Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Sub. S.B. 341 of the 129th G.A. **Date**: September 12, 2012

Status: As Enacted **Sponsor**: Sens. Niehaus and Kearney

Local Impact Statement Procedure Required: No

Contents: To make changes to the law governing the School Employees Retirement System

State Fiscal Highlights

- The provision requiring each individual, partnership, or other entity that makes an independent expenditure in connection with a candidate's efforts to be elected to the School Employees Retirement System (SERS) Board to file with the Secretary of State certain statements could minimally increase the expenditures for the Secretary of State's office.
- Most provisions would decrease future SERS pension benefit expenditures, thereby generating savings for the system. Few, if any, SERS members are employed by the state. If any state employees are members, the resulting decrease in liabilities is likely to decrease future state spending to provide retirement benefits to those employees, contingent on an actuary's determination that the savings are sufficient to reduce contribution rates. Due to this contingency, LSC staff consider any such fiscal effects to be indirect.

Local Fiscal Highlights

- The bill modifies the School Employees Retirement System (SERS) employer penalty amount for failure to timely transmit contributions withheld from employees, and establishes new penalties for SERS employers for failure to transmit certain information required by SERS. These provisions may increase local governments' expenditures if they fail to pay their liabilities or submit certain information on time.
- Most school districts' employees are members of the State Teachers Retirement System (STRS) or the SERS.
- Most provisions would decrease future SERS pension benefit expenditures, thereby generating savings for the system. The resulting decrease in liabilities is likely to decrease local governments' future spending to provide retirement benefits to employees, contingent on an actuary's determination that the savings are sufficient to reduce contribution rates. Due to this contingency, LSC staff consider any such fiscal effects to be indirect.

Detailed Fiscal Analysis

The bill makes various changes to the law governing the School Employees Retirement System (SERS).

At a given point in time, state and local contributions to the retirement systems are based on the size of their respective payrolls, which are multiplied by a contribution rate determined by an actuary; for example, the employer contribution rate under SERS is currently 14%. However, the bill does not change employee or employer contributions to the retirement system. The bill's provisions generally create savings for the SERS, and it is likely that those savings will reduce future required contribution rates, but any such reduction is contingent on an actuary's determination. Because of the contingent nature of the savings to the state and to political subdivisions, LSC staff consider such fiscal effects to be indirect.

The LSC bill analysis provides a detailed description of this bill. The following are provisions that have a fiscal effect on the state or on political subdivisions, or a major fiscal effect on the retirement system.

- Modifies the years of service and age requirements for both reduced and unreduced retirement for members hired before May 14, 2008, to make them the same as for those hired on or after that date.
- Changes to service and age requirements would affect all SERS members effective August 1, 2017. Specifies that a member who has at least 25 years of service credit before August 1, 2017 is eligible to retire under existing criteria. Allows a member who does not have 25 years of service credit by that date to retire under the existing criteria if the member pays SERS an amount equal to the additional liability to SERS resulting from the member's retirement under the current criteria.
- Establishes a minimum retirement age of 57. A reduced benefit determination for early retirement will be based on an actuarial equivalent instead of a percentage as specified by current law. Requires the SERS Board to direct its actuary to consider the actuarial equivalents used to determine the reduction every five years instead of every ten years.
- Allows the SERS Board to adopt rules and to adjust the eligibility requirements, upon its actuary's determination that such adjustment is necessary to ensure that the system meets the 30-year amortization period requirement.
- Revises disability and survivor benefits coverage and eligibility, generally restricting eligibility for such benefits.
- Requires a disability benefit recipient who is eligible for Social Security disability insurance (SSDI) payments to apply for such payment.

- Requires a state retirement system member who is purchasing service credit for an employer-approved leave of absence that occurred during SERS membership to pay SERS both the employee and employer contributions plus compound interest on both. Limits the total number of years that can be purchased for such credit.
- Specifies the amounts that must be paid by the Public Employees Retirement System (PERS) or the State Teachers Retirement System (STRS) if service credit from one or both of those systems is used in the calculation of an SERS disability or retirement benefit.
- Allows the SERS Board to establish criteria for determining who is eligible for health care coverage.
- Authorizes SERS to establish the monthly reimbursement for Medicare Part B premiums as long as it is not less than $45.50.
- Specifies that the SERS Board is allowed to establish defined contribution (DC) plans for its members. Under existing law, the Board is required to establish at least one DC plan.
- Requires each individual, partnership, or other entity that makes an independent expenditure in connection with a candidate's efforts to be elected to the SERS Board to file certain statements with the Secretary of State.
- Establishes a time limit for filing complaints with the Ohio Elections Commission for certain SERS campaign finance violations.
- Requires the Ohio Retirement Study Council (ORSC) to study and make recommendations on the SERS Board's authority to adjust retirement eligibility requirements for certain members. Requires ORSC to prepare and submit a report of such study to the Senate President and House Speaker within 90 days after the bill's effective date.
- Specifies that all provisions in the bill will take effect on January 7, 2013, except for the provision authorizing the SERS Board to adjust retirement eligibility requirements for certain members (which is effective 180 days later).

Fiscal impact

State and local governments

Most of the provisions would have no direct fiscal impact on the state, local governments, and school districts because the bill does not make any changes to employers' contribution rates. Thus, the bill would not directly affect the state's, local governments', and school districts' retirement costs. Retirement benefits for a public employee are funded by a combination of employees' and employers' contributions and investment earnings on those contributions.[1] Employee and employer contribution rates are based on a set percentage of employees' payroll. The rates are determined by an actuary as the percentage necessary to fully fund benefit amounts over time, but limited to the maximum rates specified in the Revised Code.[2] In calendar year (CY) 2012, employee and employer contribution rates into SERS are 10% and 14%, respectively.

The bill's provisions would decrease SERS liabilities. By doing so, those provisions would likely permit an actuary to determine, at some point, that employer contribution rates could be reduced, thereby decreasing future costs for the state and political subdivisions. LSC does not employ an actuary, and does not have access to employee-level data with which to estimate the likely magnitude and timing of any such reduction in contribution rates. Also, due to the fact that such reductions are contingent on an actuary's analysis and determination, LSC would consider such reductions to be indirect fiscal effects.

The provision requiring each individual, partnership, or other entity that makes an independent expenditure in connection with a candidate's efforts to be elected to the SERS Board to file a statement with the Secretary of State's office could minimally increase the expenditures for the Secretary of State's office. In addition, Ohio Elections Commission may impose a fine if such person fails to file a complete and accurate statement. All fines are credited to the Ohio Elections Commission Fund (Fund 4P20), a fund in the Commission's budget.

The provision that would reimburse the public employer for compensation paid to a certain board member for time spent in service to the Board may offset public employer's compensation costs.

The bill also modifies the SERS employer penalty amount for failure to timely transmit contributions withheld from employees. The bill establishes new penalties for SERS employers for failure to transmit certain information required by SERS. These provisions may increase local governments' expenditures if they fail to pay their liabilities or submit certain information on time.

According to ORSC staff, the provision requiring ORSC to study, make recommendations, and prepare a report related to certain authority that the bill would grant to the SERS Board would have no significant fiscal impact on ORSC. ORSC is funded by a portion of investment earnings made on the assets of the five state retirement systems.

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[1] In general, investment earnings account for about two-thirds of total revenues to pay for retirement benefits. Thus, investment returns have a significant and direct impact on future contribution rates.

[2] Currently, a portion of an employer's contributions is used to fund retirees' optional health benefits provided by the system.

SERS liabilities

The majority of the bill's provisions, when they begin to take effect, would decrease future SERS pension benefit expenditures. This in turn would decrease SERS pension liabilities and the number of years to amortize its unfunded actuarial accrued liabilities (UAAL). An UAAL occurs when the value of the actuarial accrued liabilities exceeds the value of assets. UAAL is calculated by an actuary based on various economic and actuarial assumptions. Thus, the bill would improve the long-term funding status of SERS.

According to an actuarial analysis for S.B. 341 (As Introduced), prepared by Cavanaugh Macdonald, an SERS actuary, the estimated cost savings to SERS is about $26.2 million per year. Cavanaugh Macdonald also indicated that the SERS total employer contribution rate would decrease by 0.92 percentage point (0.54 percentage point reduction in employer normal contribution rate and 0.38 percentage point in SERS UAAL amortization rate). The analysis is calculated based on June 30, 2011 valuation data with some modifications to retirement probabilities. Actual savings would be somewhat different than the estimates depending on actual experience.

Based on the SERS actuarial valuation as of June 30, 2011, the actuarial value of net assets set aside to pay benefits (excluding health care assets) under its defined benefit (DB) plan was $10.4 billion. SERS's UAAL for its DB plan was $5.5 billion, which corresponded to a 65.2% funded ratio.[3] SERS's DB plan had a funding period of 28 years, which is the number of years needed to fully amortize its UAAL. Under current law, SERS is required to amortize its UAAL over a period not to exceed 30 years.[4]

The bill may also increase SERS administrative costs, however, any potential cost due to the bill would be offset by savings realized by the system.

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[3] A funded ratio represents ratio of assets to actuarial accrued liabilities, which is an indicator of the fiscal strength of a retirement system, i.e., its ability to meet its future obligations.

[4] The Revised Code specifies that in any year a system's funding period exceeds the 30-year requirement, the system is required to submit a report to the Ohio Retirement Study Council outlining its plans to comply with the 30-year funding requirement. UAAL is calculated by an actuary based on various economic and actuarial assumptions.