OR
SC

The Ohio Retirement Study Council
88 E. Broad St., Suite 1175
Columbus, Ohio 43215
(614)228-1346 Phone
(614)228-0118 Fax
www.orsc.org Website

Analysis

Am. Sub. H.B. 66 - Rep. Calvert
(As Reported by the House Finance & Appropriations Committee)

April 13, 2005

ORSC Position

Glenn Kacic - Contact Person
(614)228-1346

The bill generally makes operating appropriations for the biennium beginning July 1, 2005 and ending June 30, 2007 and provides authorization and conditions for the operation of state programs. This analysis is limited to those provisions of the bill that pertain to the Public Employees Retirement System (PERS) and the Ohio Police & Fire Pension Fund (OP&F).

The bill would make the following appropriations to OP&F:

Appropriation Item	**Fiscal Year 06**	**Fiscal Year 07**
GRF 090-524 Police and Fire Disability Pension Fund	$25,000	$20,000

This state subsidy is authorized by R.C. §742.374 and funds the ad hoc increase enacted in H.B. 284 (109th General Assembly - 1971). Persons who were receiving a pension prior to July 1, 1968 were eligible for an additional monthly payment of two dollars for each year between their effective date of retirement and December 31, 1971.

Appropriation Item	**Fiscal Year 06**	**Fiscal Year 07**
GRF 090-534 Police and Fire Ad Hoc Cost of Living	$180,000	$150,000

This state subsidy is authorized by R.C. §742.3712 and funds the ad hoc increase first granted in H.B. 204 (113th General Assembly - 1979) and later codified in H.B. 638 (114th General Assembly - 1981). Persons who were receiving an age and service or disability pension prior to July 1, 1974 were eligible for a supplemental payment of five percent of the first 5,000 dollars of their annual pension. Persons receiving a survivor benefit prior to July 1, 1981 were also eligible for a supplemental payment of five percent of the first 5,000 dollars of their annual benefit.

Appropriation Item	**Fiscal Year 06**	**Fiscal Year 07**
GRF 090-554 Police and Fire Survivor Benefits	$1,100,000	$1,000,000

This state subsidy is authorized by R.C. §742.361 and funds the survivor benefit increases enacted in H.B. 215 (108th General Assembly - 1970), S.B. 48 (110th General Assembly - 1974) and H.B. 268 (111th General Assembly - 1976). This state subsidy was limited by H.B. 694 (114th General Assembly - 1981) to persons who first received survivor benefits prior to July 1, 1981. For survivors first receiving benefits on or after July 1, 1981, OP&F is required to make payment from its own resources.

Appropriation Item	Fiscal Year 06	Fiscal Year 07
090-575 Police and Fire Death Benefits	$20,000,000	$20,000,000

This state subsidy is authorized by R.C. §742.62 and funds benefits payable under the Ohio Public Safety Officers Death Benefit Fund to the surviving spouses and dependent children of law enforcement officers and fire fighters who die in the line of duty or from injuries sustained in the line of duty. OP&F administers the Death Benefit Fund; the State of Ohio funds the benefits payable thereunder.

H.B. 66 would also repeal the annual state subsidy of $1.2 million under R.C. §742.36, known as the "state contribution" to OP&F. This subsidy had been made annually to the 454 local police and fire pension funds in existence prior to their consolidation into OP&F. The annual contribution was continued and paid into OP&F and had remained unchanged since the consolidation in 1967.

An amendment adopted by the House Finance & Appropriations Committee to H.B. 66 would make municipal public safety directors eligible for the PERS Law Enforcement (PERS-LE) program. "Municipal public safety director" is defined to mean any person who serves full-time as the public safety director of a municipal corporation with the duty of directing the activities of the municipal corporation's police department and fire department. Currently, they are members of the regular PERS program. The amendment further provides that not later than 90 days after the effective date of the bill, each municipal public safety director who is a current member of PERS shall indicate on a form supplied by the retirement system whether to receive benefits under the regular PERS program or the PERS-LE program.

Staff Comments - State subsidies for various ad hoc increases granted to retirees and survivors before 1982 were eliminated in H.B. 94 (124th General Assembly - 2001) for PERS, STRS, SERS and HPRS but were continued for OP&F. Prior to enactment, however, an actuarial evaluation was prepared by Milliman USA, the ORSC consulting actuary, to determine the effect of eliminating the state subsidies upon the retirement systems' funded status, funding periods, and ability to finance retiree health insurance. That evaluation generally determined that the state subsidies for PERS, STRS, SERS and HPRS could be eliminated without causing these systems to violate the maximum 30-year funding period established under current Ohio law or jeopardize their ability to continue to provide retiree health insurance. That same evaluation determined that the subsidies for OP&F should continue to be made, stating that "it is unlikely that OP&F will be able to afford to give up the state subsidies for many years." (The state subsidies to fund the ad hoc increases in OP&F will continue to decline each year as the number of retirees and survivors receiving these increases continues to decline due to mortality.)

At the request of the ORSC, a subsequent actuarial review of the contribution rates for all five retirement systems was prepared by Milliman USA in 2003 and updated in 2004. That review found that despite the rebound of the financial markets in 2003 the funding period for OP&F remained infinite, meaning that the unfunded actuarial accrued liability for mandated pension benefits in OP&F could not be amortized over any time period within the current funding structure. If the infinite funding period were allowed to persist, OP&F would become gradually disfunded. If OP&F were to continue to allocate the current 7.75% of payroll to discretionary retiree health care benefits, one or more of the following actions would need to occur for OP&F to achieve the maximum 30-year funding period required under current Ohio law:

- The statutory employer and/or member contribution rate limitations will need to be increased;

- The benefits mandated by statute will need to be reduced;
- Additional state subsidies will need to be provided to OP&F;
- The 30-year limit on the funding period required by law will need to be extended.

Therefore,we would recommend that the annual subsidy of $1.2 million to OP&F be reinstated.

The amendment adopted by the House Finance & Appropriations Committee to allow municipal public safety directors to participate in the PERS-LE program raises a number of significant issues. Municipal public safety directors are **not** employed in a position that requires Ohio peace officer training certification, one of the criteria used to determine eligibility for the PERS-LE program. Eliminating this criteria that has been historically applied to the PERS-LE program could set a costly precedent by opening up the door for numerous other groups of employees seeking participation in the PERS-LE program due to its higher benefit formula and earlier retirement age. Under the PERS-LE program, members are eligible to retire as early as age 48 with 25 years of law enforcement service (or age 52 with 25 years of service if member's primary duties are other than to preserve the peace, protect life and property, and enforce the laws in their jurisdiciton). Normal retirement age in the regular PERS program is age 65 with at least 5 years of service or any age with at least 30 years of service. The benefit formula under the PERS-LE program is 2.5% of the member's final average salary for the first 25 years of service, plus 2.1% for each year of service over 25. The benefit formula under the regular PERS program is 2.2% of the member's final average salary for the first 30 years of service, plus 2.5% for each year of service over 30.

Also, **no** actuarial cost statement has been prepared on this amendment. Allowing current municipal public safety directors to transfer from the regular PERS program to the PERS-LE program would create additional unfunded actuarial liabilities to the PERS-LE program due to the higher benefit formula and earlier retirement age than the regular PERS program, as noted above, as no provision is made for the transferring member to cover such liabilities. While PERS on a combined basis (PERS state division, PERS local division, PERS-LE division) has a funding period of 29 years as of the actuarial valuation of December 31, 2003, it is important to note that the PERS-LE division to which the additional unfunded actuarial liabilities would accrue has a funding period of over 40 years. Beyond the higher cost of mandated benefits under the PERS-LE program due to the earlier retirement age and longer payout period, the normal retirement age of 48 (or 52) exposes the retirement system to significant health care costs as the primary insurer for up to 17 (or 13) years before Medicare becomes the primary insurer, generally age 65, and the retirement system becomes the secondary insurer.

Given the significance of these public policy and actuarial issues, we would recommend that the provisions of the bill making municipal public safety directors eligible for the PERS-LE program be removed.

Fiscal Impact - According to the OP&F actuary Mellon, the elimination of the annual $1.2 million state subsidy would increase the unfunded accrued liability of OP&F by $14.5 million and reduce the funded ratio of OP&F by 0.1%. It would also increase the funding period for the unfunded accrued liability which, as of January 1, 2004, is infinity and therefore defies any further meaningful quantification. Thus, had the proposed change been in effect as of January 1, 2004, the unfunded actuarial liability would have increased from $1,461,275,000 to $1,475,775,000 and the funded ratio would have decreased from 86.5% to 86.4%.

The ORSC actuary Milliman USA believes that the above actuarial estimates are reasonable.

No actuarial cost statement has been prepared on the amendment adopted by the House Finance &

Appropriations Committee making municipal public safety directors eligible for the PERS-LE program.

ORSC Position - At the April 13, 2005 meeting of the Ohio Retirement Study Council, the ORSC voted to recommend that the 126th Ohio General Assembly reinstate the annual state subsidy of $1.2 million to OP&F and remove the provisions of the bill making municipal public safety directors eligible for the PERS-LE program.