FROM: Steven Stockstill
DATE: May 17, 2022

IMPORTANT
FIREFIGHTERS' RETIREMENT SYSTEM (FRS)

Valued Retirees: This memo is to provide further information about the financial health of your retirement system and the status of cost-of-living adjustments (COLAs). There has been a lot of information about the system having earned a record amount of interest on its investments last year. You have not been forgotten. Thanks for your consideration of these points-

- COLAs were not granted this year, but that <u>does not mean</u> COLAs will never be granted.

- The system did earn $54 million above the yearly break-even cost. The COLA would cost the system $40 million and would cause the employer contribution to go up 1.45%. Their contribution rate has already gone from 9% to 33.75% of payroll. The employers say that, if there are more increases, they won't be able to pay into the system. If employers cannot afford paying, then everyone's benefits are in jeopardy, including current and future retirees. For that reason, the FRS actuary recommended against paying a COLA and, instead, said the board should use the surplus in other ways to further protect the system against future investment losses.

- In the last quarter of 2021 the actuarial valuation was considered by the FRS board. That is when a COLA decision was made. The very next quarter (Jan-Mar 2022) the system portfolio lost $100 million mainly due to the war in Ukraine which spooked the capital markets along with inflationary concerns. If a COLA had been granted, then FRS would have obligated itself to a $40 million debt in one quarter and then lost $100 million in the next. Yes, there was a $54 million surplus, but compare that to the $100 million loss, and that stacks on top of the $523 million overall unfunded liability of the system.

- The actuary uses two ratios to measure the health of the system showing that FRS is either 80.56% or 78.76% depending on which one is being used. These ratios indicate that FRS is adequately funded to pay promised benefits. Each year, when the actuary reports to the board, he is asked if FRS is financially sound in his professional opinion. Each year he says "yes" as long as the trend is going in the right direction. The trend shows FRS steadily getting healthier.

- If you would like additional information, please refer to the FRS website (ffret.com). On the left side of the page is a link to "Retiree COLAs". There is: (1) A chart showing that every major investment category is suffering losses as of the end of April 2022, (2) An article titled "Despite historic 2021 returns, many public pension plans are wisely preparing for lower investment returns", and (3) A chart showing the payoff schedule of the system's unfunded liability meaning that, as the debt is paid off, the employer rate should start going down, which strengthens the ability to grant future COLAs.

Steven Stockstill

From:	John Broussard [redacted]
Sent:	Thursday, April 28, 2022 11:59 AM
To:	Ashley Vicknair; Perry Jeselink; Gerard Tarleton; Stacy Birdwell; Louis Romero; Louis "Buddha" Romero [redacted] Mayor Ronny Walker [redacted] Mayor David Amrhein
Cc:	Steven Stockstill; Ben Johnson
Subject:	[ExtEmail]RE: 2022-2023 Conference Memo

With one day to go in the month of April, it's not looking like a good one.

Name	Ticker	Last	Change Today	% Chg Today	% MTD	1M Tot Ret	3M Tot Ret
U.S. STOCK INDICES							
DOW JONES INDUS. AVG	INDU	33773.98	472.05	1.418	-2.6079	-3.319	-2.2821
S&P 500 INDEX	SPX	4257.77	73.81	1.764	-6.018	-6.985	-3.7206
NASDAQ 100 STOCK INDX	NDX	13340.15	336.79	2.590	-10.0977	-10.992	-7.5714
NASDAQ COMPOSITE	CCMP	12757.63	268.7	2.151	-10.2872	-11.129	-7.2180
RUSSELL 3000 INDEX	RAY	2462.133	38.471	1.587	-6.4441	-7.343	-3.9021
RUSSELL 1000 INDEX	RIY	2343.252	37.971	1.647	-6.3184	-7.242	-3.9175
RUSSELL 2000 INDEX	RTY	1896.087	12.049	0.640	-8.4071	-8.920	-3.6431
Wilshire5000 TMI FullCap	W5000	42520.78	663.46	1.585	-6.7663	-7.758	-4.3880
CRSP US Total Market	CRSPTM1	3093.302	54.175	1.783	-6.32	-7.113	-3.6572
FTSE INTERNATIONAL STOCK INDICES							
FTSE ALL-WORLD INDEX	FTAW01	436.89	5.58	1.294	-6.8485	-6.7269	-5.5333
FTSE ALL-WORLD EX US IDX	FTAW02	305.62	2.17	0.715	-7.514	-5.7280	-7.4207
FTSE DEVELOPED	FTAD01	441.56	5.81	1.333	-6.8006	-6.8642	-5.0193
FTSE ALL-WORLD DEV X US	FTAD02	287.43	1.82	0.637	-7.5966	-5.8602	-6.6418
FTSE Developed Europe	FTAD06	263.91	1.56	0.590	-7.31	-5.0400	-8.4488
FTSE All-Wrld Dev AP	AWDPAC	283.09	0.88	0.310	-8.52	-7.0784	-5.8710
FTSE Emerging Index	FTAG01	537.87	4.64	0.870	-7.2398	-5.6790	-10.1847
CITI BOND INDICES							
US Broad IG (USBIG)	SBBIG	1763.715	-4.367	-0.25	-3.31	-2.3251	-7.1314
WGBI USD	SBWGU	905.4513	-6.8207	-0.748	-5.2846	-3.9703	-9.5366
EuroBIG Index	SBEB	229.7712	-0.379	-0.165	-2.4501	-2.3139	-6.9767
Eurodollar Index	SBEID	419.6249	-1.9596	-0.4648	-4.092	-3.0154	-8.5314

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British statesman Winston Churchill once wrote, "Those that fail to learn from history are doomed to repeat it."

From: Ashley Vicknai[redacted]
Sent: Wednesday, April 27, 2022 1:22 PM
To: Perry Jeselink [redacted]

Despite historic 2021 returns, many public pension plans are wisely preparing for lower investment returns - Reason Foundation

Despite historic 2021 returns, many public pension plans are wisely preparing for lower investment returns

Public pension plans also need to resist the temptation to use last year's one-off, one-year investment return windfalls to fund new benefits like higher cost-of-living adjustments.

Last year, investment returns for public pension systems hit record highs. The median return for state-managed plans was 27% in 2021. Despite beating investment return targets by 20% in 2021, many public pension plans are now taking the opportunity to reduce their investment risks by lowering investment return rate assumptions to more realistic long-term growth rates.

Using the latest capital market assumptions from established financial firms, Reason Foundation's Pension Integrity Project built a portfolio simulation tool, which gives an idea of the range of returns that financial experts are expecting for pension funds for the next few decades. For a portfolio representative of the national average public pension system, median investment return projections in the tool fall in the range between roughly 4.5% and 7.5%. Four out of six market projections provide a median compound annual growth rate of less than 6%.

Setting a pension plan's assumed rate of return at a lower, more achievable target lowers the likelihood of accruing unfunded liabilities—debt—in the future. Assumed rates of return are used to project out asset growth. When a plan's expected return rate is too high and it fails to meet investment projections, the plan accumulates unfunded liabilities due to the lower-than-forecast returns. Several public pension plans have wisely lowered their assumed rates of return to reflect the long-term forecasts and reduce the potential for accruing debt.

In 2021, the New York State Common Retirement Fund lowered its assumed rate of return by nearly a percent, from 6.8% to 5.9%. The Maryland State Retirement and Pension System lowered its expected return rate 60 basis points to 6.8%, and dozens of other public pension plans have dropped their investment return assumptions by at least a quarter-point since last year.

The Ohio State Teachers Retirement System (STRS) lowered its investment return assumption by nearly half a percent, but STRS is now exploring an expansion of its cost-of-living adjustment (COLA) which would immediately burden the fund with more debt.

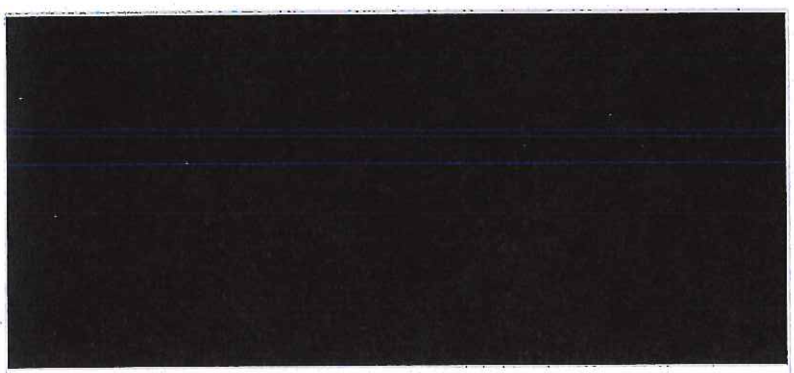
On Jan. 27, the pension board's actuary presented the cost of a 2% COLA, which would add nearly $14 billion in liabilities (increasing the plan's unfunded liabilities by 66%). Currently, STRS is not in the position to add to its liabilities. The Ohio State Teachers Retirement System has an 80.1% funded ratio, meaning it has just 80 cents for every dollar it already knows is needed to pay for the pension benefits that have already been promised to current and future retirees.

Since these funding measurements are based on return assumptions that are likely underestimating the system's funding gap, Ohio's pension system may be worse off than is currently being reported. In the same Jan. 27 board meeting, the plan's investment consultant projected that the "10-year return for STRS Ohio's current asset mix is 6%." While the rate was recently lowered, the plan's assumed rate of return remains at 7%, which is a full percentage point higher than its own consultant's projection.

Last year's strong returns should not be misread. Many pension plans, like Ohio STRS, are still in a fragile financial position. During the Great Recession of 2007-2009, the Ohio teachers plan's funded ratio dropped from 79.1% funded to 60% in one year—and kept declining until 2013. When the COVID-19 pandemic hit, a Great Recession-like scenario loomed. While there was a steep sell-off in the second quarter of 2020, asset prices were buoyed by the federal government's unprecedented fiscal and monetary intervention.

We are, unfortunately, sitting in an economically uncertain time. Consumer sentiment is lower today than it was in April 2020. Although unemployment is approaching pre-pandemic rates, labor force participation is 1.2% lower than it was in February 2020. Uncertainty regarding the pandemic, supply chains, and inflation remain.

In markets, the S&P 500's 10-year price-to-earnings ratio is reaching a level not seen since the tech bubble. While policymakers certainly need to be careful extrapolating historic results to predict the future, an analysis of annual market growth going back to 1979 demonstrates that 2021's phenomenal investment returns were quite clearly an exception, not the rule.



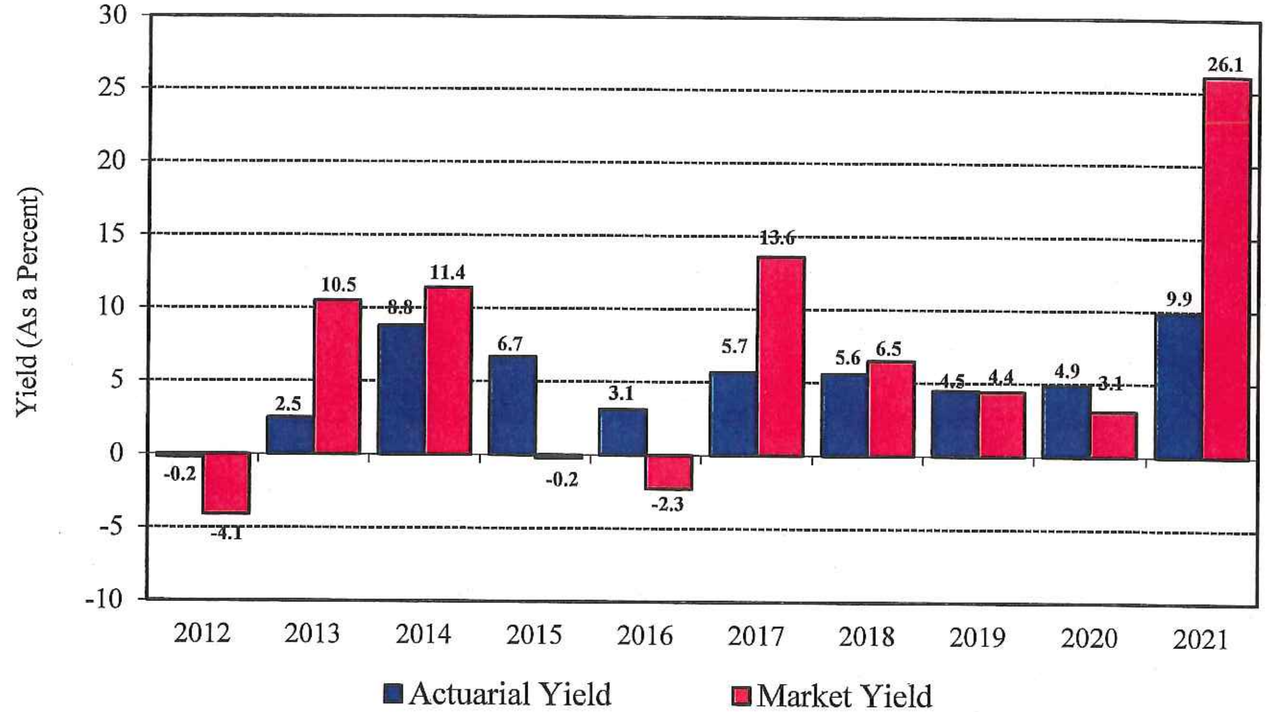
Price/Earnings Analysis Indicates Stock Market is Overvalued

The P/E ratio of the S&P500 shows that the market is currently 70% overvalued compared to historical norms.

The great investment returns in 2021 can be seen as an example of the upside of markets, but public pension plan administrators also need to be fully prepared for the downsides. Public pension systems can largely avoid burdening taxpayers with unforeseen debt and putting workers' retirement plans in jeopardy in the future by continuing to lower their assumptions on investment returns to better match the consensus 20-year forecasts of market experts.

Public pension plans also need to resist the temptation to use last year's one-off, one-year investment return windfalls to fund new benefits like higher cost-of-living adjustments. Investment returns like those of 2021 are very unlikely to occur with very much consistency or regularity. While 2021 was a great help to improve the funded ratios of most public pension plans, those types of years should be viewed as times to help buoy public funds so they are better prepared for the market's similarly unpredictable down years.

Historical Asset Yields



Frozen Unfunded Actuarial Accrued Liability