OHIO LEGISLATIVE SERVICE COMMISSION

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Office of Research and Drafting

Legislative Budget Office

H.B. 512
(l_134_2836-1)
134th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 512's Bill Analysis

Version: In House Insurance

Primary Sponsors: Reps. Abrams and Baldridge

Local Impact Statement Procedure Required: Yes

Ruhaiza Ridzwan, Senior Economist

Highlights

- H.B. 512 would Increase contribution rates for the employers of police officers who are members of the Ohio Police and Fire Pension Fund (OP&F), increasing the costs of such public employers. The estimated additional contribution costs for such employers statewide would be about $52 million in calendar year (CY) 2023, and about $57 million in CY 2024. Cost increases in subsequent years would be approximately $57 million, but growing proportionally with statewide payroll for police officers.
- Depending on the funding status of OP&F and decisions by its board, the bill may also increase employer contribution rates for firefighters, and increase the rates for police officers further. In that case, costs for employers of police officers and firefighters statewide would increase about $117 million annually (instead of the figure cited above).
- Actual additional contributions that must be made by such public employers to OP&F would depend on the actual number of police officers and firefighters that are employed by such employers and the officers' and firefighters' earned salaries in each pay period.
- LBO staff believe that there is no direct fiscal effect on the state.
- The bill includes an emergency clause.

Detailed Analysis

The bill increases contribution rates for employers of police officers (i.e., the employer's share of the contribution) that must be paid to the Ohio Police and Fire Pension Fund (OP&F) from 19.5% of payroll in CY 2022, to 24.0% starting with pay periods that begin on and after February 1, 2023. If both (1) the most recent actuarial valuation for OP&F determines that it will require more than 30 years to fully amortize the unfunded actuarial accrued pension liability and

(2) the OP&F Board determines that an increase in the contribution rate is necessary to preserve the fiscal integrity of the fund, the contribution rate for both police officers and firefighters is increased to a rate determined by the actuary and approved by the board, up to 26.5%. The current employer contribution rate for firefighters is 24.0%. The bill provides for a decrease in contribution rates to 24.0% if and when the OP&F funding situation improves.

Fiscal effect

Increasing employer contribution rates would increase the costs that must be contributed by police officer employers and firefighter employers to OP&F. Requiring an increase in the employer contribution rate for police officers would increase required contributions by public employers statewide by an estimated $52 million in CY 2023, for the 11 months it would be effective, and by an estimated $57 million in CY 2024.

If the conditions for increasing employer contribution rates further were met, i.e., if the OP&F funding status is poor, the increase in costs for local government employers would be up to $117 million per year. Of that amount, approximately $88 million would be paid on behalf of police officers and $29 million would be paid on behalf of firefighters. Actual additional contributions that must be made by each public employer to OP&F would depend on the actual number of police officers and firefighters that are employed by such employer and the officers' and firefighters' earned salaries in each pay period, as well as the contribution rates set by the board.

The estimated statewide additional required contributions for police officer and firefighter employers were calculated using OP&F members' annual salaries as of January 1, 2021, derived from an OP&F actuarial valuation report as of January 1, 2021,[1] and the bill's proposed contribution rates. As of that date, total annual salaries for police officers and firefighters statewide were about $1.26 billion and $1.16 billion, respectively. Estimated breakdowns of additional required contributions by individual local governments are undetermined due to lack of information on the number of police officers and firefighters employed by each local government and the amount of salaries earned by such officers and firefighters in each pay period.

LBO staff believe the bill has no direct fiscal effect on the state.

Actuarial analysis for H.B. 512

An actuarial analysis of H.B. 512 (As Introduced), prepared by the OP&F actuarial consultant, dated February 2, 2022, stated that "Based on the results of the January 1, 2021 Actuarial Valuation, we [the actuarial consultant] project a funding period as of January 1, 2022 of 24 years." The "funding period" is the number of years that OP&F is expected to need to fully amortize its liabilities. However, the consultant went on to note that "a scheduled quinquennial review of actuarial assumptions will be performed in calendar year 2022 for the period January 1, 2017 - December 31, 2021 and will be first used for the January 1, 2022 actuarial valuation. Absent this legislation, the review is expected to push the funding period over 30 years. For example, if

[1] Source: Police and firefighter annual salaries, derived from Table 9, Summary of Membership Data as of January 1, 2021, published in Pension Funding Report Ohio Police & Fire Pension Fund, Actuarial Valuation as of January 1, 2021.

the discount rate is lowered to 7.50%, the resulting January 1, 2022 funding period absent this legislation is estimated to be 39 years. Including this legislation, it is estimated to be 25 years." They explain further that a more complete analysis will be available when the results of the January 1, 2022 actuarial valuation are available and the actual quinquennial review is completed, in the fall of 2022. Under existing law, in any year a retirement system's funding period exceeds the 30-year requirement, the system is required to submit a report to the Ohio Retirement Study Council outlining its plans to reduce the funding period to 30 years or less.

Synopsis of Fiscal Effect Changes

The substitute bill removes the phase-in of increases in contribution rates, increasing the rate for police officers to 24.0% of payroll effective for pay periods beginning on or after February 1, 2023. It also adds the provision that increases contribution rates further, up to 26.5%, conditional on the OP&F funding status.

The increase in contribution rate for police officers increases the cost to their employers to $52 million in CY 2023 and to $57 million in CY 2024, up from $23.4 million and $46.8 million, respectively, for the introduced bill.

If the funding status leads to contribution rates being increased to 26.5%, the annual cost of the bill would be an estimated $117 million, the same cost as the eventual cost in the introduced bill. The substitute bill thus makes a cost increase of this magnitude contingent on the OP&F funding status and thus possibly avoiding it, but alternatively may increase costs to this level earlier than would happen under the introduced bill.

The substitute bill also adds an emergency clause.

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