Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub. H.B. 648** DATE: **May 21, 1998**

STATUS: **As Enacted—Effective September 16, 1998** SPONSOR: **Rep. Van Vyven**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

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

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential increase	Potential increase
State Universities and Colleges			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential increase	Potential increase
University of Akron			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Increase due to increase in contribution rates	Increase due to increase in contribution rates
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.

- 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. Contribution rates could potentially increase for employers of PERS-LE members. The University of Akron's annual retirement contribution for campus law enforcement officers would increase an estimated $25,000 or more as a result of paying the higher PERS-LE rate.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1998	FY 1999	FUTURE YEARS
Certain political subdivisions			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase	Potential increase	Potential increase

- PFDPF – Penalties/fines: Potential expenditure increases for municipalities and townships if penalties/fines are imposed.

- PERS-LE – Employer contribution rates could increase as a result of transferring law enforcement officers at the University of Akron from SERS to PERS-LE. Political subdivisions affected could include counties, transit authorities, housing authorities, conservancy districts, and park districts.

Detailed Fiscal Analysis

The bill makes numerous changes to 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
   d. Required separation of Medicare reimbursement costs in their annual health care report
1. Uniform-non-uniform inter-system transfers
2. Required transfer of employer's contribution plus interest for individuals purchasing service credit in either PFDPF or HPRS as a former member of the Cincinnati Retirement System
3. Transferring system required to pay interest on the employee contribution for those individuals who have previously received a refund of contributions
4. Increases the benefit formula for state troopers with more than 25 years of service and authorizes the HPRS board to establish monthly Medicare B reimbursement rates
5. Provision for the transfer to PERS of PFDPF members who became members by virtue of a fire department's change to full time employees

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

7. Penalties/fines against the employer
8. Changes to the PFDPF disability benefit program
   a. Formula for calculating permanent and total disability benefit
   b. Benefit percentage for partial disability
7. Refund of balance of member contributions
8. Refund of amounts paid by members to purchase service credit in PERS, SERS, or STRS if the purchased credit does not result in an increase in pension or benefits.

Other changes with a potential financial impact:

9. Elimination of the "remarriage penalty"
10. 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 bill, 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 provisions 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 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& HPRS-Transfer of employers' contributions when purchasing service credit as a former member of the Cincinnati Retirement System

ORC: 742.379, 5505.202

PFDPF: The bill would require the transfer of the employers' contributions plus the interest on that amount from the last day of the year for which service credit was earned when individuals purchase service credit as a former member of the Cincinnati Retirement System. Either the member or the Cincinnati Retirement System could pay the interest due. This would decrease the actuarial loss attributed to transfers to the PFDPF and would result in a potential increase in revenues (interest received on employer contributions).

HPRS: Same effect as above.

4. PERS, SERS, STRS, PFDPF, HPRS- Requires transferring system to pay interest on the employee contribution for those individuals who have previously received a refund of contributions

ORC: 145.295, 742.379, 3307.412, 3309.312, 5505.202

PERS: The bill would require the Public Employees Retirement System to pay the interest on the employee contribution for the time during which the system held the funds for individuals who have already taken a refund of contributions. The payment must be made in order for a former member of PERS to purchase service credit as a current member of either PFDPF or HPRS. The additional payment would increase expenditures; however, the system stands to gain revenues when receiving interest on employee contributions from the other retirement systems. Depending on the flow of interest payments, this requirement may prove to have a minimal financial impact overall.

SERS: The bill would require the School Employees Retirement System to pay the interest on the employee contribution for the time during which the system held the funds for individuals who have already taken a refund of contributions. The payment must be made in order for a former member of SERS to purchase service credit as a current member of either PFDPF or HPRS. The additional payment would increase expenditures; however, the system would stand to gain revenues when receiving interest on employee contributions from the other retirement systems. Past experience of the system indicates that it would be highly unlikely that a former SERS member would transfer to either PFDPF or HPRS; at most it is estimated that 5 SERS members a year may transfer to other systems.

STRS: The bill would require the State Teachers Retirement System to pay the interest on the employee contribution for the time during which the system held the funds for individuals who have already taken a refund of contributions. The payment must be made in order for a former member of STRS to purchase service credit as a current member of either PFDPF or HPRS. The additional payment would increase expenditures; however, the system stands to gain revenues when receiving interest on employee contributions from the other retirement systems. Depending on the flow of interest payments, this requirement may prove to have a minimal financial impact overall.

PFDPF: The bill would require the Police and Firemen's Disability and Pension Fund to pay the interest on the employee contribution for the time during which the system held the funds for individuals who have already taken a refund of contributions. The payment must be made in order for a former member of the PFDPF to purchase service credit as a current member of PERS, STRS, or SERS. The additional payment would increase expenditures; however, the system stands to gain revenues when receiving interest on employee contributions from the other retirement systems or the individual themselves in the case of former membership in the Cincinnati Retirement System. Depending on the flow of interest payments, this requirement may prove to have a minimal financial impact overall.

HPRS: The bill would require the Highway Patrol Retirement System to pay the interest on the employee contribution for the time during which the system held the funds for individuals who have already taken a refund of contributions. The payment must be made in order for a former member of the HPRS to purchase service credit as a current member of PERS, STRS, or SERS. The additional payment would increase expenditures; however, the system stands to gain revenues when receiving interest on employee contributions from the other retirement systems or the individual themselves in the case of former membership in the Cincinnati Retirement System. Depending on the flow of interest payments, this requirement may prove to have a minimal financial impact overall.

5. Increases the benefit formula for HPRS members with more than 25 years of service; authorizes the HPRS board to set the monthly Medicare Part B reimbursement rates

ORC: 5505.17, 5505.176

HPRS: The bill would increase the maximum pension payable to 78% of the member's final average salary. This is an increase from the current rate of 72%. The bill would also increase the benefits received by retirants with total service credit in excess of 25 years. Retirant benefits will be recalculated to include an additional 0.5% of their current pension for each year in excess of 25 years. The new recalculated amount will serve as the base for future cost of living increases.

According to an actuarial analysis completed for HPRS, this increase in benefits would increase the UAAL by $9,235,085. The system intends to extend the amortization period from 16 years to 24 years rather than increase employer contribution rates.

The bill also authorizes the HPRS board to set the monthly Medicare Part B reimbursement rate at an amount not to exceed the basic premium for such coverage. The Medicare Part B basic premium amount is $43.80 at present. Current law caps the Medicare Part B reimbursement rate paid to eligible benefit recipients of HPRS at the 1994 rate of $41.10. Although the bill does not require the HPRS to increase the reimbursement rate to reflect the current rate of $43.80, it is possible the board may choose to adopt this increase. Should they do so, this would increase the UAAL by $8,363,487. Since Health is in an overfunded position, an increase in the Medicare Part B reimbursement rate could be absorbed by the fund and result in neither an increased amortization period nor an increase in employer contributions.

6. Intersystem transfer of firefighters

ORC 742.379

The bill provides that firefighters who became members of PFDPF as a result of an employer changing primarily from part-time to full-time employees would be given the option of transferring to PERS. For each member electing to make this transfer, PFDPF would transfer to PERS all the member and employer contributions paid on behalf of that member, any amount paid on behalf of that member for purchase of service credit and any amount previously transferred from PERS to PFDPF for that member. The member would then receive full credit in PERS for all service that was performed as a member of PFDPF. For each member of PFDPF choosing this option, PERS would experience an increase in revenues (one-time), liabilities, and expenditures and PFDPF would experience an increase in expenditures (one-time) and a decrease in liabilities.

7. 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.

8a.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.

8b.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.

9. 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.

10. PFDPF – Refund of amounts paid to purchase service credit

ORC 742.379

The bill would entitle members of PFDPF or their estates to a refund of the amount (or portion of the amount) paid to purchase service credit if that purchased credit or portion thereof does not increase a pension or benefit. The refund effectively cancels the equivalent amount of service credit.

Currently, any amounts paid by a PFDPF member to purchase service credit that does not result in an increased pension or benefit paid out by the system could be considered a windfall of sorts (i.e., no additional pension or benefit expenditures are incurred and there is no impact on UAAL). Under the provisions of the bill, PFDPF would be in the position to refund these amounts and would experience a resulting decrease in revenues. The exact extent of this decrease in revenues cannot be determined at this time, as the incidence of "over-purchase" of service credit is unknown.

The bill also addresses the issue of the purchase of part-time service credit as full-time. If a member of the fund is not receiving a pension or disability benefit from the fund, had purchased part-time service credit under the assumption that full-time credit would be given and had received written notice from PFDPF permitting such purchase, and had changed or ceased employment, the PFDPF board will restore the service upon repayment to the fund of the amount refunded to the member at the time of cancellation. While the exact number of situations in which this would occur are not known, this reinstatement of service credit would increase both liabilities and expenditures for the fund.

11. Elimination of "remarriage penalty"					
	PERS	SERS	STRS	HPRS	PFDPF
Actuarial Effect	$834,000 liability increase (.01% of covered payroll)	$14,488,616 increase in UAAL	Negligible	Provision already exists	$2,440,000 increase in AAL, $50,000 increase in normal cost

*AAL = actuarial accrued liability
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.

SERS: Additional health care costs will be incurred as these survivors are returned to the rolls. The system plans on increasing the amortization period by one year to cover costs of this change in benefits.

12. 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 is 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 an increase in expenditures for the state, state universities and colleges and political subdivisions because they are employers of PERS-LE members. If PERS-LE contribution rates were not increased, the University of Akron's annual retirement contribution for campus law enforcement officers would increase an estimated $25,000 or more as a result of paying the higher PERS-LE rate.

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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. Purchase of service credit from the Cincinnati Retirement System	N/A	N/A	N/A	Potential increase in revenues	Potential increase in revenues
4. Payment of interest on employee contributions after individual has received a refund of contributions	Potential offsetting increases and decreases in expenditures (possible "wash")	Potential offsetting increases and decreases in expenditures (possible "wash")	Potential offsetting increases and decreases in expenditures (possible "wash")	Potential offsetting increases and decreases in expenditures (possible "wash")	Potential offsetting increases and decreases in expenditures (possible "wash")
5. Increase s the benefit formula for state troopers	N/A	N/A	N/A	$9,235,085 increase in UAAL for pension; potential increase of $8,363,487 in UAAL for health.	N/A
6. Intersystem transfer of firemen	Potential increase in revenues, liabilities, and expenditures	N/A	N/A	N/A	Potential increase in expenditures and a decrease in liabilities
7. PFDPF –Penalties/fines against employer	N/A	N/A	N/A	N/A	Potential cost to employers, Potential revenue gain to Fund
8a. 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
8b. PFDPF - Benefit percentage for partial disability	N/A	N/A	N/A	N/A	Indeterminate effect, potential decreases to AAL and normal cost
9. 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
10. PFDPF- Refund of amounts paid to purchase service credit	N/A	N/A	N/A	N/A	Potential decrease in revenues
11. Elimination of “remarriage penalty”	$834,000 liability increase	None	Negligible	None	N/A

12.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