Link to SB 93 Analysis

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MILLIMAN & ROBERTSON INC. - Actuarial Analysis
SB93 and SB 144

March 10, 2000

Mr. Aristotle L. Hutras
Director
Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215-3580

Re: Senate Bill 93 and Senate Bill 144

Dear Mr. Hutras:

As requested, we have reviewed the actuarial cost statement dated October 15, 1999 regarding the proposed plan enhancement for Law Enforcement (LE) members of PERS under Senate Bill 93 of the 123rd General Assembly in light of (1) the results of the December 1999 actuarial audit of PERS and (2) the recent decision by the PERS Board to temporarily reduce the employer contribution rate for LE members by 6% (from 16.7% to 15.7% with 11.4% allocated to basic retirement benefits and 4.3% allocated to healthcare benefits). The temporary reduction is effective for calendar year 2000 and will commence on July 1, 2000. For purposes of this analysis, we assumed that the temporary reduction in the employer contribution rate for LE members to 15.7% would be extended indefinitely. We have also revised the estimates for Senate Bill 144 in light of these developments.

Background

The plan enhancement under SB 93 would allow LE members to receive unreduced retirement benefits at age 48 with 25 years of service. Currently, unreduced retirement is available at age 52 with 25 years of service for LE members.

The parallel valuation performed as part of the PERS actuarial audit found that the PERS' actuary was understating the projected benefits by about 3% relative to the PERS-LE division for service in excess of 25 years. As a result, PERS' actuary, Gabriel, Roeder, Smith & Company, GRS, corrected the December 31, 1998 valuation. Both GRS's October 15, 1999 actuarial cost statement and our November 2, 1999 actuarial cost estimate on Senate Bill 93 were based on the results of the original December 31, 1998 actuarial valuations.

As indicated in the October 15, 1999 actuarial cost estimate (prior to the audit), the increase in normal cost as a percent of payroll for basic~~e~~ retirement benefits for the proposed plan enhancements is 0.98%. The increase in accrued liabilities was reported to be $49.8 million.

As reported in the corrected Actuarial Valuation for Active and Inactive Members as of December 31, 1998, the basic retirement benefits for the PERS LE Division have a deficit of

$19.5 million. The Actuarial Valuation of Retired Lives reported a surplus of $23.1 million for the LE Division. Therefore, on a combined basis, the accrued liabilities for basic retirement benefits as of December 31, 1998 for the PERS LE Division are fully funded (the funding period is 0 years), based on the assumptions and methods used by the PERS actuary. For purposes of determining whether proposed legislation can be enacted within the limitations on the funding period established by Senate Bill 82, we believe it is appropriate that the funding period for each Ohio Retirement System be calculated on a combined basis including all members (active, inactives and retired). Presenting results on a combined basis was also recommended in the December 1999 audit of PERS. The other four Ohio Retirement Systems calculate their funding period on this basis.

Senate Bill 93

If Senate Bill 93 were enacted, the combined surplus would be eliminated and an Unfunded Accrued Liability (UAL) would be created. The composite funding period on this basis would be indefinite as the employer contribution rate of 11.4% would not cover the employer normal cost rate of 11.9% let alone provide funds to amortize the UAL. Thus the enactment of Senate Bill 93 would violate the 30-year funding period requirement established by Senate Bill 82.

Norman Jones of Gabriel, Roeder, Smith & Company indicated in the actuarial cost statement that "… Senate Bill 93 would have no immediate effect on retiree health rates. We agree. However, the retiree health program would be absorbing additional costs in excess of 0.5% of law enforcement payroll (0.01% of total payroll) which would tend to accelerate the date when a rate and/or benefit adjustment would be needed to maintain balance in the retiree health program." (A report on retiree healthcare benefits presented by PERS to the ORSC on July 14, 1999 indicated that, even under a pessimistic scenario regarding healthcare cost inflation, the healthcare fund for all of PERS was projected to remain solvent until 2036. Under the intermediate and valuation scenarios, the healthcare fund was projected to remain solvent until 2058 and indefinitely, respectively.) An example of such a benefit adjustment would be if PERS instituted retiree contributions (in addition to the contributions required from retirees who elect an option other than the basic one) to help pay the cost of the healthcare benefits.

Effect of 1.0% Increase in Member Contributions

As requested, we have also estimated the costs if the member contribution rate for LE members was increased by 1% from 9% to 10% in conjunction with the enactment of Senate Bill 93. If this provision is added to Senate Bill 93, the increase in normal cost as a percent of payroll for basic retirement benefits would be 1.05% if the amended Senate Bill 93 is enacted. The increase in accrued liability would be $49.8 million. The 1% increase in member contributions would increase total contributions enough to cover the full normal cost and leave 0.42% of payroll to amortize the UAL. Unfortunately 0.42% of payroll is not sufficient to ever amortize the UAL created by SB 93. As a result, the composite funding period would also be indefinite. Thus the enactment of Senate Bill 93 modified to require a 1% increase in member contributions would also violate the 30-year funding period requirement established by Senate Bill 82.

Senate Bill 144

We have also determined what the composite funding period would be for the PERS LE division if Senate Bill 144 were enacted based on the revised valuation results. Senate Bill 144, as amended, would make the following changes in PERS.

- Accumulated member contributions would be credited with interest with a maximum rate of 6.0% commencing on the effective date of the Bill.
- If the member with at least five years of service elects to receive a lump sum termination benefit in lieu of any other PERS benefits, the member would receive his or her accumulated member contributions with interest multiplied by a factor of 1.33. If the member has at least ten years of service, the factor increases to 1.67. In other words, an employer provided benefit of 33% or 67% of accumulated member contribution with interest would be payable in addition to the refund of accumulated member contributions with interest.

If Senate Bill 144 is enacted and the maximum interest rate of 6.0% was implemented, the composite funding period would be 7.5 years. Thus the enactment of Senate Bill 144 would not violate the 30-year funding period requirement established by Senate Bill 82.

If both Senate Bill 93 and Senate Bill 144 are enacted and the maximum interest rate of 6.0% was implemented, the composite funding period would be indefinite if member contributions were left unchanged and even if member contributions were increased by 1%. Even if a lower interest rate is adopted by the PERS Board as permitted in Senate Bill 144, the composite funding period would be indefinite. Thus the enactment of both Senate Bill 93 and Senate Bill 144 for the LE division would violate the 30-year funding period requirement established by Senate Bill 82 even if member contributions were increased 1%.

Other Possible Changes in Member and/or Employer Contribution Rates

We understand that you have been requested by the County Commissioners' Association of Ohio to research the viability of capping the employer contribution rate for members of the PERS-LE division at 17.25%. You also requested that we estimate (1) the increase in the member contribution rate, (2) the increase in the employer contribution rate, and (3) equal increases in both the member and employer contribution rates necessary to have funding periods of 10, 20 and 30 years if (1) Senate Bill 93 is enacted and (2) if both Senate Bill 93 and Senate Bill 144 are enacted. The attached exhibit illustrates these variations as well as the figures stated earlier in the letter.

If both Senate Bill 93 and Senate Bill 144 are enacted, the bills would be affordable within the constraints of the 30-year funding requirement established by Senate Bill 82 if both (1) the employer contribution rate for LE members for basic retirement benefits is set at 12.4% with an additional 4.3% allocated to healthcare for a total employer contribution rate of 16.7% and (2) the member contribution rate is increased to 10.1% from 9.0%. Thus if the employer contribution rate for LE members is not reduced and if member contributions are increased by 1.1%, both bills are estimated to be affordable given the constraints of Senate Bill 82. Please note that, if both bills are enacted with the contribution rates adjusted as described earlier, any additional benefit improvement would cause PERS-LE to exceed the 30-year funding requirement of Senate Bill 82 unless there were additional increases in contribution rates.

These estimates were based on the revised results of the December 31, 1998 Actuarial Valuations, the supplemental actuarial cost statement dated October 15, 1999 on Senate Bill 93, and the supplemental actuarial cost statement dated October 8, 1999 on Senate Bill 144.

Please let us know if you have any questions or if you need any additional information.

Sincerely,

Katherine A. Dill

William A. Reimert

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Enclosure

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