OHIO LEGISLATIVE SERVICE COMMISSION

Ruhaiza Ridzwan

Fiscal Note & Local Impact Statement

Bill: H.B. 242 of the 132nd G.A. (L_132_1291-3)

Status: In House Aging and Long Term Care

Sponsor: Rep. Carfagna

Local Impact Statement Procedure Required: No

Subject: Permits the Board of the School Employees Retirement System to grant reduced cost-of-living adjustments

State & Local Fiscal Highlights

- No direct fiscal effect on the state or on political subdivisions.

Detailed Fiscal Analysis

Current law requires the Board of the School Employees Retirement System (SERS) to provide annual 3% cost-of-living adjustments (COLAs) to pensions and benefits, subject to certain restrictions. The bill specifies that the annual 3% COLAs will be effective until December 31, 2017, but makes the following changes to COLAs beginning on January 1, 2018: (1) allows, instead of requires, the Board to make such annual COLAs, (2) specifies that if an increase is granted, the increase must be the percentage increase in the consumer price index for urban wage earners and clerical workers U.S. city average (CPI-W), as determined by the U.S. Bureau of Labor Statistics,[1] but not to exceed 2.5%, (3) provides that no increase be granted for a period in which the CPI-W did not increase, and (4) permits the SERS Board to determine the number of years after which the recipient of an allowance, pension, or benefit that begins after January 1, 2018 will be eligible for a COLA. The bill also specifies that the Board may adjust the COLA percentage if the Board's actuary determines that an adjustment does not materially impair the fiscal integrity of the system or is necessary to preserve the system's fiscal integrity. The bill specifies that the system vesting provision does not affect the Board's authority to adjust the COLA percentage before the COLA is granted.

[1] Calculation of the percentage increase is based on the 12-month period ending on June 30 of the immediately preceding calendar year.

Fiscal effect

The bill does not have any direct fiscal effect on the state or on local governments. Employer contributions to SERS to provide benefits for active workers are generally 14% of pay for each worker, a percentage that the bill does not change.

However, the bill would likely decrease future COLAs, which would thereby reduce SERS's expenditures to pay future pensions and benefits. Decreases in expenditures would compound over the years, reducing pressure on the system to increase the rates of employer contributions to the system to cover necessary expenditures related to paying pensions and benefits. Thus there is a possible indirect reduction in future expenditures for school districts, and possibly some other political subdivisions, that employ SERS members.

Synopsis of Fiscal Effect Changes

The bill's fiscal effects remain unchanged under the substitute bill (L_132_1291-3).

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