



The Ohio Retirement Study Council
88 E. Broad St., Suite 1175
Columbus, Ohio 43215
(614)228-1346 Phone
(614)228-0118 Fax
www.orsc.org Website

Voting Members

Senators

Grace Drake, *Chair*
Leigh Herington
Larry Mumper

Representatives

Dale Van Vyven, *Vice-Chair*
William Ogg
Kirk Schuring

Governor's Appointees

Robert Barrow
William Bennett
William Fawley

Non-Voting Members

Executive Directors

Thomas Anderson, *SERS*
Richard Curtis, *HPRS*
Herbert Dyer, *STRS*
Laurie Hacking, *PERS*
Allen Proctor, *OP&F*

Director

Aristotle L. Hutras

Analysis

Sub. S.B. 144 - Sen. Bruce Johnson (As Enacted by the General Assembly)

May 25, 2000

ORSC Position

Glenn Kacic- Contact Person
(614)228-1346

Sub. S.B. 144 - Rep. Johnson

- Requires the Public Employees Retirement System (PERS) to credit interest on the member's contributions, with certain exceptions.
- Requires PERS to pay, under certain conditions, an amount from employer contributions upon the withdrawal of the member's contributions or payment of such contributions to the member's designated beneficiary.
- Exempts the board of trustees of the five state retirement systems, the Ohio Public Employees Deferred Compensation Board and the Ohio Retirement Study Council from the sunset review provisions.
- Amends the reemployment statutes with respect to the minimum waiting period in PERS and STRS and the treatment of concurrent service in PERS, STRS and SERS.
- Applies the same provisions to governing authorities of community schools as are currently applicable to all other boards of education regarding the payment of employer contributions to STRS and SERS.

Background - Prior to the enactment of S.B. 160 (*effective August 1, 1959*), PERS credited annual compound interest on the member's contributions. S.B. 160 provided, among other things, that the retirement board shall discontinue the annual crediting of interest on the member's contributions *subsequent to December 31, 1958* and that interest shall be credited only at retirement for purposes of determining the amount of the member's annuity under the money purchase plan.¹ The noncrediting of annual interest on the member's contributions prior to retirement was part of the funding mechanism to cover the cost of the various benefit improvements enacted in S.B. 160.

Current law provides that a member who ceases public employment prior to retirement may apply for a refund of the member's contributions, including any amounts paid to purchase service credit. Current law also provides that if a member dies prior to retirement and no survivor benefits are paid, the member's contributions shall be paid to a designated beneficiary or qualified survivor. Upon either a refund of the member's contributions or payment of the member's contributions to a designated beneficiary or qualified survivor, *neither* interest on the member's contributions *nor* employer contributions made on behalf of the member are paid, but are retained by PERS as part of the current actuarial funding of the retirement system.

Crediting of Interest on Member Contributions

The bill would require the PERS board to credit, on and after the effective date of the bill, annual compound interest on member contributions, *excluding* contributions made by PERS retirants and other system retirants who are reemployed in positions covered by PERS prior to the expiration of

¹Under PERS law, members qualifying for service retirement receive the greater of the benefit determined under the money purchase plan or under the defined benefit formula (2.1% x the member's final average salary (FAS) x the member's first 30 years of service (YOS), plus 2.5% x the member's FAS x the member's YOS over 30, up to a maximum of 100% of FAS).

Sub. S.B. 144 - Rep. Johnson

the required six-month or two-month waiting period, as applicable.² The interest rate credited on the member contributions shall be as follows:³

- 4% annual compound interest through December 31, 1955;
- 3% annual compound interest from January 1, 1956 through December 31, 1963;
- 3.25% annual compound interest from January 1, 1964 through December 31, 1969;
- 4% annual compound interest from January 1, 1970 through the effective date of the bill;
- An amount determined by the PERS board *not to exceed 6% annual compound interest* on and after the effective date of the bill.

For member contributions made in any calendar year, interest shall be earned beginning on the first day of the following calendar year and ending on the last day of that year (ending on the last day of the month prior to retirement or payment of the member's contributions). Interest shall be credited by the PERS board at the end of the calendar year in which it is earned. For example, assume a member starts making contributions on October 1, 1999. Interest on the member contributions made during calendar year 1999 shall be earned beginning on January 1, 2000 and shall be credited by the board on December 31, 2000. Should the member apply for a refund and receive payment of the member's contributions on October 15, 2000, interest shall be earned for the period beginning on January 1, 2000 and ending on September 30, 2000 with respect to contributions made in calendar year 1999. In this example, no interest would be earned for contributions made during calendar year 2000 under the bill, as drafted, since interest shall be earned on the first day of the following calendar year (namely, January 1, 2001).

The bill would require the PERS board to credit, no later than 30 days after the effective date of the bill, interest on member contributions on deposit as of the effective date of the bill. For members with service credit earned prior to 1981, the board may reflect the compounding of annual interest using factors provided by the board's actuary. If the bill should become effective on or before December 31, 2000, interest shall be calculated on member contributions on deposit as of December 31, 1998. Should it become effective after December 31, 2000, interest shall be

²Under current law, PERS retirants (other system retirants) who have received a retirement allowance for less than six months (two months) and are reemployed in a PERS-covered position shall have any member contributions made during this six-month (two-month) period excluded in the calculation of any benefits payable to them and, upon their termination of employment or death, refunded to them.

³PERS retirants and other system retirants who are reemployed in PERS-covered positions may elect to receive their retirement allowance and compensation. Upon termination of employment, they may apply for a benefit consisting of a single life annuity having a reserve equal to the retirant's contributions made during the period of employment, plus an equal amount from employer contributions. The interest rate used to calculate the annuity or lump sum payment discounted to present value as provided under existing law shall be the current actuarial interest rate assumption of PERS (7.75%).

Sub. S.B. 144 - Rep. Johnson

calculated on member contributions on deposit as of December 31, 1999.

Payment from Employer Contributions

The bill would require the PERS board to pay the following amounts from employer contributions upon a refund of the member's contributions or payment of such contributions to a designated beneficiary or qualified survivor:⁴

- 33% of the member's "eligible contributions" for members with at least five years of service but less than ten years of service;
- 67% of the member's "eligible contributions" for members with at least ten years of service.

As defined under the bill, "eligible contributions" mean amounts contributed by the member; amounts received from the member for the purchase of prior service as an elected official, service in the police & fire pension fund or highway patrol retirement system, military service that interrupts public employment, and prior service in a local retirement system; and interest credited on the individual accounts of members. The definition excludes member contributions that were used for the payment of a disability benefit or were refunded as unauthorized. For purposes of determining the member's years of service, "service credit" is defined to mean periods for which contributions were made by the member and periods for which service credit was purchased by the member for prior service as an elected official, service in the police & fire pension fund or highway patrol retirement system, military service that interrupts public employment, and prior service in a local retirement system.

The bill would require a PERS member who is married and eligible for service retirement at the time of application for payment of the lump sum refund described above to file a written statement with the application attesting to the consent of the spouse to such payment. Consent shall be valid only if it is signed and witnessed by a notary public.

Miscellaneous Provisions

The bill would provide that upon the restoration of withdrawn contributions, any payments from employer contributions shall be credited to the employers' accumulation fund. All other amounts paid by the member to restore service credit shall be credited to the member's account in the employees' savings fund.

The bill would also provide that upon coordination of membership in PERS, STRS and SERS, the paying retirement system shall receive from the other retirement system(s) an amount equal to the member's refundable account, including any credited interest thereon, plus an amount equal to the member's refundable account, excluding any credited interest thereon, from the employers' accumulation fund. For example, assume the member's refundable account at retirement in STRS equals 20,000, consisting of \$18,000 in actual contributions and \$2,000 in interest. Assume PERS is the paying retirement system. In this example, PERS would receive from STRS a total of \$38,000 [\$20,000 (the member's refundable account with interest) + \$18,000 (the member's

⁴ No payment would be made *if* the member was a disability benefit recipient at the time of death or a PERS retirant who, upon employment, reestablished membership in PERS.

Sub. S.B. 144 - Rep. Johnson

refundable account without interest) = \$38,000 (total transfer)]. This change is intended to maintain the status quo with respect to the current transfer of employer contributions between PERS, STRS and SERS in the case of members who coordinate their memberships upon retirement.

Effective Date

The bill would take effect on the 90th day after the effective date of the act relative to the changes made to the refund of the member's accumulated contributions in PERS.

Sunset Review Exemption - The bill would exempt the board of trustees of the five state retirement systems, the Ohio Public Employees Deferred Compensation Board, and the Ohio Retirement Study Council from the sunset review provisions. Currently, these provisions require the automatic expiration of various public bodies established by statute unless they are renewed by the legislature.

Reemployment Provisions - The bill would amend the reemployment provisions of PERS and STRS with respect to the minimum waiting period. Currently, PERS retirees must wait a minimum six months prior to becoming employed in any PERS-covered position; STRS retirees must wait a minimum 18 months prior to becoming employed as a full-time teacher. The bill would reduce the minimum waiting period in PERS and STRS to two months, which is consistent with the reemployment statutes of OP&F and SERS.⁵ The bill would also provide that any forfeiture of a retirement allowance shall cease upon the effective date of the bill in the case of members who have forfeited their retirement allowance for at least two months or, in the case of members who are reemployed prior to the expiration of the two-month waiting period, upon the earlier of termination of employment or the date that is two months after the commencement of their retirement allowance.

The bill would also permit members of PERS, STRS or SERS who have concurrent service covered under PERS, STRS or SERS to retire from the position having the higher salary and continue contributing on the other position(s) toward a money purchase benefit only. Currently, such members are prohibited from retiring prior to termination of all employment covered by PERS, STRS or SERS.⁶ Under the bill, the determination of eligibility for retirement and the amount of the retirement allowance on the higher-salaried position shall be based on the member's total service credit and contributions in PERS, STRS and/or SERS **prior to** the effective date of retirement, except that no more than one year of service credit shall be granted for any twelve-month period. The member may continue to contribute to PERS, STRS or SERS on the position(s) having the lower salary. Upon termination of employment in the lower-paid position, the member is eligible for a money purchase benefit only consisting of a single life annuity having a reserve equal to the member's accumulated contributions **on or after** the effective date of retirement plus a matching amount from employer contributions. The money purchase benefit is payable upon the later of the

⁵Persons age 35 or older are ineligible to become state troopers which explains the absence of similar reemployment provisions in HPRS.

⁶Current law permits members of OP&F or HPRS who have concurrent service covered under PERS, STRS or SERS to retire independently from OP&F or HPRS and to continue contributing in PERS, STRS or SERS toward a money purchase benefit only.

Sub. S.B. 144 - Rep. Johnson

first day of the month following termination of employment or attainment of age 65. The money purchase benefit may be paid as a lump sum payment or as a monthly annuity, provided the annuity is not less than \$25 per month. The member is entitled to **no** other retirement, disability, survivor, health care, or cost-of-living benefits from PERS, STRS or SERS based on such lower-paid position(s).

The bill would further amend the PERS reemployment provisions to eliminate the current election provided to PERS retirees who are reemployed in a PERS-covered position to reestablish membership in PERS in lieu of the money purchase benefit described above. Currently, none of the other state retirement systems permit such election. The bill would grandfather in all PERS retirees who made such election prior to the effective date of the bill. It would also permit those elected officials who were made subject to the election by statute to revoke it. Upon such revocation, any forfeiture or suspension of the retirement allowance shall cease upon the later of the effective date of this provision of the bill or the earlier of termination of employment or the date that is two months after the commencement of the retirement allowance. The elected official shall be deemed to have elected the money purchase benefit described above.

Community Schools - The bill would apply the same provisions to governing authorities of community schools as currently applicable to all other board of education regarding the payment of employer contributions to STRS and SERS. Under current STRS law, payments of employer contributions by boards of education shall be made from the amount allocated under Chapter 3317. of the Revised Code prior to its distribution to the individual school districts. Under current SERS law, where a board of education fails or refuses to make the required employer contributions on a direct pay basis, the retirement board may certify to the Superintendent of Public Instruction the amount due, which shall be deducted from the amount allocated under Chapter 3317. prior to its distribution to the school district. These same provisions would apply to governing authorities of community schools by referencing community schools and Section 3314.08 of the Revised Code under which amounts are allocated to such schools.

Staff Comments

The final report to the Joint Legislative Committee to Study Ohio's Public Retirement Plans prepared by the ORSC staff (December 11, 1996) included the following finding:

"Portability has become a national retirement issue. It has also become an issue in Ohio in terms of the recruitment of higher education employees and is likely to become an increasing issue for other groups of public employees, such as part-time, short-service and mobile employees, who are required to participate in retirement systems which are designed to benefit older, long-tenure employees and employees making permanent job changes relatively late in their careers."

The final report recommended that the three non-uniformed employee retirement systems (PERS, STRS, SERS) provide greater portability and benefit options to employees. In response to this recommendation, S.B. 82 (effective March 7, 1997) was enacted which, among other things, required PERS, STRS and SERS to prepare a report that proposed alternative benefit options and submit it no later than March 7, 1998 to the ORSC and the legislative standing committees with primary responsibility for retirement legislation. S.B. 144 would implement the PERS proposal, and is intended to provide greater portability and benefit options, particularly for younger, more mobile and shorter-service employees.

Sub. S.B. 144 - Rep. Johnson

Sub. S.B. 144 is largely modeled after H.B. 586 (effective March 31, 1997) which, among other things, amended the laws of the State Teachers Retirement System (STRS) to require the payment of annual compound interest upon the withdrawal of member contributions due to death or separation from employment. H.B. 586 also required STRS to pay a portion of the employer contributions upon such withdrawals, provided the member has at least five years of service credit.

Under the STRS alternative benefit payment plan, annual compound interest is credited upon the withdrawal of member contributions at the following rates:

- For members with less than three years of service credit, up to a maximum of 4%;
- For members with three but less than five years of service credit, up to a maximum of 6%;
- For members with five or more years of service credit, up to a maximum of 6%.

Since the adoption of the alternative benefit payment plan, the STRS board has credited 4% for members with less than three years of service; 6% for members with three but less than five years of service through December 31, 1998 and 5% thereafter; and 6% for members with five or more years of service through December 31, 1998 and 5% thereafter.

Members with at least five years of service receive an additional 50% of the member contributions, with credited interest, which is paid from employer contributions.

Sub. S.B. 144 would grant the PERS board the same authority to credit up to 6% annual compound interest on member contributions under the PERS alternative benefit payment plan, as was granted to the STRS board under H.B. 586 (121st G.A.). Sub. S.B. 144 would also grant the PERS board the same authority to establish the interest rate based on the recommendation of its actuary for purposes of calculating the member's annuity under the money purchase plan, as has been granted to the STRS and SERS retirement boards under current law.

Sub. S.B. 144 provides for employer matching funds for members with at least five years of service, the percentage of which varies according to years of service. The 33% employer match for members with five but less than ten years of service and the 67% employer match for members with ten or more years of service is justified on the basis of the corresponding liabilities of these two distinct member groups upon PERS. Under PERS law, members with five but less than ten years of service qualify for a retirement allowance, but *not* post-retirement health care benefits. Members with at least ten years of service, exclusive of the purchase of early retirement incentive credit, federal or out-of-state credit, non-interrupted military credit and exempted credit, qualify for *both* a retirement allowance and post-retirement health care benefits. Therefore, the varying percentages are intended to be roughly commensurate with the liabilities associated with these two distinct member groups.

Fiscal Impact

Sub. S.B. 144 - Rep. Johnson

See the attached actuarial analysis prepared by Milliman & Robertson.⁷

ORSC Position

At its meeting of October 13, 1999 the Ohio Retirement Study Council voted to recommend that the 123rd General Assembly approve S.B. 144 upon the adoption of the following amendments:

- Grant the PERS board the same authority to credit up to 6% as opposed to 4% interest on member contributions under the proposed PERS alternative benefit payment plan, as was granted to the STRS board under H.B. 586 (121st G. A.);
- Grant the PERS board the same authority to establish the interest rate based on the recommendation of its actuary for purposes of calculating the member annuity under the money purchase plan, as has been granted to the STRS and SERS boards under existing law;
- Correct the name of the “employer’s accumulation fund” and “employee’s savings fund” under the bill to the “employers’ accumulation fund” and “employees’ savings fund,” as established under current law.

Sub. S.B. 144 incorporates all of the above amendments.

At its meeting of May 10, 2000 the Ohio Retirement Study Council recommended that the 123rd Ohio General Assembly approve the following additional amendments to Sub. S.B. 144:

- Require a PERS member who is married and eligible for service retirement to obtain the consent of the spouse to a refund of the member’s accumulated contributions under the bill;
- Exempt the board of trustees of the five state retirement systems, the Ohio Public Employees Deferred Compensation Board, and the Ohio Retirement Study Council from the sunset review provisions;
- Apply the same provisions to the governing authorities of community schools as are currently applicable to all other boards of education regarding the payment of employer contributions to STRS and SERS.

At its meeting of May 17, 2000 the Ohio Retirement Study Council recommended that the 123rd Ohio General Assembly approve the following additional amendment to Sub. S.B. 144:

- Amend the reemployment statutes with respect to the minimum waiting period in PERS and STRS and the treatment of concurrent service in PERS, STRS and SERS.

Sub. S.B. 144, as reported out of the House Health, Retirement & Aging Committee, incorporates all of these additional amendments.

⁷A subsequent actuarial analysis based on the annual actuarial valuation of PERS as of December 31, 1998 and prepared by its actuary, Gabriel, Roeder, Smith & Company, indicates that PERS would remain fully funded if the bill were adopted and no other benefit changes were enacted concurrently.