Fiscal Note & Local Impact Statement

126 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Am. Sub. H.B. 272** DATE: **December 19, 2006**

STATUS: **As Enacted – Effective April 6, 2007** SPONSOR: **Rep. Schneider**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Revises laws governing the state retirement systems**

State Fiscal Highlights

STATE FUND	FY 2007	FY 2008	FUTURE YEARS
PERS, STRS, SERS, OP&F, and SHPRS			
Revenues	Potential increase or decrease in investment revenues	Potential increase or decrease in investment revenues	Potential increase or decrease in investment revenues
Expenditures	Potential increase or decrease in benefits payments, corresponding to the increase or decrease in revenues	Potential increase or decrease in benefits payments, corresponding to the increase or decrease in revenues	Potential increase or decrease in benefits payments, corresponding to the increase or decrease in revenues

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- The bill authorizes the state retirement systems—Public Employees Retirement System (PERS), State Teachers Retirement System (STRS), School Employees Retirement System (SERS), Ohio Police and Fire Pension Fund (OP&F), and State Highway Patrol Retirement System (SHPRS) to establish a voluntary health care savings account program. The provision may result in some savings to the systems through decreases in health care benefit payments.

- The bill adjusts the PERS employer contributions remittance requirement to monthly reporting from quarterly, allows late penalties to be assessed if the contributions are received 30 days after the due date, and modifies the interest and penalties amount. The bill also allows for a delay in employer contributions payments ("transitional liability") due for October, November, and December of 2007. The "transitional liability" is allowed to be paid in installments over three years. The provisions may increase the system's earnings on investment. They may also increase the system's revenue from penalties if employers fail to remit contributions within the specified time frame.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2006	FY 2007	FUTURE YEARS
Counties			
Revenues	Potential decrease in earnings on investment	Potential decrease in earnings on investment	Potential decrease in earnings on investment
Expenditures	Potential increase, if the liability is not paid on time	Potential increase, if the liability is not paid on time	Potential increase, if the liability is not paid on time
Other Local Governments			
Revenues	Potential decrease in earnings on investment	Potential decrease in earnings on investment	Potential decrease in earnings on investment
Expenditures	Potential increase, if the liability is not paid on time	Potential increase, if the liability is not paid on time	Potential increase, if the liability is not paid on time

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

- The bill adjusts the PERS employer contributions remittance requirement to monthly reporting from quarterly, allows late penalties to be assessed if the contributions are received 30 days after the due date, and modifies the interest and penalties. The bill also allows for a delay in employer contributions payments ("transitional liability") due for October, November, and December of 2007. The "transitional liability" is allowed to be paid in installments over three years. The monthly reporting requirement provision will decrease the political subdivisions' cash flow that may be used for investments or other programs before the employer contributions liability is paid. Expenditures may also increase if political subdivisions fail to pay their liabilities on time.

Detailed Fiscal Analysis

The bill makes several changes to the law governing the state retirement systems—Public Employees Retirement System (PERS), State Teachers Retirement System (STRS), School Employees Retirement System (SERS), Ohio Police and Fire Pension Fund (OP&F), and State Highway Patrol Retirement System (SHPRS). The provisions in the bill have no direct fiscal impact to the state; however, they have direct fiscal impacts to local governments. The provisions in the bill may have minimal fiscal impacts to PERS and other Ohio retirement systems.

According to the PERS actuary, Gabriel, Roeder, Smith & Company, H.B. 272 (As Introduced) encompasses a broad range of plan changes, some of which would have a small upward effect on PERS' costs and others that would have a small downward effect. It is the opinion of the actuaries that the combined effect of all proposed changes would be a reduction in the aggregate funding period of approximately one and one-half (1.5) years.[22]

Health care savings account program—all retirement systems

The bill makes several changes to the state retirement systems' health care coverage. The bill authorizes each retirement system board to establish a voluntary health care savings account program. The participation in the program is optional and the account may be used for medical expenses. Members, employers, and in some cases, retirants may make deposits to the program in addition to their regular contributions.

This provision may increase each retirement systems' administrative costs and may also result in some savings through decreases in health care benefit payments.

PERS employer contributions

The bill changes the employer contributions remittance requirement to monthly reporting from quarterly. The bill also allows late penalties to be assessed if contributions are received 30 days after the due date, and modifies the interest and penalties amount.

The monthly reporting requirement provision will decrease the political subdivisions' monthly cash availability that may be used for investment or other purposes before the employer contributions liability is due. The estimated amount of forgone revenue from earnings on investment if the funds are invested before the liability is due rather than remitting it on a monthly basis will depend on several factors including the amount of funds available for investment, interest rates, and the type of investment. The provisions may also increase political subdivisions' expenditures if they fail to pay their liabilities on time.

However, the total fiscal impact to local governments will be lessened due to the provisions in the bill that allow for a delay in employer contributions payments ("transitional

[22] ORSC Analysis, H.B. 272 As Introduced, October 12, 2005.

liability") due for October, November, and December of 2007. In the bill, the "transitional liability" is allowed to be paid in three installments over three years.

Currently, there are 452 employers that are remitting the employer contributions on a quarterly basis. The amounts of the contributions from these employers that are remitting the contributions on a quarterly basis rather than monthly basis are $461.6 million. Currently, the state pays employer contributions on a bi-weekly basis. The provisions will increase the system's investment income due to faster remittance of employer contributions. The estimated fiscal impact of the provisions to local governments will depend on the amount of investment income opportunity that will be lost due to faster remittance.

PERS law enforcement officers

The bill waives certain service credit requirements so that the surviving spouse of a deceased member who was a PERS law enforcement officer may receive a monthly survivor benefit, regardless of the member's length of service.

The provision may increase the system's expenditures for survivors' benefit payments in the future. However, the impact will depend on the number of surviving spouses and the members' length of service.

PERS purchase of an additional annuity

The bill makes changes in regard to the purchase of an additional annuity and specifies the payment plans an additional annuity contributor may choose from. The bill also requires spousal consent for the selection of certain payment plans and provides for changes in the payment plan due to specified changes in circumstances. The bill also requires a PERS additional annuity contributor who is subject to a division of marital property order that requires payments to a former spouse to select a plan of payment that provides for such payments. The bill specifies that if a PERS retirant marries or remarries on or after the bill's effective date, election of a joint and survivor annuity plan under the additional annuity program must be made no later than one year after the marriage or remarriage.

PERS other provisions

The bill specifies that subject to the PERS rules, a member who designates two or more beneficiaries must specify the percentage of the lump sum payment of the member's accumulated contributions each beneficiary is to receive. If specified percentages are not determined, the lump sum will be divided equally among all beneficiaries.

OP&F Board of Trustees

The bill provides that the police officer retirant member of the OP&F Board of Trustees whose term of office commenced on June 2, 2003, has a term of five instead of four years.

<u>Other changes to all retirement systems</u>

The bill specifies that a state retirement board need not hold an election to fill a vacated employee or retirant board member position if not more than 90 days remain in the vacated term. The bill provides that, if a vacancy occurs during the term of an elected member of the OP&F Board, STRS Board, or SERS Board and the remaining board members must elect a successor member, the successor member holds office until the first day of the new term that occurs not less than 90 days after the successor member's election, or until the end of the term for which the successor member was elected, whichever occurs first.

The bill requires board member removal proceedings to be conducted by the court of common pleas of the county in which the board member resides rather than the district court of appeals. The bill also provides that the board member has the right to appeal to the court of appeals rather than the Ohio Supreme Court.

The bill also requires each state retirement system to annually prepare, by not later than March 1, a report on disability benefits provided by the system during the preceding fiscal year. Under current law, the systems are required to prepare the reports only from 2000 through 2005.

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