Fiscal Note & Local Impact Statement

123 rd General Assembly of Ohio

BILL: **H.B. 199** DATE: **June 1, 1999**

STATUS: **As Introduced** SPONSOR: **Rep. Cates**

LOCAL IMPACT STATEMENT REQUIRED: **No — Offsetting savings**

CONTENTS: **Expands alternative retirement plan to allow participation of public employees not vested in the state's retirement systems**

State Fiscal Highlights

STATE FUND	FY 2000	FY 2001	FUTURE YEARS
General Revenue Fund and other state funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase or decrease depending on the contributions made to employees' alternative retirement accounts	Potential increase or decrease depending on the contributions made to employees' alternative retirement accounts	Potential increase or decrease depending on the contributions made to employees' alternative retirement accounts
HPRS, PFDPF, PERS, SERS, STRS			
Revenues	Potential loss greater than cost reduction	Potential loss greater than cost reduction	Potential loss greater than cost reduction
Expenditures	Potential decrease	Potential decrease	Potential decrease
State Colleges and Universities			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase or decrease depending on the contributions made to employees' alternative retirement accounts	Potential increase or decrease depending on the contributions made to employees' alternative retirement accounts	Potential increase or decrease depending on the contributions made to employees' alternative retirement accounts

Note: The state fiscal year is July 1 through June 30. For example, FY 2000 is July 1, 1999 – June 30, 2000.

- The five retirement systems may lose substantial future investment earnings, yet have lower costs with the migration of employees to the alternative retirement plans. The net effect is a loss that is intended to be offset by a mandatory six percent contribution by participating employers. The percentage may be adjusted in future years. The long-term fiscal effects to the retirement systems are over the amortization period.

- Public employers may experience a substantial decrease in costs, given a self-determination of contributions to the alternative retirement plans. Although employers would pay to the state's retirement systems six percent of the payroll for employees that participate in the alternative retirement program, the overall contributions for pensions could decrease from current levels.

- A potential increase in administrative costs and possible additional staff would be needed for the Department of Insurance as a result of the bill's requirement that INS designate the entities to offer the alternative retirement program, periodically review the designated carriers, and rescind any designation of an entity found not to be in compliance with the requirements and purposes of the program.

- The Department of Administrative Services (DAS) and the state colleges and universities may need to add staff, provide additional training, or contract for consulting services to develop the expertise to be able to process payroll and provide benefit communication dealing with the alternative retirement program.

- The Ohio Retirement Study Council (ORSC) would be required to submit annual actuarial studies to determine the feasibility of the employer contribution rate to the state retirement systems, which could increase costs for the Council.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2000	FY 2001	FUTURE YEARS
Political Subdivisions			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase or decrease depending on the contributions made to the employees' alternative retirement accounts	Potential increase or decrease depending on the contributions made to the employees' alternative retirement accounts	Potential increase or decrease depending on the contributions made to the employees' alternative retirement accounts

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Public employers may experience a substantial decrease in costs, given a self-determination of contributions to the alternative retirement plans. Although employers would pay to the state's retirement systems six percent of the payroll for employees that participate in the alternative retirement program, the overall contributions for pensions could decrease from current levels.

- Local governments may need to add staff, provide additional training, or contract for consulting services to develop an expertise to be able to process payroll and provide benefit communication dealing with the alternative retirement program.

Detailed Fiscal Analysis

Provisions of the Bill

This bill expands the alternative retirement program for academic and administrative employees of colleges and universities to include other eligible employees. New hires and employees who are not vested in one of the five retirement systems – those employees with less than five years of public service – may participate in one of the alternative retirement plans. In doing so, the employees would forfeit participation in the state's pension plans, as service during which the employees participate in the alternative retirement plans cannot be purchased and applied to the retirement systems. New hires must decide to participate in the alternative retirement plan within 90 days of employment and non-vested employees have a deadline of 120 days after establishment of the expanded alternative retirement program to join the new program.

The Department of Insurance would designate three or more entities to offer the alternative retirement plans and periodically monitor the plans. The Department would rescind any designation if the entity were not in compliance with the requirements of the program.

Employers would determine a percentage of the payroll of employees that participate in the alternative retirement plan and contribute that percentage to the alternative retirement plans. The bill further provides that the aggregate amount contributed by the employee and employer to the alternative retirement plan shall not be less than an amount necessary to qualify the plan as a bona fide state and local retirement plan under Internal Revenue Code regulations. Employers whose workers participate in the program would pay six percent of the affected employees' payroll into the appropriate forfeited retirement system to mitigate negative fiscal effects on that system. In addition, on July 1 of 1999 and every year thereafter, the Ohio Retirement Study Council would submit an actuarial study of the feasibility of the six percent rate. The amount of the contribution would be adjusted according to the results of the study, effective the year the study is completed.

As with the retirement systems, moneys earned under the alternative retirement plan would be exempt from state, county, and local taxes except for state income school district taxes. Federal taxes would still apply upon drawing of the moneys.

Lastly, the bill permits restitution to the victims of certain felony sex crimes to be paid from alternative retirement plan benefits.

Fiscal Effects of the Retirement Systems

This bill would probably cause substantial losses in future earnings for three of the five retirement systems, balanced somewhat by decreased costs. The revenues lost from the participation of younger employees in the alternative retirement plans would have helped to maintain reserves in the retirement funds. The retirement systems, especially the Public Employees Retirement System (PERS), the School Employees Retirement System (SERS), and the State Teachers Retirement System, are expected to experience an initial migration to the alternative retirement systems. As a result, the systems may need to liquidate holdings to meet cash flow needs. This occurrence would diminish the systems' ability to maintain the current investment returns. After a plateau of migration, the number of members of the retirement system would decrease from current levels. This would cause a decrease in future earnings and a decrease in costs for the retirement systems. The Police and Firemens Disability and Pension Fund (PFDPF) and the State Highway Patrol Retirement System (HPRS) may lose fewer members, given the smaller rate of departure from employment.

The need for supplemental contributions to the retirement systems would arise because the decrease in the amount of forfeited contributions available to pay the system's liabilities would outweigh any corresponding decrease in total liability that may occur as a result of the transfer of some members to the alternative program. It is important to note the supplemental contribution rates needed to maintain the funding status of the state systems should be actuarially determined based on the specific composition of the participating group, and the rates should in the future be determined separately for each of the affected retirement systems. The contributions made to the retirement systems to mitigate negative financial impact would continue until the unfunded accrued liability is fully amortized. The amortization periods vary by retirement system, e.g. the amortization period for STRS is 28.4% and that of SERS is 24.0%, according to the latest valuations.

H.B. 586 of the 121st G.A., which required the creation of alternative retirement plans for certain employees of colleges and universities provided that the ORSC would periodically submit studies to determine the soundness of the established employer contribution rate to the retirement systems. The ORSC will release its findings for its first follow-up study of the rates established in H.B. 586 on July 1, 1999. That study may give an indication of the appropriateness of the six percent rate in this bill.

The retirement funds may lose the ability to cover retiree health, disability, and survivor benefits with the decrease in revenues. In order to maintain these benefits, future increases may be needed in employers' contributions to the retirement systems.

The Department of Insurance - Entity Designation and Monitoring

An increase for administrative costs and additional staff may be needed for the Department of Insurance as a result of the bill's requirement that INS designate the entities to offer the alternative retirement program, periodically review the designated carriers, and rescind any designation of an entity found not to be in compliance with the requirements and purposes of the program.

DAS, Colleges and Universities, and Local Government ARP Expertise

The adoption of an alternative retirement plan (ARP) would result in additional administrative responsibilities for the Department of Administrative Services (DAS) and for the payroll and benefits offices of the state colleges and universities and political subdivisions. Current staff would need to develop an expertise in the program or additional staff may need to be hired to accommodate the increased workload. DAS and the colleges and universities may need to hire consultants as an alternative to hiring staff.

Indirect Fiscal Effects for Employers and Employees - Possible Scenarios

Since the retirement systems may no longer be able to provide for retiree health, disability, and survivor benefits in some cases, the employers may be forced to review benefit levels and alternative ways of providing them. Maintaining benefits would depend on the reserves in the retirement funds; however, the employers' actuarially determined and reviewed contributions to the retirement systems should maintain fiscal stability. The success of the plan and appropriateness of the six percent starting level is largely contingent on the number of participants in the plan.

Another possible future cost would occur in the form of increased liabilities. In the earlier phases of the migration to the ARPs, the employers may be subject to lawsuits claiming insufficient explanation of consequences of participation in the retirement plans.

Participation in the ARPs is voluntary for employees. These employees would have the option of staying in the existing retirement systems with guaranteed return, health, disability, and survivor benefits or joining the ARPs, which could allow for more aggressive investments yielding higher returns. Providers or employers might consider allowing for adequate communication of benefits and consequences of choosing participation in state retirement systems or alternative retirement plans.

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