Maria E. Seaman *Legislative Service Commission*

Sub. S.B. 189*

123rd General Assembly
(As Reported by S. Ways & Means)

Sen. Spada

BILL SUMMARY

- Increases the pension for State Highway Patrol Retirement System (SHPRS) members who retire based on age and service with 20 years or more of service credit or retire on the basis of a disability.
- Recalculates and increases the pension of each current SHPRS retiree who retired with more than 20 years of service credit or retired on the basis of a disability.
- Establishes a minimum monthly pension of $1,050 payable to current and future SHPRS retirees who receive a full benefit based on age and service or disability.
- Increases to $900, from $850, the minimum monthly pension payable to current and future SHPRS retirees who retire early and elect to receive a reduced benefit.
- Increases to $900 the minimum monthly pension of a surviving spouse of a deceased SHPRS member.
- Increases to $5,000 the lump-sum death benefit for SHPRS retirants and disability benefit recipients.
- Lowers the SHPRS employee contribution rate to 9.5% from 10%.

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* *This analysis was prepared before the report of the Senate Ways and Means Committee appeared in the Senate Journal. Note that the list of co-sponsors and the legislative history may be incomplete.*

- Allows, for 60 days after the bill's effective date, an SHPRS member who retired prior to September 21, 1994, to elect to receive the member's retirement allowance as a joint and survivor annuity in lieu of the retirement allowance the member is receiving.

- Entitles an SHPRS member to a refund of the cost of service credit that does not increase the member's pension or disability benefit.

CONTENT AND OPERATION

Background

Under current law, an SHPRS member with 25 years of service credit may retire with full benefits at age 48. A member with 20 years of service may retire with full benefits at age 52. A member who is age 48 or older with 20 years of service may retire prior to age 52 with a reduced benefit. A member with less than 25 years of service who retires on the basis of a disability incurred in the line of duty, is deemed to have 25 years of service credit for the purposes of the pension calculation.

Pension calculations

Future retirees

(sec. 5505.17)

Under current law, the pension of a State Highway Patrol Retirement System (SHPRS) member who retires with full benefits or on the basis of a disability is the sum of 2.5% of the member's final average salary (FAS) for each of the first 20 years of service and 2% of FAS for each year of service (and a fraction of a year) above 20.[1] For example, the annual pension of a member with 29 years of service and a FAS of $42,000 is $28,560 -- the sum of (.025 x $42,000 x 20) + (.02 x $42,000 x 9).

An SHPRS pension cannot exceed 78% of the member's FAS or a limit established by the U.S. Internal Revenue Code.

The bill changes one aspect of the SHPRS pension calculation. Under the bill, the pension of an SHPRS member who retires with 25 years or more of

[1] *"Final average salary" is the average of the highest salary paid to a member for any three consecutive or nonconsecutive years.*

service continues to be 2.5% of the member's FAS for each of the first 20 years and 2% of FAS for each year of service (and a fraction of a year) above 25. However, for each year (or fraction of a year) for years over 20 but under 25, the member receives 2.25% of FAS.

Under the bill, a member with 29 years of service and an FAS of $42,000 receives an annual pension of $29,085--the sum of (.025 x $42,000 x 20) + (.0225 x $42,000 x 5) + (.02 x $42,000 x 4). This is an annual increase of $525 over the current formula.

Additionally, the bill permits an SHPRS pension for a member who retires with 25 or more years of service or on the basis of a permanent and total on-duty disability to be up to 79.25% of the member's FAS (or the limit established by the Internal Revenue Code).

Recalculation of pension for current retirees

(secs. 5505.171 and 5505.176)

The bill provides for recalculations and an increase in the pension of each current SHPRS retiree with more than 20 years of service credit. The retirement system is to do the recalculation by multiplying the member's pension by the product obtained by multiplying by one-quarter of one per cent the member's years and a fraction of a year of service in excess of 20 years, but not in excess of 25 years. For example, the bill increases by $218.75 the annual pension of a retiree with 28.5 years of service who is currently receiving $25,000: ($25,000 x .0025 x 3.5). The new pension amount is the base for all future cost of living adjustments.

Minimum pension

Age and service retirees

(secs. 5505.16 and 5505.17)

Under current law, an SHPRS member may retire with a full benefit if the member has 25 years of service credit or 20 years of service and is at least age 52.[2] The bill establishes a minimum monthly pension for all current and future SHPRS retirees receiving a full benefit. The minimum pension is $1,050.

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[2] *If a member has 25 years of service and is under age 48, the member must wait until age 48 to receive a benefit. If a member has 20 years of service and is under age 52, the member must wait until age 52 to receive a full benefit.*

An SHPRS member with 20 years of service may, on or after the date the member attains age 48 but before the member attains age 52, elect to retire early and receive a reduced benefit. Under current law, the minimum benefit of a member who elects a reduced benefit is $850. The bill increases the minimum pension for these retirees to $900.

Disability retirees

(sec. 5505.18)

Under current law, the pension of a member who retires on the basis of a disability incurred in the line of duty is calculated based on the greater of the member's contributing service or 25 years of service. In no case is the pension to be less than 60% of FAS. Under the bill, a disability retiree receives the greater of $1,050 or a pension calculated as under current law. The bill increases the minimum percentage of FAS to 61.25%, which is consistent with the new pension calculation described above (see "***Future retirees***").

Surviving spouses

(sec. 5505.17)

Under current law, a surviving spouse of a deceased SHPRS member or retirant is eligible for a monthly pension. In the case of an SHPRS member who at the time of death was receiving or eligible to receive a pension, the surviving spouse receives the greater of $850 or 50% of the computed monthly pension the member was receiving or would have received had a pension commenced. In the case of an SHPRS member who at the time of death was not eligible for a pension, the surviving spouse receives a monthly pension of $850.

The bill raises the minimum monthly pension of all current and future surviving spouses to $900.

Death benefit

(sec. 5505.30)

Under current law, a lump-sum death benefit of $1,000 is paid to the surviving spouse of a deceased SHPRS member who at the time of death is receiving a pension or disability benefit. If there is no surviving spouse, the payment is made to the deceased member's estate. The bill increases the payment to $5,000.

Employee contribution rate

(sec. 5505.15)

Under current law, an SHPRS member contributes 10% of the member's annual salary to the State Highway Patrol Retirement Fund. The bill reduces the employee contribution rate to 9.5%.

Opportunity for retired SHPRS members to elect a joint and survivor annuity

(sec. 5505.163)

Under current law, a married SHPRS member who is eligible to retire may elect a retirement allowance based on the member's life (a single life annuity) or may elect to receive the actuarial equivalent of the member's retirement allowance in a lesser amount payable for the member's life and continuing after death to the member's spouse (a joint and survivor annuity).

For 60 days after the bill's effective date, a married SHPRS member who retired prior to September 21, 1994 may choose to change the member's election to a joint and survivor annuity in lieu of the retirement allowance the member is currently receiving. The amount payable under the joint and survivor annuity must be approved by the SHPRS Board and certified by the Board's actuary to be the actuarial equivalent of the member's retirement allowance.

The procedure for making the election is as follows:

(1) Not later than 60 days after the bill's effective date, the member must file with the Board notice that the member wishes to make the election.

(2) The Board must advise the member of the choices available under a joint and survivor annuity and have a determination made of the monthly benefits payable under the joint and survivor annuity selected by the member.

(3) Not later than 120 days after the bill's effective date, the member is required to file a statement, on a form provided by the Board, that the member elects to receive benefits under the joint and survivor annuity identified in the statement.

A request or form that is mailed to the Board is considered filed on its postmark date. Any election and payment of a joint and survivor annuity is in addition to any pension payable to a retirant's survivors.

Refund of the cost of service credit

(sec. 5505.29)

The bill provides that an SHPRS member who purchased service credit for any of the following reasons, is entitled to a refund of the amount or portion of the amount paid to purchase the credit if the purchased credit (or portion of credit) does not increase a pension or disability benefit payable to the member:

(1) Service in the military;

(2) Restoration of canceled service credit;

(3) Service in Public Employees Retirement System, School Employees Retirement System, State Teachers Retirement System, or Police and Firemen's Disability and Pension Fund;

(4) Interrupted service, when requested by the Governor, to accept employment with another agency of the state.

The refund cancels an equivalent amount of service credit.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	09-30-99	p. 1016
Reported, S. Ways & Means	---	---

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