OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: H.B. 413 of the 132nd G.A. **Status:** As Introduced

Sponsor: Rep. Scherer **Local Impact Statement Procedure Required:** No

Subject: Regarding PERS cost-of-living adjustments and service credit for services as a nonteaching school employee of a county board of developmental disabilities

State & Local Fiscal Highlights

- No direct fiscal effect on the state or political subdivisions. The bill does not make any changes to contribution rates to the Public Employees Retirement System (PERS).

Detailed Fiscal Analysis

The bill revises the amount and eligibility for the annual cost-of-living adjustment (COLA) related to retirement allowances, disability benefits, and survivor benefits from the Public Employees Retirement System (PERS). Under the bill, beginning on January 1, 2019, the annual COLA amount will be based on the percentage increase in the Consumer Price Index (CPI), not exceeding 2.5%, with certain exceptions.[1] The annual COLA amount generally will remain 3% until December 31, 2018; under current law, the annual COLA is 3% through 2018. After 2018, the annual COLA will continue to be 3% if the retirement allowances, disability benefits, and survivor benefits were granted before January 7, 2013.

The bill permits the PERS Board to increase the annual 2.5% COLA percentage to a percentage not exceeding 3% in the future if both of the following requirements occur: (1) the percentage increase in the CPI equals or exceeds 3% for three consecutive years immediately preceding the year of the increase, and (2) the ratio of PERS assets to its liabilities exceeds 100%, according to its most recent annual actuarial valuation. Conversely, the bill requires the Board to suspend the granting of COLAs if in any year the system's amortization period equals or exceeds 30 years as determined by its annual actuarial valuation, in which case no COLA should be granted in any succeeding calendar year until the amortization period is less than 30 years.[2] The bill also delays by

[1] The annual COLA in calendar years 2019 and 2020 will be 3% (the same as current law) for recipients of age and service retirement allowances granted in 2010, 2011, or 2012, but not later than January 7, 2013.

[2] There is a requirement under existing law that PERS establish a period of not more than 30 years to amortize its unfunded actuarial accrued pension liabilities.

one year the first COLA for certain members that enter pay status.[3] The bill also requires the PERS Board to make a one-time increase effective on January 1, 2019 to recipients whose retirement, disability, or survivor benefits were effective on or before December 31, 1979. The amount of the increase is determined by multiplying the benefit for which the recipient was eligible on December 31, 2018 by the percentages as specified under the bill for the calendar year in which the benefit was effective. This increase will be included in calculating future COLAs made to the recipient.

The bill also requires the PERS Board to grant a full year of service credit to a PERS member if all of the following conditions are met: (1) the member is employed by a county board of developmental disabilities, (2) the member's employment is in a position that would be covered by the School Employees Retirement System (SERS) if the member was employed by an SERS-covered employer, such as a public school district, and (3) the member performs full-time services in the position for at least nine months of the year and is paid earnable salary in each month of that year.[4] Under existing law, a PERS member receives a full month of service credit for each month in which the member earns at least a specified amount of earnable salary, for example $630 per month in 2017. Partial service credit is granted for months in which a member earns less than that amount.

Fiscal effect

The bill has no direct fiscal effect on the state or political subdivisions. The bill does not make any changes to the employer contribution rates to PERS. Currently, the state and political subdivisions contribute 14% of pay for each regular employee and 18.1% for each law enforcement or public safety employee.

The bill would decrease future COLAs, which would decrease PERS's expenditures related to future pensions and benefits. The other provisions would increase PERS's expenditures related to such employees' future pensions and benefits. The net effect of these changes is likely to reduce PERS expenditures in years immediately following January 1, 2019, with the effect of the COLA reductions compounding over time, leading to a definite reduction in liabilities at some future point. Over the years, any decrease in PERS's liabilities would correspondingly reduce pressure on PERS to increase the rates of employer contributions to PERS to cover necessary expenditures to pay future pensions and benefits, which may indirectly reduce future expenditures for employers that are currently contributing to PERS.

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[3] Under the bill, a recipient who begins receiving a benefit from PERS on or after January 1, 2019 is eligible for a COLA after receiving the benefit for 24 months. Under current law, a COLA is paid once a benefit has been paid for 12 months.

[4] This provision mirrors current law that grants a full year of service credit to an SERS member who is employed by an SERS-covered employer on a full-time basis for nine or more months of service within a year.