Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Am. H.B. 339** DATE: **June 16, 1997**

STATUS: **As Passed by the House** SPONSOR: **Rep. Vesper**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **Increase benefits under the State Teachers Retirement System (STRS)**

State Fiscal Highlights

STATE FUND	FY 1997	FY 1998	FUTURE YEARS
State Teachers Retirement System			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	Increase covered by reserve funds

- Estimated increase in accrued liabilities of $289 million to cover the costs to restore purchasing power to a minimum of 70% of the original annuity for some STRS retirants.
- Estimated increase in accrued liabilities of $2.1 million to increase minimum annual single lifetime benefit from $6,000 to $9,600 per year to STRS members who retired with 30 or more years of service.
- The increase in retirement benefit for more than 31 years of service is not expected to increase the system's accrued liabilities.
- STRS is intending to use reserve funds to cover the above benefit increases. Therefore, there would be no increase in employee or employer contribution rates. The total cost for provisions in the bill, $291.1 million, is the projected cost over the lifetime of benefits.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions. STRS is intending to use reserve funds to cover the above costs. Therefore, there would be no increase in employer contribution rates.

Detailed Fiscal Analysis

The bill makes various changes to the State Teachers Retirement System. The first change increases the percentage used to calculate the service retirement benefit for an STRS member who has more than 31 years of credit service as a teacher in Ohio. The second change increases to $9,600 from $6,000 the minimum annual single lifetime service benefit for an STRS retirant with 30 or more years of Ohio service credit. The third change increases the amount of any current benefit including disability service retirement if the benefit is less than 70% of the benefit's original amount when adjusted for inflation. The final change permits an STRS member who retires on or after July 1, 1997, but prior to the bill's effective date based on 31 or more years of credit for service as a teacher to request a recalculation of the member's benefit based on increased percentages proposed by the bill. The costs associated with these retirants (members who retire between July 1, 1997 and the effective date of the bill) are included in the figures below.

Increase in retirement benefit for more than 31 years of service

The current formula used for determining a STRS member's annual single lifetime benefit if the member has more than 30 years of credit for service as a teacher (including credit purchased for leaves of absence) is to multiply each of these years of service credit in excess of 30 years by 2.5% of the member's final average salary. This percentage was last changed in 1989 when it was increased from 2.1% to the current 2.5%. A spokesperson for STRS stated that this increase in the percentage, from 2.1% to the current 2.5%, had only a minimal effect on the average retirement age, i.e. the average retirement age only went down slightly. Additionally, employees with higher years of service will have paid more into the system and will not have received benefits as early.

The bill provides a new schedule whereby the per cent (shown in the table below) is multiplied by the member's final average salary for each corresponding year in excess of 30 years.

Year of Service Credit	Per Cent for that Year
30.01-31.00	2.5%
31.01-32.00	2.6%
32.01-33.00	2.7%
33.01-34.00	2.8%
34.01-35.00	2.9%
35.01-36.00	3.0%
36.01-37.00	3.1%
37.01-38.00	3.2%
38.01-39.00	3.3%
39.01-40.00	3.4%
40.01-41.00	3.5%
41.01-42.00	3.6%
42.01-43.00	3.7%

A spokesperson for STRS estimated that this provision of the bill will not increase the system's accrued liabilities.

Increase minimum annual single lifetime benefit to $9,600

According to the STRS actuary, the increase in accrued liability due to the $9,600 minimum benefit is $2.1 million.

Increase in certain benefits to reflect inflation changes

According to the STRS actuary, the increase in accrued liability due to the 70% purchasing power guarantee is a total projected cost of $289 million. The table below shows the breakdown by group.

Cost to Restore 70% Purchasing Power July 1, 1996			
Group	**Number**	**Annual Benefit**	**Increase in Accrued Liability**
Service Retirees	16,160	$38,300,000	$232,200,000
Survivors	2,453	$5,000,000	$32,200,000
Disabled Retirees	1,215	$2,600,000	$24,600,000
TOTAL	**19,828**	**$45,900,000**	**$289,000,000**

❑ *LBO staff: Joni Leone, Budget/Policy Analyst*

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