



The Ohio Retirement Study Council

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Analysis

S.B. 93 - Sen. Watts (As Introduced)

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ORSC Position

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The bill would lower the normal retirement age from 52 to 48 with 25 years of service under the Public Employees Retirement System Law Enforcement (PERS-LE) division.¹ There is **no** reduction in benefits on account of the member's age under normal service retirement.

Presently, PERS law enforcement officers may retire at age 52 with 25 years of service without any reduction in benefits. They may also retire as early as age 48 with 25 years of service on a reduced benefit as follows:

Member's Attained Age at Retirement	Percent of Normal Retirement Benefit
48	75% of Normal Retirement Benefit
49	80%
50	86%
51	93%
52	100%

The bill would, thus, eliminate the current reduction in benefits prior to age 52 with 25 years of service under the PERS-LE program.

Staff Comments - Generally, the PERS-LE program, OP&F and HPRS have maintained similar eligibility requirements and benefit levels for retiring law enforcement and safety personnel. These retirement programs provide for earlier retirement ages and higher benefit formulas than the state pension plans covering general employees (PERS, STRS, SERS).

The bill is in response to H.B. 389 (eff. 9/9/88 - OP&F) and H.B. 340 (eff. 11/2/89 - HPRS), which lowered the normal retirement age from 52 to 48 with 25 years of service for police and firefighters and state troopers, respectively. The bill is intended to maintain the traditional parity among the PERS-LE, OP&F and HPRS retirement programs in this regard.

In the final report of the Joint Legislative Committee to Study Ohio's Public Retirement Plans, dated December 11, 1996, the ORSC staff made several recommendations concerning the retirement age in the public retirement systems. The ORSC staff recommended that (1) the normal retirement age be returned in the uniformed employee systems from 48 to 52 with a four-year phase-in, (2) the normal retirement age of 65 in the non-uniformed employee systems be increased in tandem with Social Security, and (3) benefits be reduced prior to normal

¹The PERS-LE program covers sheriffs, deputy sheriffs, township police officers, state university police officers and several other miscellaneous law enforcement groups. Like both the Ohio Police and Fire Pension Fund (OP&F) and the Highway Patrol Retirement System (HPRS), PERS-LE provides for earlier retirement ages and higher benefit formulas than the state pension funds for general employees.

retirement age in all five systems on an actuarial basis; currently, benefit reductions due to early retirement are fixed by statute without any actuarial recognition of the improved mortality experience in all five systems. These recommendations were based largely upon the improved life expectancies of members and consequently the increased benefit costs to the retirement systems. Though none of the recommendations was acted upon by the Joint Legislative Committee, the underlying public policy rationale for such recommendations is sound, and remains a legitimate public policy issue for both public and private pension plans. Given the phased-in, incremental increase in the Social Security normal retirement age from 65 to 67 under existing law and the possibility of even more increases in the age of eligibility under various Social Security and Medicare reform proposals, public policy interest in changes to “normal retirement age” will inevitably grow based largely on fiscal concerns caused by the effect of continuing improvements in life expectancy on benefit costs.

Actuarial data obtained since 1988 clearly shows that employees are retiring younger and living longer. The OP&F quinquennial evaluation for the period 1987 to 1991 which compares actual experience to actuarial assumptions indicated that the utilization of unreduced retirement at age 48 was significantly higher than assumed when H.B. 389 was enacted. The average retirement age dropped from 55 to 52.7 for police and from 55.2 to 53.2 for firefighters. The evaluation also indicated that service retirees and disabled retirees were living longer than assumed. For retirees, mortality had improved for the last 25 years covered by the quinquennial evaluations of the fund.

The OP&F quinquennial evaluation for the period 1992 to 1996 indicated that the average retirement age dropped further from 52.7 to 52.2 years for police and from 53.6 to 53.1 years for firefighters. This most recent evaluation also indicated that service retiree mortality had improved significantly during this five-year period, along with moderate improvements for disabled retirees. This marked 30 years of mortality improvements for retirees, as measured in each of the prior quinquennial evaluations of the fund.

The updated OP&F forecast study also assumes that every five years, beginning in 2003, retiree liabilities will be increased by 2% and active member liabilities and normal costs will be increased by 1% due to expected mortality improvements. In other words, over 30 years, the increase in benefit costs would be 12% for retirees and 6% for active members.

There are also existing public retirement statutes and proposals which are specifically designed to encourage members to work beyond current normal retirement in recognition of the continued mortality improvements. Currently, members of the non-uniformed employee retirement systems (PERS, STRS, SERS) may retire at any age with 30 years of service. The benefit formula multiplier increases, however, for each year of service in excess of 30 which is intended to serve as a financial incentive for members to work beyond the required 30 years. Sub. S.B. 190, which has been favorably recommended by the Ohio Retirement Study Council, has passed the Senate and is currently pending before the House Health, Retirement & Aging Committee this session, would provide an even greater financial incentive for teachers to remain working for at least 35 years by increasing the benefit formula from 2.2% to 2.5% for each of the first 30 years of service. Deferred retirement option plans (DROP) under consideration by the OP&F board would also provide a significant financial incentive for police and firefighters to remain working beyond the current normal retirement age of 48 with 25 years of service. Under a DROP plan,

members who are eligible for service retirement would continue to be employed for some defined period, such as two to five years, during which period the member's monthly service retirement benefit would be credited to the member's DROP account, along with annual compound interest at some specified rate. Upon termination of employment, the member would receive a lump sum distribution of the member's DROP account or some alternative distribution thereof, and would begin receiving a monthly service retirement benefit based on the member's final average salary and service credit calculated at the time the member elects participation in the DROP plan. The above statutes and proposals are directly at odds with lowering normal retirement requirements.

There are also retirement board policies currently in place which discourage members from early retirement. For example, STRS board rules provide that a member is ineligible for retiree health care insurance subsidized by the retirement system until such time as the member would have qualified for such coverage without the use of any early retirement incentive credit purchased by the employer.

The PERS health care plan provides primary coverage for those retirees without Medicare.² Medicare generally provides coverage to eligible individuals who are age 65 or older (though younger individuals may also qualify, e.g., those receiving Social Security disability benefits). Upon Medicare eligibility, the PERS health care plan becomes the secondary payer.

The final report of the Joint Legislative Committee found that approximately one-third of the benefit recipients not covered by Medicare generate nearly two-thirds of the hospital/medical claim payments in all five systems. Lowering the normal retirement age to 48 would expose the PERS health care plan to increased health care costs for additional years before Medicare becomes the primary payer. However, rate and/or benefit adjustments, including retiree premium charges, could be made to maintain the current balance of the PERS health care plan.

When the normal retirement age was lowered in the police and fire pension fund (H.B. 389) and the state highway patrol retirement system (H.B. 340), the employee contribution rate was increased as part of the funding of the additional liabilities created under those bills. The employee contribution rate was increased from 9.5% to 10% for police and firefighters and from 9% to 10.5% for state troopers. Should the legislature decide as a matter of public policy to establish the traditional parity among the three law enforcement retirement programs in Ohio by lowering the normal retirement age for PERS-LE members, it is recommended that the employee contribution rate be increased to fund the normal cost of such change going forward.

The PERS-LE division was created by the General Assembly in 1975. The General Assembly recognized that certain law enforcement officers deserved special retirement benefits due to the nature of their employment. At that time, only sheriffs and deputy sheriffs were included in the PERS-LE division. In 1979 township constables and police officers were added to the PERS-LE division based upon an ORSC study. Like sheriffs and deputy sheriffs,

²The PERS health care plan presently offers comprehensive hospital/medical coverage, including prescription drugs, to eligible retirees at no premium cost. PERS retirees may also elect coverage for their spouse and dependent children, the premiums of which are subsidized in substantial part by the retirement system. PERS law also provides that the board shall reimburse retirees for the full monthly Medicare Part B premium cost (\$45.50/month).

township constables and police officers were required to be employed as full-time peace officers; possess a peace officer training certificate; and have primary duties of preserving the peace, protecting life and property, and enforcing the laws of the state to be eligible for the PERS-LE division.

Since then the PERS-LE division has grown to include drug agents, department of public safety enforcement agents, parks officers, forest officers, game protectors, state watercraft officers, preserve officers, natural resources law enforcement staff officers, park district police officers, conservancy district officers, Ohio veterans' home police officers, special police officers for mental health institutions and for institutions for the mentally retarded and developmentally disabled, state university law enforcement officers, and Hamilton County Municipal Court bailiffs. Numerous other groups have also sought inclusion in the PERS-LE division, such as regional transit authority police and prison guards.

The original intent of the PERS-LE division was to provide a special set of retirement benefits for law enforcement officers whose duties and training were similar to those of police officers, but who at that time, did not have the career security needed to become vested in a retirement benefit under OP&F. Accordingly, a separate law enforcement division in PERS was created with a special "back up" provision for law enforcement officers who failed to obtain the necessary years of law enforcement service to qualify for a retirement benefit thereunder. Such officers were and continue to be eligible to retire under the regular PERS retirement program, which requires only five years of service to qualify for a benefit.

The first groups of employees eligible for benefits under PERS-LE (sheriffs, deputy sheriffs, township constables, township police officers) were required to have as their primary duties preserving the peace, protecting life and property, and enforcing the laws of the state. As later groups have been added to PERS-LE, the emphasis for eligibility has gradually shifted from the primary duties of the employee to the type of training the employee has received. While the training of a member of the law enforcement division is important, it is the primary duties of the officer that justify the special set of retirement benefits, including earlier retirement age and higher benefit formula. It is, thus, recommended that future participation in PERS-LE be limited to full-time law enforcement officers whose position requires a certificate from the Ohio Peace Officer Training Commission under R.C. § 109.77 *and* whose primary duties are to preserve the peace, protect life and property, and enforce the laws of the state as certified by the employer.

Fiscal Impact - (See the attached actuarial analysis prepared by the ORSC consulting actuary, Milliman & Robertson.)

ORSC Position - At its meeting of March 29, 2000 the Ohio Retirement Study Council voted to reject the motion to accept the staff recommendation that the Ohio General Assembly disapprove S.B. 93 based upon the public policy that normal retirement age should bear a reasonable relationship to continued improvements in life expectancy, including that of law enforcement officers and public safety officers. The ORSC then voted to accept the motion to recommend that the 123rd General Assembly approve S.B. 93 upon the adoption of the following changes:

- the provisions of the bill become effective January 1, 2001, the date the temporary reduction in the employer contribution rate for law enforcement officers adopted by the PERS board for calendar year 2000 terminates;
- the employee contribution rate for law enforcement officers is increased by 1.1%, the additional amount necessary when combined with the return in the employer rate to 16.7% to fund the cost of the bill and S.B. 144 within the maximum 30-year funding period required by statute;
- future participation in the law enforcement division of PERS is limited to full-time law enforcement officers whose position requires a certificate from the Ohio Peace Officer Training Commission and whose primary duties are to preserve the peace, protect life and property, and enforce the laws of the state as certified by the employer.