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Memorandum

R-130-1219-1

To: The Honorable Lynn R. Wachtmann
Ohio House of Representatives

From: Amy J. Rinehart, Research Associate AJR

Date: June 14, 2013

Subject: Adjustments to the mitigating rate for ARP participants

You requested that LSC staff research the question of whether the State Teachers Retirement System (STRS) Board is authorized to adjust the mitigating rate charged participants in an alternative retirement plan (ARP). Based on action taken by the STRS Board, public institutions of higher education are raising the mitigating rate on July 1 for their employees participating in an ARP. There are concerns that the STRS Board is not authorized by current law to increase the mitigating rate. From my research it appears that only the Ohio Retirement Study Council (ORSC) has the authority to increase the ARP mitigating rate.

Current law requires a public institution of higher education to contribute a percentage of the compensation of an employee electing to participate in an ARP to the public retirement system that would otherwise cover the employee.¹ The purpose of this contribution, referred to as the "mitigating rate," is to offset any negative financial impact of the ARP on the public retirement system.

Current law specifies that the ARP mitigating rate is 6%, but it can be adjusted by ORSC to reflect determinations made in an actuarial analysis.² The mitigating rate for ARPs is currently 3.5%.³ Every three years, ORSC must complete and submit to the Ohio Board of Regents an independent actuarial study to determine any necessary adjustments to the mitigating rate to reflect any changes in the level of negative financial impact resulting from the establishment of ARPs. Based on the results of the actuarial study, ORSC is permitted, but not required, to increase or decrease the

¹ Revised Code (R.C.) 3305.06(D).

² R.C. 171.07 and 3305.06.

³ Telephone interview with Jeffrey Bernard, ORSC Senior Research Associate (June 10, 2013).

mitigating rate. Any adjustment to the mitigating rate is to become effective on the first day of the second month following submission of the study to the Board of Regents.⁴

The STRS defined contribution plan also has a mitigating rate of 3.5%. Beginning July 1, 2013, the mitigating rate for the STRS defined contribution plan will be increased to 4.5% (from 3.5%).⁵ While the STRS Board is required to adjust the mitigating rate for the STRS defined contribution plan based on the results of its own actuarial study,⁶ the Board is not authorized to adjust the mitigating rate for ARPs. Current law specifies only that the mitigating rate for ARPs cannot exceed the mitigating rate for the STRS defined contribution plan.⁷

I hope you find this information helpful. Please contact me at (614) 728-3568 if you have questions or if I can be of further assistance.

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⁴ R.C. 171.07 and 3305.06(D).

⁵ State Teachers Retirement System, *February Board News* (last visited June 11, 2013), available at <<https://www.strsoh.org/boardnews/Feb13.html>>.

⁶ R.C. 3307.84.

⁷ R.C. 3305.061.