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***H.B. 362 of the 132nd
General Assembly***

Reps. Carfagna and Ramos

October 12, 2017

ORSC Recommendation

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H.B. 362 Summary

H.B. 362 would modify the laws governing the State Highway Patrol Retirement System (SHPRS). It would eliminate the unreduced retirement at age 48, eliminate the guaranteed 50% benefit for *off-duty* disabilities, and modify survivor benefits. This analysis is an update on LSC 132 1169, approved, with amendments, by the ORSC at its June 8, 2017 meeting. H.B. 362 includes all amendments recommended for inclusion by the ORSC at that meeting.

Elimination of Unreduced Retirement at age 48

Under current law, SHPRS members are eligible to retire with an unreduced pension at age 52 with 20 or more years of service. Members may also retire with an unreduced benefit at age 48 with 25 or more years of contributing service or with a reduced pension at age 48 with 20 or more years of service.

The new provision in H.B. 362 will continue to allow for members to retire with a reduced pension at age 48 with 20 or more years of service; however, retirement at age 48 with full benefits will be eliminated regardless of years of service. This provision would affect those newly hired on and after January 1, 2020. All others hired prior to this date would be grandfathered into current law.

Current Law	Proposed
Retire with unreduced pension at age 52 with 20 or more years of service	No change
Retire with unreduced pension at age 48 with 25 or more years of service	Eliminate
Retire with reduced pension at age 48 with 20 or more years of service	No change

The proposed legislation would restore the minimum full-retirement age to 52, as it had been prior to 1989.¹ By eliminating full retirement at age 48, the bill would standardize SHPRS minimum retirement age requirements with the other law enforcement systems (Ohio Police and Fire (OP&F) and Ohio Public Employees Retirement System's Law Enforcement Division (PERS-LE)). OP&F and PERS-LE likewise eliminated full retirement at age 48 under 2012's pension reform; therefore, the recent ORSC approved trend is to move full-retirement up from age 48 for the

¹ H.B. 340 of the 118th General Assembly.

uniformed services. Similarly, OP&F and PERS-LE provided that some of pension reform applied to members hired after the effective date of the bill.

ORSC recommends approval of the elimination of an unreduced retirement benefit at age 48 to standardize SHPRS minimum age requirements with the state's other law enforcement systems and strengthen the funding of SHPRS.² Furthermore, the elimination of an unreduced retirement benefit at age 48 will bring SHPRS minimum age requirements back in line with the ORSC's 1978 Principles Governing Pensions,³ which state that the normal retirement age should be set in a reasonable relationship to employability limits, which is generally age 52 to 55 for protective and safety force employees. The bill also provides that the changes will not affect any current SHPRS members.

According to the SHPRS actuary, this provision will have no effect on current liabilities of the fund (as the bill does not affect current members).⁴ However, because the bill would reduce the normal cost of the plan, in the future, additional funds would be available from the employer normal cost to pay down existing liabilities and the funding period of the plan would decrease. The ORSC actuary reviewed the analysis of the SHPRS actuary and agreed with its conclusion. It is likely that in the long term the normal cost would decrease by approximately 0.84% of pay. The conclusion that the current costs and liabilities would not change is also confirmed.⁵

Pension Benefit Calculation for Off-Duty Disabilities

Currently, a SHPRS member who is permanently disabled with an *off-duty* related injury or illness is eligible to receive the greater of either 50% of their average annual salary *or* the applicable age and service pension. Practically speaking, for off-duty disabilities, SHPRS allows the member to either take the higher of the benefit they have already earned (the age and service pension) or be treated as if they had 20 years of service (a 50% benefit). For example, an individual with an off-duty disability with 21 years of service would likely take the age and service pension (52.25% of average salary), while a member with only five years of service would likely take the automatic 50% benefit, as if they were retiring with 20 years of service.

H.B. 362 reduces the minimum off-duty benefit to 30% (rather than 50%). Effectively this means that those members with less than 12 years of service will be treated as if they had at least 12 years of service (rather than 20 under current law).⁶ Reducing the automatic 50% benefit would have the effect of reducing pensions for

² SHPRS most recent actuarial report indicates that its funding period is 30 years and it is therefore not statutorily required to submit a plan to reduce its funding period to the ORSC. However, both the ORSC and the ORSC actuary have advocated and encouraged the retirement systems to be proactive on funding levels and reduce the funding period.

³ Ohio Retirement Study Council, Principles Governing Pensions (1978).

⁴ GRS, "Requested Supplemental Actuarial Valuations (Pension)" (GRS letter to Mark Atkeson, October 10, 2016), 3.

⁵ Email correspondence between William Fonia and Jeff Bernard (June 5, 2017).

⁶ A SHPRS retiree receives 2.5% final average salary for each of the first 20 years of service plus 2.25% for the next five years, plus 2% for any additional year of service.

newly disabled SHPRS members with less than 20 years of service who incur an off-duty disability. *Members with on-duty disabilities are unaffected by the bill.*

The ORSC has addressed off-duty disabilities on a system-by-system basis. There is little standardization between the systems on eligibility or benefit amounts. Previous ORSC recommendations show no real trend in preference. Finally, off-duty disabilities are not discussed in the ORSC's 1978 Principles Governing Pensions. In this case, ORSC evaluates existing provisions in a similar system, which does provide some guidance. The benefit varies between OP&F and PERS-LE, with OP&F authorized to provide a board fixed amount (no minimum) with a maximum of 60% of average salary, and PERS-LE providing an amount determined by years of service with a minimum of 45% and maximum of 60%.

Considering these existing provisions in OP&F and PERS-LE, current SHPRS law does provide a greater off-duty benefit than PERS-LE or OP&F. ORSC therefore recommends approval of the general policy change of the bill to moderate the off-duty benefit provided by SHPRS.

According to the SHPRS actuary,⁷ a similar change would have a small but measurable effect on existing liabilities, and would slightly reduce the amortization period. The ORSC actuary reviewed that previous analysis and concurred that the impact would be favorable, but small.⁸

Survivor Benefits for a Deceased Member or Retirant

Current law provides that if a SHPRS member predeceases a spouse, active or retired, the spouse is eligible to collect the greater of either a survivor benefit of \$900 a month *or* 50% of the computed monthly pension of the deceased member. If the member had retired, the survivor also receives any benefit based on the annuity selected by the deceased member, up to the maximum allowed by federal law.

H.B. 362 proposes to eliminate the automatic 50% survivor benefit, and instead provide \$900 a month, plus any annual cost-of-living adjustment (COLA) increase as determined by the board, to survivors of active or deceased members. Retired members would continue to have the option to elect a joint survivor annuity (JSA) at retirement to maximize the benefit to a survivor.

According to SHPRS and unlike the other state retirement systems, members are not required to choose a JSA if married and often select the higher single life annuity. A single life annuity ceases at death. However, under current SHPRS law, the automatic benefit allows members to select the higher single life annuity and still provide the maximum benefit allowable under federal law to a surviving spouse. Effectively, SHPRS members are able to maximize both their own retirement income and provide a maximum survivor benefit, which is not funded through the normal annuity benefit.

SHPRS expects that as a result of this legislation members will begin to select a JSA. If so, SHPRS retirees would receive an actuarially reduced benefit during retirement

⁷ GRS, "Requested Supplemental Actuarial Valuations (Pension)" (GRS letter to Mark Atkeson, October 10, 2016), 5. The original analysis was of a complete elimination of the 50% minimum.

⁸ Email correspondence between William Fonia and Jeff Bernard (June 5, 2017).

that continues after death to a spouse. The spouse would also receive \$900 (plus cumulative future COLAs). Alternatively, a member could select a single life annuity. In this instance, the surviving spouse would receive \$900 (plus cumulative COLA) and no continuing retiree benefit. These provisions will not affect those already retired or those members who participate in DROP.

The structure of benefits would be very similar to OP&F:

Spousal Survivor Benefit by Uniform Retirement System				
Deceased Member	OPERS-LE	OP&F	SHPRS Current	SHPRS Proposed
Was Not Eligible to Retire	Less than 20 years: 25% of deceased member's FAS ⁹ 20 to 30 YOS: Sliding scale of member's FAS (29% at 20 years to 60% at 29+ years)	\$826.10 plus cumulative COLAs; \$410 if Death Benefit Fund Recipient	\$900	\$900 plus cumulative COLA
Eligible to Retire but Not Yet Retired	Assumed to have selected a 100% joint and survivor annuity	\$826.10 plus cumulative COLAs <i>plus</i> assumed to have selected a 50% joint and survivor annuity	Greater of \$900 or 50% of the retiree's age & service pension benefit (single life annuity)	\$900 plus cumulative COLA <i>plus</i> assumed to have selected a 50% joint and survivor annuity
Retired	Benefit based on selected annuity	\$826.10 plus future COLAs <i>plus</i> any benefit based on selected annuity	Greater of \$900 or 50% of the retiree's age & service pension benefit (single life annuity), <i>plus</i> any benefit based on selected annuity	\$900 plus cumulative COLA <i>plus</i> any benefit based on selected annuity

ORSC approves this change as it continues to provide a generous survivor benefit but also eliminates a benefit that was not actuarially appropriate.

⁹ Minimum of \$250.

According to the SHPRS actuary, a similar change would reduce existing liabilities by roughly \$6 million and reduce the amortization period by two years.¹⁰ The ORSC actuary has reviewed the analysis and concurs that this change would have a significant impact on the funding period and liabilities.¹¹

Survival Benefits and Marriage after Retirement

Currently, any SHPRS spouse is eligible to receive a survivor's benefit (\$900 or 50% of the retiree's age and service benefit). This is the case even if a member becomes married *after* retirement.

H.B. 362 would eliminate survivor benefits for those who marry *after* retirement. This change would only affect future retirees. Note that this change applies only to the \$900 or 50% survivor's benefit; the retirant would still have the ability to select a JSA providing benefits to the new spouse after the member's death. In comparison to other state law enforcement agencies, OP&F and OPERS-LE only require a marriage certificate, regardless of when the marriage occurred. ORSC recommends approval of this change as the new spouse would continue to be eligible for a JSA benefit.

According to the SHPRS actuary, this change would reduce existing liabilities by roughly \$1.5 million and reduce the amortization period by a year.¹² The ORSC actuary has reviewed the SHPRS actuarial analysis and finds that the estimates are reasonable.¹³

Actuarial Summary and Conclusions

The SHPRS actuarial analysis calculated the impact of similar changes as are in the bill as well as the impact if all four were adopted. Note that the combined impact is not merely the same as the sum of the impacts of each. This can be seen from the table below.

Potential Provision Eliminated	Reduction in Normal Cost	Reduction in Amortization Payment	Reduction in Funding Period
Unreduced Age 48 retirement	0.84% long term only	0.00%	0.00 years
Off-Duty Disability 50% minimum	0.34%	-0.10%	1.27 years
Surviving Spouse 50% minimum	0.24%	0.33%	2.09 years
Spouse benefit if married after retirement	0.08%	0.09%	0.97 years
All of the above	0.65%	0.28%	3.68 years

¹⁰ GRS, "Requested Supplemental Actuarial Valuations (Pension)" (GRS letter to Mark Atkeson, October 10, 2016), 6.

¹¹ Email correspondence between William Fonia and Jeff Bernard (June 5, 2017).

¹² GRS, "Requested Supplemental Actuarial Valuations (Pension)" (GRS letter to Mark Atkeson, October 10, 2016), 8.

¹³ Email correspondence between William Fonia and Jeff Bernard (June 5, 2017).

The ORSC actuary has reviewed these and finds the estimates to be reasonable.¹⁴

ORSC Recommendation

ORSC recommends that the 132nd General Assembly approve H.B. 362 for the following reasons:

- a) The elimination of unreduced retirement at age 48 standardizes SHPRS's retirement age with OP&F and OPERS-LE and complies with ORSC retirement principles.
- b) H.B. 362 moderates off-duty disability benefits within the range of other law enforcement retirement systems and also allows SHPRS to proactively improve its funding condition.
- c) H.B. 362 eliminates a situation in which a survivor benefit did not accurately reflect the actuarial cost. This change removes a significant cost to the system and would materially improve its funding condition.
- d) The changes will proactively strengthen the funding status of SHPRS.

Effective Date: May 11, 2018

¹⁴ Email correspondence between William Fonia and Jeff Bernard (June 5, 2017).