



Sub. S.B. 144
123rd General Assembly
(As Passed by the Senate)

Sens. Johnson, Drake, Herington, Hottinger, Ray, Carnes, DiDonato, Spada, Wachtmann, Gardner, Mumper

BILL SUMMARY

- Requires the Public Employees Retirement System (PERS) to credit interest on a member's contributions annually, rather than at retirement.
- Requires PERS to pay interest on a member's contributions and, under certain circumstances, an amount from the Employers' Accumulation Fund on the withdrawal of the member's contributions or payment of the contributions to the member's beneficiary.
- Changes the interest rate specified in statute for purposes of calculating an annuity.

CONTENT AND OPERATION

Background

Under current law, a Public Employees Retirement System (PERS) member who leaves public employment prior to retirement may receive a refund of accumulated contributions and any other payments made by the member into the member's individual account if certain conditions are met. If a member dies prior to retirement and survivor benefits are not paid, the member's contributions may be paid to a designated beneficiary or other survivor. Interest is generally not credited to the individual accounts of PERS members prior to retirement, so the amount paid to the member or survivor does not include interest.

Interest is credited to the individual accounts of PERS members at retirement at rates specified in current law.

Refund of contributions

(secs. 145.01, 145.40, and 145.43)

The bill requires the PERS Board to credit interest annually to the individual accounts of members using the rates specified in current law for retirement (see "Rate" below). The bill adds to a member's accumulated contributions interest credited to the member's account for contributions on deposit. Therefore, a member or survivor who receives a refund of the member's contributions will receive interest on those contributions. In addition to the interest, the bill provides for the refund to include an additional amount if the member had five or more years of contributing service. The additional amount is to be paid from the Employees' Accumulation Fund (see "Additional amount" below).

How interest is earned and credited to individual accounts

(secs. 145.23 and 145.471)

Under the bill, interest is earned beginning on the first day of the calendar year next following the year in which contributions are made and ending on the last day of that year. In the case of an application for retirement or payment to a survivor of a member who dies prior to age and service retirement, interest is earned ending on the last day of the month prior to retirement or payment. The bill requires the Board to credit interest at the end of the calendar year in which it is earned. For example, under the bill, contributions made during 1999 begin earning interest on January 1, 2000. Interest is credited to the individual account on December 31, 2000.¹

Rate

(secs. 145.01 and 145.473)

Current law provides for rates of interest to be credited at retirement to individual accounts per annum, compounded annually, as follows:

- (1) 4% to and including December 31, 1955;
- (2) 3% from January 1, 1956, to and including December 31, 1963;
- (3) 3.25% from January 1, 1964, to and including December 31, 1969;
- (4) 4% from January 1, 1970, thereafter.

¹ A PERS retiree receiving a retirement allowance for less than six months or an other system retiree receiving a retirement allowance for less than two months who is reemployed as a public employee does not earn interest on contributions made during the six-month or two-month period.

The bill provides for these rates to be used in crediting interest annually to individual accounts, except that the rate to be credited on and after the bill's effective date is an amount determined by the PERS Board that is not greater than 6%.

Interest on current deposits

(sec. 145.472)

No later than 30 days after the bill's effective date, the PERS Board is required to credit interest to the individual account of each member as follows:

(1) If the bill takes effect on or before December 31, 2000, interest is calculated on amounts on deposit on December 31, 1998;

(2) If the bill takes effect after December 31, 2000, interest is calculated on amounts on deposit on December 31, 1999.

The bill permits the PERS Board to reflect the compounding of interest for contributors with service credit earned prior to December 31, 1981 by using factors provided by the board's actuary.

Coordination of benefits

(secs. 145.37, 3307.41, and 3309.35)

If, at the time of retirement or payment of a disability benefit, a member of PERS, the State Teachers Retirement System, or the School Employees Retirement System has service credit in one or both of the other systems, current law requires the systems to coordinate the retirement benefit. The retirement system determining and paying the retirement or disability benefit receives from the other system or systems the member's refundable account at retirement or the effective date of a disability benefit, plus an equal amount from the Employers' Contribution Fund.

Under the bill, a portion of the member's refundable account includes interest. The bill specifies that the amount from the Employers' Contribution Fund that the system receives from the other system or systems is an amount equal to the member's refundable account less the interest credited under the bill.²

² Current law authorizes the State Teachers Retirement System (STRS) to pay interest and an amount of the employer contribution on a refund of a member's contributions (Revised Code section 3307.80; not in bill). The bill specifies that the amount paid from the

Additional amount

(secs. 145.401 and 145.38)

The bill provides for payment to a member, or survivor, who receives a refund of the member's contributions of an amount in addition to the member's contributions and interest. The additional amount is to be paid from the Employers' Accumulation Fund, a fund to which employer contributions are credited. Under the bill, if a member has, or at the time of death had, at least five years of service credit, the PERS Board must include in the amount payable to the member or survivor the following additional amount:

(1) If the member has, or had at the time of death, at least five years, but less than ten years, of service credit--an amount equal to 33% of the member's eligible contributions.

(2) If the member has, or had at the time of death, at least ten years of service credit--an amount equal to 67% of the member's eligible contributions.

The additional amount is not paid if the member is a reemployed retirant, or in the case of a deceased member, was receiving disability benefits at the time of death.

"Eligible contributions" are amounts contributed as employee contributions, any amounts paid to purchase certain types of service credit, and interest credited to a member's individual account.³ "Eligible contributions" does not include contributions that were used in the payment of a disability benefit or, as provided in rules adopted by the PERS Board, contributions that were refunded to a member because PERS was not authorized to accept the contributions.

Restoration of credit

(sec. 145.31)

Employers' Contribution Fund does not include the amounts added to a member's refundable account by STRS.

³ *Service credit purchased may include credit for (1) service as an elected official, (2) service for time served under the Ohio Police and Fire Pension Fund or the State Highway Patrol Retirement System, (3) service in the uniformed military services that interrupts public service, and (4) service to the state or a local government that occurred prior to establishing PERS membership.*

Under current law, a member or former PERS member may restore service credit for which contributions have been withdrawn by redepositing with PERS the amount withdrawn with interest. The bill specifies that the redeposited amounts be credited as follows:

(1) An amount equal to any additional amount paid from the Employers' Accumulation Fund is credited to that fund.

(2) The remaining amount is credited to the member's account in the Employee's Saving Fund.

Rates of interest used in calculating annuities

(secs. 145.01 and 145.473)

Current law specifies rates of interest that are used to determine the reserve value of an annuity, should a member choose to receive an annuity instead of the retirement benefit based on final average salary and years of service.

The bill changes the rate of interest for annuities calculated after its effective date to an amount determined by the PERS Board based on a recommendation of the Board's actuary.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	05-19-99	p. 458
Reported, S. Ways & Means	10-20-99	p. 1094
Passed Senate (33-0)	10-20-99	p. 1099

S0144-PS.123/jc