



Bill Analysis

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BILL SUMMARY

- Increases the pension payable to State Highway Patrol Retirement System (SHPRS) members who retire with a full pension that is based on age and service or is on account of disability incurred in the line of duty.
- Makes the pension increase applicable to qualifying SHPRS retirants.
- Creates an option of having an age and service retirement benefit consist of a partial benefit lump sum and a reduced pension.
- Increases the minimum benefit for members who select, and retirants who selected, early retirement.
- Requires adjustment of existing pensions that due to inflation have a current value of less than 85% of the original value.
- Includes in a refund of a member's contributions interest and an additional amount drawn from the Employer's Accumulation Fund.
- Specifies the SHPRS funds into which portions of a payment to restore total service credit previously forfeited are to be credited.
- Modifies provisions concerning purchase of credit in another state retirement system for previous SHPRS service in the case of a former SHPRS member who received a return of contributions that included an amount representing a portion of the employer's contributions and interest.
- Permits disability to be determined based on a psychological examination.

- Provides, for a limited amount of time, an SHPRS member who elected to be exempt from PERS membership while attending training school an opportunity to purchase service credit from SHPRS for the time the member attended the training prior to June 30, 1991.
- Establishes a process for an SHPRS member to obtain service credit for service credit previously held under the Public Employees Retirement System (PERS) as a law enforcement officer that is different from the process for obtaining service credit for previously held, regular PERS service credit.
- Allows current SHPRS retirants to purchase service credit for active military service and have pensions recalculated to reflect the additional credit.

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CONTENT AND OPERATION

Pension increase

(secs. 5505.17(A)(1) and 5505.176)

Background

Existing law sets forth a formula for determining the pension to be paid on retirement of a State Highway Patrol Retirement System (SHPRS) member who has 25 years of qualifying service and has attained the age 48. The amount is determined by multiplying the member's final average salary (FAS) by a pension factor, which is a percentage of a member's FAS, by years of service.¹ The formula is: % of FAS x years of service.

Existing law

Under existing law, the pension factor is 2.5% of FAS for each of the first 20 years of service, 2.25% of FAS for each of the next five years, and 2% of FAS for the years in excess of 25. The maximum pension is 79.25% of the member's FAS.² As an example, for a member with 26 years of service the formula is as follows:

$$\begin{aligned} & 2.5\% \text{ of FAS} \times 20 \text{ (years)} \\ & + 2.25\% \text{ of FAS} \times 5 \text{ (years)} \\ & + 2.00\% \text{ of FAS} \times 1 \text{ (year)} \\ & = 63.25\% \text{ of FAS} \end{aligned}$$

Operation of the bill

Future retirants. The bill increases the pension factor for years 20 through 25 to 2.5%, and to 2.25% for years in excess of 25.

¹ FAS is the total of the highest three years of salary divided by three.

² The pension cannot exceed an amount specified in federal law (section 415 of the Internal Revenue Code), but that amount is so high that it is unlikely to affect any SHPRS pension.

For a member with 26 years of service the new formula is as follows:

$$\begin{aligned} & 2.50\% \text{ of FAS} \times 25 \text{ (years)} \\ & + \underline{2.25\% \text{ of FAS} \times 1 \text{ (year)}} \\ & = 64.75\% \text{ of FAS} \end{aligned}$$

The maximum pension is increased to 82.75% of a member's FAS.

Current retirants. The bill increases the pensions already being paid to members who retired with a full pension. It requires SHPRS to recalculate those pensions using the new pension factors. This recalculation is to be done by multiplying the pension by the product obtained by multiplying by 0.25% of FAS each year or fraction of a year of service in excess of 20 years.

Partial lump sum annuity option

(sec. 5505.162)

Existing law

A member of SHPRS may, on application for retirement, choose to receive a pension in one of two forms. The member may elect (1) a single lifetime pension, or (2) the actuarial equivalent of the single lifetime pension in a lesser amount payable for the member's life and continuing after the member's death to a surviving beneficiary under one of several plans.³

Operation of the bill

The bill gives a member a third option on application for retirement. Under this option, a member may elect to receive a pension consisting of both a partial benefit lump sum, in an amount the member designates that constitutes a portion of the single lifetime pension, and the actuarial equivalent of the remainder of the single lifetime pension payable for the member's life. To be eligible for this option, a member must have attained age 51 with at least 25 years of total service or age 52 with at least 20 years of total service. An actuary employed by SHPRS must certify the actuarial equivalent and the SHPRS Board must approve the

³ *The plans provide for continuation of benefits as follows: (1) the member's lesser pension to the member's sole beneficiary, (2) a portion of the member's lesser pension to the member's sole beneficiary, or (3) on death before the expiration of a certain period from the member's retirement date, the member's lesser pension continued for the remainder of that period to the member's beneficiaries.*

partial benefit lump sum payment and the amount to be paid as the actuarial equivalent.

The amount designated by a member must not be less than six times the monthly amount that would be payable to the member as a single lifetime pension and not more than 60 times that amount.

A member who has attained age 51 with 25 years of total service may designate an amount that does not exceed one month's pension for each month of service beyond 25 years. A member who has attained age 52 with 20 years of total service may designate an amount that does not exceed one month's pension for each month of service beyond 20 years.

Recalculation of existing pensions to reflect changes in inflation

(sec. 5505.178)

The bill requires the SHPRS Board to review existing pensions and increase those that when adjusted for inflation are worth less than 85% of the original pension amount. To determine whether a pension is to be increased, the Board must determine the sum of (1) 85% of the recipient's original pension amount and (2) an amount equal to the product obtained when the original pension amount 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 pension started through December 31 immediately preceding the bill's effective date.⁴

If the amount calculated by the Board is greater than the recipient's annual pension payable on the bill's effective date, the Board is required to increase the annual pension so that it equals the amount calculated by the Board.⁵ Any increase in an individual's pension that results from this recalculation is to be included in the individual's base for the purpose of future cost of living increases.

⁴ "Original pension amount" is the initial amount of a pension granted to the initial recipient of the pension. The Board is to use the CPI prepared by the United States Bureau of Labor Statistics for urban wage earners and clerical workers (CPI-W: U.S. city average, all items) to determine the cumulative percentage change. If the person for whom the calculation was made is not the person to whom the original pension amount was granted, 85% of the product obtained when the original pension amount is multiplied by the percentage of the original pension amount being paid to the person.

⁵ The Board must make recalculations within 180 days of the bill's effective date.

Interest on contributions

(secs. 5505.01, 5505.19, and 5505.21)

Existing law

Under existing law, an SHPRS member who ceases to be an employee of the State Highway Patrol for any reason except death, disability, or retirement must on application be paid accumulated contributions, less interest, standing to the credit of the member's individual account in the employees' savings fund. Also, if a member dies and no SHPRS pension becomes payable, the member's accumulated contributions, less interest, must be paid to the member's beneficiary or survivors.

Operation of the bill

The bill provides for payment of interest on contributions that are refunded to a member or paid to a member's beneficiary or survivors.

Additional amount included in refund of contributions

(secs. 145.295, 742.375, 3307.761, 3309.73, 5505.19, 5505.20, 5505.21, 5505.24, 5505.40, and 5505.403)

The bill requires an additional amount to be paid a member who withdraws from the system, or, if no SHPRS pension is payable, to a designated beneficiary of a member who has died.

Calculation of additional amount

(secs. 5505.19, 5505.21, and 5505.24; ancillary section: 5505.40)

Under the bill, if a member has, or at the time of death had, at least five years of service credit, the SHPRS Board must include an additional amount in the amount payable to the member or the member's beneficiary or estate, unless at the time of death the member was receiving a disability pension.⁶ The amount is to be paid from the Employer's Accumulation Fund. If the member has, or at the time of death had, at least five but less than ten years of service credit, the additional amount equals 33% of the member's eligible contributions.⁷ If the member has, or

⁶ For this purpose, "service credit" means service credit earned for periods for which contributions were made and, if applicable, periods for which service credit was restored, purchased, or transferred.

⁷ Under the bill, "eligible contributions" is the total of the following: (1) amounts that a member contributes to SHPRS, (2) amounts SHPRS receives from a member to purchase

at the time of death had, ten or more years of service credit, the additional amount equals 67% of the member's eligible contributions.

Restoring service credit when a member returns to the employ of SHPRS

(sec. 5505.20)

An individual who ceases to be a State Highway Patrol employee for any reason, except retirement or death, ceases to be an SHPRS member and forfeits his or her total service credit. If the individual returns to the employ of the State Highway Patrol, the individual again becomes an SHPRS member and by making a repayment to SHPRS may restore the total service credit previously forfeited.

The amount of the repayment must be the amount, if any, SHPRS paid the individual when the individual left the employ of the State Highway Patrol, together with such compound interest as the SHPRS Board requires.⁸ Because of the provision of the bill under which an individual may receive an amount representing a portion of the employer contributions in addition to the individual's accumulated contributions when the individual ceases to be a State Highway Patrol employee, the bill provides for portions of the repayment to be credited to different SHPRS funds. The amount of the repayment, if any, that represents the portion of the employer's contribution paid to the individual is to be credited to the Employer's Accumulation Fund. The remaining amount of the repayment is to be credited to the individual's account in the Employee's Savings Fund.

Transfer of service credit

(secs. 145.295, 742.375, 3307.761, 3309.73, and 5505.403)

Currently, a former member of SHPRS who has been contributing as a member of the Public Employees Retirement System, State Teachers Retirement System, or School Employees Retirement System for at least 18 months may purchase service credit for previous SHPRS service for which contributions were

or restore service credit, (3) amounts transferred to SHPRS by another retirement system to transfer service credit, and (4) accumulated interest credited to the member's individual account. "Eligible contributions" does not include contributions that were used in the payment of a disability pension or, as provided in rules adopted by the SHPRS Board, were refunded to a member because the system was not authorized to accept the contributions.

⁸ *The interest is paid on the period from the date SHPRS made the payment to the individual to the date the individual makes the repayment to SHPRS.*

refunded. For each year of SHPRS service purchased, the following payments must be received by the current retirement system:

- (1) Paid by the member--the amount refunded plus interest on that amount from the date of the refund to the date of the purchase;
- (2) Transferred by SHPRS--interest on the amount refunded from the last day of the year in which the credit was earned to the date of the refund;
- (3) Transferred by SHPRS--the lesser of the amount contributed by the employer or the amount that would have been contributed in the member's current position, plus interest from the last day of the year in which the credit was earned to the date of the purchase.

Since, under the bill, the amount received by the member when contributions are refunded may include interest and an additional amount paid from the Employer's Accumulation Fund (see "**Additional amount included in refund of contributions**," above) that interest and additional amount will be paid by the member when purchasing the service credit. The bill, therefore, provides that the SHPRS transfer described in (3) above is to be reduced by the interest and additional amount the member received.

A member of the Ohio Police and Fire Pension Fund (OP&F) who is a former SHPRS member may purchase OP&F service credit for the time served in SHPRS by paying to OP&F the amount the member received from SHPRS as a refund of contributions, with interest compounded annually thereon from the date of the receipt from SHPRS to the date of payment to OP&F. SHPRS must make a transfer to OP&F as part of the service credit purchase. Currently, SHPRS must transfer an amount equal to the member's payment to OP&F. The bill reduces the amount SHPRS must transfer to OP&F by the amount of the member's payment to OP&F that represents a portion of the employer's contributions and interest that SHPRS paid to the member as part of the refund of contributions.

If the Cincinnati Retirement System (CRS) agrees a CRS member who is or was an SHPRS member, but is no longer contributing to SHPRS and is not receiving an SHPRS pension or benefit, may purchase CRS service credit for the member's SHPRS contributions and military service credit. SHPRS must make a transfer to CRS as part of the service credit purchase. If the member received a return of contributions from SHPRS, SHPRS must transfer (1) interest on the amount refunded and (2) an amount equal to the lesser of the employer's contributions to SHPRS or the amount the employer would have contributed had the member been a CRS member at the time the credit was earned, with interest. The bill reduces the amount SHPRS must transfer to CRS by the amount SHPRS

paid to the member as a refund of contributions that represents interest and a portion of the employer's contributions.

Minimum pension benefit for members who select early retirement

(secs. 5505.16(B) and 5505.171)

An SHPRS member with 20 years of service credit may retire at age 52 or take early retirement at age 48 or older. Under existing law, a member who selects early retirement receives a minimum benefit of \$900 per month. The bill increases the minimum pension to \$1,050 per month. A retirant currently receiving a pension based on early retirement that is less than \$1,050 per month is to have that pension increased to \$1,050 per month. The increased pension is to be used in the calculation of future cost of living benefits.

Disability pension

(sec. 5505.18)

For members of SHPRS, a disability pension is calculated in the same way as a full retirement pension (see "**Pension increase**," above), except that (1) if the disability was incurred in the line of duty and the member has less than 25 years of service credit, the disability pension is calculated based on 25 years of service credit, and (2) if the disability was not incurred in the line of duty and the member has less than 20 years of service credit, the pension is calculated based on 20 years of service credit. The increase made by the bill in percentages of final average salary used to calculate a retirement pension will also apply to a disability pension. The bill increases the maximum disability pension that may be paid to 82.75% of FAS.

Disability determination

For a determination of disability to be made, current law requires that a medical examination be conducted by a physician appointed by the Board. A disability pension recipient must agree to obtain any medical treatment recommended by the Board's physician. Under the bill, the examination may be either a medical or psychological examination conducted by a health care professional appointed by the Board. The recipient must agree to obtain any medical or psychological treatment recommended by the Board's health care professional.

Purchase of credit for former State Highway Patrol cadets exempt from PERS

(sec. 5505.204; ancillary section: 5505.01)

Prior to June 30, 1991, a State Highway Patrol cadet attending training school conducted by the Superintendent of the State Highway Patrol was included in PERS unless the cadet elected to be exempt from PERS membership. Sub. H.B. 382 of the 119th General Assembly provided for cadets to be included in SHPRS.

The bill provides an SHPRS member who elected to be exempt from PERS membership while attending training school an opportunity to purchase service credit from SHPRS for the time the member attended the training prior to June 30, 1991. The opportunity is for a limited duration. SHPRS must receive notice of a member's election to purchase the service credit not later than 60 days after the bill's effective date. Payment for the service credit must be complete not later than 180 days after the date of the receipt of the notice.

To purchase the service credit, an SHPRS member must pay to SHPRS the amount the member would have paid PERS had the member not elected to be exempt from membership, with compound interest thereon at a rate SHPRS is to determine. The interest is to be for the period from the date the member completed the training to May 4, 1992. A member may choose to purchase only part of the credit in any one payment, subject to rules of the SHPRS Board.

Purchase of service credit for PERS law enforcement service

(sec. 5505.202; ancillary sections: 5505.01 and 5505.40)

Existing law

Under current law, an SHPRS member who is a former member of the Public Employees Retirement System (PERS) and has received a return of contributions from PERS may obtain SHPRS service credit for the full-time service the member had under PERS and military service credit the member purchased or obtained from PERS. To obtain the service credit, the member must pay an amount to SHPRS and PERS must transfer an amount to SHPRS.

The amount the member must pay is equal to the amount the member received from PERS as a return of contributions that is attributable to contributions made for full-time service and payments for military service credit, plus interest at a rate SHPRS establishes from the date the member received the return of contributions to the date the member makes the payment to SHPRS. The amount the member pays must include the amount of the employer contributions and interest on employer contributions, if any, the member received from PERS as part of the return of contributions.

PERS is required to transfer to SHPRS the sum of the following:

(1) Interest on the amount the member received as a return of contributions from the last day of the year for which the service credit was earned or in which payment was made for military service credit to the date the member received the return;

(2) An amount equal to the lesser of the employer's contributions to PERS or the amount the employer would have contributed had the member been an SHPRS member at the time the credit was earned, with interest on that amount from the date of the year for which the service credit was earned or in which payment was made for military service credit to the date the transfer is made.⁹

Operation of the bill

The bill establishes a process for an SHPRS member to obtain service credit for previously held PERS law enforcement (PERS-LE) service credit that is different from the process for obtaining service credit for previously held, regular PERS service credit. PERS-LE service credit is service credit obtained from PERS as a law enforcement officer in a PERS-covered position.¹⁰ The process is available to an SHPRS member who previously was employed as a law enforcement officer in a PERS-covered position and received a refund of his or her contributions to PERS after leaving that position. To obtain the service credit, both the member and PERS must pay an amount to SHPRS.

The amount the member must pay is the sum of (1) the amount the member received from PERS as withdrawal of contributions, including any portion of the employer's contributions and interest on the contributions that was received by the member and (2) compound interest at a rate SHPRS determines from the date of receipt of the withdrawal of contributions to the date the member makes the payment to SHPRS. PERS must pay an amount equal to the member's payment to

⁹ *PERS is not to transfer to SHPRS any amount of employer contributions and interest on employer contributions that the member received as part of the return of contributions.*

¹⁰ *A law enforcement officer is a sheriff, deputy sheriff, township constable or police officer in a township police department or district, drug agent, Department of Public Safety enforcement agent, natural resources law enforcement staff officer, park officer, forest officer, preserve officer, wildlife officer, state watercraft officer, park district police officer, conservancy district officer, Ohio Veterans' Home police officer, special police officer for a mental health institution, special police officer for an institution for the mentally retarded and developmentally disabled, state university law enforcement officer, Hamilton County municipal court bailiff, municipal police officer, House sergeant at arms, or assistant House sergeant at arms.*

SHPRS, less any of that amount attributable to a portion of the employer's contributions, and interest on the contributions, paid to the member when he or she withdrew the member's contributions from PERS. PERS must make the payment on certification by SHPRS that the member has purchased the service credit. The payment is to be made from PERS's Employer's Accumulation Fund.

The member may choose to purchase only part of the credit in any one payment, subject to the SHPRS Board's rules.

Purchase of military service credit by retirants

(Section 3)

Under current law, a member of SHPRS may purchase service credit for time served in the military. The purchase must be made before retirement. Under the bill, current retirants who did not purchase military service credit before retirement are permitted to purchase it. The purchased military service credit is to be used to recalculate the retirant's pension.

Retirants purchasing military service credit under the bill are to pay the same amount as members who purchase service credit prior to retirement. The retirant must notify SHPRS of the election to purchase military service credit not later than 180 days after the bill's effective date. Full payment for the credit must be made not later than 180 days after SHPRS receives the retirant's notice of election to purchase the credit. The recalculated pension is effective on the first day of the month following the month the service credit is purchased.

HISTORY

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