The Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215
(614) 228-1346 Phone
(614) 228-0118 Fax

OR SC

Analysis

H.B. 194 - Rep. Vesper

(As Introduced)

Glenn Kacic - Contact Person
(614) 228-1346

The bill would make the following changes to the Police and Firemen s Disability and Pension Fund (PFDPF):

Increase the statutory survivor benefits for the surviving spouse, dependent child(ren) and dependent parent(s) of PFDPF members. [R.C. ≅≅ 742.37(D), (E) and (F); 742.3718(D)]

The surviving spouse benefit is currently $410 per month. The bill would increase that amount to $850 per month. Each surviving child s benefit is currently $118 per month, which would be increased to $150 per month. The dependent parents benefit would increase from $79 to $100 per month for each parent or, if there is only one dependent parent, from $158 to $200 per month.

The bill would also grandfather in the increase for all surviving spouses, dependent children and dependent parents who, on the effective date of the bill, are receiving statutory survivor benefits.

Provide for a cost-of-living allowance (COLA) to individuals who are receiving statutory survivor benefits under PFDPF for at least twelve months. [R.C. ≅ 742.37221

Upon a determination by the PFDPF board that the Consumer Price Index (CPI) has increased in the previous twelve-calendar-month period, the board would increase the individual s benefit by that increase, or that increase plus any accumulation from prior years, up to a maximum of 3%. Any increase in the CPI over 3% would not be awarded, but would be accumulated and carried over to subsequent years. The first increase would be payable beginning June 30, 1998.

Currently, individuals receiving statutory survivor benefits under PFDPF are the only group of surviving beneficiaries in any of the state retirement systems who are not eligible for a COLA.

Allow for the payment of the $1,000 lump sum benefit upon a PFDPF member s death to a designated beneficiary if there is no surviving spouse. [R.C. ≅ 742.581

Under current law, when a member dies, a $1,000 lump sum benefit is paid to the member s surviving spouse or, if there is no surviving spouse, to the member s estate. The bill would allow for payment to be made to a beneficiary designated by the member if there is no surviving spouse. If there is no surviving spouse or designated beneficiary, the payment would be made to the member s estate.

Staff Comments

Individuals receiving statutory survivor benefits under PFDPF have not had a benefit increase since 1988. H.B. 308 (eff. March 6, 1996) provided the most recent increase in survivor benefits under the Highway Patrol Retirement System, increasing the minimum monthly benefit from $600 to $850 for surviving spouses and from $100 to $150 for each dependent child. This bill appears to be modeled after the increases provided under H.B. 308.

Individuals receiving statutory survivor benefits under PFDPF are also the only group of beneficiaries in any of the five state retirement systems who are not eligible for a COLA. The first

COLA in the non-uniformed employee retirement systems (Public Employees Retirement System, State Teachers Retirement System, School Employees Retirement System) was authorized beginning July 1, 197l; in HPRS, the first COLA was authorized beginning December 1, 1981.

It is important to recognize that PFDPF surviving beneficiaries may also receive other benefits, in addition to the statutory survivor benefits described above. Upon application for retirement on or after February 28, 1980, a PFDPF member may elect to receive an actuarially-reduced retirement allowance payable for life, with the same allowance or some portion thereof continuing to the surviving spouse for life. [1] The joint and survivor annuity is in addition to the statutory survivor benefits provided by PFDPF, and is subject to the annual COLA payment. (Members who retired before February 28, 1980 were provided a 90-day window, beginning September 26, 1984, to elect a joint and survivor annuity.) Also, the surviving spouse of an active member who was eligible for service retirement at the time of death qualifies for a joint and survivor annuity providing one-half of the retirement allowance the member would have been entitled to had the member selected such joint and survivor annuity option prior to death. Again, the joint and survivor annuity is in addition to the statutory survivor benefits provided by PFDPF, and is subject to the annual COLA payment.

The Firemen and Policemen s Death Benefit Fund (Death Benefit Fund) also provides benefits to the survivors of law enforcement and public safety personnel who are killed or die from injuries sustained in the line of duty.[2] The surviving spouse of a PFDPF member, for example, who is killed or dies from injuries sustained in the line of duty receive a monthly death benefit equal to the full monthly salary of the deceased member, plus any increases in salary the member would have been granted, minus any monthly survivor benefits paid by PFDPF (statutory survivor benefits and/or joint and survivor annuity described above). The death benefit is payable until the earlier of the spouse s remarriage or the date the deceased would have become eligible for normal service retirement. Upon the deceased member s retirement eligibility date, the death benefit is generally reduced by one-half, with no offset for statutory survivor benefits (e.g., $410/month) provided by PFDPF.

Therefore, the group of surviving spouses who are receiving only $410/month is limited to surviving spouses who do *not* qualify for benefits under the Death Benefit Fund; surviving spouses of active members who are not eligible for retirement at the time of death; and surviving spouses of retired members who do not elect a joint and survivor annuity at the time of retirement.

Although the benefit improvements proposed under this bill have merit, the cost associated with implementing these improvements must be carefully examined

[1] Effective July 24, 199O written spousal acknowledgment is required for married individuals who elect a single life annuity or a joint and survivor annuity providing less than one-half of the member s actuarially-reduced retirement allowance to the surviving spouse. Also, spousal consent is required to cancel any joint and survivor annuity.

[2] The Death Benefit Fund is administered by PFDPF, but is financed on a pay-as-you-go basis through legislative appropriations made in each biennial budget.

Fiscal Impact

Background - In 1986 the legislature enacted Am. Sub. H.B. 721 which, among other things, fixed the employer contribution rate at 19.5% of payroll for police and 24.0% for firefighters, and required the Ohio Retirement Study Council (ORSC) to review the adequacy of these fixed contribution rates. Since then, the ORSC consulting actuary, Milliman & Robertson (M&R), had conducted two actuarial reviews.

In 1992, M&R concluded that there was a need for either increases in the contribution rates from employers, members, or the state *or* reductions in the benefits provided to members (or some combination thereof) in order to maintain the actuarial soundness of PFDPF. Of particular concern was the pay-as-you-go financing of post-retirement health care benefits and the projected growth in medical costs as determined by the PFDPF actuary s 35-year forecast study.

In 1994, M&R concluded that the current statutory contribution rates were likely to be deficient unless future experience was more favorable than actual 1987-91 experience. In particular, M&R cited more individuals retiring at age 48 than assumed, more individuals retiring on disability retirement than assumed, and both healthy and disabled retirees living longer than assumed as the reasons for this conclusion. Moreover, M&R concluded that aside from future medical inflation, demographic pressures alone would make it difficult for the PFDPF board to provide post-retirement health insurance at 6.5% of payroll without significant increases in deductibles, copays, and/or retiree premium contributions.

In 1996, the legislature enacted Am. Sub. S.B. 82 which, among other things, establishes a maximum 30-year funding period for paying off each system s actuarial accrued unfunded pension liabilities, with a ten-year transition for those systems currently above the maximum. This statutory standard is modeled after the national standard recently adopted by the Governmental Accounting Standards Board (GASB) for all public pension plans. S.B. 82 also required the PFDPF actuary to prepare actuarial valuations based on the entry age normal actuarial cost method for purposes of the ORSC review of the PFDPF contribution rates. The entry age normal actuarial cost method is traditionally used to evaluate the adequacy of fixed contribution rates, such as in PFDPF, and is used by the other four state retirement systems.

Actuarial Cost Analysis - According to the PFDPF actuary, Watson Wyatt, the current funding period for PFDPF based on the entry age normal actuarial cost method is estimated to be 56 years. This compares to 17 years for PERS (state); 21 years for PERS (local); 12 years for PERS (law enforcement); 28.4 years for STRS; 30 years for SERS; and 24 years for HPRS. Without any increase in the current contribution rates, the benefit improvements provided under H.B. 194 would result in an unfunded liability with an infinite funding period; i.e., there is no period sufficient to amortize the actuarial accrued unfunded pension liabilities with the current contribution rates.

The PFDPF actuary also estimates that under the entry age normal actuarial cost method the additional increase in contribution rates needed to fund the benefit improvements over 30 years is 3.22%. It is also estimated that under the existing benefit structure (without the benefit improvements provided under H.B. 194) the contribution rates would need to be increased by 1.75% to achieve a 30-year funding period. Increasing the contribution rates would require legislative action.

Under the aggregate actuarial cost method historically used by PFDPF, the estimated increase in the contribution rates needed to fund the benefit improvements would be 5.01% for police and 4.84% for firefighters.

ORSC Position

At its meeting of April 24, 1997 the Ohio Retirement Study Council (ORSC) agreed to table the bill until the next ORSC meeting in May pending the receipt of additional actuarial information on a more limited benefit improvement to a more limited group of surviving beneficiaries.