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ACT SUMMARY

- Increases the percentages used to calculate a service retirement benefit or disability allowance for members of the State Teachers Retirement System (STRS) who retire or are disabled after the act's effective date.
- Provides for recalculation, based on the formula in prior law, of the annual single lifetime benefit of a service retirement benefit that was payable on July 1, 1999, and an increase in the benefit (or its actuarial equivalent) if it is less than the recalculated amount.
- Increases the amount of any benefit payable on July 1, 1999, that, when adjusted for inflation, is less than 85% of its original amount.
- Requires the STRS Board to make a one-time payment to persons eligible for an increase under the act's provisions as if the act had been in effect on July 1, 1999.
- Requires the STRS Board to establish a defined contribution plan.

- Allows certain current STRS members and persons who become members after the establishment of a defined contribution plan to choose between contributing to the existing defined benefit plan or a new defined contribution plan.
- Requires STRS to submit to the Ohio Retirement Study Council and the standing committees of the General Assembly with primary responsibility for retirement legislation the system's annual actuarial valuation not later than the first day of January (rather than May) following the year for which the valuation was made.
- Permits Ohio's five state retirement systems to establish qualified governmental excess benefit arrangements.
- Requires the Ohio Retirement Study Council to review semiannually the investment programs of Ohio's state retirement systems and to review at least once every ten years each system's actuarial valuations and investigations.

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CONTENT AND OPERATION

The act makes changes to two areas of the law governing the State Teachers Retirement System (STRS) and reorganizes Revised Code Chapter 3307. to accommodate the changes. One change is that the act modifies the formula for calculating service retirement benefits and disability allowances for STRS members and increases certain benefits payable to eligible recipients. The other is that the act requires the STRS Board to establish a defined contribution plan and allows certain STRS members and individuals who become members after the plan is established to choose between contributing to the existing defined benefit plan or the new defined contribution plan.

In provisions dealing with all of the state's public retirement systems, the act authorizes, but does not require, each of the retirement systems to establish qualified governmental excess benefit arrangements that meet requirements

established in federal law.¹ The act also requires the Ohio Retirement Study Council to review semiannually the investment programs of Ohio's state retirement systems and to review at least once every ten years each system's actuarial valuations and investigations.

INCREASES IN STRS SERVICE RETIREMENT BENEFITS AND DISABILITY ALLOWANCES

The act increases the percentages used to calculate service retirement benefits and disability allowances for STRS members, and requires the STRS Board to recalculate benefits payable on July 1, 1999, to eligible benefit recipients and make one-time payments based on the benefit increases provided under the act.

Changes in service retirement and disability allowances

(secs. 3307.58, 3307.59, and 3307.631)

Calculation of a service retirement benefit

An STRS member may be granted service retirement if the member has five years of service credit and has attained age 60, 25 years of service credit and has attained age 55, or 30 years of service credit at any age. An STRS member granted service retirement receives an annual single lifetime benefit. Except as adjusted for a member under age 65 with less than 30 years of service credit, the amount of a member's benefit is the amount determined by multiplying the member's Ohio service credit by \$86 or a specified percentage of the member's final average salary, whichever results in the higher amount.² The bill changes the percentage of final average salary used in calculating a member's annual single lifetime benefit.

Under prior law, the percentage of final average salary used in the calculation was 2.1%, except that if the member had more than 30 years of credit for service as a teacher in Ohio, including credit purchased for leaves of absence,

¹ *Ohio's state retirement systems are STRS, the Public Employees Retirement System, Ohio Police and Fire Pension Fund, School Employees Retirement System, and State Highway Patrol Retirement System.*

² *"Ohio service credit" means all contributing service as an STRS member, plus other types of credit, such as military service credit, credit purchased for service as a school board member, and credit purchased for other teaching service, but not including credit purchased for service in private schools. With some exceptions, "final average salary" is determined by dividing by three the sum of the member's annual compensation for the three highest years of compensation for which the member made contributions.*

each of the years in excess of 30 was multiplied by the percentage of the member's final average salary shown in the following chart:

| Years of service credit | Per cent for that year |
|--------------------------------|-------------------------------|
| 30.01-31.00 | 2.5% |
| 31.01-32.00 | 2.6% |
| 32.01-33.00 | 2.7% |
| 33.01-34.00 | 2.8% |
| 34.01-35.00 | 2.9% |
| 35.01-36.00 | 3.0% |
| 36.01-37.00 | 3.1% |
| 37.01-38.00 | 3.2% |
| 38.01-39.00 | 3.3% |
| 39.01-40.00 | 3.4% |
| 40.01-41.00 | 3.5% |
| 41.01-42.00 | 3.6% |
| 42.01-43.00 | 3.7% |

Under the bill, the percentage of final average salary used in the calculation is increased to 2.2% (from 2.1%) for each of the first 30 years of Ohio service credit, except that if a member has 35 or more years of credit as a teacher, including credit purchased for leaves of absence and certain other types of credit, the percentage is 2.5% (with one exception described below) for each of the first 30 years.³ For each year or fraction of a year of Ohio service credit in excess of 30 years, the percentage of final average salary used in the calculation is increased to 2.2% (from 2.1%), except that if the member has more than 30 years of credit as a teacher, including credit purchased for leaves of absence and certain other types

³ *The types of credit include credit used in calculating a coordinated benefit, credit for military service, credit for leaves of absence or resignation due to pregnancy, credit for service as a police officer, firefighter, or State Highway Patrol trooper, credit for service for which an employer failed to make contributions (if earned after July 1, 1978), or any combination of these types of credit.*

of credit, the percentage for each corresponding year or fraction of a year (with one exception described below) is as shown in the following chart:⁴

| Years of service credit | Per cent for that year |
|--------------------------------|-------------------------------|
| 30.01-31.00 | 2.5% |
| 31.01-32.00 | 2.6% |
| 32.01-33.00 | 2.7% |
| 33.01-34.00 | 2.8% |
| 34.01-35.00 | 2.9% |
| 35.01-36.00 | 3.0% |
| 36.01-37.00 | 3.1% |
| 37.01-38.00 | 3.2% |
| 38.01-39.00 | 3.3% |

The exception is that a percentage of final average salary in excess of 2.2% may be applied to credit used in calculating a coordinated benefit or credit for service as a police officer, firefighter, or State Highway Patrol trooper only if the credit was established by contributions made or restored by the member.

Calculation of disability allowances

An STRS member who qualifies for a disability benefit and has disability coverage that was established after July 29, 1992, is entitled to receive a disability allowance. The allowance is an amount equal to the greater of (1) 45% of the member's final average salary or (2) the amount determined by multiplying the member's total service credit by a percentage of the member's final average salary.⁵ Under prior law, the percentage of final average salary used in the calculation was 2.1%. The bill increases the percentage to 2.2%.

⁴ *The chart is the same as under prior law, except that an STRS member under the new formula reaches the maximum benefit of 100% of final average salary with 39 years of service (rather than 43 years).*

⁵ *The amount may not exceed 60% of the member's final average salary.*

Calculation of disability allowances that are converted to service retirement

An STRS member who is receiving a disability allowance may apply to have the allowance converted to a service retirement benefit. As part of the calculation used to determine the amount of the benefit the member receives, the greater of the following is determined: (1) an annual single lifetime benefit calculated as described above (see "**Calculation of a service retirement benefit**" above), excluding years for which the member received the disability allowance or (2) the amount determined by multiplying the member's total service credit, including the years the member received the disability allowance, by a percentage of the member's final average salary.⁶ Under prior law, the percentage of final average salary used in the calculation was 2.1%. The bill increases the percentage to 2.2%.

Recalculation of certain benefits paid to retired STRS members

(secs. 3307.6913 and 3307.6914)

Under the act, the STRS Board is required to recalculate the benefits payable to persons receiving benefits on July 1, 1999. The recalculations must be completed not later than 180 days after the act's effective date, and the Board is authorized to adopt rules to implement the recalculations. The increases paid under the recalculations are included in the recipient's base for purposes of future cost-of-living increases.

Recalculation of annual single lifetime benefit

--Background. Prior to August 6, 1997, an STRS member who retired with more than 30 years of service received 2.1% of the member's final average salary for each of the first 30 years of service and 2.5% for each year in excess of 30 years. Am. H.B. 339 of the 122nd General Assembly, which took effect on that date, modified the formula for STRS members who retire with more than 30 years of service so that, for each year in excess of 30 years, the percentage ranged from 2.5% to 3.7% of final average salary depending on the number of years of service (see "**Calculation of a service retirement benefit**" above).

--The act. The STRS Board is required to recalculate the annual single lifetime benefit for each person receiving a service retirement benefit on July 1, 1999, using the version of service retirement formula in effect immediately prior to

⁶ The amount may not exceed 45% of the member's final average salary.

the act's effective date, excluding any cost-of-living increases.⁷ If the recalculated amount is greater than the recipient's annual single lifetime benefit, the Board must recalculate the recipient's benefit so that it equals the recalculated annual single lifetime benefit or its actuarial equivalent. Thus, an STRS member who retired with more than 30 years of service prior to the enactment of H.B. 339 is to have the member's benefit recalculated under the increased percentages of final average salary enacted in H.B. 339.

Recalculation of certain benefits to reflect inflation changes

The Board is required to calculate an amount for each eligible recipient of a benefit to determine whether the recipient's current benefit is less than 85% of the original benefit adjusted for changes in the cost of living, plus any cost-of-living increases granted to the recipient.⁸ With one exception, the Board is to determine the sum of (1) 85% of the recipient's "original benefit amount" (or, if the person for whom the calculation is made is not the person to whom the original benefit amount was granted, 85% of the product obtained when the original benefit amount is multiplied by the percentage of the original benefit amount being paid to the person) and (2) an amount equal to the product obtained when the amount determined under (1) is multiplied by the cumulative percentage change in the consumer price index (CPI) for the period of December 31 immediately preceding the year in which the original benefit started through December 31 immediately preceding the act's effective date.⁹ The exception is that, for each eligible recipient of a survivor benefit that is payable by reason of the death of a disability benefit recipient, the Board is required to calculate all of the following:

(1) The product obtained by multiplying the deceased recipient's final average salary by the cumulative percentage change in the CPI;

⁷ *The act specifies that the recalculated annual single lifetime benefit is to be adjusted by the percentage, corresponding to the member's attained age or years of Ohio service credit, that was in effect at the time the initial recipient's benefit was calculated on the basis of age and service.*

⁸ *The act defines "benefit" to mean a benefit, pension, or allowance for age and service retirement, coordinating membership in the state retirement systems, disability retirement, disability, or a benefit paid to a qualified dependent beneficiary or survivor or under an optional retirement plan.*

⁹ *"Original benefit amount" is the initial amount of a benefit granted to the initial recipient of the benefit. The Board is to use the CPI for urban wage earners and clerical workers (CPI-W: U.S. city average, all items) to determine the cumulative percentage change.*

(2) 85% of the product described in (1);

(3) The amount of the survivor benefit that would be payable if the amount described in (2) was used as the deceased recipient's final average salary.

If the amount calculated by the Board is greater than a recipient's annual benefit payable on the act's effective date, the Board is required to recalculate the annual benefit so that it equals the amount calculated by the Board. Thus, a person who is currently receiving a benefit that is less than 85% of the adjusted original benefit amount, including cost-of-living increases, would receive an increase to that amount.

If the recipient's annual single lifetime benefit was also recalculated as described above (see "*Recalculation of annual single lifetime benefit*" above), the Board is required to use the recalculated benefit to make the calculation under this provision.

One-time payments based on the benefit increases under the act

(Sections 6 and 7)

Under the act, the STRS Board is required to make one-time payments to certain benefit recipients as if the act took effect on July 1, 1999.

Payments based on recalculated annual single lifetime benefits

The STRS Board is required to recalculate under the act's provisions a service retirement benefit (or its actuarial equivalent) or disability allowance that became effective on or after July 1, 1999, but prior to the act's effective date. If the recalculated benefit is greater than the recipient's benefit or allowance prior to the recalculation, the Board is required to pay the recalculated benefit or allowance and make a one-time payment to the recipient equal to the difference between the benefits paid to the recipient between July 1, 1999, and the date of the payment and the increased benefits that would have been paid to the recipient had the act gone into effect on July 1, 1999.

Payments based on recalculations to reflect inflation changes

The Board is also required to make a one-time payment to each recipient whose benefit is increased under the recalculations required by the act. The payment is to equal the difference between the benefits paid the recipient between July 1, 1999, and the date of payment and the increased benefits that would have been paid the recipient had the act gone into effect on July 1, 1999.

ESTABLISHMENT OF A DEFINED CONTRIBUTION PLAN IN STRS

Background

STRS provides its members a retirement benefit under a plan that is often called a "defined benefit plan." The plan provides, to those who meet the age and service requirements, a retirement benefit based on a formula: a percentage of final average salary multiplied by the member's years of service credit. In a "defined contribution plan," the member and employer contribute to the plan a specified percentage of the member's compensation. These contributions are held in an account and invested, usually at the direction of the member. At retirement or on withdrawal of contributions, the benefit payable to the member is determined by the amount, including investment earnings, in the member's account.

Establishment of a defined contribution plan

(secs. 3307.80, 3307.81, 3307.811, and 3307.812)

The act requires the STRS Board to establish one or more plans consisting of benefit options that provide an individual account for each participating member. Each plan's benefits are to be based solely on the amounts that have accumulated in the account. The plans may include options under which a member participating in the plan may receive definitely determinable benefits. Each plan may include life insurance, annuities, variable annuities, regulated investment trusts, pooled investment funds, or other forms of investment. The Board may administer the plans, enter into contracts with other entities to administer the plans, or both. If the Board contracts with another entity to administer the plans, the entity must agree to meet all requirements that apply to the plan.

Under the act, each plan must meet the requirements of the Internal Revenue Code that are necessary to qualify as a retirement system maintained by a state or local government entity. Each participant in a plan must qualify as a member of that system.¹⁰

In establishing a plan, the act allows the STRS Board to do all things necessary to avoid payment by the system of income taxes on contributions to the plan or amounts earned under the plan and, to the extent permitted under federal or state law, to allow members participating in the plan to make tax-deferred contributions for periods of interrupted or prior service.

¹⁰ *The plan's status as a retirement plan maintained by a state or local government entity exempts members from requirements that employees contribute to Social Security.*

The STRS Board is to adopt rules to implement the plans.

Election to participate in a defined contribution plan

(secs. 3307.25, 3307.251, and 3307.252)

Under the act, new STRS members and certain existing members are eligible to make an election to participate in a defined contribution plan.

New members

An individual who becomes an STRS member on or after the date on which the STRS Board establishes a defined contribution plan must make an election not later than 180 days after the date on which employment begins. If an election is not on file with the employer at the end of that period, the individual will be deemed to have elected to participate in the pre-existing defined benefit plan.

An individual is ineligible to make an election if one of the following applies:

(1) At the time employment begins, the individual is a member or contributor participating in the pre-existing defined benefit plan or a superannuate of the system;¹¹

(2) An election to participate in the alternative retirement plan available to academic or administrative employees of public institutions of higher education under Revised Code Chapter 3305. is in effect for employment covered by STRS.

Existing members

A member of STRS who, as of the 30th day of June immediately preceding the date on which the system establishes a defined contribution plan, has less than five years of total service credit may make an election to participate in a defined contribution plan. The election must be made not later than 180 days after the date on which the Board first establishes a plan. If an election is not made, a member is deemed to have elected to continue participating in the defined benefit plan.

¹¹ Under the act, "superannuate" means a former member receiving from the system a retirement allowance under the defined benefit plan or under the defined contribution plan (Revised Code section 3307.01).

Election process

An election must be made in writing on a form provided by STRS and filed with the personnel officer of the employer in the case of a new member or with STRS in the case of an existing member. Not later than ten days after receiving an election from a new member, the employer is to transmit to STRS a copy of the election that includes a statement certifying that it is a true and accurate copy of the original record. With the exception of the transfer of a new member's account (see "**Transfer to the existing defined benefit plan**" below), an election to participate is irrevocable on receipt by the system.

On receipt of a election by an existing member who chooses to switch to the defined contribution plan, STRS is to do both of the following:

(1) Credit to the account of the member in the Defined Contribution Fund the accumulated contributions standing to the member's credit in the Teachers' Savings Fund, plus an additional amount provided for in continuing law;¹²

(2) Cancel all service credit and eligibility for any payment, benefit, or right under the defined benefit plan.

An STRS member who elects to participate in a defined contribution plan is ineligible for any benefits or payments under the provisions of the defined benefit plan and, with one exception (see "**Transfer to the existing defined benefit plan**" below), is forever barred from claiming or purchasing service credit with the system or any other state retirement system for service covered by the election.

Participation in a defined contribution plan

(sec. 3307.83)

Under the act, the right of each member participating in a defined contribution plan to a retirement, disability, or survivor benefit, to health care insurance coverage, or to a withdrawal of contributions is governed by the plan selected by the member.¹³

¹² (R.C. 3307.563.)

¹³ *STRS members are exempt from participation in Social Security and therefore generally are not eligible for Social Security survivor or disability benefits. There may be benefit options under the defined contribution plan that do not offer survivor or disability benefits. Therefore, there may be some members who do not have survivor or disability coverage.*

The "Defined Contribution Fund"

(secs. 3307.121, 3307.14, 3307.142, and 3307.28)

The act creates the "Defined Contribution Fund," the fund in which is accumulated the contributions deducted from the compensation of members participating in a defined contribution plan together with any earnings and employer contributions credited to the member's account.

For members participating in the defined contribution plan, the employer contribution is deposited into the Defined Contribution Fund in accordance with the plan selected by the member, less the amount transferred to the Employer's Trust Fund as required by the act. (See "**Transfer of funds**" below.)

The act specifies that interest is to be credited to the account of members participating in a defined contribution plan and to the Defined Contribution Fund in accordance with that plan.

Transfer of funds

(secs. 3307.28 and 3307.84)

For each member participating in a defined contribution plan, the act requires STRS to transfer to the Employers' Trust Fund a portion of the employer contribution that is equal to the percentage of members' compensation determined by the STRS Board's actuary to be necessary to mitigate any negative financial impact on the system of the participation of members in a defined contribution plan. The Board is required to have prepared annually an actuarial study to determine whether the percentage transferred should be changed to reflect a change in the level of the negative financial impact resulting from members participating in a defined contribution plan. The percentage transferred is to be increased or decreased to reflect the amount needed to mitigate the negative financial impact, if any, on the system, as determined by the actuarial study. An increase or decrease is to take effect on the first day of the month following the date the conclusions of the actuarial study are reported to the Board. STRS must make the transfer until the unfunded actuarial accrued liability for all benefits (other than health care benefits and benefit increases provided to members and former members after the act's effective date) is fully amortized, as determined by the annual actuarial valuation prepared under continuing law.

STRS is to deposit the remaining portion of the employer's contributions into the Defined Contribution Fund in accordance with the plan selected by the member.

Members and employers to provide information

(sec. 3307.86)

The act permits STRS to require members participating in a defined contribution plan and their employers to furnish the contributions and information required under continuing law at more frequent intervals than those required for members participating in the pre-existing defined benefit plan. The act specifies that the system has no duty to accept contributions by or on behalf of a member if a contribution or information is not furnished.

Spousal consent

(sec. 3307.87)

Under the act, if a member participating in a defined contribution plan is married at the time any benefits under the plan commence, benefits must be paid in the form of a joint and survivor annuity unless the spouse has consented to a different form of payment. The annuity must consist of the actuarial equivalent of the member's benefits, in amount that is payable for the life of the member and one-half of the amount continuing after the member's death to the spouse for the life of the spouse.

If a member participating in a defined contribution plan is married at the time of the member's death, any benefits that are payable to the member must be paid to the member's spouse unless the spouse has consented to the designation of a different beneficiary.

Each plan established under the act must include requirements for consent that are the same as the requirements for consent specified in the Internal Revenue Code.¹⁴ Each plan may provide for waiver of consent if the spouse cannot be located or for any reason specified in regulations adopted under the Internal Revenue Code. Consent or waiver is effective only with regard to the spouse who is the subject to the consent or waiver.

Health care coverage

(sec. 3307.39)

Under continuing law, the STRS Board may contract for health care coverage for certain members who are receiving service retirement or disability or survivor benefits under the existing defined benefit plan. The Board may cover all

¹⁴ (100 Stat. 2085, 26 U.S.C.A. 417(a)(2), as amended.)

or any portion of the policy or contract premium. The act authorizes the Board to enter into an agreement for health care coverage of recipients of benefits under a defined contribution plan. The Board may contract for coverage on the basis that the cost of the coverage will be paid by the recipient or by the plan to which the recipient contributed. The Board may offer to recipients plans that provide for different levels of coverage or for prepayment of the cost of coverage.

In addition to the health care coverage described above, the STRS Board makes a monthly payment to each recipient of service retirement, or a disability or survivor benefit, who has health care coverage under Medicare Part B.¹⁵ The payment reimburses part of the monthly charge for the coverage that the recipient pays to the federal government. Under the act, the STRS Board is authorized to make a monthly payment to a recipient of benefits under a defined contribution plan who has Medicare Part B coverage if the monthly payments are funded through the plan selected by the recipient. The payment is the greater of \$29.90 or an amount determined by multiplying the basic premium for the coverage by a percentage (not exceeding 90%) determined by multiplying the recipient's years of service by a percentage determined by the Board (not exceeding 3%).

Transfer to the existing defined benefit plan

(secs. 3307.53, 3307.88, 3307.881, and 3307.882)

Unless the member elects to continue in a defined contribution plan, an STRS member who elected to participate in a defined contribution plan as a new member will, on the first day of July following the fourth anniversary of the date membership began, be switched to the existing defined benefit plan.

When a member is switched to the existing plan, STRS must do all of the following:

(1) Transfer from the member's account in the Defined Contribution Fund to an account in the Teachers' Savings Fund the sum of the following:

(a) An amount equal to the member's contributions at the rate specified in continuing law;¹⁶

¹⁵ *Medicare has two parts: Part A, the hospital portion of the coverage, and Part B, which covers other medical services, including doctors' services.*

¹⁶ *R.C. 3307.26 requires each teacher to contribute 8% of the teacher's earned compensation, except that the STRS Board may raise the rate to a rate not greater than 10% of the teacher's earned compensation. The current contribution rate is 9.30% of compensation.*

- (b) Any supplemental contributions made by the member;
- (c) Any earnings from supplemental contributions.
- (2) Transfer to the Employers' Trust Fund the sum of the following:
 - (a) An amount equal to the employer contributions made on the member's behalf at the rate specified in continuing law;¹⁷
 - (b) Any amount remaining in the member's account in the Defined Contribution Fund after the transfers described in (1) and (2)(a) are made.
- (3) Grant service credit in accordance with rules adopted by the STRS Board (see "**Rulemaking authority**" below).

If the amount in the member's account in the Defined Contribution Fund is less than the amount the member would have had in an account in the Teachers' Savings Fund had the member elected to participate in the existing defined benefit plan, the system must transfer from the Guarantee Fund to the Teachers' Savings Fund the amount necessary to make the transfer described in (1)(a).¹⁸

With the exception of service credit granted under (3), a member who is switched to the defined benefit plan has the same rights and privileges granted to individuals who never elected to participate in a defined contribution plan.

Notice of opportunity to continue participation

The act requires STRS to notify a member who is to be switched back to the existing defined benefit plan, not later than 180 days before the June 30 following the fourth anniversary of the date membership began, of the opportunity to elect to continue participation in a defined contribution plan. The notice must include information regarding the requirements of making an election to continue participation. An election must be made in writing on a form provided by the Board and filed with the Board not later than the June 30 following the fourth anniversary of the date membership began.

¹⁷ R.C. 3307.28 requires each employer to contribute a percentage of the teacher's earned compensation determined by the STRS Board's actuary, not exceeding 14%. The current contribution rate is 14%.

¹⁸ The Guarantee Fund is made up of all income derived from the investment of funds by the STRS Board together with all gifts and bequests. This fund is a contingent fund from which special requirements of other STRS funds may be paid.

Rulemaking authority

The act requires the STRS Board to adopt rules for the purpose of determining the number of years or partial years of service credit to be granted to a member who is switched back to the existing defined benefit plan. The amount of service credit is to be based on the member's length of participation in and contribution to a defined contribution plan. The Board is the final authority in determining the amount of service credit a member is to receive.

Supplemental benefit plan

(sec. 3307.89)

Under the act, the STRS Board may offer to members participating in the pre-existing defined benefit plan the opportunity to also participate in one or more of the benefit options available under a defined contribution plan. Contributions are to be credited to an individual account in the Defined Contribution Fund.

Changes to accommodate the defined contribution plan

(secs. 3307.01, 3307.07, 3307.19, 3307.20, 3307.21, 3307.26, 3307.33, 3307.35, 3307.37, 3307.39, 3307.391, 3307.392, 3307.41, 3307.42, 3307.44, 3307.46, 3307.47, and 3307.54)

Under the act, certain members of STRS are allowed to choose between the defined benefit plan or a defined contribution plan. Even though the act makes a distinction between members based on the type of retirement plan selected by the member, each member of the system, regardless of the plan the member chooses, is subject to the provisions of law that govern STRS membership. Therefore, certain changes were made in the law to accommodate the establishment of a defined contribution plan.

OTHER STRS CHANGES

Employer pick-up

(sec. 3307.27)

Federal law authorizes individual governmental employers to "pick-up" employee retirement contributions as a means of deferring federal income taxes on these amounts. When a governmental employer picks up employee contributions, the contributions, even though they may be designated under state law as employee contributions, are treated as employer contributions. Under prior Ohio law, there were no Revised Code provisions governing the pick-up of employee

contributions. The act specifies that employee contributions made under STRS may be picked up by the employer.

Reporting requirement

(secs. 3307.212 and 3307.214)

Prior law required each employer to notify the STRS Board of the employment of new teachers on the first day of each calendar month or at such less frequent intervals as the STRS Board approved.¹⁹ The act requires each employer to notify the Board of the employment of a new employee not later than ten days after the date of hire. Notification is to be on a form provided by the Board. On receipt of the notice, STRS is required to inform the teacher of the requirement to make an election to participate in either the defined benefit plan or a defined contribution plan authorized by the act and that, if the member elects to participate in the defined contribution plan, the member's account will be transferred into the defined benefit plan on the first day of July following the fourth anniversary of the date the member begins to participate in the defined contribution plan unless the member makes another election to remain in the defined contribution plan. (See "**Transfer to the defined benefit existing plan**" above.)

Annual actuarial valuation

(sec. 3307.51)

Under continuing law, the STRS Board is required to have prepared annually by or under the supervision of an actuary an actuarial valuation of the pension assets, liabilities, and funding requirements of the system. The actuary is required to prepare a report of the valuation and the STRS Board is required to submit the report to the Ohio Retirement Study Council and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation. Under prior law, the STRS Board was required to submit the report no later than the first day of May following the year for which the valuation was made.²⁰ The act requires the STRS Board to submit the report by the first day of January following the year for which the valuation was made (or six months after the end of the fiscal year).

¹⁹ Under STRS law, all person eligible to be members come within the definition of "teacher."

²⁰ STRS' fiscal year is July 1 to June 30 and, thus, the report must be submitted not later than ten months after the end of the fiscal year.

Technical changes

(secs. 145.28, 145.293, 145.301, 145.311, 145.312, 145.35, 145.37, 145.38, 145.45, 742.26, 742.379, 2329.66, 3305.01, 3305.06, 3307.11, 3307.141, 3307.26, 3309.021, 3309.261, 3309.262, 3309.301, 3309.31, 3309.341, 3309.35, 3309.39, 3309.45, 3313.975, 3317.011, 3317.13, 3319.08, 5101.181, 5505.161, and 5505.202)

The act makes a number of technical changes to Revised Code sections, including grammatical changes and changes in dates.

Recodification changes

The act reorganizes (recodifies) Revised Code Chapter 3307. to accommodate the creation of a defined contribution plan. The following chart includes the old number, new number, and a brief description of each provision in the chapter.

| New number | Old number | Description |
|-------------------|-------------------|--|
| 3307.01 | 3307.01 | Definitions |
| 3307.03 | 3307.03 | STRS Board established |
| 3307.031 | | STRS consists of two retirement plans |
| 3307.04 | 3307.04 | Administration of STRS vested in Board |
| 3307.05 | 3307.05 | Members of the Board |
| 3307.06 | 3307.06 | Election of Board members |
| 3307.07 | 3307.07 | Method of electing Board members |
| 3307.08 | 3307.08 | Oath of office |
| 3307.09 | 3307.09 | Quorum; open meeting |
| 3307.10 | 3307.10 | Reimbursement for expenses |
| 3307.11 | 3307.11 | Chair and vice chair; executive director |
| 3307.12 | 3307.12 | Treasurer of state custodian of funds |
| 3307.121 | 3307.21(A) | Treasurer of state furnish statements |
| 3307.13 | 3307.13 | Legal advisor |
| 3307.14 | 3307.65 | Funds |
| 3307.141 | 3307.66 | Funds are separate legal entities |

| New number | Old number | Description |
|-------------------|-------------------|--|
| 3307.142 | 3307.651 | Interest credited to funds |
| 3307.15 | 3307.15 | STRS Board investment authority |
| 3307.151 | 3307.111 | Investment transactions prohibited |
| 3307.18 | 3307.18 | Board trustee no interest in funds |
| 3307.181 | 3307.14 | Fiduciary duties of Board |
| 3307.19 | 3307.19 | Individual accounts for contributors |
| 3307.20 | 3307.21(B) | Records open to public |
| 3307.21 | 3307.58 | Teachers notified of duties/obligations |
| 3307.211 | 3307.59 | Names of teachers certified to Board |
| 3307.212 | 3307.60 | Employer notify Board of changes |
| 3307.213 | 3307.63 | Employer shall keep records |
| 3307.214 | | Notice to new teacher |
| 3307.23 | 3307.29 | Statement of prior service at employment |
| 3307.231 | 3307.30 | Verification of statement |
| 3307.24 | 3307.27 | Denial of membership to certain teachers |
| 3307.241 | 3307.26 | Members of local pension system denied |
| 3307.25 | | Election of retirement plan on employment |
| 3307.251 | | Election of retirement plan for non-vested members |
| 3307.252 | | Consequences of electing defined contribution plan |
| 3307.26 | 3307.51 | Employee contributions |
| 3307.261 | 3307.511 | Employee contributions for disabled teachers |
| 3307.27 | | Employer may "pick up" employee contributions |
| 3307.28 | 3307.53 | Employer contributions |
| 3307.29 | 3307.61 | Deductions certified to employer's treasurer |
| 3307.291 | 3307.62 | Transmission of employer deductions |
| 3307.30 | 3307.64 | Employers who use tax revenue for contributions |
| 3307.31 | 3307.56 | Payments by boards of education |
| 3307.32 | 3307.75 | Amounts due to be promptly paid |

| New number | Old number | Description |
|-------------------|-------------------|---|
| 3307.33 | 3307.28(A) | Membership in STRS |
| 3307.35 | 3307.381 | Reemployed retirants |
| 3307.37 | 3307.72 | Withholding orders for restitution |
| 3307.39 | 3307.74 | Contracts for health insurance coverage |
| 3307.391 | 3307.741 | Contracts for long-term care insurance coverage |
| 3307.392 | 3307.40(B) | Death benefit plan |
| 3307.41 | 3307.71 | Exemption from tax; execution; garnishment |
| 3307.42 | 3307.711 | Vesting |
| 3307.44 | 3307.712 | Waiver of benefit from STRS |
| 3307.46 | 3307.4012 | Internal Revenue Code section 415 limits raised |
| 3307.47 | 3307.751 | Recovery of erroneously paid benefits |
| 3307.50 | 3307.01 | Definitions for defined benefit plan |
| 3307.501 | 3307.013 | "Final average salary" defined |
| 3307.51 | 3307.20 | Actuarial reports |
| 3307.511 | 3307.19 | Data for actuarial reports |
| 3307.512 | 3307.201 | 30-year amortization period |
| 3307.513 | 3307.421 | Report of employer's disability experience |
| 3307.52 | 3307.36 | Total service credit at retirement |
| 3307.53 | 3307.31 | Crediting service to teachers |
| 3307.54 | 3307.35 | Retirement incentive plan |
| 3307.56 | 3307.46 | Payment of accumulated contributions |
| 3307.561 | 3307.47 | Withdrawal of contributions from PERS/SERS |
| 3307.562 | 3307.48 | Payment of contributions to beneficiary |
| 3307.563 | 3307.80 | Interest on withdrawal of contributions |
| 3307.57 | 3307.41 | Coordination of benefits |
| 3307.58 | 3307.38 | Service retirement |
| 3307.59 | 3307.39 | Disability converted to service retirement |
| 3307.60 | 3307.50 | Optional benefit plans |

| New number | Old number | Description |
|-------------------|-------------------|---------------------------------------|
| 3307.61 | 3307.405 | Medicare equivalent insurance |
| 3307.62 | 3307.42 | Disability insurance coverage |
| 3307.63 | 3307.43 | Disability retirement |
| 3307.631 | 3307.431 | Disability allowance |
| 3307.64 | 3307.44 | Annual exam. of disability recipients |
| 3307.66 | 3307.49 | Survivor benefits |
| 3307.661 | 3307.40(A) | Death benefit |
| 3307.67 | 3307.403 | Cost-of-living allowances |
| 3307.671 | 3307.408 | Thirteenth check |
| 3307.69 | 3307.371 | Retroactive increase |
| 3307.691 | 3307.382 | Retroactive increase |
| 3307.692 | 3307.384 | Retroactive increase |
| 3307.693 | 3307.401 | Retroactive increase |
| 3307.694 | 3307.402 | Retroactive increase |
| 3307.695 | 3307.404 | Retroactive increase |
| 3307.696 | 3307.406 | Retroactive increase |
| 3307.697 | 3307.407 | Retroactive increase |
| 3307.698 | 3307.409 | Retroactive increase |
| 3307.699 | 3307.4010 | Retroactive increase |
| 3307.6910 | 3307.4011 | Retroactive increase |
| 3307.6911 | 3307.4013 | Retroactive increase |
| 3307.6912 | 3307.78 | Retroactive increase |
| 3307.6913 | | Retroactive increase |
| 3307.6914 | | Retroactive increase |
| 3307.70 | 3307.281 | Payroll deduction plan to buy credit |
| 3307.71 | 3307.28(B) | Restoration of membership; credit |
| 3307.711 | 3307.282 | Restoration of credit in PERS/SERS |
| 3307.712 | 3307.283 | Cost to restore credit to PERS/SERS |



| New number | Old number | Description |
|-------------------|-------------------|---|
| 3307.72 | 3307.73 | Credit for service that employer did not contribute |
| 3307.73 | 3307.22 | Credit for exempt service |
| 3307.74 | 3307.32 | Credit for teaching/public service |
| 3307.741 | 3307.33 | Credit for teaching service |
| 3307.75 | 3307.02 | Credit for military service |
| 3307.751 | 3307.021 | Credit for military service--armed forces |
| 3307.752 | 3307.022 | Credit for military service--uniform services |
| 3307.76 | 3307.411 | Credit for PERS/SERS service |
| 3307.761 | 3307.412 | Credit for OPFPF/HPRS service |
| 3307.77 | 3307.512 | Credit for leave of absence |
| 3307.771 | 3307.515 | Credit for leave due to pregnancy |
| 3307.78 | 3307.311 | Credit for school/governing board service |
| 3307.79 | 3307.383 | Survivors may buy credit |
| 3307.80 | | Board adopt rules for defined contribution plan |
| 3307.81 | | Board establish defined contribution plan |
| 3307.811 | | Plan "state or local government" retirement systems |
| 3307.812 | | Board's authority to qualify plan |
| 3307.83 | | Rights to benefits governed by plan selected |
| 3307.84 | | Transfer employer contribution for unfunded liability |
| 3307.86 | | Members/employers furnish information |
| 3307.88 | | Return to defined benefit plan |
| 3307.881 | | Election to continue in defined contribution plan |
| 3307.882 | | Notice of election |
| 3307.89 | | Options offered to defined benefit plan members |
| 3307.96 | 3307.68 | Local district pension system |
| 3307.97 | 3307.69 | Local district pension system |
| 3307.98 | 3307.70 | Local district pension system |

ESTABLISHMENT OF EXCESS BENEFIT ARRANGEMENTS IN OHIO'S STATE RETIREMENT SYSTEMS

Excess benefit arrangements

(secs. 145.391, 742.3721, 3307.461, 3309.3712, and 5505.177)

Each retirement plan offered by Ohio's state retirement systems is a qualified plan under section 401(a) of the Internal Revenue Code.²¹ A qualified retirement plan is a retirement plan that meets certain requirements specified in federal law. Contributions to and amounts earned under a qualified retirement plan are not subject to federal and state income tax until distributed to the employee. One requirement a qualified retirement plan must meet concerns limitations on the amounts that may be contributed to a qualified plan (i.e., defined contribution plans) or on the benefits that the plan may provide (i.e., defined benefit plans).²² Federal law, however, permits a qualified plan to establish an excess benefit arrangement for the purpose of paying to a plan participant contributions or benefits that were limited by the federal law.

Under the act, each of Ohio's state retirement systems is authorized to establish a qualified governmental excess benefit arrangement that meets the requirements specified in the Internal Revenue Code.²³ The act specifies that, if established, the arrangement is to be a separate portion of the retirement system and be maintained solely for the purpose of providing to retired members that part of a benefit that is otherwise payable to the retired member that exceeds the limits described above. Each system's board is required to adopt rules to administer an arrangement established under the act.

A member participating in an arrangement may not be permitted to elect to defer compensation to the arrangement. Contributions to and benefits paid under an arrangement must not be payable from a trust that is part of the system, unless the trust is maintained solely for the purpose of providing such benefits.

REPORTS BY THE OHIO RETIREMENT STUDY COUNCIL

Under continuing law, the Ohio Retirement Study Council (ORSC) is required to make impartial reviews of all laws governing the administration and financing of Ohio's state retirement systems. In addition, ORSC studies all

²¹ (100 Stat. 2085, 26 U.S.C.A. 401(a), as amended.)

²² (100 Stat. 2085, 26 U.S.C.A. 415, as amended.)

²³ (100 Stat. 2085, 26 U.S.C.A. 415(m), as amended.)

changes in the retirement laws proposed to the General Assembly and makes annual reports to the Governor and the General Assembly summarizing its evaluation and recommendations with respect to the operations of the state retirement systems and their funds. The act requires ORSC to prepare and submit two new reports in addition to those required under current law.

Review and report of investment programs

(sec. 171.04(D))

The act requires ORSC to review semiannually the policies, objectives, and criteria adopted by the board of each state retirement system for the operation of each system's investment program. The review must include a review of asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, relative volatility, and performance evaluation guidelines. Not later than 30 days after completing its review, ORSC is required to submit to the Governor and General Assembly a report summarizing its findings.

Decennial actuarial review

(sec. 171.04(E))

The act requires ORSC to have prepared by an independent actuary, at least once every ten years, an actuarial review of the annual actuarial valuations and five-year actuarial investigations prepared by the board of each state retirement system. The review must include a review of the actuarial assumptions and methods, the data underlying the valuations and investigations, and the adequacy of each system's employee and employer contribution rates to amortize its unfunded actuarial pension liability, if any, and to support the payment of benefits by each system. ORSC is required to submit to the Governor and the General Assembly a report summarizing the review.

HISTORY

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