Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub. H.B. 648** DATE: **March 10, 1998**

STATUS: **As Passed by the House** SPONSOR: **Rep. Van Vyven**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Makes changes to the disability benefit programs for PERS, SERS, STRS, PFDPF, and HPRS; make other changes**

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
PERS, SERS, STRS, HPRS, PFDPF			
Revenues	Varying effects with net impact uncertain	Varying effects with net impact uncertain	Varying effects with net impact uncertain
Expenditures	Varying effects with net impact uncertain	Varying effects with net impact uncertain	Varying effects with net impact uncertain

- See Attachment A for a chart illustrating the various provisions and the actuarial impact on the 5 state retirement systems.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1998	FY 1999	FUTURE YEARS
Counties and municipalities			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase	Potential increase	Potential increase

- PFDPF – Penalties/fines: Potential expenditure increase for employers if penalties/fines are imposed.
- PERS-LE – Transfer of Univ. of Akron police officers from SERS to PERS-LE: Insufficient data to determine extent of increase in liability to PERS-LE.

Detailed Fiscal Analysis

The bill makes numerous changes the five state retirement systems – PERS, SERS, STRS, HPRS, and PFDPF[1]. Please refer to the LSC Bill Analysis for a more detailed description. The following changes have a potential financial impact:

1. Administrative/Operational Changes
   a. Agree to receive medical treatment as a condition of benefit
   b. Submission and review of information
   c. Disability determination process
2. Uniform-non-uniform inter-system transfers

The following changes affect PFDPF only and have a potential financial impact:

3. Penalties/fines against the employer
4. Changes to the PFDPF disability benefit program
   a. Formula for calculating permanent and total disability benefit
   b. Benefit percentage for partial disability
5. Refund of balance of member contributions

Other changes with a potential financial impact:

6. Elimination of the "remarriage penalty"
7. Univ. of Akron law enforcement officers- SERS to PERS-LE

[1] The cost analysis for PFDPF uses the actuarial assumptions and methodologies which were used for the 1997 valuation, but with the changes proposed in the 1992-1996 Quinquennial report. For certain provisions of the bil, results have been prepared using the Entry Age Normal Cost (EANC) method, as required by SB 82. Unfunded liability is amortized as a level percent of payroll, with an open (rolling) amortization period. Total active member payroll is assumed to grow at 4.0% compounded annually. For some provisions there is currently no information available to estimate financial effects under the EANC method.

1. Administrative/operational changes

ORC: 2a – 145.35 (G), 742.40 (B), 3307.42 (H), 3309.39 (G), 5505.18 (C)
2b – 145.362, 742.40, 3307.44, 3309.41, 5505.18 (E)
2c – 145.35 (D), 742.38, 3307.42 (C), 3309.39 (C), 5505.18 (A)

1a. The bill requires the retirement boards to adopt rules whereby a disability benefit recipient agrees to receive any medical treatment recommended by the board's physician and to submit medical reports regarding the treatment. If the board determines that a recipient is not receiving the treatment, then the disability benefit will be suspended until the treatment begins or resumes. If the recipient fails to receive treatment for one year, then the disability benefit is forfeited. [Note: This provision codifies current procedure for STRS.]

1b. The bill requires a disability benefit recipient in any of the systems to file an earnings statement, medical information, and any other information required by that system's board. The benefit is suspended if the recipient refuses to file any of the required information. The benefit is terminated if the refusal continues for one year.

1c. The bill requires PERS, SERS, and STRS Boards to notify a member's employer that a disability benefit application has been filed not later than 14 days after receiving the application.

LBO estimates that these provisions may increase administrative costs for the systems. The degree to which these provision will increase costs is undetermined at this point in time.

The actuarial report for PFDPF estimates that the proposed changes under 1a and 1b could affect the rates of disability, but it is not possible at this time to make an opinion as to the degree of change expected and in what direction it will be. To the extent that the changes result in lower rates of disability, there should be a savings to the Fund. The next Quinquennial Valuation would measure the change and provide the information needed to assess the financial impact.

2. Uniform-non-uniform inter-system transfers					
	PERS	SERS	STRS	HPRS	PFDPF
Employee Contribution Rates	State – 8.5% Local – 8.5% LE – 9.0%	9.0%	9.3%	10.0%	Police – 10.0% Fire – 10.0%
Employer Contribution Rates	State – 13.31% Local – 13.55% LE – 16.70%	14.00%	14.00%	24.00%	Police – 19.50% Fire – 24.00%
Actuarial Effect	Unknown	Insufficient data to make determination	None*	Insufficient data to make determination*	Insufficient data to make determination*

*See additional comments below.
ORC: 145.295, 742.379, 3307.01, 3307.411, 3307.412, 3309.351, 5505.202

The actuarial reports provided the following additional information:

STRS: Historically transfers have not occurred from Ohio's public safety systems to STRS. It is unlikely that many transfers would occur in the future. As such, there is no cost impact.

HPRS: There is no requirement to transfer the full value of the service credit. In order to maintain cost neutrality, it is important that the full value be transferred to HPRS. The effect on funding requirements for HPRS is probably small, but cannot be estimated reliably without additional data.

PFDPF: The Fund would receive the employer contributions, in addition to the employee contributions, so the actuarial loss associated with transfers into the Fund would be decreased. The Fund would pay more on transfers out, but presumably these are fewer than transfers in. As an example, if a PERS-LE member with a $40,000 salary transferred to PFDPF after 10 years of service, the employer contributions received from PERS would be roughly $54,000. IF the same transfer were from PERS-local or PERS-state the employer contributions would be about $44,000. The total potential savings can not be estimated because data on transfer experience is not available.

With respect to the purchase of non-uniformed service credit by a PFDPF member, this provision would further decrease the actuarial loss associated with transfers into the Fund. If we consider the above example to be a transfer from PERS-local to PFDPF-Police, then the employee and employer contributions received from PERS would be about $27,000 and $44,000, respectively, for a total of $71,000. The corresponding contributions under PFDPF-Police would have been $32,000 and $63,000, for a total of $95,000. Hence, the employee would pay $24,000 if the employee wished to receive full credit for the ten years. Again, the total potential savings can not be estimated because currently data is not available on transfer experience.

3. PFDPF – Penalties/fines against the employer

ORC: 742.32, 742.35, 742.38

Past due employer/employee contributions

The bill establishes a monetary penalty for reports and payments of employee contributions transmitted after the due date. A penalty of 5% of the total amount due for the reporting period is added when the report and payments are filed 30 days or more after the last day of the reporting period. If the penalty is not paid within three months after being added to the employer billing, interest at a rate determined by the Board may be charged on the amount of the penalty from the date the amount is due to the date of payment.

Under current law, an employer is required to pay the employer contributions in four equal installments promptly. Any amounts not paid within 90 days after an installment is due are subject to a 5% penalty and the Board may charge interest at a rate of 6% on past due accounts and any penalties assessed. Under the bill, a 5% penalty is assessed against the employer 60 days after the installment is due (instead of the 90 days under current law) and the Board can determine the rate of interest to be charged from the date the installment is due to the date of payment.

Late filing of physician's report

The bill requires the employer to file a copy of the physician's report for employees who become a member of the fund on or after the date the minimum standards/procedures take effect. The report must be filed not later than 30 days after an employee becomes a member of the fund. Under the bill, the board will impose a fine of $100 per day beginning with the first day after the date the report is due and ending on the last day prior to the date the report is received by the Board. Under certain conditions, these reporting requirements and fines also apply when an application for disability benefits is made by or for a member. An employer has 28 days in which to respond to a Board's request for a copy of the physician's report or a statement certifying that the employer does not have a copy of the report. The fine would be the same as described above - $100 per day for the relevant time period.

Fines withheld by county treasurer

The Board would certify to the county auditor of any amounts due from any employer within the county. The above fines would be withheld from the employer from any funds in the hands of the county treasurer[2] for distribution to such an employer and the county auditor would deposit the fine monies to the credit of the Fund.

Fiscal impact

There would be a cost to employers if any fines were assessed against them. There would be a revenue increase to the Fund depending on the frequency of these fines being imposed.

[2] The country treasurer pays (twice a year) to the treasurer of the municipal corporation all monies received up to that date, arising from taxes levied and assessments made, belonging to the municipal corporation.

4a.PFDPF - Formula for permanent-total disability benefit

ORC: 724.39

The bill would change the calculation for a PFDPF member who was permanently and totally (P&T) disabled from the current 72% of the member's last 12 months of salary to 72% of the member's average annual salary. "Average annual salary" is defined as the highest average annual salary of a PFDPF member during any three years of contributions determined by dividing by three the member's total salary as an employee during these years.

According to the actuarial report for PFDPF, based on the current salary increase assumptions, P&T disability benefits would decrease by about 5%. The resulting decreases in actuarial accrued liabilities and normal cost are estimated to be $9,660,000 and $830,000 respectively.

4b.PFDPF – Benefit percentage for partial disability

ORC: 742.39 (B)

According to the actuarial report for PFDPF, the current valuation assumption is that the benefit percentage for a partial disability is the larger of 60% and the accrued percentage based on the formula in Revised Code. The 1992-1996 Quinquennial indicates that approximately 25% of partials have a percentage greater than 60% (more than 25 years of service). Presumably those with 25 years would still receive the accrued percentage. For the other 75% of partials there is no basis to determine what the average benefit percentage might be under this provision. However, incremental results can be provided: for each 1% decrease in the average benefit percentage, the actuarial accrued liability and normal cost decreases are approximately $8,010,000 and $680,000, respectively.

5. PFDPF – Refund of balance of member contributions

ORC: 742.50

According to the actuarial report for PFDPF, this provision can be considered to provide a guarantee period on the retiree or survivor annuity. However, the value of this guarantee must be offset by the value of any other survivor benefits. So, actuarially, no value is added for married retirees, because the surviving spouse benefit is expected to exhaust any remaining contributions. Modest value is added for unmarried retirees and survivors of active deaths. In total, the estimated actuarial accrued liability increase is $910,000 and the estimated normal cost increase is $60,000.

6. Elimination of “remarriage penalty”					
	PERS	SERS	STRS	HPRS	PFDPF
Actuarial Effect	$834,000 liability increase (.01% of covered payroll)	None**	Negligible	Provision already exists	Not applicable

*AAL = actuarial accrued liability
**SERS already assumes that the benefits will be distributed for the spouse’s lifetime.
ORC: 145.45, 3307.49, 3309.45

The actuarial reports provide the following additional information:

PERS: Based upon PERS experience of fewer than 10 remarriage terminations annually, the stand-alone cost of eliminating the remarriage termination provision has been estimated to be 0.01% (.0001) of covered payroll.

STRS: The financial impact of this change is immaterial.

7. Univ. of Akron law enforcement officers- SERS to PERS-LE

ORC: 145.011, 3309.011, 3309.312

The bill provides that a SERS member employed full-time by the University of Akron as a state university law enforcement officer may elect to transfer to the PERS-LE division. The bill provides that for each year or portion of a year of credit, SERS must transfer to PERS all of the following: the member's contributions, the total employer contributions paid on behalf of the member, and any amount paid by the member or employer to SERS for the purchase of service credit. There are currently 32 University of Akron law enforcement officers. There is no difference between the PERS-LE employee contribution rate (9.0%) and the SERS employee contribution rate (9.0%). Therefore, there would be no increase in employee contribution rates. There is a 2.7% increase from the SERS employer contribution rate (14.0%) to the PERS-LE employer contribution rate (16.70%). Therefore, it would be 2.7% of covered payroll for those 32 University of Akron police officers, i.e. it would mean a liability increase to PERS-LE. The board would have to determine how to assume this liability. If the board determined that PERS-LE employer contribution rates needed to be increased to cover this liability, then there would be a cost to local government entities since they are one component of employers under PERS-LE.

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Attachment A – Listing of Provisions which have a potential financial impact on the 5 State Retirement Systems

Attachment A - HB 648 Provisions which have a potential financial impact on the 5 State Retirement Systems					
	PERS	**SERS**	**STRS**	**HPRS**	**PFDPF**
1. Administrative or operational changes	Potential increase in operating expenditures	Potential minimal increase in operating expenditures	Potential minimal increase in operating expenditures	Potential minimal increase in operating expenditures	Potential increase in operating expenditures
2. Uniform-non-uniform inter-system transfers	Unknown	Insufficient data	None	Insufficient data	Insufficient data
3. PFDPF – Penalties/fines against employer	N/A	N/A	N/A	N/A	Potential cost to employers, Potential revenue gain to Fund
4a. PFDPF -Formula for permanent-total disability benefit	N/A	N/A	N/A	N/A	$9,660,000 decrease in AAL and $830,000 decrease in normal cost
4b. PFDPF - Benefit percentage for partial disability	N/A	N/A	N/A	N/A	Indeterminate effect, potential decreases to AAL and normal cost
5. PFDPF - Refund of balance of member contributions	N/A	N/A	N/A	N/A	$910,000 increase in AAL and $60,000 increase in normal cost
6. Elimination of “remarriage penalty”	$834,000 liability increase	None	Negligible	None	N/A
7.Univ. of Akron SERS to PERS-LE	2.7% of covered payroll for 32 SERS employees. PERS-LE would assume this liability.	Offsetting negligible – 32 employees and their contributions would be transferred to PERS-LE.	N/A	N/A	N/A

N/A = Not applicable