



The Ohio Retirement Study Council

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Analysis

H.B. 391 - Rep. Miller
(As Introduced)

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ORSC Position

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The bill would make the following changes to the Public Employees Retirement System (PERS):

- Allow a member of PERS to retire with full benefits at any age after obtaining 25 years of service credit while serving as an emergency medical services worker, regional transit authority worker, or county corrections officer. Current law allows such member to retire with full benefits at any age after obtaining 30 years of service.

Under current law, a member of PERS must have attained age 65 and have at least 5 years of total service credit or must have 30 years of total service credit, regardless of age to receive full benefits. A member can retire and receive reduced benefits at age 60 with 5 or more years of service or at age 55 with 25 or more years of service. Benefits are reduced based on the factors of attained age or years of total service credit in accordance with the following chart:

Attained Birthday	Years of Total Service Credit	Percentage of Normal Age and Service Retirement Benefit
58	25	75
59	26	80
60	27	85
61		88
	28	90
62		91
63		94
	29	95
64		97
65	30 or more	100

For example, a member who retires at age 58 with 25 years of service would receive only 75% of the normal retirement benefit, whereas a member who qualifies under this bill could retire at any age with 25 years of service and receive 100% of the normal retirement benefit. The benefit for normal retirement is calculated by multiplying 2.1% of the member's final average salary for the first 30 years of service plus 2.5% of final average salary for each subsequent year. Therefore, under current law a member retiring with 25 years of service would receive 75% of the calculation, whereas a member qualifying under this bill would receive 100% of the calculation.

- Give the PERS board the authority to set separate employee and employer contribution rates for emergency medical services workers, regional transit authority workers, and

county corrections officers. As drafted, it is unclear if there is to be one contribution rate for the three groups of workers or separate contribution rates for each of the three groups.

Currently, the board has the authority to set separate employee and employer contribution rates only with respect to members in PERS Law Enforcement (PERS-LE).¹

Staff Comments

This bill would lower the number of years of service credit required for normal age and service retirement (i.e., no reduction in benefits) for emergency medical services workers, regional transit authority workers, and county corrections officers who are members of PERS. This would create an exception to the current rule that requires members to have at least 30 years of service credit or attain a minimum age in order to receive full benefits. Neither PFDPF nor HPRS members qualify for normal age and service retirement after only 25 years of service unless the member also attains the minimum age of 48.

PERS-LE has earlier retirement eligibility provisions than does PERS, yet PERS-LE still maintains a minimum age requirement. A member of PERS-LE qualifies for normal age and service retirement (i.e., no reduction in benefit) after attaining age 52 and at least 25 years of service credit as a law enforcement officer or age 62 with 15 or more years of service. The member may retire with reduced benefits at age 48 with 25 years of service. There have been bills proposed in the past to transfer county corrections officers to PERS-LE, but the Council recommended against doing so since county corrections officers do not meet the criteria for peace officers; therefore, they are not required to complete peace officer training school as are law enforcement officers covered under PERS-LE.

The underlying rationale for allowing members in PFDPF, HPRS, and PERS-LE to retire at an earlier age than other public employees is based on the demands of the job. These types of jobs are more physically demanding and, therefore, require younger, healthier employees because of the job demands. The Age Discrimination and Employment Act acknowledges this by allowing states to impose mandatory retirement ages for law enforcement officers. It is unclear what the rationale is for allowing emergency medical services workers, regional transit authority workers, and county corrections officers to retire earlier.

The issue then, is why should the number of years of service be reduced from 30 to 25 without regard for age for the select group of workers affected by this bill. Doing so would place this select group in a much more favorable position than other PERS members after 25 years of service. For example, if a person begins employment as a county corrections officer at the age of 22, under this bill that person would be eligible to retire with full benefits at age 47. No other PERS member would be able to retire at that age with only 25 years of service, even with reduced

¹PERS-LE covers sheriffs, deputy sheriffs, township constables and police officers, drug agents, liquor control investigators, park officers, forest officers, game protectors, state water craft officers, park district police officers, conservancy district officers, municipal police officers, Ohio veterans' home police officers, special police officers for mental health institutions, for institutions for the mentally retarded and developmentally disabled, state university law enforcement officers, and Hamilton County Municipal Court bailiffs. These members are required to complete peace officer training school and may retire with full benefits at age 52 with 25 years of service as a law enforcement officer or retire with reduced benefits at age 48 with 25 years of service. Their retirement benefit is calculated by multiplying 2.5% of the member's final average salary by the first 20 years of service plus 2.1% of final average salary for each additional year.

benefits. Allowing this select group of PERS members to retire regardless of age would set a precedent that would encourage other groups of workers to seek legislation lowering the retirement age.

Lowering the number of years of service needed for retirement with no minimum age limit would go against the current trend of increasing the retirement age due to improved life expectancy. For example, the normal retirement age under Social Security is scheduled to gradually increase from age 65 to 67 by the year 2027. In the final report of the Joint Legislative Committee to Study Ohio's Public Retirement Plans, dated December 11, 1996, the ORSC staff made several recommendations concerning retirement age in the public retirement systems. The ORSC staff recommended that (1) the normal retirement age be returned in the uniformed employee systems from 48 to 52 with a four-year phase-in, (2) the normal retirement age of 65 in the non-uniformed employee systems be increased in tandem with Social Security and that the 30-year service requirement be increased at the same rate, and (3) benefits be reduced prior to normal retirement age in all five systems on an actuarial basis; currently, benefit reductions due to early retirement are fixed statutorily. These recommendations were based largely on the fact that life expectancies have increased. Although none of these recommendations were acted upon by the Joint Legislative Committee to Study Ohio's Public Retirement Plans, the underlying public policy rationale is sound, as evidenced by other public and private retirement plans around the country adopting higher retirement ages. For example, Minnesota has passed legislation to increase the normal retirement age for state employees to 67 in tandem with Social Security.

This bill would also have a dramatic impact on health care costs since PERS currently provides health care coverage to its retired members at no charge to members. PERS is the primary health care provider for those retirees who do not qualify for Medicare; once a member reaches age 65, Medicare becomes the primary health care plan, while PERS provides secondary coverage. But regardless of whether the member is eligible for Medicare, PERS does not charge its members for health care coverage. Allowing members to retire after only 25 years of service without requiring them to attain a minimum age would expose PERS to significant medical costs associated with providing primary health care coverage for younger retirees until they become eligible for Medicare.

Fiscal Impact

The legislation allows for an increase in either the employee or employer contribution rate. Gabriel, Roeder, Smith & Company, PERS' actuary, figured the estimated cost by increasing the employers' contribution rate by 3.75%, raising the total rate to 17.30%. If the increased cost was funded by increasing the employee contribution rate, the increase would be higher than 3.75% due to the fact that employees can withdraw their contributions upon separating from employment, whereas, employers cannot do so.

According to Gabriel, Roeder, Smith & Company, PERS members who would be potentially affected by this change could not be identified, however, it was decided that the demographics of the affected members were likely to be similar to those of the Law Enforcement Division. This census data is expected to provide a reasonable measure of increased plan costs for policy making purposes. Nevertheless, results would be somewhat different if the valuation were based on the data for the members actually affected by the proposal.

<u>Increase in Contributions for</u>	<u>% of Covered Payroll for</u>		
	<u>Pensions</u>	<u>Retiree Health</u>	<u>Total</u>
Employer Normal Cost	1.29%	0.47%	1.76%
Unfunded Actuarial Accrued Liabilities (30 year amortization)	<u>1.41</u>	<u>0.58</u>	1.99
Total	2.70%	1.05%	3.75 %

The current employee contribution rate for emergency medical services workers, regional transit authority workers, and county corrections officers is 8.50%, while the employer contribution rate is 13.55%. The increase in the employer contribution that would be required by this bill would raise the employer contribution rate to 17.30%.

If the change in eligibility leads to higher usage, long term costs could be higher than those shown above. It has been the Police and Fire Disability and Pension Fund's experience that lowering the retirement age from 52 to 48 has resulted in higher costs than had been assumed because more people than expected are taking advantage of the earlier retirement age. Based on the experience of PFDPF, it is quite likely that lowering the number of years required for retirement would lead to higher usage.

According to Gabriel, Roeder, Smith & Company, the proposal could be implemented by either (i) establishing a separate experience rated division within PERS with an initial contribution rate of 3.75% of covered payroll higher than the current Local Government Division rate for a total of 17.30%, to be adjusted in future years based on actuarial valuations; or (ii) leaving affected members in their current divisions, but with a 3.75% of payroll employer rate (bringing the total contribution rate to 17.30%) that is not experience rated in future years. Any actuarial gains or losses under this plan would be realized by the Local Government Division.

ORSC Position

At its meeting of July 23, 1997, the Ohio Retirement Study Council voted to recommend that the 122nd General Assembly disapprove H.B. 391 based on the reasons cited in the staff comments.