



The Ohio Retirement Study Council

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Analysis

H.B. 375 - Rep. Jordan
S.B. 189 - Sen. Spada

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ORSC Position

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H.B. 375 - Rep. Jordan/S.B. 189 - Sen. Spada

H.B. 375/S.B. 189 would make the following changes in the Highway Patrol Retirement System (HPRS):

- Increase the retirement benefit formula for members with more than 20 years of service (R.C. §5505.17);
- Provide an ad hoc increase for current age and service and disability retirees with more than 20 years of service (R.C. §5505.176);
- Reduce the employee contribution rate (R.C. §5505.15);
- Increase the minimum monthly pension for age and service and disability retirees (R.C. §§5505.16, 5505.17, 5505.171, 5505.18);
- Allow retirants who retired prior to September 21, 1994 to select a joint and survivor annuity within 60 days of the effective date of the bill (R.C. §5505.163);
- Increase the minimum monthly survivor benefit (R.C. §5505.17);
- Entitle members to a refund of the cost of purchased service credit that does not increase the member's benefit (R.C. §5505.29);
- Increase the lump-sum death benefit (R.C. §5505.30).

Details of these proposed changes follow.

Staff Comments

Increase in Retirement Benefit Formula - The current formula is 2.5% multiplied by the first 20 years of service, plus 2.0% for each year of service in excess of 20, up to a maximum of 78% of the member's final average salary.

Under the bills, the new formula would equal 2.5% multiplied by the first 20 years of service, plus 2.25% for the next five years of service, plus 2.0% for each year of service over 25. The maximum benefit percentage a member may receive is increased to 79.25% of final average salary, which is realized upon completion of 34 years of service. For example, a member with 30 years of service currently receives an annual pension equal to 70% of final average salary (2.5% x 20, plus 2.0% x 10). Under the bill, a member with 30 years of service would receive an annual pension equal to 71.25% of final average salary (2.5% x 20, plus 2.25% x 5, plus 2.0% x 5).

The HPRS benefit formula was last changed in 1998 (H.B. 648, eff. 09-16-98). The benefit formula was increased from 2.5% multiplied by the first 20 years of service, plus 2.0%

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multiplied by the next five years of service, plus 1.5% multiplied by each year of service in excess of 25 to the current formula. The maximum benefit percentage was also increased from 72% to the current 78% of final average salary.

Ad Hoc Increase - The bills would provide an ad hoc post-retirement increase to members who retired on an age and service or disability pension based on more than 20 years of service credit prior to the effective date of the bill. The increase is equal to 0.25% of all years of service and fraction thereof greater than 20 but less than 26 multiplied by the member's current pension amount on the effective date of the bill. The increased pension would become effective on the first day of the first month following the effective date of the bill and would become the base for purposes of determining future automatic cost-of-living allowances (COLA). For example, an individual who is currently receiving a monthly pension of \$2,500 based on 25 years of service would receive an increase of 1.25% (5 x 0.25%) or \$31.25 per month. The new base would be equal to \$2,531.25.

Reduction of Employee Contribution Rate - The bills would reduce the employee contribution rate from 10.0% to 9.5% of salary. The employee contribution rate was last reduced in 1996 from 10.5% to 10.0% (H.B. 308, eff. 6-5-96).

The employer contribution rate was reduced by the HPRS board this year from 24% to 23.5%, effective July 1, 1999.

Increase in Minimum Monthly Benefit - The bills would increase the minimum monthly benefit for all current and future age and service and disability retirees. Current retirees who are receiving less than \$1,050 per month would have their monthly benefit increased to \$1,050. Future COLA's would be calculated based on the new minimum monthly pension amount.

The minimum monthly benefit for retirees receiving a reduced age and service allowance is currently \$850, while the minimum monthly benefit for retirees receiving a normal age and service allowance is currently \$1,000. In 1994, the minimum monthly pension for all service and disability retirees *except for service retirees who were granted reduced pensions*, was increased from \$600 to \$1,000. At that time only retirees receiving a normal age and service or disability benefit were entitled to a minimum monthly benefit. Retirees who applied for and were granted reduced pensions before age 52 with fewer than 25 years of service were not guaranteed a minimum monthly benefit until 1996 (H.B. 308). The minimum benefit was set at \$850, which is \$150 lower than the minimum currently guaranteed to normal age and service and disability retirees. The lower minimum monthly benefit is consistent with the fact that members who retire early are subject to the following reduction:

Attained Age	Reduced Pension
48	75% of normal service pension

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49	80% of normal service pension
50	86% of normal service pension
51	93% of normal service pension

Therefore, it is consistent to maintain a lower minimum monthly benefit based on the current benefit structure.

Under the bills, the minimum monthly benefit for all retirees other than those receiving a reduced pension and all surviving spouses would be increased by \$50. Retirees receiving a reduced pension would receive a monthly increase of \$200 under the bills. We recommend that the minimum monthly benefit for retirees receiving a reduced age and service allowance be increased by \$50, rather than \$200, for an increase equal to \$900 per month.

Retirees receiving a benefit based on a disability incurred while on duty would receive a minimum of \$1,050 or 61.25% of final average salary. Currently, the minimum monthly benefit is \$1,000 or 60% of final average salary. Members who receive an on duty disability receive a benefit based on a minimum of 25 years of service, which would be 61.25% of final average salary under these bills.

Election of Joint and Survivor Annuity - The bills would give current retirees who retired prior to September 21, 1994 a 60 day window during which they can elect a joint and survivor annuity providing for the actuarial equivalent of the retiree's allowance for life and an allowance to the retiree's spouse for life. Members were first given the option to choose a joint and survivor annuity upon retirement in 1994 (S.B. 306, eff. 9-21-94). All members who retired prior to 1994 could receive their pension benefits in the form of a single life annuity only; there was no provision in S.B. 306 that allowed them to elect a joint and survivor annuity.

Members of the Police and Fire Pension Fund (PFPP) who retired prior to February 28, 1980 were given a similar opportunity in 1984. Members of PFPP were first given the option of choosing a joint and survivor annuity upon retirement in 1980, but there was no provision that allowed members who retired prior to that time to elect a joint and survivor annuity (H.B. 182, eff. 2-28-80). In 1984 H.B. 580 (eff. 9-26-84) provided those members with a one-year window beginning September 1984 and ending September 1985 to elect a joint and survivor annuity option. The proposed change in these bills is consistent with the option given to PFPP members in 1984.

Increase in Minimum Monthly Survivor Benefit - The bills would increase the minimum monthly benefit for surviving spouses from \$850 to \$900. Currently, surviving spouses of members who were not eligible to retire receive \$850 per month. Surviving

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spouses of members who were eligible to retire or who did retire receive the greater of \$850 per month or 50% of the monthly pension the member would have received.

The last increase in the minimum monthly benefit for surviving spouses occurred in 1996 when the benefit was increased from \$600 to \$850 per month (H.B. 308, eff 6-5-96).

Refund of Purchased Service Credit That Does Not Increase the Member's Benefit

- The bills would require the HPRS board to refund the cost of service credit a member restored or purchased to the extent the credit does not increase the retirant's pension, disability, or survivor benefit.

Under both current law and H.B. 375/S.B. 189, the maximum benefit percentage is realized upon completing 34 years of service. Therefore, under these bills, service credit restored or purchased that gives the member more than 34 years of service credit would be refunded.

Retirees who receive an on duty disability allowance are deemed to have earned a minimum of 25 years of service credit for purposes of determining their disability allowances. Under the bills, on duty disability retirees with less than 25 years of service, including restored or purchased service credit would have any restored or purchased credit refunded.

Retirees who receive an off duty disability allowance are deemed to have earned a minimum of 20 years of service credit for purposes of determining their disability allowances. Under the bills, off duty disability retirees with less than 20 years of service, including restored or purchased service credit would have any restored or purchased credit refunded.

Increase of Lump Sum Death Benefit - The bills would increase the lump sum death benefit to \$5,000. Under current law the benefit is \$1,000. The lump sum death benefit was first authorized in 1989 (H.B. 377, eff. 11-2-89) and has not been increased since then.

Fiscal Impact

According to the HPRS actuary, Gabriel, Roeder, Smith & Company, **if no other part of the retirement system financing mechanism were changed**, the following increase in the computed employer contribution rate would be necessary to support the above benefit changes:

Increase In	Percentage of Active Payroll
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Normal Cost	0.47%
UAAL (30 year financing)	0.74%
Total	1.21%

The actuary also indicated that **if the employer contribution rate were to remain unchanged**, the following increase in the retirement system's funding period would be necessary to support the above benefit changes:

	Amortization Period for Unfunded Accrued Liabilities
Present Benefits	10 years
Proposed Benefits	17 years
Effect of Change	+7 years

The increase in the funding period to 17 years is still below the 30-year funding requirement imposed by S.B. 82 (121st G.A.).

The ORSC's actuary, Milliman & Robertson (M&R) has reviewed the cost estimates prepared by Gabriel, Roeder, Smith & Company and found them to be reasonable. M&R noted that the HPRS' actuarial note did not reflect the provision in the bill that allows for refunds of purchased service credit that does not increase a pension and the provision that allows a retired member to choose a joint and survivor annuity. According to M&R, these provisions entail a potential cost to the fund, but the cost is likely to be immaterial.

ORSC Position

At its meeting of October 6, 1999, the Ohio Retirement Study Council voted to recommend that the 123rd General Assembly approve H.B. 375/S.B. 189 upon the adoption of an amendment that would increase the minimum monthly benefit for retirees receiving a reduced benefit from \$850 to \$900, rather than the \$1,050 currently provided for in the bills. An increase of \$50 is consistent with the increase all other retirees and surviving spouses are receiving under the bills and consistent with the current monthly benefit structure.