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Analysis

Am. H.B. 673 - Rep. Padgett

(As Reported Out of Senate Ways and Means)

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ORSC Position

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Am. H.B. 673 would make the following changes to the School Employees Retirement System (SERS):

- Increase the service retirement benefit for retirants with more than 30 years' service credit. The bill would change the formula for calculating service retirement to 2.1% of final average salary (FAS)[1] for the first 30 years of service (YOS); plus 2.5% FAS for each subsequent YOS. [R.C. §3309.361

  The current benefit formula for members of SERS is 2.1% of FAS for each YOS, regardless of the number of YOS. For example, if a retiree has 35 YOS with an FAS of **$20,000,** the member would receive an annual benefit of $14,700 (2.1% x $20,000 x 35). Under H.B. 673, that same member would receive an annual benefit of $15,100 [(2.1% x **$20,000 x 30) + (2.5% x $20,000 x 5)].**

- Increase the lump sum death benefit payable to the member's designated or qualified beneficiary from $500 to $1000. [R.C. §3309.501

- Increase the reimbursement for Medicare Part-B premiums from $24.80 per month to $31.80 per month. [R.C. §3309.691

- Require a one-time payment to SERS members who were eligible to receive payment for Medicare Part-B premiums between January 1, 1992 and the effective date of this bill based on the increase in the Medicare Part-B reimbursement rate. [Section 3]

- Clarifies how payment is made where no beneficiary is designated or the beneficiary is not found or is deceased.

- Repeal R.C. §3309.37, an obsolete provision, which recalculated the retirement allowance of certain SERS retirants and beneficiaries. There are no longer any retirees to whom this section applies.

- Extend the deadline for reviewing the employer supplemental contribution to the applicable retirement system for academic or adminstrative employees of public institutions of higher education electing an alternative retirement plan.

The bill would make the following change to the current leave of absence provision under the Public Employees Retirement System (PERS) law:

- Allow a member who resigned due to pregnancy to purchase up to one year of service credit. The member must return to employment as a contributor to PERS for at least 12 months and pay an amount equal to what the member would have contributed had she continued working at the earnable salary prior to resignation, plus annual compound interest from the date of leave to the date of purchase. The bill would apply to all PERS members who resigned due to pregnancy subsequent to January 1, 1935 and have not retired. The member would be required to submit proof that the resignation was due to pregnancy.

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[1]Fina1 average salary is the average of the member's three highest years' earnings.

Current law allows for the purchase of up to one year or service credit for leave of absence, however there is no provision allowing members who were forced to resign due to pregnancy to purchase service credit for that time off.

The bill would make the following changes to the State Teachers Retirement System (STRS):

- Allow a member who, prior to July 1, 1982, was granted a leave of absence for pregnancy or resigned due to pregnancy and who later returned to employment as a contributor to STRS to purchase up to two years of service credit. The member must pay an amount equal to the employee rate of contribution in effect at the time of leave multiplied by the member's annual compensation for full-time employment during the first year of service in Ohio following the end of the absence, plus annual compound interest from the date the absence ended to the date of payment.

- Require credit purchased for leaves of absence or resignation due to pregnancy to be included in determining the amount of service credit that can be purchased by an employer for a member participating in a retirement incentive plan.

Staff Comments

Increase in SERS Retirement Benefits - Currently, SERS is the only non-uniformed retirement system that does not provide a higher retirement benefit for years of service over 30. In 1988, PERS law was amended to provide a higher benefit calculation for years of service over 30. The formula was changed from a flat 2.1% FAS x YOS to 2.1% FAS for the first 30 YOS; plus, 2.5% FAS for each subsequent YOS. STRS law was amended the following year to provide a benefit formula similar to PERS. This bill would make SERS law consistent with the other non-law enforcement retirement systems

Increase in SERS Death Benefit - Designated or qualified beneficiaries of retirees or disability benefit recipients of the non-uniform retirement systems were first eligible to receive a lump sum death benefit of $500 in 1973. In 1989 the death benefit payment was amended for PERS to provide that the amount of payment is dependent upon the number of years of service the member has. Benefits arc based upon the following chart:

Years of Service	Amount of Benefit
5 - 9	$ 500
10 - 14	1,000
15 - 19	1,500
20 - 24	2,000
25+	2,500

The death benefit for STRS retirants also was changed in 1989 from $500 to $1,000 regardless of years of service. It appears that the rationale for increasing the lump sum death benefit payment is to bring parity between SERS law and STRS law. Raising the lump sum death benefit for SERS members would do so.

Increase in Medicare Part-B Reimbursement Rate for SERS Members - Since 1974 the five state retirement systems have provided a comprehensive hospital, medical, and prescription drug plan to retirees and their dependents. In 1977 the systems were required to reimburse eligible benefit recipients for their Medicare Part-B premiums. Reimbursement for these premiums was subsequently capped for SERS and STRS in order to contain health care costs. The SERS Medicare Part-B premium was capped at $24.80 in 1988. This bill would increase the cap to $31.80, which is the amount of the basic premium in effect in 1992. The allowable reimbursement for Medicare Part-B under STRS law is currently capped at $29.90, while the reimbursement amount for retirees of HPRS was capped in 1994 at $41.10 per month. PERS and PFDPF, on the other hand, reimburse their retired members for the amount of the full premium, which is currently $43.80 per month.

Review of Employer Supplemental Contribution - Am. Sub. H.B. 586 (eff. 3-31-97) established an alternative retirement plan for academic or adminstrative employees who are employed by a state university, university branch, state community college, community college, technical college, municipal university, the Medical College of Ohio at Toledo, or the Northeastern Ohio Universities College of Medicine. Pursuant to that bill, employers are required to contribute six percent of the employee's salary to the applicable state retirement system to mitigate any negative financial impact on the systems' funding resulting from the establishment of an alternative retirement plan. The bill also requires that the Ohio Retirement Study Council complete an actuarial study by July 1, 1998 to determine if any adjustment to the six percent rate should be made. This technical amendment extends the deadline for review to the first day of July following the first year after the Department of Insurance designates an alternative retirement plan due to the fact that the program has not yet been implemented.

Incorporation of Sub. H.B. 439 - The Pregnancy Disabilities Act of 1978 amended Title VII of the Civil Rights Act of 1964, which applies to most private employers as well as state and local government units. The amendment requires that women affected by pregnancy be treated the same as employees disabled as a result of sickness or accident with respect to employee benefits (including leave, disability income, and medical benefits). Current law reflects this federal law by allowing women who take a leave of absence due to pregnancy to purchase that leave time the same as a member who was on leave due to any other disability. However, under PERS law, women who resigned due to pregnancy prior to the enactment of the Pregnancy Disabilities Act of 1978 are not eligible to purchase the service credit for the time they were not working.

In 1985 Am. Sub. S.B. 378 (115th G.A.) was enacted, which applied to members of STRS. For the first time, members who had taken leaves of absence or were forced to resign due to pregnancy prior to July 1, 1982 were permitted to purchase up to two years of service credit during a one-year open window period. The open window period was extended for one year in 1986 (Am. H.B. 676, 116th G.A.) and again for another year in 1996 (Am. Sub. H.B. 254, 121st G.A.). The cost to the member was the employee rate of contribution in effect at the time the absence commenced multiplied by the member's annual compensation during her first year back, plus annual compound interest from the date of absence to the date of payment. The member also was required to submit evidence documenting that the resignation was due to pregnancy.

Am. Sub. H.B. 254 as introduced allowed members to purchase service credit at any time prior to retirement. The ORSC staff recommended that the Council vote to recommend that the General Assembly approve the bill as introduced. The Council, however, voted to recommend that a one-year open window be adopted.

This bill would reopen the window and once again allow members who took leaves of absence or were forced to resign due to pregnancy prior to July 1, 1982 to purchase up to two years of that time at any time prior to retirement. The cost to the member would be the same as under previous windows. Additionally, the bill would permit that time to be included when determining the amount of service credit that can be purchased by an employer for a member of STRS participating in an early retirement incentive plan.

Members of the School Employees Retirement System (SERS) who resigned due to pregnancy prior to September 9, 1988 were also permitted to purchase up to two years of service credit pursuant to H.B. 290 (117th G.A.), during a one year open window period, provided the member earned one year of service credit subsequent to her return to employment and returned to work not later than the first day of classes of the third school year following resignation. The member was required to pay an amount equal to the member's contributions for the first year of full-time Ohio service following termination of absence, plus annual compound interest and submit evidence that the resignation was due to pregnancy.

This bill would make PERS law consistent with the other non-uniformed employee systems by permitting members who were forced to resign due to pregnancy to purchase service credit for that time, although PERS limits that amount of time to one year rather than two years.

Both STRS and SERS law requires the member to submit evidence satisfactory to the board documenting that her resignation was due to pregnancy. Language similar to this should be adopted to further bring PERS law into line with the other non-uniformed employee systems.

Fiscal Analysis

According to the SERS actuary, Gabriel, Roeder, Smith & Company, the current amortization period for unfunded actuarial accrured pension liabilities is 24 years. If the total contribution rate under the proposed benefit enhancements were to remain at 9.02% of payroll[2], the amortization period of the unfunded actuarial accrued liabilities would increase to 29 years. If, however, the amortization period were to remain at 24 years, the amount of the employer contribution allocated toward basic benefits would need to be increased by 0.49%, bringing the total rate to 9.5 1%.

The following chart illustrates the computed increase in the employer contribution rate that would occur to fund for the proposed change on a level cost basis:

	Present Benefit	Proposed Benefit	Increase
Normal Cost	4.99%	5.10%	0.11%
UAAL % (24 years amortization)	4.03	4.41	0.38%
UAAL $	$983,389,420	$1,082,244,416	$98,854,996
Total Contribution Rate	9.02%	9.51%	0.49%

[2]The total SERS employer contribution rate is 14%. 9.02% reflects the amount of the employer contribution rate that is allocated to basic benefits such as pension, disability, and survivor benefits. The remaining 4.98% is allocated to health care.

S.B. 82 establishes a maximum 30-year amortization period for funding such unfunded actuarial accrued pension liabilities. Although these benefit enhancements would increase the funding period for SERS, it would remain just below the 30-year maximum required under Ohio law.

The unfunded actuarial accrued liability under the proposed bill includes a total lump sum payment of $21,219,004 for the retroactive Medicare Part-B increase. Traditionally, benefit improvements have been made on a prospective basis only. This is true regarding the proposed increase in the benefit formula and the lump sum death benefit payment that are part of this bill. Permitting the reimbursement to be applied retroactively in this case could set a costly precedent for future benefit improvements.

SERS' health care funding should also be considered relative to the retroactive applicability of the Medicare Part-B reimbursement. SERS is the only system that requires its employers to pay a health care surcharge on members earning below a minimum salary amount determined by the board annually. According to SERS, the surcharge generates revenue that is equal to 1.77%[3] of actual payroll, which is in addition to the 14% employer contribution.[4] Because of the surcharge, there is, in effect, no cap on employer contributions in SERS. In the Final Report of the Joint Legislative Committee to Study Ohio's Public Retirement Plans, dated December 11, 1996, the ORSC staff recommended that the SERS employer surcharge be capped at 1.75%. The recommendation was not adopted.

Additionally, each system has set aside assets in a separate health care fund to help pay for health care benefits. SERS health care expenditures are financed on a pay-as-you-go basis, with an asset target level for the health care fund equal to 125% of annual health care expenditures. In 1996, the balance in the SERS health care reserve fund was 1.51 times the annual claims and expenses. This was the lowest ratio among the five systems. The following chart provides a comparison of the five systems as of 1996:

Retirement System	Health Care Expenditures 1996	Health Care Reserves 1996	Ratio Reserves/ Expenditures
PERS	$369,213,858	$7,334,122,842	19.86
STRS	$176,773,000	$1,638,850,000	9.27
SERS	$90,212,211	$135,804,311	1.51
PFDPF	$71,674,335	$226,773,541	3.10
HPRS	$2,022,608	$77,308,699	38.22

[3] This number is expected to decrease next year because the board recently limited the salary to which the surcharge applies to any salary below $12,400.

[4] The employer contribution rates for the other retirement systems are as follows: PERS State - 13.3 1%; PERS Local - 13.55%; PERS-LE - 16.70%; PFDPF Police - 19.50%; PFDPF Fire 24.00%; HPRS - 24.00%.

According to SERS, as of June 30, 1997, SERS maintains $146,384,000 in its health care reserve fund, which is enough to fund 1.25 years of health care.

In light of the surcharge, the low health care reserve fund, and the costly precedent a retroactive payment of this kind could set, consideration should be given to eliminating the retroactive payment of Medicare Part-B reimbursements.

According to the PERS actuary, Gabriel, Roeder, Smith & Company, data for a detailed measure of the potential cost to PERS of allowing members who resigned due to pregnancy to purchase credit was not available. However, based on the present average cost of a year of service and assuming that there would be much less than 1,000 such service purchases a year, they estimated that:

- the overall financial effect would be less than 0.01% of covered payroll;
- neither the amount of nor the funding period for unfunded actuarial accrued liabilities would be affected;
- the cost could be absorbed within the current rate structure; and
- the system would continue to satisfy funding objectives established by the board.

According to the STRS actuary, Buck Consultants, statistics also were unavailable to estimate the number of current members who would be eligible to purchase service if the window were reopened. However, they estimate that the number of years of service purchased would range from 500 to 1,000 years. This estimate is reasonable assuming that the majority of members who could purchase credit did so during the previous open window. The actuary estimates that the total cost for each year purchased would be $13,650, with the fund paying $11,310 of the cost for each year and the member paying the remainder. If 1,000 years of service are purchased under the provisions of this bill, the actuary estimates that the total cost would not be greater than $13.650 million, with the fund paying $11.310 million. According to the actuary, the bill would have no effect on the STRS funding period, which is currently 26.9 years according to the Actuarial Valuation for the year ended June 30, 1997.

Staff Recommendation

That the Ohio Retirement Study Council recommend that the 122nd General Assembly approve H.B. 673 upon the adoption of an amendment which would eliminate the one-time retroactive payment of Medicare Part-B premiums (Section 3).

ORSC Position

At its meeting of January 28, 1998, the Ohio Retirement Study Council voted to recommend that the 122nd General Assembly approve H.B. 673 as introduced.

At its meeting of April 14, 1998, the Ohio Retirement Study Council voted to recommend that the General Assembly approve Sub. H.B. 439 upon the adoption of an amendment requiring the PERS member to submit evidence satisfactory to the PERS board documenting that her resignation was due to pregnancy. This amendment was adopted in the House Retirement Subcommittee.