Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub. H.B. 673** DATE: **March 18, 1998**

STATUS: **As Reported by House Health, Retirement, and Aging** SPONSOR: **Rep. Padgett**

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

CONTENTS: **Increase in certain retirement benefits for SERS members**

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
SERS			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	$98,855,000 increase in UAAL covered by increased amortization period; further potential increase for benefit reimbursements	$98,855,000 increase in UAAL covered by increased amortization period; further potential increase for benefit reimbursements
PERS			
Revenues	- 0 -	Potential decrease due to fewer eligible members	Potential decrease due to fewer eligible members
Expenditures	- 0 -	Potential decrease greater than increase	Potential decrease greater than increase
STRS			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential increase	Potential increase
Colleges and Universities			
Revenues	- 0 -	Potential increase	Potential increase
Expenditures	- 0 -	- 0 -	- 0 -

- The proposed increase in benefits would be a $98,855,000 increase in the unfunded actuarial accrued liabilities (UAAL) for SERS. This cost includes a one-time lump sum payment of $21,219,000 for the retroactive Medicare Part-B reimbursement increase. It is the intent of the retirement system to increase the amortization period from the current 24 years to 29 years to cover the costs of these benefits. There would be no change to either the employee or the employer contribution rate.

- The bill specifies that service in the armed forces, as opposed to other uniformed service, may be considered prior service for PERS benefits. This provision could result in a decrease in revenues, as well as a decrease in expenditures for PERS, because fewer aggregate years of service for members would be considered as prior service.

- The provision which requires PERS, SERS, and STRS to reimburse employers for a short period of time after employees transfer to an alternative retirement system could increase expenditures for the former retirement systems.

- Colleges and universities could gain revenues with these reimbursements from PERS, SERS, and STRS.

Local Fiscal Highlights

- No direct fiscal effect on school districts or other political subdivisions. Since SERS is intending to increase the amortization period to cover the costs of the increased benefits, there would be no change to either the employee or the employer contribution rate. However, increasing the amortization period, if combined with other factors affecting financial viability, could increase pressure on future contribution rates.

Detailed Fiscal Analysis

SERS Benefit Changes

The bill increases the benefit accrual rate from an adjusted amount according to a schedule to 2.5% for each year of service over 30 years for SERS retirants. The bill increases the post-retirement death benefit from $500 to $1,000. For retirants and survivors of SERS who are receiving the Medicare Part-B reimbursement, the reimbursement amount is increased from the 1988 basic premium amount ($24.80) to the 1992 basic premium amount ($31.80). Those retirants receiving Medicare Part-B reimbursements on June 30, 1997 will receive a single, lump sum payment to cover the retroactive application of this provision (retroactive to January 1, 1992).

According to the SERS actuarial report, in order to fund the proposed changes on a level cost basis, the employer contribution rate would need to be increased by .49% or the amortization period would need to be increased to 29 years. The increase in the unfunded actuarial accrued liability for these proposed benefits would be $98,855,000. This figure includes the one-time lump sum payment of $21,219,000 for the retroactive Medicare Part-B reimbursement increase. According to a spokesperson for SERS, the system is intending to increase the amortization period of the UAAL from 24 years to 29 years to cover the costs of these benefits.

According to ORC section 3309.21, as enacted by S.B. 82 of the 121st General Assembly, the maximum amortization period for SERS is authorized at 30 years. Thus, increasing the period to 29 years by this bill would still keep SERS under the 30-year maximum.

The bill also changes the date on which the Ohio Retirement Study Council is required to submit its first independent actuarial study of the alternative retirement program to the Board of Regents. This provision would have no fiscal effect.

Miscellaneous Changes to Retirement Systems

This bill also makes miscellaneous changes to PERS, and STRS, as well as SERS. The bill specifies that service in the armed forces, as opposed to other uniformed service, may be considered prior service for PERS benefits. These changes correct terminology used in S.B. 130 of this General Assembly. PERS, as a result, would experience a decrease in revenues, as well as a decrease in expenditures, as fewer aggregate years of service for members would be considered as prior service.

The provision which requires PERS, SERS, and STRS to reimburse employers for payments made just after employees transfer credit to an alternative retirement system could increase expenditures for the former retirement systems. This provision could also increase revenues for public institutions that receive these reimbursements from PERS, SERS, and STRS.

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