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Analysis

Am. Sub H.B. 449 - Rep. Seitz *(As Enacted by the General Assembly)*

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ORSC Position

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Am. Sub. H.B. 449 - Rep. Seitz

Am. Sub. H.B. 449 makes the following changes to the laws governing the Public Employees Retirement System (PERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), and the Ohio Police and Fire Pension Fund (OP&F)¹:

- Allows a retiree who is reemployed in a position covered by PERS, STRS, SERS, or OP&F to receive a refund of contributions upon retirement from reemployment prior to age 65 in PERS, STRS, and SERS and age 60 in OP&F in lieu of a money purchase benefit for the period of reemployment.

Current law provides that a reemployed retiree who subsequently retires from reemployment may receive a money purchase benefit that consists of either a monthly benefit or a lump sum payment that begins on the last day for which compensation from the reemployed position was paid or age 65 in PERS, STRS, and SERS and age 60 in OP&F, whichever is later.

- Requires a married reemployed retiree in PERS or OP&F who retires from reemployment to receive a joint and survivor benefit providing 50% of the member's actuarially-reduced pension to the surviving spouse for life upon the member's death unless the spouse consents in writing to another form of payment.

Current PERS law permits a reemployed retiree who again retires to select a joint and survivor annuity but does not require a married retiree to do so. Current OP&F law does not allow a reemployed retiree who again retires to elect to receive a joint and survivor benefit.

- Provides that if a beneficiary in PERS or OP&F who is receiving a monthly annuity dies and the total amount paid to the retiree and the beneficiary is less than the amount the retiree would have received as a lump sum, the beneficiary's estate would receive the difference between the amounts.

Current law provides that if a retiree who is receiving a monthly annuity dies and the total amount paid to the retiree is less than the amount the retiree would have received as a lump sum, the retiree's beneficiary receives the difference between the amounts. There is not a similar provision regarding beneficiaries.

- Allows a reemployed retiree in PERS to specify the date that the money purchase benefit

¹HPRS is not included in the bill because current law does not provide for the reemployment of retirees since persons over age 35 are ineligible to become state troopers.

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will commence.

Current law provides that the money purchase benefit begins on the last day for which compensation for the reemployment period was paid; when the reemployed retiree attains age 65; or if the reemployed retiree was previously reemployed and received a money purchase benefit, twelve months after the effective date of the last benefit, whichever is latest.

- Changes the calculation of the money purchase benefit that a reemployed retiree in PERS, STRS, and SERS receives upon termination of reemployment.

Staff Comments

Am. Sub. H.B. 449 would allow a reemployed retiree in a position covered by PERS, STRS, SERS, or OP&F who retires again from public service to receive a refund under certain circumstances if the retiree is under age 65 in PERS, STRS, or SERS and age 60 in OP&F. Prior to the enactment of Am. Sub. H.B. 449, a reemployed retiree who again retired from reemployment received a monthly benefit or a lump sum payment that began on the last day for which compensation from the reemployed position was paid or age 65 in PERS, STRS, and SERS and age 60 in OP&F, whichever was later. Therefore, if the re-retirement occurred prior to age 65 in PERS, STRS, or SERS and age 60 in OP&F, the retiree was required to wait until age 65 in PERS, STRS, or SERS and age 60 in OP&F to receive a benefit. Upon reaching eligibility the retiree received a money purchase benefit.

In order to receive a refund prior to age 65 from PERS and age 60 in OP&F, the bill provides that three months must have elapsed since termination of reemployment and the retiree must not have returned to public service other than exempted service. In order to receive a refund prior to age 65 from STRS and SERS, the retiree must have terminated employment for which the contributions were made for any reason other than death and, if the retiree had previously received a refund of contributions for reemployment after retirement, twelve months must have passed since the date of the refund. The refund amount for retirees in PERS, STRS, and OP&F equals the retiree's employee contributions made during the reemployment, plus interest. For SERS members, the refund amount equals the retiree's employee contributions made during the reemployment. If the retiree elects to receive a refund, the retiree is no longer eligible to receive a benefit for the period of reemployment. The refund provision of this bill would affect only reemployed retirees who again retire before reaching age 65 in PERS, STRS, or SERS and age 60 in OP&F. A reemployed retiree who again retires after age 65 in PERS, STRS, or SERS and age 60 in OP&F would continue to be subject to the money purchase provisions.

The bill also changes the calculation of the money purchase benefit in PERS, STRS, and SERS.

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Upon reaching eligibility under prior law, the retiree received a money purchase benefit that consisted of an annuity equal to the amount of the retiree's accumulated contributions for the period of reemployment, other than contributions excluded during the mandatory two month waiting period between first retirement and reemployment, and an equal amount of the employer's contributions, (plus interest at the current actuarial rate of interest for STRS and SERS). The benefit could be taken as either a monthly annuity or a lump sum payment discounted to the present value using the current actuarial assumption rate of interest. Am. Sub. H.B. 449 changes the calculation of the money purchase benefit in PERS, STRS, and SERS. Under the bill, the money purchase benefit in PERS is equal to the amount of the retiree's accumulated contributions for the period of employment, other than contributions excluded during the mandatory two month waiting period between first retirement and reemployment, plus an amount of the employer's contributions determined by the board. The money purchase benefit calculation for STRS and SERS reemployed retirees is changed to the amount of the retiree's accumulated contributions, excluding contributions made during the two-month waiting period, plus an amount determined by the board, plus interest at a rate determined by the board. Am. Sub. H.B. 449 provides that the lump sum payment for reemployed retirees of PERS, STRS, and SERS is discounted to the present value using a rate of interest determined by the board, rather than the current actuarial assumption.

Am. Sub. H.B. 449 also requires a married reemployed retiree in PERS or OP&F who retires from reemployment to receive a joint and survivor benefit that provides 50% of the member's actuarially-reduced pension to the surviving spouse for life upon the member's death unless the spouse consents in writing to another form of payment. The bill provides that the board can waive the requirement for written spousal consent if the spouse is incapacitated or cannot be located or for any other reason specified by the board. This provision is consistent with current law regarding the selection of a plan of payment upon retirement. When a married member retires for the first time, the automatic plan of payment is a joint and survivor annuity providing 50% of the member's actuarially-reduced pension to the surviving spouse for life upon the member's death unless the spouse consents in writing to the member's election of a different plan of payment or the spouse is incapacitated or cannot be located or for any other reason specified by the board. Reemployed retirees in PERS-covered positions were first given the option of selecting a joint and survivor annuity in 2002 (S.B. 247, eff. 10-1-02). At that time, however, no provision was included that would have required a married retiree to select a joint and survivor benefit. This provision would correct that oversight and extend the joint and survivor option, along with the spousal consent requirement, to OP&F.

Fiscal Impact

According to the PERS actuary, Gabriel, Roeder, Smith & Company, H.B. 449 would have no measurable effect on PERS. The option to elect a refund of contributions prior to age 65 would

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result in a small savings to the extent that subsequent retirants elected to forgo a more valuable money purchase annuity benefit at age 65. The requirement to obtain spousal consent to the retirant's plan of payment would be cost neutral. The potential lump sum payments to estates of beneficiaries would have a de-minimis financial effect.

The ORSC actuary, Milliman USA, has reviewed GRS' analysis and concurs with the findings.

ORSC Position

At the May 12, 2004 meeting of the Ohio Retirement Study Council, the Council voted to recommend that the 125th Ohio General Assembly approve H.B. 449 upon the adoption of an amendment that would allow reemployed retirees of STRS, SERS, and OP&F who subsequently retire to elect to receive a refund prior to age 65 in STRS and SERS and age 60 in OP&F.

This amendment was adopted at the May 18, 2004 meeting of the House Banking, Pensions and Securities Committee.

Effective Date

April 11, 2005