Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
77 South High Street, 9th Floor, Columbus, OH 43215-6136 ✧ Phone: (614) 466-3615
✧ *Internet Web Site:* http://www.lsc.state.oh.us/

BILL: **Sub. S.B. 148**   DATE: **December 3, 2007**

STATUS: **As Passed by the Senate**   SPONSOR: **Sen. Faber**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **To revise retirement eligibility requirements for members of the School Employees Retirement System (SERS)**

State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
School Employees Retirement System (SERS)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	Potential decrease due to benefit calculation decreases Increase in actuarial expenditures by approximately $10,000 to $15,000, once every ten years

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- No direct fiscal effect on the state.
- The provisions to revise retirement eligibility requirements and benefit calculations for SERS members whose membership begins on or after the effective date of the bill would decrease the system's pension benefit expenditures.
- The provisions to increase the age requirements to retire under a retirement incentive plan for SERS members whose membership begins on or after the effective date of the bill would decrease the system's pension benefit expenditures.
- The bill requires the SERS Board to direct its actuary to evaluate the bill's retirement eligibility requirements at least once every ten years. This provision would increase SERS actuarial expenditures, once every ten years.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

The bill proposes to revise the School Employees Retirement System (SERS) retirement eligibility requirements and benefit calculations, and to modify the age eligibility requirements to retire under the retirement incentive plan. All of these changes would affect only members of SERS whose membership begins on or after the effective date of the bill. In addition, the bill requires the SERS Board to direct its actuary to evaluate the bill's retirement eligibility requirements at least once every ten years.

The bill has no direct fiscal impact to local governments or the state. However, it has a fiscal impact to SERS. The proposed changes would impact SERS pension benefits and pension fund assets; therefore, it could also indirectly affect employer (school districts) and employee contributions in the future.

The bill revises the service retirement eligibility requirements for SERS members whose membership begins on or after the effective date of the bill. Under the bill, new members must meet one of the following eligibility requirements:

Proposed Retirement Eligibility under S.B. 148 (As Introduced)

Years of Service Credit	Attained Age
10	62
25	60
30	55

Currently, SERS members are eligible for retirement benefits if they meet any of the following:

Current SERS Retirement Eligibility

Years of Service Credit	Attained Age
5	60
25	55 to 60
30	Any age

The bill also modifies the reduction factor to calculate the early retirement allowance for SERS members whose membership begins on or after the effective date of the bill that retire before age 65 or with less than 30 years of service credit. The bill's reductions factor would be based on an actuarial equivalent of the member's retirement allowance as determined by the SERS Board's actuary, had the member retired at age 65 or with 30 years of service credit. However, the bill specifies that the retirement allowance cannot be less than the following schedule:

Years of Service Credit	Base Amount
25	75%
26	80%
27	85%
28	90%
29	95%

Currently, the reduction factor is calculated based on a fixed rate percentage for every year in which a member retires before age 65 or with less than 30 years of service credit.

Fiscal impact

The modification to the retirement eligibility requirements and benefit calculations for SERS members whose membership begins on or after the effective date of the bill would decrease the system's pension benefit liabilities, thus generating savings for SERS.

The provisions to increase the age requirements to retire under a retirement incentive plan for SERS members whose membership begins on or after the effective date of the bill would also decrease the system's pension benefit expenditures.

The requirement to the SERS Board to direct its actuary to evaluate the bill's retirement eligibility requirements at least once every ten years would increase its actuarial costs every ten years. The estimated costs to conduct the actuarial evaluation would be between $10,000 to $15,000, once every ten years.

The potential savings of the bill would be greater than the estimated increase in the actuarial costs.

Actuarial analysis of the bill

The actuarial analysis of S.B. 148 (As Introduced) was prepared by Buck Consultants for SERS. The proposed changes in the bill would reduce the SERS unfunded actuarial accrued liabilities (UAAL) by $3 million in the first year after the changes are implemented. Ultimately, the estimated reduction would reach $513 million, once all of the current SERS members are replaced with new hires whose memberships began on or after the effective date of the bill. The reductions in UAAL are projected future cost savings from the changes proposed in the bill.

This actuarial analysis was made based on the member and financial data, actuarial methods, and assumptions used on June 30, 2006. The estimates are subject to change each year.

LSC fiscal staff: Ruhaiza Ridzwan, Economist

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