Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL:	**Sub. H.B. 194**	DATE:	**November 16, 1998**
STATUS:	**As Reported by House Health, Retirement and Aging**	SPONSOR:	**Rep. Vesper**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Makes various changes to the Police and Firemen's Disability and Pension Fund (PFDPF)**

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
PFDPF			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Increase due to one-time payments for certain pensions	Increase due to increased benefits

- The proposed increase in benefits would result in a $79.7 million increase in the unfunded actuarial accrued liabilities (UAAL) for PFDPF. According to an actuarial analysis conducted by Milliman and Robertson, Inc., the increased benefits could be financed without any increase in contribution rates and within the statutory limitations set by S.B. 82 in the 121st General Assembly.

- The bill would also provide one-time-only payments to increase certain pensions as if the bill had taken effect on January 1, 1998.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1998	FY 1999	FUTURE YEARS
Municipalities			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Net decrease	Net decrease

- No direct fiscal effect on political subdivisions from the benefit increases, since the increase in UAAL can be covered without an increase in the contribution rate. However, this action, if combined with other factors affecting financial viability, could increase pressure on future contribution rates.

- The bill would permit municipal corporations to enter into agreements with other municipal corporations in order to issue special obligation securities for the purpose of providing some or all of the funds required to satisfy the municipal corporation's obligation to PFDPF. While issuing debt would increase debt service payments, these payments would be offset by reduced interest payments to PFDPF.

Ohio Legislative Budget Office: *a nonpartisan agency providing fiscal research for the Ohio General Assembly*
77 South High Street, 8th Floor, Columbus, OH 43266-0347 ✧ Phone: (614) 466-8734 ✧ E-mail: BudgetOffice@LBO.STATE.OH.US

Detailed Fiscal Analysis

The bill provides benefit enhancements for surviving spouses, surviving children and dependent parents of Police and Fire Disability and Pension Fund (PFDPF) members; increases pensions for current retirees to minimum of $550 per month; provides an annual COLA up to a maximum of 3%; authorizes one time payments for eligible individuals; requires the ORSC to prepare three reports; and permits municipal corporations to enter into agreements for the purpose of providing some or all of the funds required to satisfy their obligations to PFDPF. Estimated outlays for these enhancements are quoted in terms of their actuarial costs.

Surviving Spouses of PFDPF Deceased Retirants

The bill would provide a benefit of $550 per month, plus an annual COLA of up to 3% to:

1. Current spouses of members who retired prior to March 1980 and died prior to October 1985. This group of surviving spouses is currently receiving statutory survivor benefits of $410 per month. Estimated cost of this benefit enhancement is $34.4 million.

2. Current spouses of retired members who died after October 1985 but before the effective date of H.B. 648. Provisions included in H.B. 648 allow retired members to select a joint/survivor annuity during a one-year window thereby providing added survivor income for these spouses. Since these retired members are deceased, selection of a joint/survivor annuity would not be feasible and their surviving spouses would not have been able to receive the additional survivor income. This benefit enhancement is estimated to cost $26.5 million.

Current and Future Surviving Spouses of Active Members Who Die in the Line of Duty

This group of surviving spouses would receive $550 per month plus an annual COLA, up to a maximum of 3% upon the member's service retirement eligibility date. After the eligibility date, benefits provided by the Death Benefit Fund are decreased by 50% with no further offset. This increase would cushion the reduction in benefits under the Death Benefit Fund as well as future increases in the COLA at an approximate cost of $4.9 million.

Current and Future Spouses of Active Members Who Die Not in the Line of Duty and are Not Eligible for Service Retirement at Date of Death

Under current law, these spouses would qualify for the statutory survivor benefit of $410 per month. Sub. H.B. 194 would increase this benefit to $550 per month, plus an annual COLA, up to a maximum of 3%. Approximate cost of this benefit is $5.0 million.

Future Surviving Spouses of Members Who Retired Before the Effective Date of H.B. 648

Substitute House Bill 648 requires the spouse of a PFDPF member to consent in writing to a member's election of a plan of payment other than the joint survivorship benefit. The application for retirement is required to include a description of alternative plans of payment available with consent of the spouse and to explain the following: 1) unless the spouse consents to another plan of payment, the member's retirement allowance will be paid under a joint survivorship plan; 2) the spouse may consent to another plan of payment and the procedure for giving consent; and 3) consent is irrevocable.

Under the provisions included in Sub. H.B. 194, not later than 30 days after the effective date of the bill, the PFDPF board must provide written notice to all members informing them of the availability of the election of a plan of payment and the possibility of lost income for surviving spouses. That is to say, if the plan of payment chosen were a joint/survivor annuity, the future spouse would be eligible for an increased benefit of $550 per month, plus an annual COLA, up to a maximum of 3%. Should an optional plan of payment be chosen, the surviving spouse would receive the statutory survivor benefit of $410 per month.

Not later than 120 days after the effective date of Sub. H.B. 194, the member must file a notice with the PFDPF board of his/her intention to make a payment plan election. The PFDPF board is required to advise the member with respect to the payment plans available and to provide a determination of the monthly benefits made payable under the optional plan. Not later than one year after the effective date of Sub. H.B. 194, the member must file a statement of his intention to elect to receive benefits under the optional plan specified.

This provision would be actuarially cost neutral.

Current and Future Surviving Children of Active Retired Members Under 18 Years of Age (22 if a student) and Dependent Parents (If No Surviving Spouse or Children)

The bill would increase benefits to $150 per child and provide an annual COLA, up to a maximum of 3%. Benefits for dependent parents (if there were no surviving spouse or children) would be increased to $100 per month for each parent, plus an annual COLA up to a maximum of 3%. If only one dependent parent existed, he/she would get a monthly benefit of $200 with the same COLA provision. The combined cost of these benefit enhancements is estimated to be $7.3 million.

Current Recipients of Benefits that are below $550 Per Month

Benefits for current normal service retirees, permanent and total disability retirees, and off-duty disability retirees who are receiving benefits below $550 per month will receive benefits of $550 per month, plus an annual COLA, up to a maximum of 3%. This results in a statutory benefit formula that is comparable to that for surviving spouses at an estimated cost of $1.6 million.

Provision of One-Time Payments

Under this bill, PFDPF will make a one-time payment to certain individuals. The purpose of these payments is to increase certain pensions as if the provisions included in Sub. H.B. 194 had taken effect on January 1, 1998. Current normal service retirees, permanent and total disability retirees, and off-duty disability retirees who are receiving benefits below $550 per month will receive a one-time payment that is the difference between the increased amount ($550) multiplied by eighteen (months elapsed from January 1, 1998 and July 1, 1999) and the individual's current monthly pension or benefit multiplied by eighteen. Surviving spouses of members who are not receiving benefits from the Death Benefit Fund will receive one-time payments in the amount of $2,520. Each surviving child currently receiving benefits will be given a one-time payment of $576. Each dependent parent will receive a one-time payment of either $756 (in the case of one dependent parent) or $378 (for each of the two dependent parents).

The bill also includes an emergency clause that pertains only to the section providing one-time payments. The payments will occur not later than the first day of the first month after the effective date of this bill. The remaining provisions of the bill will take effect on July 1, 1999.

Ohio Retirement Study Council Reporting Requirements

The bill requires the Ohio Retirement Study Council (ORSC) to prepare three separate reports. The first report will review the COLAs in the provisions of law that currently govern all five retirement systems and will evaluate the fiscal impact of: 1) providing a COLA not based on the CPI; and 2) removing the COLA eligibility limitations pertaining to the PFDPF. The second report will review the plan adopted by the PFDPF to reduce their amortization period to thirty years by December 31, 2006 and will include criteria to ensure the Fund's compliance with this plan. The third report will study the pensions paid to surviving spouses of deceased members of the PFDPF who retired before September 16, 1998. This report will study the fiscal impact of increasing the pensions paid to some or all of these surviving spouses.

Since all five retirement systems contribute towards the total budget of the ORSC, any additional costs incurred by ORSC due to this reporting requirement would in essence be paid by the systems. It is not clear at this time if additional staffing or contracting costs will result.

Municipal Corporation Agreements

Under the bill a municipal corporation may enter into agreements with one or more other municipal corporations to issue special obligation securities on behalf of those municipal corporations. The securities would be issued for the purpose of providing some or all of the funds required to satisfy the repayment obligation of municipal corporations to PFDPF. Although the municipal corporations will incur additional debt service expenditures, they will also decrease their expenditures to PFDPF (via a reduced interest expense on payments owed). Since more than one municipal corporation will be involved, the issuing costs will be absorbed by all concerned. Pooling resources in this manner should result in a net decrease in expenditures for the municipal corporations involved.

❑ *LBO staff: Sharon Hanrahan, Budget/Policy Analyst*

\\BUDGET_OFFICE\ISIS_VOL1\FN122\HB0194Hr.DOC