Fiscal Note & Local Impact Statement

124 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Sub. H.B. 157** DATE: **October 10, 2001**

STATUS: **As Enacted – Effective February 1, 2002** SPONSOR: **Rep. Schuring**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Provides annual cost of living increases paid to retired members and beneficiaries of Ohio's state retirement systems of 3% and makes other changes specifically concerning the Ohio Police and Fire Pension Fund**

State Fiscal Highlights

STATE FUND	FY 2002	FY 2003	FUTURE YEARS
State Retirement Systems (PERS, OP&F, SERS, STRS, SHPRS)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase	Potential increase	Potential increase
Ohio Police and Fire Pension Fund (OP&F)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Increase of more than $133,000	Increase of more than $133,000	Increase of more than $133,000 - declining over time
GRF and Other State Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase	Potential increase	Potential increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2002 is July 1, 2001 – June 30, 2002.

- It is probable that this bill will increase expenditures for the five state retirement systems. The current cost-of-living increase formula is expected to pay less than 3% per year in adjustments. The bill would give a 3% cost-of-living adjustment each year.
- There is a small possibility that the increase in expenditures for the five state retirement systems could indirectly place pressure on the system to increase the rates of employer contributions.
- The bill will require the Ohio Police and Fire Pension Fund to provide pensions to approximately nineteen surviving spouses at a cost of approximately $133,000 per year. This bill also provides a monthly death benefit to surviving spouses who became widowed prior to the creation of the Ohio Police and Fire Pension Fund and the Death Benefit Fund. It is unknown how many persons would become eligible for this benefit. However, it is expected to be minimal.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2002	FY 2003	FUTURE YEARS
Political Subdivisions			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase	Potential increase	Potential increase

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

- Contributions to the state's five retirement systems constitute a large expense for Ohio's political subdivisions. Any increase in expenditures for those systems could indirectly put pressure on the system to increase the rates of employer contributions. Although the probability of actually increasing rates as a result of this bill is small, it is nevertheless a factor in determining whether the bill has a potential local impact.

Detailed Fiscal Analysis

Fiscal Effect of 3% COLA Increase

State Retirement Systems

Currently, the cost-of-living adjustment (COLA) in the state's five retirement systems is calculated annually using a formula based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The COLA is identical to the increase in the CPI-W, with a maximum increase of 3%. In years where the CPI-W increases more than 3%, the difference between the CPI-W increase and 3% is placed in a "bank" for the benefit of the retiree. In subsequent years where the CPI-W increases below 3%, the system takes the credit from the retiree's bank and applies it to the current COLA until the bank is exhausted or the COLA reaches 3%. In years where the CPI-W decreases, no COLA is given.

The following is an illustration how the current formula works. Mike is receiving a retirement benefit from the Public Employees Retirement System (PERS). In year 2002, the CPI-W is 2.7%. Mike would receive a COLA of 2.7%. In year 2003, the CPI-W is 3.2%. Mike would only receive a COLA of 3.0% because the adjustment is capped at 3.0%. However, a "bank" is created for Mike and 0.2% is placed in the bank to his credit. In year 2004, the CPI-W is 2.6%. Mike would receive the 2.6% plus the 0.2% increase in his bank, thus creating a total COLA of 2.8%. Under the system conceived by this bill, Mike would receive a 3% COLA each year.

According to an actuarial analysis (dated May 31, 2001) conducted by Milliman USA for this bill, the current COLA formula may be expected to pay less than 3% annually even when price inflation averages as much as 4%. Therefore, the analysis continues, a change that provides a guaranteed 3% increase annually will increase actual costs to the state's retirement systems. However, if this prediction were incorrect and the current COLA formula were to pay 3% *every* year in the future, this bill would have no cost. Under no scenario would this bill decrease costs to the retirement systems. Currently, the actuarial assumption is that a 3% COLA will be paid each year. Therefore, this bill would not result in a change to actuarial analyses of the systems.

Political Subdivisions and State Funds

The effect on political subdivisions and state funds would be indirect. Costs associated with contributions to the state retirement systems constitute a large expense for political subdivisions and state agencies. Any increase in costs to the state retirement systems may result in pressure on the systems to increase employer contributions. This, however, is unlikely in this instance due to the fact that actuarial analyses of the systems currently assume that an annual 3% COLA increase will be paid.

In other words, the retirement systems already assume they must bring in necessary revenue to cover a 3% COLA increase each year.

Ohio Police and Fire Pension Fund

This bill requires the Ohio Police and Fire Pension Fund (OP&F) to pay monthly survivor benefits to the surviving spouses of members of the local police and fire pension systems whose benefits were terminated due to remarriage prior to the formation of the OP&F in 1965. According to sponsor testimony, there are nineteen known persons who would be affected by this bill. The bill would require OP&F to provide survivor benefits to these persons in the amount of approximately $7,000 per year. If there are nineteen persons who would become eligible for this benefit due to this bill, expenditures of the OP&F would increase by approximately $133,000 per year. According to an actuarial analysis conducted by Watson Wyatt for OP&F, the liability would be considered minimal and would lead to a very small increase in the amortization period of the fund.

This bill also provides a monthly death benefit to surviving spouses who became widowed prior to the creation of the Ohio Police and Fire Pension Fund and the Death Benefit Fund. To be eligible, the firefighter or police officer must have been killed in the line of duty. The surviving spouse would receive one-half of the member's monthly salary prior to the member's death plus any salary increase the deceased member would have received before retirement. It is unknown how many persons would become eligible for this benefit. However, it is expected to be minimal. This bill also provides for a minimal increase of $13.50 per month in the monthly pension received by eligible surviving children of members.

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