OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

S.B. 280
134th General Assembly

Fiscal Note & Local Impact Statement

Click here for S.B. 280's Bill Analysis

Version: As Introduced

Primary Sponsor: Sen. Fedor

Local Impact Statement Procedure Required: No

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Highlights

- No direct fiscal effect on the state or on political subdivisions, because the bill does not affect required employer contributions to the State Teachers Retirement System (STRS).
- Requiring a minimum 2% increase in members' benefits each year would likely increase future STRS liabilities. That may make a future increase in employer (or employee) contribution rates necessary to ensure the system's ability to fully fund future benefits.

Detailed Analysis

Existing law provides an annual 2% increase in benefits for members of the State Teachers Retirement System (STRS), i.e., a cost-of-living adjustment (COLA), but authorizes the STRS Board to adjust the size of the COLA if the Board's actuary determines that an adjustment (1) does not materially impair the fiscal integrity of the retirement system or (2) is necessary to preserve the fiscal integrity of the system. The COLA has been set at zero for age and service retirees since July 2017. The bill provides that beginning July 1, 2022, the Board may no longer adjust the annual COLA to less than 2%. The bill does not affect the required STRS employer contribution rate.

Fiscal effect

The bill has no direct fiscal effect on the state or on political subdivisions, because there is no change to the employer contribution rate.[1]

[1] Currently, STRS members participating under the Defined Benefit Plan contribute 14.0% of payroll and members under the Combined Plan contribute 2.0% of payroll towards their defined benefit (the remaining 12% goes to members' defined contribution accounts). In addition, employers contribute 14.0% of payroll for members in such plans.

However, prohibiting the STRS Board, beginning July 1, 2022, from reducing the annual COLA increase to less than 2%, even if an actuary thinks it necessary to preserve the fiscal integrity of the system, would likely increase the system's expenditures and liabilities in the future. In general, any increase in the system's future liabilities, which may be compounded over the years, carries a potential risk for possible future underfunding of benefits, thereby making an increase in contribution rates paid by employees or employers necessary to ensure the system's ability to fully fund future benefits. Thus, there is a potential indirect increase in future public employers' spending associated with pension benefits to their employees.

By way of illustrating the magnitudes involved, the estimated cost of providing a 2% simple COLA for current STRS retirees is a little over $100 million in the initial year, according to an STRS official. Of course, an actuary may determine that such an increase, in any particular year, would not materially impair the fiscal integrity of the system. But for each year that an actuary determines that it would impair that integrity, the system's liabilities would increase by the present value,[2] as determined by an actuary, of paying that much more every year in the future to members in retiree status at that point in time.

Actuarial analysis for S.B. 280

An actuarial analysis for S.B. 280 (As Introduced) dated March 2, 2022, prepared by Cheiron, an actuary hired by STRS, reported that the STRS total actuarial accrued liabilities (AAL)[3] would increase by $12.76 billion, from $104.59 billion to $117.35 billion, if the bill's provision is implemented. In addition, the cost for benefits accruing after June 30, 2021, was projected to increase by 1.19% of employer payroll each year, which amounts to about $136 million in the initial year. In total, the employer contribution rate for FY 2022 would increase from 8.94% of payroll as of the June 30, 2021 valuation to 17.01%,[4] which is higher than the currently required 14% employer contribution rate, in order to pay off the unfunded actuarial accrued liability within 30 years (of 2015)[5] and to otherwise adequately fund future benefits.

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[2] "Present value" is the amount of money needed as of a particular date to pay all benefits that have been earned and in the future after accounting for interest earned on that amount of money.

[3] Accrued liabilities are the present value of future benefits for service credit that has been earned as of the valuation date.

[4] The employer contribution rate is the actuarially determined contribution rate for a particular period.

[5] This is a funding goal established by the STRS Board.