pension
Fund

revised April 2012

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Updated April 20, 2012

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Section 1: Benefit Funding Policy

OHIO POLICE & FIRE PENSION FUND BENEFIT FUNDING POLICY (“Policy”)

Adopted November 22, 2000

Last Revised April 20, 2012

I. PURPOSE

This document establishes the goals, objectives, and protocols for the Ohio Police and Fire Pension Fund (OP&F) under the direction of the Board of Trustees (Board) to outline established benefit funding guidelines.

The purpose of this Policy is to:

1. Provide an understanding of the benefit funding goals and objectives;
2. Provide a brief summary of acceptable benefit funding levels; and
3. Articulate OP&F’s requirements on providing statutory and discretionary benefits.

The execution of this Policy shall be accomplished in a manner that fulfills the statutory requirements outlined in Chapter 742 of the Ohio Revised Code and justly represents the entire membership body.

This Policy will be actively managed as part of the decision-making process related to finances, benefits, reserve fund balances, accounting, revenues and expenses to ensure that this policy remains comprehensive and sound. All Policy statements are on a combined basis representing police officers’ and firefighters’, mutually inclusive. This Policy will complement other OP&F policies.

II. GOALS AND OBJECTIVES

A. Financial

OP&F has established the following goals, while not all-inclusive, related to financial requirements of funding benefits:

1. Continue our path toward reducing our funding amortization period and enhancing our funding Policy;
2. Continue to pay all benefits and expense obligations when due;
3. Continue to improve OP&F’s funded status with regard to the accumulated benefit obligation;
4. Control administrative costs and manage assets prudently to maximize the investment rate of return;
5. Control spending through the administrative operating budget;
6. Establish a plan to maintain a 30-year or less amortization period; and
7. Preserve a discretionary health care option for eligible members.

B. Retirement Benefits

Statutory benefits will be considered sufficiently funded if the:

1. Amortization period of the Unfunded Actuarial Accrued Liability is 30 years or less in the year of the actuarial valuation: and
2. The Actuarial Accrued Liability funded status of the assets is at a percentage deemed prudent by the Board or is greater than or equal to 95%; and
3. All actuarially determined, deferred investment gains and losses are fully smoothed into the actuarial value of assets in the year of the actuarial valuation. This means the calculations will be done both based on the Actuarial Value of Assets and the Market Value of Assets.

If all the above conditions are not met, the Board will monitor all financial components to determine if changes in plan provisions should be considered. In addition, when “Section 1” above alone is not met, the Board must approve a written plan to achieve compliance and submit that plan to the General Assembly as required.

If all of the above conditions are met, the Board may then consider recommending to the General Assembly benefit enhancements and/or contribution reductions or make contribution allocation changes. This would be done based on Board priorities.

Prior to any recommendations for benefit changes being presented to the General Assembly, an actuarial analysis and a full understanding of the short-term and long-term financial effects on the change will be completed by the actuary. In addition, recommended benefit changes will be submitted to the General Assembly not later than sixty days from the date of introducing the legislation for changes as required by law.

C. Health Care Benefits

Health care benefits are not statutorily mandated; however, the goal of the Board is to provide access to these benefits to both current and future members and survivors and their eligible dependents, according to the terms of the Health Care Plan. The funding goal for the Section 115 Health Care Trust Fund, which is not considered to be pre-funded, will be sufficiently funded if:

1. It is forecasted to be solvent for at least a fifteen-year future projection period (which means that the current balance can sustain the aggregate of the next fifteen years of projected net cash flows as determined by the actuary).

There are no requirements to fund future projected health care benefits at any set level; rather, these costs must be measured and disclosed as required as long as health care plan benefits are offered.

Section 2: Summary of Funding Administration

SUMMARY OF FUNDING ADMINISTRATION

This summary will provide an overview related to the following stakeholder/individuals to pursue action on the following items, which is not all-inclusive. The division of responsibilities and action of these items helps to ensure the effective execution of the Policy.

The Ohio General Assembly

- Establish contribution rates for active members and employers to ensure funding adequacy levels are maintained as appropriate;
- Set Cost of Living Adjustment (COLA) percentages;
- Perform contribution rate adequacy studies on an annual basis;
- Perform an independent fiduciary audit on request or at least once every ten years;
- Review 30-year Funding Plans (if applicable); and
- Review OP&F Annual Budget.

The Board

- Set the actuarial valuation interest rate percentage;
- Authorize investment transactions as a fiduciary, based on the prudent person standards and Board established guidelines;
- Work with Investment Consultants' to conduct an asset liability valuation study and investment structure reviews;
- Target the highest level of investment return within an acceptable framework of risk and return expectations;
- Set the interest rates on various benefit transactions;
- Report every two years to the General Assembly on the condition of the retirement system;
- Establish the amount of OP&F's health care subsidy on an annual basis, consistent with OP&F's health care funding policy;
- Establish the percentage of employer contributions allocated to the health care accounts;
- Make recommendations to the General Assembly related to contribution rates to assist in funding objectives and requirements;
- Establish Board Committees and OP&F staff action items and guidelines to execute the benefit funding plan;
- Establish the rate at which Medicare Part B will be reimbursed; and
- Maintain comparable prescription drug program within federal guidelines to maintain eligibility for the Medicare Part D subsidy.

Professional Services (Consultants, Custodians, Counsel, Actuaries & Auditors)

OP&F either retains the service of or has appointed qualified outside organizations to perform professional services on behalf of the Board in specialized areas as listed below.

- Perform an independent external financial statement audit on an annual basis and issue an opinion, which will be incorporated within the Comprehensive Annual Financial Report (Currently selected by the Auditor of State);

- Perform an actuarial valuation of the assets, liabilities and funding requirements on an annual basis and submit the report to the General Assembly (This is conducted by our current actuary);
- Review actuarial assumptions on a Quinquennial, every 5 years basis (This is conducted by our current actuary);
- Perform an actuarial cost and financial impact analysis on potential legislation and plan provision changes (This is conducted by our current actuary);
- Conduct a cost neutrality study for DROP at least every 5 years to determine the status of the program and recommend changes to the Board as necessary (This is conducted by our current actuary);
- Perform an actuarial audit at least once every 10 years (This is performed by outside actuary);
- Perform asset liability valuation study and investment structure review every 3-5 years or as needed (This is completed by current investment consultant); and
- Implement new accounting standards as required.

OP&F Staff – Action Items

- Implement the Board approved asset liability valuation study and investment structure review recommendations;
- Provide an adequate cash management function to ensure funds are available to pay benefits and operating costs when due;
- Prepare an annual health care report;
- Prepare reports on disability experience, ethics and other areas as required to monitor events;
- Manage transaction flows among the established reserve and trust funds;
- Allocate administration expenses to the health care trust fund each year in accordance with Government Accounting Standards Board pronouncements;
- Request state subsidy payments in accordance with requirements;
- Seek out cost saving efforts related to health care costs and behaviors;
- Make plan provision recommendations; and
- Ensure appropriate internal controls and accounting and financial reporting on all fund balances and financial transactions.

OP&F Staff - Compliance and Monitoring Functions

The following functions, while not all-inclusive, will be monitored in connection with the goals and objectives of the Benefit Funding Policy.

- Monitor the costs of the administrative operating and capital budget;
- Monitor all revenue sources and monies due and payable to ensure receipts are made;
- Monitor and maintain appropriate levels of administrative insurance;
- Investment income to the health care funds will be on a prorated basis at a rate equal to the actual return on investments;
- Maintain a segregated Internal Revenue Service (IRS) Code Section 401(h) account for Medicare Part B reimbursements;
- Maintain a segregated IRS Code Section 115 trust for accrual of health care fund financial activities;

- Ensure Medicare Part D subsidies are credited to the Section 115 health care trust;
- Ensure revenues and expenses are projected based on objective forecasting assumptions each year as part of the budget process to monitor anticipated changes;
- Ensure proper levels and types of collateral are maintained on all loaned investment securities;
- Safeguard all assets on deposit with the named custodial agent;
- Continue to seek alternative vehicles for medical/prescription savings needs;
- Ensure proper agency administration of the State of Ohio Public Safety Officers Death Benefit Fund in accordance with statute;
- Remain compliant with the IRS for qualified plan status;
- Comply with court orders and applicable statutory provisions on member and survivor benefits; and
- Maintain all accounting and financial reporting systems in conformity with Generally Accepted Accounting Principles .

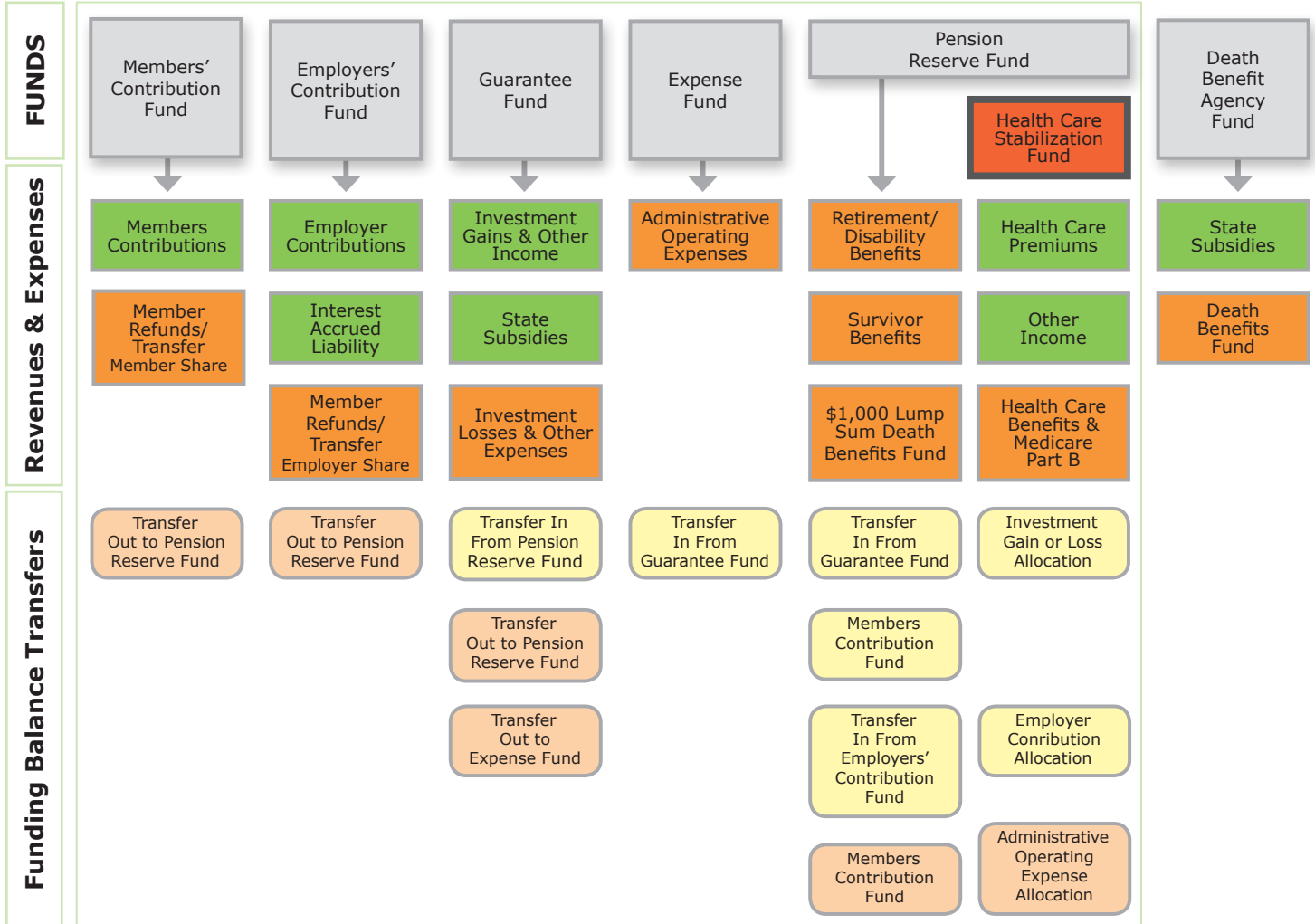
Section 3: Overview of Funding Structure & Reserve Funds

FUND STRUCTURE & RESERVE FUNDS

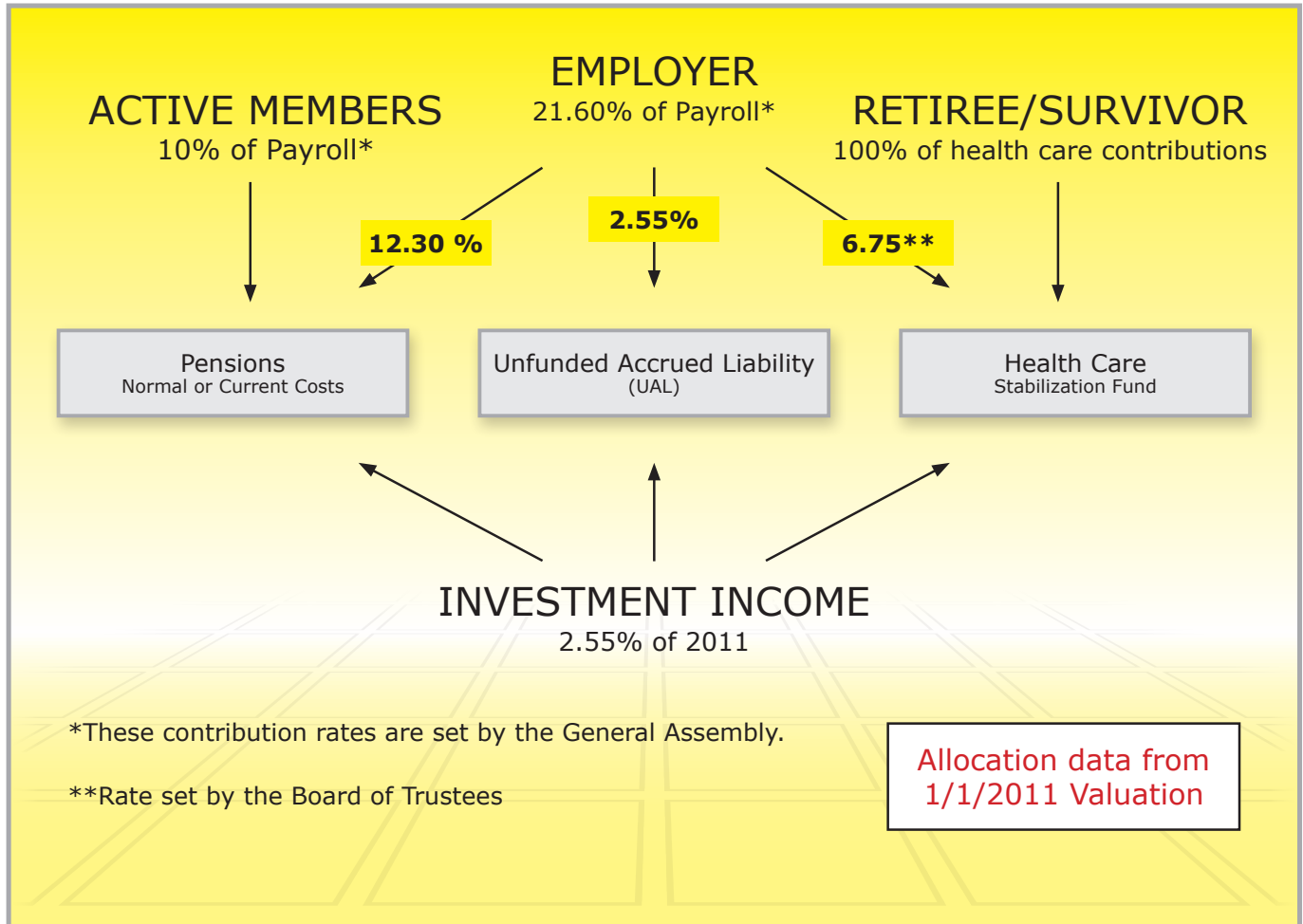
OP&F is required to properly maintain fund balances and reserves as follows:

- **Ohio Public Safety Officers Death Benefit Fund**
Fund shall be credited contributions paid by the state and any moneys resulting from gifts made to the fund.
- **Police Officers' Contribution Fund**
Fund shall be credited the contributions from the salaries of members of police departments and shall be transferred at the member's retirement from the police officers' contribution fund to the police officers' pension reserve fund.
- **Firefighters' Contribution Fund**
Fund shall be credited contributions from the salaries of members of fire departments and shall be transferred at the member's retirement from the firefighters' contribution fund to the firefighters' pension reserve fund.
- **Police Officers Employers' Contribution Fund**
Fund to which the police officer employers' contributions shall be accumulated, the reserves held in trust for the payment of all pensions or other benefits of members of a police department retiring in the future or their qualified beneficiaries and from which the reserves for such pensions and other benefits shall be transferred to the police officers' pension reserve fund.
- **Firefighters Employers' Contribution Fund**
Fund to which the firefighter employers' contributions shall be accumulated, the reserves held in trust for the payment of all pensions and other benefits of members of a fire department retiring in the future or their qualified beneficiaries and from which the reserves for such pensions and other benefits shall be transferred to the firefighters' pension reserve fund.
- **Police Officers' Pension Reserve Fund**
Fund from which all pensions and other benefits shall be paid.
- **Firefighters' Pension Reserve Fund**
Fund from which all pensions and other benefits shall be paid.
- **Health Care Stabilization Fund – Section 115 Trust and Section 401(h)**
Fund to which appropriate revenues and expenses related to the health care and prescription drug benefits (Section 115 Trust) and mandated Medicare Part B reimbursements (Section 401(h)), sponsored by OP&F, are tracked.
- **Guarantee Fund**
Fund from which interest is transferred and credited and is a contingent fund from which the special requirements of said funds may be paid by transfer from this fund. All income derived from the investment of funds, together with all gifts and bequests or the income there from, shall be paid into this fund.
- **Expense Fund**
Fund from which shall be paid the expenses for the administration and management of OP&F.

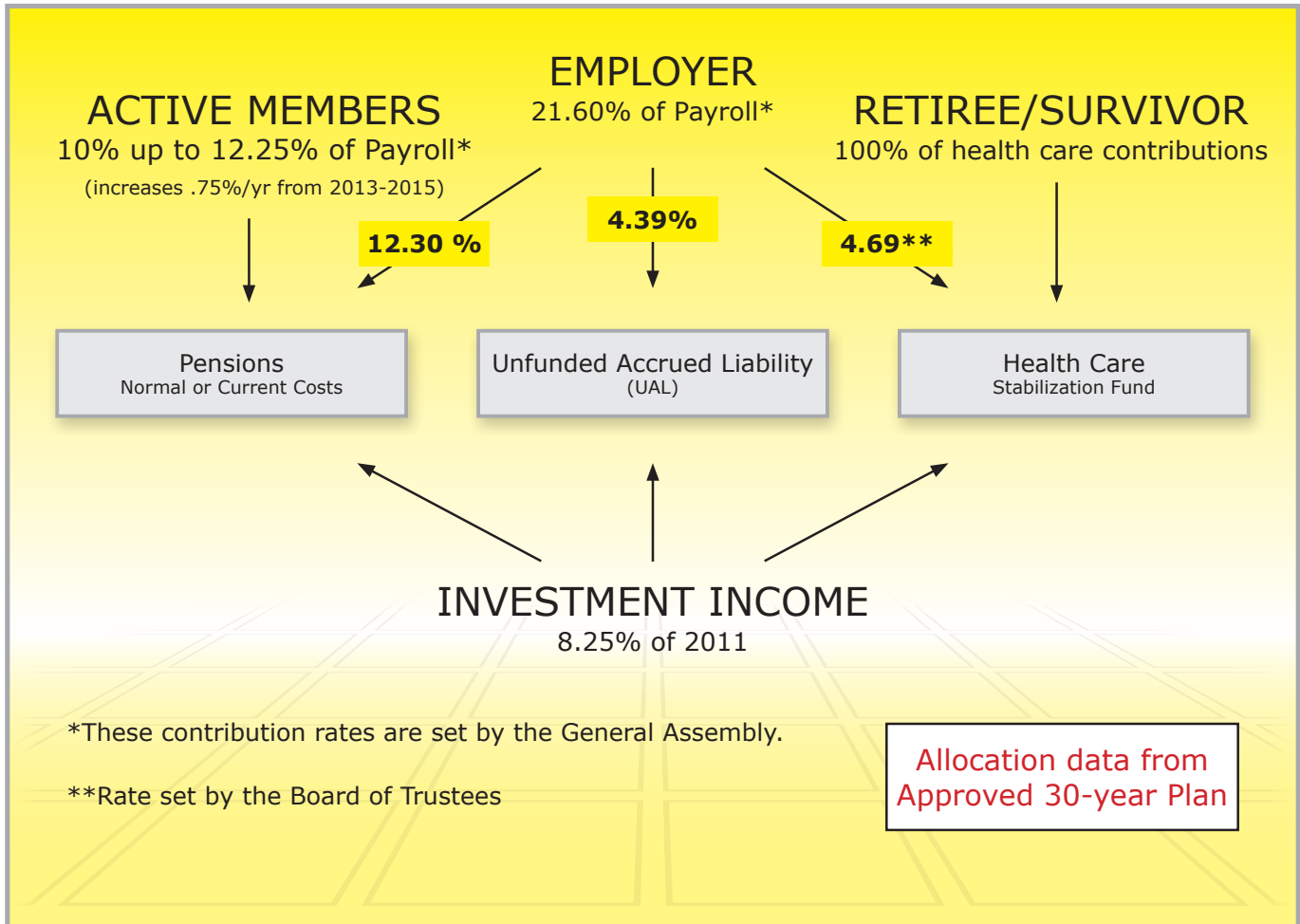
Police Officers' & Firefighters' Reserve Funds



Contribution Allocation



Contribution Allocation



Section 4: Summary of Benefits

Summary of Benefits

Retirement Pensions/Benefits - Statutory

- Service
 - o Normal
 - o Service Commuted
 - o Age/Service Commuted
- Disability
 - o Duty Related
 - Permanent and Total Disability
 - Permanent and Total Disability (Presumptive)
 - Partial Disability
 - Partial Disability (Presumptive)
 - o Off-Duty
- Survivor
 - o Statutory/Survivor Benefit
 - Widow, widower
 - Minor child
 - Student
 - Dependent Disabled Child
 - Dependent parents
 - o Payment Plans
 - Single Life Annuity
 - Joint and Survivor Annuity
 - Life Annuity Certain and Continuous
 - o Pre-Retirement Survivor Annuity
 - o \$1,000 Lump Sum Death Payment
 - o Ohio Public Safety Officers Death Benefit Fund – **Agency Fund**
 - In line of Duty for all public safety officers in OP&F, Ohio Public Employees Retirement System, Cincinnati Retirement System, and Ohio State Highway Patrol Retirement System, provided by the State of Ohio
- Re-employed Retiree
- DROP

Other Benefits - Statutory

- Medicare Part B reimbursements
- COLA
- Ad Hoc

Health Care – Non-Statutory

- Medical coverage
- Medicare wrap around coverage
- Prescription drug
- Voluntary Supplemental dental
- Voluntary Supplemental vision
- Voluntary Supplemental long-term care