



Bob Bennett

Bill Analysis
Legislative Service Commission

H.B. 655

123rd General Assembly
(As Introduced)

Rep. Schuring

BILL SUMMARY

- Changes the method by which annual cost of living allowances (COLAs) are calculated for persons receiving them from the Ohio Police and Fire Pension Fund.
- Provides that, instead of a percentage based on an increase in the Consumer Price Index, the percentage used to calculate each COLA is 3%.

CONTENT AND OPERATION

Overview

Current law

Under current law, the Ohio Police and Fire Pension Fund (OPFPF) provides an annual cost of living allowance (COLA) to certain persons who are receiving one of the following: (1) disability benefits or a retirement allowance, including an allowance paid under an optional benefit plan, (2) a pension as the surviving spouse of a member, or (3) a pension as the surviving child or surviving dependent parent of a member. The basis on which the COLA is calculated varies depending on which of the foregoing categories the recipient is in and, in the case of recipients of a disability benefit or a retirement allowance, when the benefit or allowance was awarded. In all cases, however, the percentage used to calculate the COLA is the average increase in the Consumer Price Index for the preceding year, except that the percentage cannot exceed 3%. For years that the CPI exceeds 3%, the percentage above 3% is accumulated for persons (other than surviving spouses) then receiving a COLA and used to increase their COLAs when the applicable CPI is less than 3%. For recipients who do not have an accumulation, the percentage used is the lesser of the CPI percentage change or 3%.

The CPI percentage used in the calculation of COLAs is determined by the OPFPF Board of Trustees. The Board is required by current law to determine by April 15 of each year the average percentage change in the CPI prepared by the United States Bureau of Labor Statistics for the 12-month period prior to the first day of January over the next preceding 12-month period.

The bill

The bill makes the percentage used in calculation of each COLA granted by OPFPF 3%. The CPI percentage is no longer to be used and accumulated points are no longer to be applied. As under current law, no increase may be granted that will cause a pension or benefit to exceed a limit established in the Internal Revenue Code for public pensions.

COLA recipients and calculation

The current recipients of COLAs granted by OPFPF and the effect of the bill on calculation of the COLAs are described below.

Recipients of disability benefits and retirement allowances

A member receiving a disability benefit or retirement allowance and the beneficiary of a member who elected to receive the allowance or benefit under an optional benefit plan receive a COLA, unless the member elected to have the pension or benefit calculated using the member's terminal pay.¹ An optional benefit plan is one in which the member chooses a reduced benefit or allowance for life with a benefit or allowance continuing after the member's death to a surviving beneficiary.

July 24, 1986 (sec. 742.3716). COLAs were initially granted under OPFPF to members receiving a disability benefit or retirement allowance that was based on an award made on or after July 24, 1986. At the time the COLA was established, OPFPF law was amended to discontinue the practice of including terminal pay in the calculation of OPFPF disability benefits and retirement allowances. "Terminal pay" was the term used for payments made at the end of a member's active service for unpaid sick leave, vacation, and overtime. However, members with 15 or more years of active service on January 1, 1989, were permitted to elect to have terminal pay used in the calculation of the benefit or allowance in lieu of receiving a COLA. This election made the member who made

¹ In OPFPF, a person receiving a disability benefit or retirement allowance is still considered a member of the Fund.

it, and any beneficiary receiving a benefit or allowance under an optional benefit plan, permanently ineligible for a COLA.

For recipients eligible for a COLA based on a disability benefit or retirement allowance award made on or after July 24, 1986, including receipts receiving the benefit or allowance under an optional benefit plan, current law provides that the COLA is calculated by multiplying the recipient's benefit or allowance by the percentage increase in the CPI, up to 3%.² The bill provides that 3% is to be used instead of the CPI increase.

Pre-July 24, 1986 (secs. 742.3711 and 742.3717)

After a COLA was authorized for eligible recipients receiving a disability benefit or retirement allowance based on an award made on or after July 24, 1986, legislation was enacted authorizing a COLA for certain recipients of benefits or allowances for which the award was made before July 24, 1986. However, instead of a percentage of the recipient's initial benefit or allowance, the COLA is a percentage of \$12,000. Therefore, under current law, OPFPF members receiving a disability benefit or retirement allowance based on an award made before July 24, 1986, receive a COLA determined by multiplying \$12,000 by the CPI percentage (up to 3%). The bill changes the COLA to \$360, which is 3% of \$12,000. Members and beneficiaries receiving a benefit under an optional benefit plan receive the "actuarial equivalent" of \$360. That is, they receive an amount that is adjusted because the benefit or allowance initially awarded continues beyond the member's life.

Surviving spouses

(secs. 742.37 and 742.3718)

The surviving spouse of an OPFPF member receives a monthly pension of \$550. This pension is separate from any benefit or allowance the spouse receives under an optional benefit plan. On July 1, 2001, and July 1 of each year thereafter, the monthly pension increases by the product of \$550 multiplied by the lesser of the average change in the CPI or 3%. Under the bill the increase each year is \$16.50 per month, which is 3% of \$550.

² *The benefit or allowance on which a recipient's first COLA is calculated continues to be the base for future COLAs unless a new base is established, which occurs only if the General Assembly authorizes an increase in the benefit or allowance.*

Surviving children and dependent parents

(sec. 742.3720)

Effective July 1, 2000, a surviving child or surviving dependent parent receiving an OPFPF pension receives a COLA based on the increase in the CPI.³ The amount of the COLA is the lesser of the CPI increase or 3%. Under the bill the COLA is 3%.

HISTORY

| ACTION | DATE | JOURNAL ENTRY |
|------------|------------|---------------|
| Introduced | 04-11-2000 | p. 1798 |

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³ *The pension for a surviving child is \$150 per month. For a surviving dependent parent, it is \$100.*