



The Ohio Retirement Study Council

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Analysis

Sub. H.B. 275 - Sen. Vesper As Enacted by the 123rd General Assembly

October 13, 1999

ORSC Position

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Sub. H.B. 275 would make the following survivor and retiree benefit improvements under the Ohio Police and Fire Pension Fund (OP&F):

- Increase the monthly survivor pension for all spouses who were excluded from H.B. 194 (eff. 12/21/98), *except* for spouses who qualify for benefits equal to the full monthly salary of the deceased member under the Ohio Public Safety Officers Death Benefit Fund (Death Benefit Fund), from the current \$410 to \$550;
- Index the monthly \$550 survivor pension to the average percentage change in the CPI-W, up to a maximum of three percent, beginning on July 1, 2000 and each year thereafter;
- Make the above monthly survivor pension increase retroactive to July 1, 1999 for all spouses who were excluded from H.B. 194 by providing a one-time, lump-sum payment equal to \$140 for each month the spouse was eligible to receive a monthly survivor pension between July 1, 1999 and the effective date of the bill (December 22, 1998 for all spouses who became survivors after the effective date of H.B. 194 but prior to July 1, 1999);
- Limit the election to switch from a single life annuity to a joint and survivor annuity, as provided under H.B. 194, to members who are still married to the person who was the spouse at the time the original election was made, and clarify that such election must be mailed to the fund's principal place of business.
- Eliminate the annual pension cap of \$23,500 in 1999 (increased by \$500 each year) for OP&F members retiring prior to July 24, 1986 for purposes of qualifying for an annual COLA, up to a maximum of \$360, or its actuarial equivalent.

Details of the above changes follow.

Monthly Survivor Pension Increased - The bill would increase the monthly survivor pension for all spouses who were excluded from H.B. 194 (eff. 12/21/98), *except* for Death Benefit Fund spouses receiving the deceased member's full monthly salary, from the current \$410 to \$550 per month. The following spouses would receive the increase:

- spouses of members who retire on or after September 16, 1998 (the effective date of H.B. 648 which guarantees, in addition to the monthly survivor pension, a 50% joint and survivor annuity unless the spouse gives informed written consent to waive the annuity) and who die after July 1, 1999;
- spouses of active members who, on or after September 16, 1998, are eligible for service retirement at the time of death (existing law provides, in addition to the monthly survivor pension, a 50% joint and survivor annuity to such spouses) and who die after July 1, 1999; and
- spouses of members who retired prior to September 16, 1998 but whose death occurs after December 21, 1999 (the expiration of the one-year window provided under H.B. 194 for retired members to elect a joint and survivor annuity for their spouses).

The benefit increases proposed under the bill are the same as those provided under H.B. 194.

Monthly Survivor Pension Indexed - The bill would index the monthly survivor pension to the average percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the preceding calendar year, up to a maximum of three percent. This percentage change would be applied to the base amount of \$550, and would first become effective on July 1, 2000 and the first of July in each year thereafter.

One-Time Lump Sum Payment - The bill would provide a one-time lump sum payment to spouses who become survivors after December 21, 1998 (the effective date of H.B. 194) and who are eligible for the benefit increase provided under H.B. 194 on July 1, 1999. These spouses would receive a lump sum payment equal to \$140 for each month they are eligible to receive a monthly survivor pension for the period from December 22, 1998 through June 30, 1999.

The bill would also provide a one-time lump sum payment to spouses who were excluded from the benefit increase provided under H.B. 194, except Death Benefit Fund spouses receiving the deceased member's full monthly salary. These spouses would receive a lump sum payment equal to \$140 for each month they are eligible to receive a monthly survivor pension for the period from July 1, 1999 through the effective date of the bill.

The OP&F board would be required to make these one-time lump sum payments no later than the first day of the second month after the effective date of the bill. The lump sum payments proposed under the bill are consistent with the lump sum payments provided under H.B. 194.

Election to Joint & Survivor Annuity Limited- The bill would limit the election provided under H.B. 194 which permits members retired prior to September 16, 1998 to elect a joint/survivor annuity no later than December 21, 1999. Under the bill, only members who are married to the same spouse they were married to at the time of retirement may make the election. Current law allows members who marry or remarry after retirement to change from a single life to a joint/survivor annuity. Also, the bill would further clarify that the election form shall be mailed to the pension fund's principal place of business rather than the pension board.

Pension Cap for COLA Eliminated - The bill would eliminate the annual pension cap under existing law that provides for an annual COLA, up to a maximum of \$360 or its actuarial equivalent, to members who retired prior to July 24, 1986 and whose annual pensions are less than the cap (\$23,500 in 1999, increased by \$500 each year thereafter). Members who retired prior to July 24, 1986 were permitted to include various types of "terminal pay" (e.g., lump sum payments for accrued, but unused sick leave) in the calculation of their average annual salary. By eliminating the current cap, these members whose annual pensions exceed \$23,500 would become eligible for the annual COLA of up to \$360.

Members who retire on or after July 24, 1986 are prohibited from including "terminal pay" in the calculation of their average annual salary, but are granted an annual COLA, up to a maximum of three percent of the original benefit amount. Certain active members with at least fifteen years of service as of January 1, 1989 are given a choice between retiring with "terminal pay" or the annual COLA of up to three percent. Those members electing the "terminal pay" option would forego any future COLA's.

Staff Comments - Last session the ORSC recommended that the 122nd Ohio General Assembly approve H.B.

194 (eff. 12/21/98), which increased the monthly survivor benefits for various groups of surviving spouses covered under OP&F. At that time, the ORSC actuary had determined that \$127.5 million was the maximum additional liability that could be financed by OP&F based on the latest actuarial data without increasing contributions and without jeopardizing the pension fund's ability to obtain a 30-year funding period no later than calendar year end 2006, as required by law. In order to stay within these financial constraints, it was not possible then to provide benefit increases to *all* surviving spouses covered under OP&F, the total cost of which was determined by the ORSC actuary to be \$256.9 million. Therefore, H.B. 194 was designed to provide, within the pension fund's available resources as determined by the ORSC actuary, survivor benefit increases to those spouses who were among the most needy and dependent upon the legislature for financial relief. H.B. 275 would provide these same benefit increases to all surviving spouses who were excluded from H.B. 194, except Death Benefit Fund spouses receiving the deceased member's full monthly salary.

Under the Death Benefit Fund, surviving spouses of public safety officers who are killed in the line of duty or die from injuries sustained in the line of duty qualify for the full monthly salary of the deceased member, as indexed, minus any monthly survivor benefits paid by the state retirement systems up until the date the member would have qualified for normal retirement.¹ Because of this dollar for dollar offset, these spouse would realize no additional benefits in the aggregate *if* they were included under the bill. Moreover, because benefits provided under the Death Benefit Fund are non-taxable whereas benefits provided by the state retirement systems are generally taxable, these spouse could actually realize a benefit reduction *if* they were included under the bill - contrary to the legislative intent of the bill. For these reasons, they would remain excluded from the proposed benefit increase under the bill.

ORSC Position - At its meeting of August 25, 1999, the Ohio Retirement Study Council voted to recommend that the 123rd Ohio General Assembly approve S.B. 118/H.B. 275, as introduced, upon the adoption of the following amendments:

- exclude Death Benefit Fund surviving spouses who qualify for benefits equal to the deceased member's full monthly salary from the proposed survivor benefit increase;
- change the date from December 16, 1998 to December 21, 1998, with a corresponding change from December 17, 1998 to December 22, 1998 for the one-time, lump sum payment to certain surviving spouses in the Ohio Police and Fire Pension Fund; and
- eliminate the emergency clause.

The substitute bill, as reported out of the House Health, Retirement & Aging Committee, incorporates all of the above amendments.

Effective Date - March 17, 2000

¹Upon the deceased member's normal retirement eligibility date, the benefit paid by the Death Benefit fund is reduced by one-half, but is no longer offset by the monthly survivor benefit paid by OP&F.