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123rd General Assembly
(As Passed by the Senate)

Sens. Blessing, Carnes, Oelslager, Brady, Hagan, Shoemaker, Kearns, Mallory, McLin, White, Herington, DiDonato, Spada, Latell, Latta, Prentiss

BILL 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 bill's effective date.
- Provides for recalculation, based on the formula in current 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 bill's provisions as if the bill 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 current 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 bill 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. The first change is that the bill modifies the formula for calculating service retirement benefits and disability allowances for STRS members and increases certain benefits payable to eligible recipients. The second change is that the bill 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 current defined benefit plan or the new defined contribution plan.

In addition, the bill authorizes, but does not require, each of Ohio's state retirement systems to establish qualified governmental excess benefit arrangements that meet requirements established in federal law.¹ The bill 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.

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.*



INCREASES IN STRS SERVICE RETIREMENT BENEFITS AND DISABILITY ALLOWANCES

The bill 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 bill.

Changes in service retirement and disability allowances

(secs. 3307.58, 3307.59, and 3307.631)

Calculation of a service retirement benefit

Under current law, an STRS member may be granted service retirement if the member has five years of service credit and has attained at least age 60, 25 years of service credit and has attained at least age 55, or 30 years of service credit at any age. A STRS member's annual single lifetime benefit is calculated as follows:

(1) Determine which amount is greater:

(a) The amount determined by multiplying the member's Ohio service credit by \$86;²

(b) The amount determined by multiplying the member's Ohio service credit by 2.1% of the member's final average salary, except that if the member has more than 30 years of credit for service as a teacher in Ohio, including credit purchased for leaves of absence, each of the years in excess of 30 is multiplied by the percentage of the member's final average salary shown in the following chart:³

Years of service credit ⁴	Per cent for that year
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² "Ohio service credit" means all service of a 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.

³ 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.

⁴ Years of service credit are to be rounded to the nearest one-hundredth of a 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%

(2) If the member is under age 65 or has less than 30 years of Ohio service credit, multiply the greater of the amount determined under (1)(a) or (b) by the greater per cent shown in a schedule found in existing law for the member's age or years of Ohio service credit. For instance, if a member is age 58 or has 25 years of Ohio service credit, the amount would be multiplied by 75%.

The amount determined by this process is the STRS member's annual single lifetime benefit.

Calculation of disability allowances

Under current law, 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 product obtained by multiplying the member's total service credit by 2.1% of the member's final average salary.

Calculation of disability allowances that are converted to service retirement

Under current law, an STRS member who is receiving a disability allowance may apply to have the allowance converted to a service retirement benefit. The annual benefit is equal to the sum of the following amounts:

(1) The greater of a service retirement benefit calculated as described above (see "**Calculation of a service retirement benefit**"), excluding years for which the member received a disability allowance, or the product obtained by multiplying the member's total service credit, including the years the member received a disability allowance, by 2.1% of the member's final average salary not exceeding 45% of the member's final average salary.

(2) An amount equal to the cost-of-living increases the member would have received had the member retired on the basis of age and service.

Increases in service retirement benefits and disability allowances

The bill modifies the formula for calculating service retirement benefits and disability allowances by increasing the percentage of final average salary used in the calculation.

--Service retirement. For each of the first 30 years of Ohio service credit, the percentage of final average salary is increased to 2.2% (from 2.1%), 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.⁵

For each year or fraction of a year of Ohio service in excess of 30 years, the percentage of final average salary 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 of credit, the percentage

⁵ *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.*

for each corresponding year or fraction of a year (with one exception described below) is as shown in the following chart:⁶

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.

--Disability allowances and conversions to service retirement. The bill increases to 2.2% (from 2.1%) the percentage of final average salary used in the calculation of a disability allowance and a disability allowance that is converted to a service retirement benefit.

Recalculation of certain benefits paid to retired STRS members

(secs. 3307.6913 and 3307.6914)

Under the bill, 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 bill'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.

⁶ The chart is the same as under current 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).

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**").

--The bill. 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 that is currently in effect, excluding any cost-of-living increases.⁷ If the recalculated amount is greater than the annual single lifetime benefit of the benefit currently being paid the recipient, 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 would 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, plus any cost-of-living increases granted to the recipient.⁸ With one exception, the amount calculated must equal the sum of (1) 85% of the recipient's "original benefit amount" and (2) an amount equal to the product obtained when 85% of the original benefit amount is multiplied by the cumulative percentage change in the consumer price index (CPI) for the period of December 31 immediately following the effective date of the original benefit amount through

⁷ *The bill 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 bill 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.*

December 31 immediately preceding the bill's effective date.⁹ 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;

(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. 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.

If the amount calculated by the Board is greater than a recipient's annual benefit payable on the bill'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 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, 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 bill

(Sections 3 and 4)

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

Payments based on recalculated annual single lifetime benefits

The STRS Board is required to recalculate under the bill's provisions a service retirement benefit (or its actuarial equivalent) or disability allowance that became effective after July 1, 1999, but prior to the bill'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

⁹ "Original benefit amount" is the initial amount of a benefit granted to the initial recipient of the benefit.

and the increased benefits that would have been paid to the recipient had the bill 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 bill. 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 bill gone into effect on July 1, 1999.

ESTABLISHMENT OF A DEFINED CONTRIBUTION PLAN IN STRS

Background

Under current law, 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. Conversely, 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 bill 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 bill, 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 bill 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.

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 bill, 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 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 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.

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.*

¹¹ *Under the bill, "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).*

Existing members

A member of STRS who, as 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 not later than 180 days after the date on which the Board first establishes a defined contribution plan to participate in the plan. If an election is not made, a member is deemed to have elected to continue participating in the existing defined benefit plan.

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 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 when the member has the equivalent of five years of service (see "**Transfer to the existing defined 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 current 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 existing 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)

¹² (R.C. 3307.563.)

Under the bill, 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

The "Defined Contribution Fund"

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

The bill 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 bill. (See "**Transfer of funds**" below.)

The bill 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. 3307.84 and 3307.28)

For each member participating in a defined contribution plan, the bill requires STRS to transfer to the Employers' Trust Fund a portion of the employer contribution that is equal to a percentage of the employee's compensation. The percentage is the percentage of 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

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.*

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 bill's effective date) is fully amortized, as determined by the annual actuarial valuation prepared under current 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 bill permits STRS to require members participating in a defined contribution plan and their employers to furnish the contributions and information required under current law at more frequent intervals than those required under current law for members participating in the existing defined benefit plan. The bill 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 bill, 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 bill 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

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

located or for any reason specified in regulations adopted under the 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 current 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 or any portion of the policy or contract premium. The bill specifies that the Board may 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 bill, the STRS Board is authorized to make a monthly payment to a member participating in a defined contribution plan who has Medicare Part B coverage if the monthly payments are funded through the plan selected by the member. As under current law, 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 member's years of service by a percentage determined by the Board (not exceeding 3%).

Transfer to the existing defined benefit plan

(secs. 3307.53 and 3307.88)

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.

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

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 current law;¹⁶

(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 current 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 described in (1)(a).¹⁸

With the exception of service credit granted under (3), a member who is switched to the existing defined benefit plan has the same rights and privileges

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.

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 made up of all 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.

granted to individuals who never elected to participate in a defined contribution plan.

Notice of opportunity to continue participation

The bill 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.

Rulemaking authority

The bill 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 bill, the STRS Board may offer to members participating in the 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 bill, certain members of STRS are allowed to choose between the existing defined benefit plan or a defined contribution plan. Even though the bill 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 that exist in current law. Therefore, certain changes were made in the existing 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 current Ohio law, there are no provisions governing the pick-up of employee contributions. The bill specifies that employee contributions made under STRS may be picked up by the employer.

Reporting requirement

(secs. 3307.212 and 3307.214)

Current law requires each employer to notify the STRS Board of certain information regarding its teachers, including the employment of new teachers, on the first day of each calendar month, or at such less frequent intervals as the STRS Board approves.¹⁹ The bill 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 existing defined benefit plan or a defined contribution plan and that, if the member elects to participate in the defined contribution plan, the member's account will be transferred into the existing defined benefit plan at the time the member has the equivalent of five years of service credit 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 current 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

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

report to the Ohio Retirement Study Council and the standing committees of the House of Representatives and Senate with primary responsibility for retirement legislation no later than the first day of May following the year for which the valuation is made.²⁰

The bill 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).

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

Recodification changes

The bill 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

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.

New number	Old number	Description
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
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

New number	Old number	Description
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
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

New number	Old number	Description
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
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

New number	Old number	Description
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
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

New number	Old number	Description
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)

Under current law, 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 and, if the requirements are met, contributions to and amounts earned under the plan are not subject to federal and state income tax until distributed to the employee. One such requirement imposes 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 bill, 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 bill 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

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.)

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 bill.

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 current 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 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 bill 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 bill 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 bill 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

ACTION	DATE	JOURNAL ENTRY
Introduced	10-07-99	pp. 1029-1030
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