Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 83 of the 128th G.A.

Date: April 21, 2009

Status: As Introduced

Sponsor: Sen. Faber

Local Impact Statement Procedure Required: No—no local cost

Contents: To exclude certain compensation when determining retirement benefits under the Public Employees Retirement System

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund (GRF) and other state funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential savings in employers' contributions, by approximately $200,000	Potential savings in employers' contributions, by approximately $200,000
Public Employees Retirement System (PERS)			
Revenues	- 0 -	Potential loss in contributions	Potential loss in contributions
Expenditures	- 0 -	Potential decrease in benefits payments	Potential decrease in benefits payments

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill excludes amounts attributable to certain overtime or salary increases from the determination of final average salary for calculating defined benefit pension benefits for members of the Public Employees Retirement System (PERS). This would change the system's retirement benefit calculations and may potentially reduce the system's benefit payments. Contributions to PERS are unaffected.
- The bill does not require a state employer to make contributions on the amounts of an employee's earnable salary that exceed the Governor's annual salary. This may reduce amounts contributed to PERS on behalf of affected members by approximately $200,000 per year. A state employer contributes 14% of an employee's earnable salary to PERS.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties, municipalities, townships			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Savings in employers' contributions, potentially in the millions	Savings in employers' contributions, potentially in the millions	Savings in employers' contributions, potentially in the millions

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

- The bill does not require a county, municipality, and township employer to make contributions on the amounts of an employee's earnable salary that exceed the Governor's annual salary. This may reduce amounts contributed to PERS on behalf of affected members by up to several millions per year. A county, municipality, or township employer contributes 14% of an employee's earnable salary to PERS. Some employers contribute some portion of their employees' contributions on behalf of their employees.

Detailed Fiscal Analysis

The bill excludes amounts attributable to certain overtime or salary increases from a member's final average salary (FAS) for determining a PERS member's defined benefit pension. The bill specifies that any contributions that are excluded from FAS limitations due to this provision should be deposited in that member's savings fund and provided as a separate annuity to such member at retirement. The bill excludes pay that exceeds the Governor's salary from "earnable salary," used to determine FAS. According to a Department of Administrative Services (DAS) official, the Governor's salary is $145,600 per year.[1] An employee and a state and local government employer are not required to make contributions on the amounts of an employee's earnable salary that exceed the Governor's annual salary.

The bill requires the PERS Board to notify a member if a portion of the member's earnable salary is excluded from his or her retirement benefit calculations due to the provision excluding certain overtime or salary increases. The bill specifies that such a member may request a hearing to the PERS Board to determine whether such earnable salary may be included in his or her retirement benefits determinations. If approved by the Board, the bill indicates that up to $7,500 of the excluded amount may be used for such member's benefit calculations. The bill specifies that the Board's determination is final.

Fiscal effect

The bill may reduce amounts contributed by all state agencies to PERS on behalf of their affected members by approximately $200,000 in FY 2010. This savings would be to the GRF and to other state funds. The estimate is calculated based on DAS data on current state members in calendar year 2007; approximately 78 members received an estimated annual salary over the Governor's salary. Currently, a state agency contributes 14% of an employee's earnable salary to PERS. The bill may also reduce amounts contributed by all local government employers to PERS on behalf of their affected members, potentially in the millions of dollars per year. A county, municipality, or township employer contributes 14% of an employee's earnable salary to PERS. State or local government employers currently contribute 17.4% of a law enforcement or a public safety member's earnable salary.

The bill may decrease the PERS's retirement benefit payments and amounts contributed to PERS. The actual fiscal impact of these provisions on PERS will depend on the number of members that would be affected by the bill, the amount of earnable salary that would be excluded from the benefit and contribution calculations, and the timing of such exclusions. The bill may also increase the Board's administrative costs associated with such determinations and hearing requirements.

[1] Based on an hourly rate of $70 per hour and working 2,080 hours per year.

Currently, a member's three highest years of earnable salary is used to calculate such member's final average salary. A member's FAS, a member's age, and years of service are used to calculate a member's retirement benefit. In addition, an earnable salary is used to calculate a member's contributions. Based on data on PERS's current members as of February 1, 2009, approximately 761 members received an estimated final average salary over the Governor's salary. The amount of revenue loss to PERS is undetermined, but potentially in the millions. Savings to PERS would be experienced in the future. Estimating the current value of the savings would require an actuary's opinion. The data do not include amounts of contributions paid or types of compensation that are excluded by the bill.

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