

# OR SC

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# *Analysis*

## Sub. S.B. 247 - Sen. Blessing (As Enacted)

January 28, 2003

ORSC Position

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Ohio Police and Fire Pension Fund, and the Highway Patrol Retirement System):

- Makes the authority of the retirement boards to provide post-retirement health care benefits through a health maintenance organization (HMO) permissive rather than mandatory.

The act makes the following changes to PERS, STRS and SERS:

- Allows members to withdraw their accumulated contributions under the defined benefit plan(s) of one or more retirement systems if they are participating in a defined contribution plan in another retirement system, provided they withdraw their contributions under all defined benefit plans due to the lack of coordination between defined benefit and defined contribution plans. Currently, such members are allowed to withdraw their accumulated contributions in one retirement system only if they also withdraw their contributions in the other retirement systems.

The act makes the following changes to PERS and STRS:

- Makes the spousal consent requirement under the PERS and STRS alternative defined contribution plan the same as under the PERS and STRS traditional defined benefit plan.

The act makes the following changes to PERS:

- Permits reemployed retirants to choose the actuarial equivalent of the single life annuity provided under current law in a lesser amount for the retirant's life and continuing after death to a surviving beneficiary designated by the retirant. The death of the spouse or other designated beneficiary shall cancel the optional plan of payment and the retirant shall receive the actuarial equivalent of the single life annuity effective the first day of the month following receipt by the PERS board of the notice of death. In the event of marriage termination, the retirant may cancel the optional plan of payment only with the written consent of the spouse or pursuant to court order. Following marriage or remarriage, the retirant may elect an optional plan of payment based upon the actuarial equivalent of the single life annuity effective the first day of the month following receipt by the board of the election.
- Allows PERS retirees whose PERS-covered reemployment commenced prior to the changes in the reemployment statutes effective June 30, 1991 to make a one-time election, no later than 90 days after the effective date of the bill, to resume their original monthly retirement allowance, receive a lump sum payment of the suspended annuity portion of their original retirement allowance and have all contributions made during such reemployment period used in the calculation of the money purchase annuity otherwise payable to PERS reemployed retirees under the revised reemployment statutes.
- PERS law regarding the establishment of defined contribution plans is amended to require eligible members to file the election form with PERS rather than the employer within the 180-day election period provided under current law; to clarify the eligibility provisions with respect to other system retirants, hamilton county municipal court bailiffs and individuals employed in more than one position subject to PERS coverage; to authorize a portion of the employer contribution to be allocated to a voluntary employees' beneficiary association, medical savings account, or similar arrangement for the provision of retiree health care benefits and to cover expenses for administering the defined contribution plan(s); to authorize a "hybrid" plan that combines features of a defined benefit plan and a defined contribution plan with different eligibility requirements, benefit formulas and service costs established by the board; and to authorize participants to transfer between plans at intervals and conditions specified under the plan, including a transfer from a defined contribution

plan to the defined benefit plan with an appropriate adjustment in service credit should any additional liability as determined by the actuary not be covered by the participant that elects such transfer.

The act makes the following changes to STRS:

- Amends the definition of “superannuate” to exclude former teachers receiving benefits on account of disability from the hybrid defined benefit/defined contribution plan established on July 1, 2001 pursuant to S.B. 190 (eff. 7/13/00). This change provides consistent treatment of all disability benefit recipients receiving benefits under STRS for purposes of board elections and reemployment restrictions.
- Provides for the 50% employer match under the existing STRS enhanced refund option on member contributions made during a leave-of-absence that begins and ends in the same fiscal year (July 1 - June 30).
- Includes transferred or purchased service under the Cincinnati Retirement System as contributing service under STRS for purposes of calculating service retirement benefits.

The act makes the following changes to OP&F:

- Confirms the survivor benefit language for spouses and dependent children to reflect the actual operation of the cost-of-living allowance under OP&F.
- Makes OP&F law permissive rather than mandatory relative to the redeposit of previously withdrawn contributions upon subsequent employment covered under OP&F.

**Staff Comments** - One of the ORSC staff recommendations made in the final report to the Joint Legislative Committee to Study Ohio’s Public Retirement Plans (12/11/96) was the need to provide greater portability and benefit options for Ohio’s public employees. Since then, several legislative measures have been favorably recommended by the ORSC and enacted into law pursuant to this recommendation, including: the creation of an alternative defined contribution plan for employees of public institutions of higher education (H.B. 586 - eff. 3/31/97); the payment of interest on the member’s accumulated contributions plus matching employer contributions for vested members upon application for a refund in STRS and PERS (H.B. 586; S.B. 144 - eff. 9/14/00); the creation of alternative defined contribution plans for PERS, STRS and SERS members (H.B. 628 - eff. 9/21/00; S.B. 190 - eff. 7/13/00; S.B. 270 - eff. 4/9/01); the portability of service credit between the Cincinnati Retirement System and the state retirement systems (H.B. 535 - eff. 4/1/01); and the most recent creation of a deferred retirement option plan for OP&F members (S.B. 138 - awaiting Governor’s signature).

S.B. 247 would also provide greater benefit options for PERS, STRS and SERS members at the time of retirement by allowing them to choose a partial lump sum payment and the remainder as a monthly retirement allowance. The bill is designed to be cost neutral to the retirement systems since the PLOP, like the current payment options available to retiring members, shall be the actuarial equivalent of the benefit the member would have received had the PLOP not been chosen.

**Fiscal Impact** - The actuarial analyses prepared by PERS, STRS and SERS indicate that the bill would have no actuarial impact upon the retirement systems, provided the reductions in monthly benefits otherwise payable are the actuarial equivalent of the partial lump sum payment. Milliman USA concurs with such analyses.

**ORSC Position** - At its meeting of April 17, 2002, the Ohio Retirement Study Council voted to recommend that the 124th Ohio General Assembly approve Sub. S.B. 247 which incorporates the

following amendments:

- The maximum partial lump sum option payment is further limited so that the member's remaining monthly retirement benefit is not less than 50% of the monthly benefit otherwise payable had the member not elected the PLOP;
- PERS surviving spouses or sole dependent beneficiaries are permitted to elect the PLOP in lieu of the 100% joint and survivor annuity otherwise payable under current law in order to maintain the current uniformity among PERS, STRS and SERS in this regard;
- PERS and SERS members are allowed to withdraw their accumulated contributions under a defined benefit plan if they are participating in a defined contribution plan under another retirement system, provided they withdraw their accumulated contributions under all defined benefit plans due to the lack of any coordination between the defined benefit and defined contribution plans of the three retirement systems;
- PERS law is amended to require the establishment of the PLOP no later than July 1, 2004, as provided under STRS and SERS.
- PERS, SERS, OP&F and HPRS laws are amended so that each board's authority is permissive and identical with respect to providing retiree health care coverage through HMOs.

In addition, the Ohio Retirement Study Council reviewed and voted to recommend the following amendments relative to the retirement systems which have been incorporated into Sub. S.B. 247 and which have no actuarial impact upon the retirement system(s) involved:

- OP&F law is amended to make permissive rather than mandatory the redeposit of previously withdrawn contributions upon subsequent employment covered under OP&F;
- PERS law is amended to allow PERS retirees whose PERS-covered reemployment commenced prior to the changes in the reemployment statutes effective June 30, 1991 to make a one-time election, no later than 90 days after the effective date of the bill, to resume their original monthly retirement allowance, receive a lump sum payment of the suspended annuity portion of their original retirement allowance and have all contributions made during such reemployment period used in the calculation of the money purchase benefit otherwise payable to PERS reemployed retirees under the revised reemployment statutes;
- PERS law regarding the establishment of defined contribution plans is amended to authorize a portion of the employer contribution to be allocated to a voluntary employees' beneficiary association, medical savings account, or similar arrangement for the provision of retiree health care benefits; to authorize a "hybrid" plan that combines features of a defined benefit plan and a defined contribution plan with different eligibility requirements, benefit formulas and service costs established by the board; and to authorize participants to transfer between plans at intervals and conditions specified under the plan, including a transfer from a defined contribution plan to the defined benefit plan with an appropriate adjustment in service credit should any additional liability as determined by the actuary not be covered by the participant that elects such transfer.

**Effective Date** - October 1, 2002