



# OHIO LEGISLATIVE SERVICE COMMISSION

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## Fiscal Note & Local Impact Statement

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**Bill:** H.B. 311 of the 131st G.A.

**Date:** November 30, 2016

**Status:** As Introduced

**Sponsor:** Rep. Schuring

**Local Impact Statement Procedure Required:** No

**Contents:** To specify how to determine the percentage of an employee's salary that must be contributed to the State Teachers Retirement System to mitigate the effect of the employee's participation in an alternative retirement program

### State Fiscal Highlights

- No direct fiscal effect on the state.

### Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.
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## Detailed Fiscal Analysis

The bill modifies the percentage of an alternative retirement plan (ARP) participant's compensation that must be paid by a public institution of higher education to the State Teachers Retirement System (STRS) to mitigate any financial impact on STRS associated with the ARP participation. Under existing law, a full-time employee of a public institution of higher education may elect to participate in an ARP rather than a designated public retirement system (the STRS, the Public Employees Retirement System, or the School Employees Retirement System) that otherwise covers the employee. A public institution of higher education is required to contribute a percentage of the compensation of an employee electing to participate in an ARP (generally referred to as "the mitigating rate") to the system that would otherwise cover the employee. The mitigating rate is used to offset any negative financial impact to the retirement system as a result of the ARP participation.

The bill specifies that, not later than 90 days after the effective date of this bill, the STRS board, in consultation with the Auditor of State, must have an actuary determine, for the preceding five years, the average of the amount of electing employees' compensation contributed to STRS by public institutions of higher education, that was used to amortize the system's unfunded actuarial accrued liabilities

(UAAL). The average amount is then to be used by STRS to determine the mitigating rate.

Under existing law, the mitigating rate for ARPs is frozen at a rate of 4.5% for STRS for an indefinite period. Other provisions related to the ARP mitigating rates in current law are superseded by the freeze provision.

### **Fiscal Effect**

The bill has no direct fiscal effect on the state and local governments. A public institution of higher education pays an amount into an employee's ARP that is a set percentage, which is reduced by the mitigating rate. Thus, the total amount paid for retirement benefits for the employee is unaffected by the level of the mitigating rate.<sup>1</sup>

The bill would increase STRS's administrative costs related to the ARP mitigating rate requirements. Also, by increasing or decreasing the mitigating rate, the bill would have an impact over time on the STRS UAAL. Currently, a public institution of higher education must contribute 4.5% of an ARP participant's compensation to STRS, to mitigate any financial impact of the ARP on the system. From 2012 through 2015, the STRS mitigating rates were 3.5% in 2012 and 2013, and 4.5% in 2014 and 2015. Thus, the bill seems likely to decrease the mitigating rate somewhat from its current level, thereby causing future STRS UAAL levels to be somewhat higher than they would be under current law.

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<sup>1</sup> See section 3305.06 of the Revised Code. That section is not in the bill.