ORSC

The Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215-3506
Phone: (614)228-1346
Fax: (614)228-0118
Website: www.orsc.org

Analysis

H.B. 120 – Rep. T. Patton
(As Introduced)

September 14, 2005

ORSC Position

Anne Erkman - Contact Person
(614)228-1346

H.B. 120 would increase the annual cost of living allowance (COLA) from $360 to $600 for individuals who retired from the Ohio Police and Fire Pension Fund (OP&F) prior to July 24, 1986 on the basis of a disability or service.

Staff Comments

Members who retired prior to July 24, 1986 were permitted to include various types of "terminal pay" (e.g., lump sum payments for accrued, but unused sick leave) in the calculation of their average annual salary. Members who retire on or after July 24, 1986 are prohibited from including "terminal pay" in the calculation of their average annual salary, but are granted an annual 3% COLA. Certain active members with at least fifteen years of service as of January 1, 1989 were given a choice between retiring with "terminal pay" or the annual 3% COLA. Those members electing the "terminal pay" option forgo any future COLA's.

OP&F members who retired prior to July 24, 1986 were first granted an annual COLA of $360 in 1988 (H.B. 389; eff. 9-9-88). At that time, the COLA was limited to those retirees receiving an annual benefit of less than $18,000. The $18,000 annual benefit cap was increased by $500 each year. This pension cap was eliminated completely in 2000 (H.B. 275; eff. 3-17-2000). Therefore, all OP&F members who retired prior to July 24, 1986 currently receive an annual COLA of $360 (or its actuarial equivalent for members who chose an optional plan of payment) regardless of their income. The Consumer Price Index has risen 57.7% since the annual $360 COLA was first granted in 1988. If the $360 COLA had kept pace with inflation, it would now equal $567.72. This bill would increase the annual COLA to $600 or its actuarial equivalent.

The ORSC actuary, Milliman, completed an actuarial review of the contribution rates for all five retirement systems in 2003, with an update 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. The review further found that 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.

According to the most recent actuarial valuation for OP&F, dated January 1, 2004, the funding period for unfunded accrued liabilities remains infinity.

Fiscal Impact

According to the OP&F actuary, Mellon, H.B. 120 would increase OP&F's unfunded accrued liability by $37 million and would decrease the funded ratio by 0.3%. Thus, had this change been effective January 1, 2004, the unfunded accrued liability would have increased from $1,461,275,000 to $1,498,275,000 and the funded ratio would have decreased from 86.5% to 86.2%. It would also increase the funding period for the unfunded accrued liability.

Because the current funding period as of January 1, 2004 is infinity, the actuary could not quantify the impact on that basis. However, if the actuary assumed the current funded position is such that the current amortization period is 30 years, the $37 million would increase the funding period by 3.5 years.

ORSC Position

At the September 14, 2005 meeting of the Ohio Retirement Study Council, the ORSC voted to recommend that the 126th General Assembly disapprove H.B. 120 based on the current financial condition of the fund**.**