Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL:	**Sub. H.B. 673**	DATE:	**November 4, 1998**
STATUS:	**As Reported by Senate Ways and Means**	SPONSOR:	**Rep. Padgett**

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

CONTENTS: **Increase in certain retirement benefits for SERS members; allows purchase of PERS and STRS service credit for resignation due to pregnancy; additional misc. changes to PERS, STRS, and SERS.**

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
SERS			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Increase due to increased benefits and benefit reimbursements	Increase due to increased benefits and benefit reimbursements
PERS			
Revenues	- 0 -	Increase depending on participation levels	Increase depending on participation levels
Expenditures	- 0 -	Potential increase depending on participation levels	Increase depending on participation levels
STRS			
Revenues	- 0 -	Increase depending on participation levels	Increase depending on participation levels
Expenditures	- 0 -	Potential increase depending on participation levels	Increase depending on participation levels
Colleges and Universities			
Revenues	- 0 -	Potential increase	Potential increase
Expenditures	- 0 -	- 0 -	- 0 -

- The proposed increase in benefits would result in 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 to cover the costs of these benefits. There would be no change to either the employee or the employer contribution rate.

- PERS would gain revenues from the service credit purchased for resignations due to pregnancy. According to the actuarial analysis of PERS-related provisions, the costs to the system would be less than 0.01% of covered payroll, or no more than about $800,000. Although the increased benefit payments would cause an increase in expenditures, these costs could be absorbed within the current rate structure and the funding period for unfunded liabilities would not be affected.

- The revenues received for purchased service (in regard to resignations due to pregnancy) in STRS could vary from $1,170,000 to $2,340,000, depending on the number of years purchased. STRS would absorb the remaining $5,655,000 to $11,310,000 of additional liability created. Expenditures for STRS would increase due to increased benefit payments.

- 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 for SERS members from 2.1% to 2.5% for each year of service over 30 years. If the recalculated allowance is greater than a current retiree's allowance prior to the adjustment, the SERS board would be required to begin payment of the new amount on the first day of the month immediately following recalculation. Should recalculation take place after July 1, 1998, the retiree would also be paid the difference between the allowance paid and the allowance that would have been paid if the recalculation would have been accomplished on that date.

The bill increases the post-retirement death benefit from $500 to $1,000 and increases certain benefits. 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 an SERS actuarial report completed on December 24, 1997, 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. Given the most current actuarial valuation available at this time (June 30, 1997), the system would increase the amortization period of the UAAL from 24 years to 29 years to cover the costs of these benefits rather than increase contribution rates.

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.

Purchase of PERS and STRS Service Credit for Resignation Due to Pregnancy

This bill allows members of PERS and STRS who resigned from employment due to pregnancy and later returned to employment to purchase service credit. The bill also allows members of STRS to purchase service credit for leave granted prior to July 1, 1982 due to pregnancy. One year of such service credit may be purchased for PERS members, but STRS members may purchase up to two years for pregnancy leave. For STRS, the cost to purchase service for the member would equal 1) the member contribution rate in effect at the time of the absence began, multiplied by the annual compensation during the first year after the employee's return to service, plus 2) compound interest from the date the leave or resignation ended to the date of purchase. For PERS members, the cost would be 1) the member contribution rate in effect at the time of purchase, multiplied by the salary the member was receiving at the time employment was interrupted, plus 2) interest compounded annually at a rate determined by the PERS board. The member would be required to submit proof that the resignation was due to pregnancy.

According to the actuarial analysis for PERS, the overall fiscal impact of the bill to the system would be small. Costs to the system would not exceed $800,000, or about .01% of the total payroll and could be absorbed by the fund's surplus. The funding period for unfunded liabilities would not increase. The members' exact costs to purchase the service is unknown, but the actuaries estimate that no more than 1,000 total number of years would purchased.

STRS actuaries estimate the total cost for each year purchased would be $13,650, with the fund paying $11,310 and the rest covered by the member. The fund would be responsible for the employer's portion of the amount, or $5,655,000 to $11,310,000 for an estimated 500 to 1,000 total years of service purchased. These costs could be covered by the STRS fund's surplus. The system would gain $1,170,000 to $2,340,000 from the members' share of the purchases, which reflect about 17% of the total costs. These amounts could be slightly higher than the estimates shown due to the inclusion of employees with less than full-time status.

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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