Bill Analysis

Deborah B. McCarthy *Legislative Service Commission*

H.B. 157

124th 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 Ohio's state retirement systems.
- 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, each of Ohio's state retirement systems provide an annual cost-of-living allowance (COLA) to eligible persons who are receiving an allowance, pension, or benefit from the system.[1] Eligibility for and the basis on which the COLA is calculated differ for each system. In all cases, however, the percentage used to calculate the COLA is the average percentage 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 and used to increase the COLA when the applicable CPI percentage

[1] Ohio's state retirement systems are the Public Employees Retirement System (PERS), Ohio Police and Fire Pension Fund (OP&F), School Employees Retirement System (SERS), State Teachers Retirement System (STRS), and State Highway Patrol Retirement System (SHPRS).

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%.[2]

The CPI percentage used in the calculation of a COLA is determined by each system's board. Each 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 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 an allowance, pension, or benefit to exceed the limit established in the Internal Revenue Code.[3]

COLA RECIPIENTS AND CALCULATION

Eligibility for a COLA and the method by which it is calculated differs for each state retirement system. COLA recipients and the effect of the bill on the calculation of a COLA are described below.

PERS, SERS, and STRS

(secs. 145.323, 3307.67, and 3309.374)

Under current PERS, SERS, and STRS law, each recipient of an allowance, pension, or benefit who has been a recipient for at least 12 months is eligible for a COLA. The bill continues these provisions but makes the percentage used in the calculation of each COLA granted by PERS, SERS, or STRS 3%.

SHPRS

(sec. 5505.174)

Current SHPRS law provides that the following persons are eligible for a COLA:

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[2] The allowance, pension, or benefit 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.

[3] 100 stat. 2085, 26 U.S.C.A. 415, as amended.

(1) Persons age 53 or older who have been receiving an age and service retirement pension or disability benefit for at least 12 months;

(2) Persons who have been receiving a disability benefit for at least 60 months regardless of age;

(3) Surviving spouses, surviving children, or dependent parents who have been receiving a pension for at least 12 months.

The bill retains these eligibility provisions but makes the percentage used in the calculation of each COLA granted by SHPRS 3%.

OPFPF

Recipients of disability benefits and retirement allowances

(secs. 742.3711, 742.3716, and 742.3717)

An OPFPF 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.

July 24, 1986. 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. A member who made the election, and any beneficiary receiving a benefit or allowance under an optional benefit plan, are 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 recipients 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%.[4] The bill provides that 3% is to be used instead of the CPI increase.

<u>Pre-July 24, 1986</u>. 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.

<u>Surviving spouses</u>

(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.

<u>Surviving children and dependent parents</u>

(sec. 742.3720)

A surviving child or surviving dependent parent receiving an OPFPF pension receives a COLA based on the increase in the CPI.[5] The amount of the COLA is the lesser of the CPI increase or 3%. Under the bill, the COLA is 3%.

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[4] *An optional benefit plan is one in which the member chooses a reduced retirement allowance for the member's life with an allowance continuing after the member's death to a surviving beneficiary.*

[5] *The pension for a surviving child is $150 per month. For a surviving dependent parent, it is $100.*

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	03-13-01	pp. 220-221

h0157-i.124/kl