

Fiscal Note & Local Impact Statement

124th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: S.B. 134 DATE: October 16, 2001

STATUS: As Introduced SPONSOR: Sen. Blessing

LOCAL IMPACT STATEMENT REQUIRED: Yes

CONTENTS: Provides for establishment of the Ohio Police and Fire Pension Fund deferred retirement option plan

State Fiscal Highlights

STATE FUND	FY 2002	FY 2003	FUTURE YEARS
Ohio Police and Fire Pension Fund			
Revenues	Potential gain	Potential gain	Potential gain
Expenditures	Potential increase or decrease	Potential increase or decrease	Potential increase or decrease

Note: The state fiscal year is July 1 through June 30. For example, FY 2002 is July 1, 2001 – June 30, 2002.

- The bill could increase or decrease costs to the Ohio Police and Fire Pension Fund (OP&F). Dependent on the number of members who elect to participate in the deferred retirement option plan (DROP), OP&F will have to expend money for pensions earlier than otherwise. However, health care costs will be reduced by an amount dependent on the number of members who elect the DROP, and OP&F will continue to receive member and employer contributions from members electing to participate in DROP.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2002	FY 2003	FUTURE YEARS
Municipalities and Other Political Subdivisions			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase	Potential increase	Potential increase

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- There is a possibility that if the DROP causes an increase in costs for OP&F, it could eventually place pressure on OP&F to increase the rates of employer contributions.
- Local governments may pay higher salary costs overall for police and fire departments if higher-salaried, longer-tenured employees decide to continue employment due to the incentives created by the deferred option retirement plan.

Detailed Fiscal Analysis

Fiscal Effect on OP&F

The bill provides for the establishment of a deferred retirement option plan (DROP) under the Ohio Police and Fire Pension Fund (OP&F), upon approval from the Internal Revenue Service. Members of OP&F who are eligible for normal service retirement can elect to participate in the DROP. Participants in the DROP must agree to terminate employment within eight years after electing to join the DROP. Participants will accrue within an account the following: the member's monthly retirement allowance, annual cost-of-living increases, 50% of employee contributions made during the first two years in the DROP, 75% of employee contributions made during the third year, 100% of employee contributions made during the fourth through eighth years and annual compound interest. The balance of employee contributions and all employer contributions will be contributed to the Police Officers' Contribution Fund or the Firefighters' Contribution Fund. At retirement, the member receives all of the money accumulated in his or her account.

According to an actuarial analysis conducted by Milliman USA and dated October 4, 2001, the DROP could increase or decrease the costs of the OP&F. Pension costs will increase dependent on the number of members who would have delayed retirement under the current law and elect to join the DROP. This is due to the fact that OP&F will begin paying their pension benefits sooner than otherwise. However, health care costs to OP&F will drop due to the fact OP&F will not be responsible for health benefits of members who are participating in the DROP program. Furthermore, OP&F will continue to receive employee and employer contributions for the members participating in the DROP.

Milliman USA also found that the bill would increase the unfunded actuarial accrued liability of OP&F to 41 years from 27 years. (This would violate ORC 742.16, which requires OP&F to have an amortization period of 30 years or less by January 2006). However, Milliman USA also found that if OP&F reallocated 0.25% of employer contributions to pensions from health care, the amortization period would be 30 years by January 2006.

An important fiscal aspect of the bill is that it requires the OP&F Board to actuarially analyze the financial effects of the DROP at least once every five years. If the analysis determines that the DROP has a negative financial impact on OP&F, the bill allows the Board to modify the plan or cease to allow members who have not already done so to participate in the plan. However, the language in the bill is not mandatory and the OP&F Board is not obligated to modify the plan or cease to offer the plan upon such a finding.

Fiscal Effect on Local Governments

According to the actuarial analysis conducted by Milliman USA, the bill could either increase or decrease long-term costs to OP&F. If the bill were to increase costs to OP&F, it is a possibility that employer contribution rates could increase in order to offset increased costs. Employer contributions to OP&F constitute a major expense for local police and fire departments. Currently, the employer contribution rate for police officers is 19.5% and the rate is 24.0% for firefighters.

Local governments may pay higher salary costs overall for police and fire departments if higher-salaried, longer-tenured employees decide to continue employment due to the incentive created by the DROP. The size of this effect would depend on the decision of individual employees, as well as the personnel policies of each local government.

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