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# *Analysis*

## **S.B. 228 - Senator Scott Nein**

**(As Introduced)**

**ORSC Position**

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The bill would make the following changes to the Highway Patrol Retirement System (HPRS):

- Increase the benefit formula for HPRS members with more than 25 years of service; (R.C. §§5505.17, 5505.18)
- Provide an ad hoc post-retirement increase to HPRS service and disability retirees whose current pensions are based on more than 25 years of service; (R.C. §5505.176)
- Remove the statutory cap for the monthly Medicare Part B premium reimbursement of \$41.10 and permit the HPRS board to establish, by rule, the monthly reimbursement rate. (R.C. §5505.28)

Details and staff comments of these changes follow.

**Benefit Formula** - The bill would increase the HPRS benefit formula for calculating service retirement and disability benefits that are based on more than 25 years of service credit.

The current formula is 2.5% multiplied by the first 20 years of service, plus 2.0% multiplied by the 21st through 25th years of service, plus 1.5% multiplied by each year of service in excess of 25, up to a maximum of 72% of the member's final average salary. The maximum benefit percentage of 72% is realized upon completion of 33 years of service.

Under the bill, the new formula would equal 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. The maximum benefit percentage of 78% would be realized upon completion of 34 years of service.

In short, the new formula would result in an increase of one-half of one percent for each year of service in excess of 25. For example, a member who has 26 years of service currently receives an annual pension equal to 61.5% of final average salary (2.5% x 20 = 50%, plus 2% x 5 = 10%, plus 1.5% x 1 = 1.5% for a total of 61.5%); under the bill, that same member would receive 62% (2.5% x 20 = 50%, plus 2% x 6 = 12% for a total of 62%). A member with 30 years of service currently receives 67.5% as opposed to 70% under the proposed change in the benefit formula.

The proposed increase in the benefit formula may serve as a small financial incentive for members to continue active service in the state highway patrol beyond the minimum 25 years of service to qualify for normal service retirement (i.e., unreduced pension) prior to age 52.

The last change in the HPRS benefit formula occurred in 1981 (S.B. 133 - eff. 11/18/81). The benefit formula was increased from 2.5% for the first 20 years of service plus 1.5% for each year of service over 20 to 2.5% for the first 20 years of service, plus 2% for the 21st through 25th years of service, plus 1.5% for each year of service over 25. The maximum benefit percentage was also increased from 66% to the current 72% of final average salary.

**Ad Hoc Increase** - The bill would provide an ad hoc post-retirement increase to HPRS members who retired, prior to the effective date of the bill, on a service or disability pension based on more than 25 years of total service credit. Under the bill, the increase shall equal one-half of one percent for each-year of service and fraction thereof in excess of 25 multiplied by the member's current

pension amount on the effective date of the bill. The increase shall become effective on the first day of the month following the effective date of the bill, and shall be included for purposes of determining future automatic cost-of-living allowances (COLA) provided by the retirement system.

For example, a member who is currently receiving a monthly service pension of \$2,000 based on 27 years of total service credit would receive an increase of 1% ( $27 - 25 = 2 \times 0.5\% = 1\%$ ), or \$20/month. The member's increased pension of \$2,020 per month would be used for purposes of calculating the automatic COLA which has been determined to be 2.3% for 1997, provided the member has received the pension for at least twelve months and attained age 53. Upon payment of the 2.3% COLA, the member's monthly pension would equal \$2,066.46 ( $\$2,020 + 2.3\% \times \$2,020 = \$2,066.46$ ).

**Medicare Part B Reimbursement** - The bill would permit the HPRS board to establish, by rule, the monthly Medicare Part B premium reimbursement, provided the monthly reimbursement rate shall not exceed the basic premium for such coverage. In 1998, the basic premium for Medicare Part B coverage is \$43.80 per month.

Under current law, the monthly reimbursement of the Medicare Part B premium has been capped by statute at \$41.10, the basic monthly premium in effect in 1994. Similar caps have been established by statute in the School Employees Retirement System at \$24.80 per month in 1988 and in the State Teachers Retirement System at \$29.90 per month in 1991; the Public Employees Retirement System and the Police and Firemen's Disability and Pension Fund are the only two retirement systems whose laws require full reimbursement of the basic premium for Medicare Part B coverage which equals \$43.80 per month in 1998. H.B. 673, introduced this session, would increase the Medicare Part B reimbursement rate in SERS from \$24.80 to \$31.80, the rate in effect in 1992.

IsaL,Im~& - The HPRS actuary, Gabriel, Roeder, Smith & Company, prepared an actuarial analysis of the bill as required under R.C. §5505.12. The actuary indicates that *if no other part of the retirement system's funding mechanism were changed*, the following increase in the computed employer contribution rate would be necessary to support the above benefit changes:

<b>Increase in</b>	<b>Pension</b>	<b>Health Care</b>
Normal Cost	10.41%	0.34%
Unfunded Actuarial Accrued Liability	10.73%	
<b>Total</b>	<b>1.14%</b>	<b>1.00%</b>

The actuary also indicates 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:

	<b>Pension</b>	<b>Health Care</b>
Current Funding Period	16 years	Overfunded
After Proposed Changes	24 years	Overfunding is reduced.
<b>Increase in Funding Period</b>	<b>+8 years</b>	<b>+0 years</b>

**S.B. 228****March 11, 1998**

According to the latest annual actuarial valuation of HPRS as of December 31, 1996, the ending balance for the health care fund was \$73,834,545; the annual health care costs were 2,022,068. Therefore, the ratio of HPRS' annual health care cost to the health care fund balance was 36.5, the highest ratio of any of the five state retirement systems which range from 1.5 in SERS to approximately 20 in PERS.

Staff - That the Ohio Retirement Study Council recommend that the 122nd Ohio General Assembly approve S.B. 228 with a review of the present employer contribution rate, given the overfunded status of the system's health care reserves.

**ORSC Pm** - At its meeting of March 11, 1998 the Ohio Retirement Study Council voted to recommend that the 122nd General Assembly approve S.B. 228 with board review of the employer contribution rate, given the overfunded status of the system's health care reserves.