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# *Analysis*

## **Sub. H.B. 373 - Rep. Hughes (As Enacted)**

January 28, 2003

ORSC Position

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Sub. H.B. 373 makes the following changes to the Highway Patrol Retirement System (HPRS):

- Establishes a partial lump sum option payment (PLOP), in addition to the current optional plans of payment, for eligible HPRS members;
- Changes the determination process for disability retirement;
- Includes any amounts paid by the member to purchase service credit upon a refund of the member's accumulated contributions;
- Increases the employee contribution from 9.5% to 10% of the member's salary.

Details of the above changes follow.

**Partial Lump Sum Option Payment (PLOP)** - The act establishes, in addition to the existing optional payment plans, a partial lump sum option payment (PLOP) for members eligible under HPRS. To be eligible to elect the PLOP, the member must have attained age 51 with at least 25 years of service or age 52 with at least 20 years of service. Currently, HPRS members may elect at the time of service retirement one of the following optional plans of payment:

- A single life annuity that provides the maximum retirement allowance payable for the life of the retired member only;
- A joint and survivor annuity that provides for the actuarial equivalent of the member's single life annuity for the life of the retired member and 100% of such annuity continuing after death for the life of the member's sole designated beneficiary;
- A joint and survivor annuity that provides for the actuarial equivalent of the member's single life annuity for the life of the retired member and 50% or some other portion of such annuity continuing after death for the life of the member's sole designated beneficiary;
- An annuity certain that provides for the actuarial equivalent of the member's single life annuity for the life of the member and continuing to the member's designated beneficiaries, provided the guaranteed period selected by the member at retirement has not expired.

Under the act, eligible HPRS members could elect a PLOP that provides for a partial lump sum payment in an amount designated by the member and the remainder as a monthly single life annuity payable for the life of the retired member. The total amount of the lump sum payment and the monthly annuity shall be the actuarial equivalent of the member's single life annuity the member would have received had the PLOP not been elected. The lump sum payment designated by the member shall be no less than six times nor more than 60 times the member's monthly single life annuity otherwise payable. Furthermore, an eligible member who has attained age 51 with at least 25 years of service and who elects the PLOP may designate an amount that does not exceed an amount equal to one month's annuity for each month of service beyond 25 years; similarly, an eligible member who has attained age 52 with at least 20 years of service and who elects the PLOP may designate an amount that does not exceed an amount equal to one month's annuity for each month of service beyond 20 years.

**Disability Retirement** - The act permits disability retirement under HPRS to be determined based upon a medical or psychological examination conducted by a health care professional(s) appointed by the retirement board. The board may adopt rules specifying the types of health care professionals that may be appointed to assist the board in making disability determinations. Currently, the disability statutes limit such determination based upon a medical examination conducted by a physician(s) (i.e, MD or DO) which excludes a psychologist, for example. Under

the act, the disability standard would remain the same; that is, "... a member who becomes totally and permanently incapacitated for duty in the employ of the state highway patrol ..."

**Accumulated Contributions** - The act includes any amounts paid by the member to purchase service credit as part of the member's accumulated contributions, thereby providing for payment of such amounts upon any refund of the member's accumulated contributions. Under current law, "accumulated contributions" are limited to amounts deducted from the member's salary. The proposed change is consistent with the laws governing the other retirement systems.

**Employee Contribution Rate** - The act increases the employee contribution rate from 9.5% to 10% of the member's salary (effective March 24, 2003). The employee contribution rate is fixed by statute and, therefore, requires legislation to change it.

Under current HPRS law, the employer contribution rate is set by the board based upon the recommendations of its actuary, but may not exceed three times the employee contribution rate. Due to several years of lower than assumed investment earnings and higher than assumed retiree health care costs, the HPRS actuary recommended an increase in both the employer and employee contribution rates in order to maintain the actuarial soundness of HPRS. The HPRS board took action to increase the employer contribution rate from the current 23.5% to 24.5% of payroll, effective July 1, 2003.

The act also makes the following changes to OP&F:

- Clarifies that OP&F members who elect to participate in the deferred retirement option plan (DROP) shall be ineligible to purchase or otherwise obtain additional service credit on or after the effective date of such election; shall have their monthly pension calculated based upon the service credit and final average salary as of the effective date of such election; shall have the annual cost-of-living allowance based upon their monthly pension amount calculated as of the effective date of such election; shall be eligible for their first COLA one year following the effective date of such election; and shall begin receiving their pension *no later than* the first day of the second month following termination of DROP participation rather than on such day.
- Clarifies that the death of a DROP participant's spouse following the effective date of the election cancels any optional plan of payment providing continuing benefits to such spouse and returns the participant to a single life annuity; that any optional plan of payment shall be based upon the DROP participant's monthly pension calculated as of the effective date of the election; that the optional plan of payment available for DROP participants is limited to Option 2 under existing law which provides 50% or some other portion of the participant's reduced pension for the life of the designated beneficiary; and that the right of a member who marries or remarries after normal service retirement to choose a new optional plan of payment under existing law is limited to retired members, excluding DROP participants.
- Clarifies that annual accrued interest on DROP accounts continues until the day before the date distributions from the participant's DROP account are completed rather than upon termination of DROP participation.
- Eliminates the 18-month service credit requirement under existing OP&F law for members to receive credit for service previously purchased or transferred to PERS, STRS or SERS.

### **Staff Comments**

One of the ORSC staff recommendations made in the final report to the Joint Legislative Committee to Study Ohio's Public Retirement Plans (12/11/96) was the need to provide greater

portability and benefit options for Ohio's public employees. Since then, several legislative measures have been favorably recommended by the ORSC and enacted into law pursuant to this recommendation, including: the creation of an alternative defined contribution plan for employees of public institutions of higher education (H.B. 586 - eff. 3/31/97); the creation of alternative defined contribution plans for PERS, STRS and SERS members (H.B. 628 - eff. 9/21/00; S.B. 190 - eff. 7/13/00; S.B. 270 - eff. 4/9/01); the portability of service credit between the Cincinnati Retirement System and the state retirement systems (H.B. 535 - eff. 4/1/01); and the most recent creation of a deferred retirement option plan for OP&F members (S.B. 134 - eff. 7/22/02) and a partial lump sum payment option for PERS, STRS and SERS members at the time of retirement (S.B. 247 - eff. 10/1/02).

The proposed PLOP under H.B. 373 for HPRS members is similar to the PLOP recently enacted under S.B. 247 for PERS, SERS and STRS members. It is designed to be cost neutral to HPRS since the PLOP, like the current payment options available to retiring members, shall be the actuarial equivalent of the monthly retirement allowance the member would have received had the PLOP not been elected. Moreover, it is designed to encourage HPRS members to work beyond normal age and service retirement - similar to the deferred retirement option plan (DROP) recently established under S.B. 134 for OP&F members.

### **Fiscal Impact**

The proposed changes in the substitute bill are designed to be cost-neutral and, therefore, would have no actuarial impact upon HPRS. To the extent that the proposed PLOP encourages HPRS member to work longer than would otherwise be the case, there may actually be cost savings, particularly with respect to retiree health care costs since the employer would remain responsible for health care coverage during the member's continued employment.

### **ORSC Position**

At its meeting of May 8, 2002, the Ohio Retirement Study Council voted to recommend that the Ohio General Assembly approve the following cost-neutral components of H.B. 373:

- the proposed partial lump sum option payment;
- the proposed changes in the determination of disability retirement.

and that the Ohio General Assembly defer action on the remaining provisions of the bill until the results of the actuarial valuation as of December 31, 2001 are complete.

### **Effective Date**

March 24, 2003