



Bill Analysis

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Legislative Service Commission

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Sen. Blessing

BILL SUMMARY

LUMP SUM OPTION

- Creates an option of having an age and service retirement benefit consist of a lump sum and a reduced monthly payment for members of the Public Employees Retirement System (PERS), State Teachers Retirement System (STRS), and School Employees Retirement System (SERS).
- Creates an option of having a survivor benefit consist of a lump sum and a reduced monthly payment for surviving spouses and designated beneficiaries of former STRS and SERS members.

CHANGES TO THE LAWS GOVERNING THE STATE TEACHERS RETIREMENT SYSTEM

- Permits a person who has contributions on deposit with STRS to withdraw accumulated contributions even though the person is participating in PERS or SERS if the participation is in a defined contribution plan.
- Adds amounts paid for credit for time while on a leave of absence to the amount used in calculating the additional amount given a member on refund of the member's accumulated contributions.
- Adds credit obtained by transfer from the Cincinnati Retirement System to the kinds of service credit used in determining whether an STRS member has thirty years of service.
- Changes the procedure for spousal consent under a defined contribution plan.

- Eliminates the requirement that STRS offer retirants the alternative of receiving health insurance coverage through enrollment with a health insuring corporation.
- Provides that a retired teacher who is receiving a disability benefit under a defined contribution plan may not be reemployed as a teacher.

CONTENT AND OPERATION

LUMP SUM OPTION

Lump sum option

(secs. 145.46, 3307.60, and 3309.46)

Existing law

On application for retirement, a member of the Public Employees Retirement System (PERS), State Teachers Retirement System (STRS), or School Employees Retirement System (SERS) may choose to receive a retirement benefit in one of two forms: (1) a single lifetime benefit, or (2) a joint and survivor benefit, which is the actuarial equivalent of the single lifetime benefit 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.¹

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 benefit consisting of both a lump sum, in an amount the member designates that constitutes a portion of the benefit the member would otherwise receive, and the remainder of the benefit payable for the member's life or payable to the member for life and continuing after death to a surviving beneficiary. The amount designated by the member must be not less than six times the monthly amount that would be payable to the member and not more than 36 times that amount. In PERS and SERS, the lump sum is based on

¹ The plans provide for the 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, (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, or (4) a payment plan combining any of the features of options 1, 2, and 3.

the monthly payments under the plan of payment chosen by the member. In STRS, it is based on the member's single lifetime benefit.

After a member designates the lump sum, the retirement systems are to determine the amount of the remainder of the benefit. In PERS and SERS, the amount remaining under the plan of payment selected by the member--either a single lifetime benefit or a joint and survivor benefit--is payable in reduced monthly installments. In STRS after the lump sum is subtracted from the member's single lifetime benefit the member will select either the single lifetime benefit or a joint and survivor benefit for the remainder, which will be paid in monthly installments.

Regardless of the approach used by the systems, the total amount paid as a lump sum and a monthly benefit must be the actuarial equivalent of the amount that would have been paid had the lump sum not been selected.

Election of partial lump sum for STRS and SERS surviving spouses and designated beneficiaries

(secs. 3307.60(C) and 3309.45)

Under existing law, death of a public retirement system member or retirant may entitle the surviving spouse or other dependent beneficiary to survivor benefits. If an STRS member who is eligible to retire dies before electing a plan of payment of retirement benefits (either a single life annuity or a joint and survivor benefit), the former member's surviving spouse or dependent beneficiary receives survivor benefits as if the member had elected to receive a lesser benefit for life continuing after death to the spouse or beneficiary. Similarly, the spouse or beneficiary of an SERS member who was eligible for service retirement at the time of death receives a lesser benefit payable for the life of the spouse or dependent beneficiary.

Under the bill, the surviving spouse or dependent beneficiary of a former STRS member is entitled to the member's lesser benefit, payable for the life of the spouse or beneficiary, if the former member dies before the first payment of a retirement benefit, even if the member chose a different plan of payment. Beginning on a date specified by the STRS Board, which cannot be later than July 1, 2004, the bill also gives the spouse or beneficiary the option of receiving a lump sum followed by reduced monthly payments for life. The spouse or beneficiary may designate a lump sum that constitutes a portion of what would have been the former member's single life annuity.² The monthly amounts that follow are then

² *The single life annuity is the amount paid if a former member receives payments under a plan that does not include survivor benefits. A plan that includes survivor benefits has*

reduced to the actuarial equivalent of the remainder of the former member's single life annuity and paid for life to the spouse or beneficiary.

The bill operates slightly differently for surviving spouses and dependent beneficiaries of former SERS members. As under current law, the spouse or beneficiary is entitled to the member's lesser benefit if the SERS member was eligible for a service retirement allowance at the time of death, but had not yet retired. Like STRS, beginning on a date specified by the SERS Board, which cannot be later than July 1, 2004, the bill adds the option for the spouse or beneficiary to take this benefit as a lump sum followed by reduced monthly payments for life. The difference from STRS is that the spouse or beneficiary may designate a lump sum that constitutes a portion of the member's lesser benefit, rather than the member's single life annuity. However, like STRS, the total amount expected to be paid to the survivor must be the actuarial equivalent of the total amount expected to be paid if no lump sum is taken.

In both STRS and SERS the lump sum must equal not less than six monthly payments and not more than 36 monthly payments.

CHANGES TO THE STATE TEACHERS RETIREMENT SYSTEM

Withdrawal of accumulated contributions

(sec. 3307.561)

In general, an STRS member may withdraw accumulated contributions if the member ceases to be employed in a position covered by STRS. However, a member may not withdraw accumulated contributions from the member's STRS account if the member also has an account with PERS or SERS unless the member also withdraws the contributions the member has made to the other system.

The bill permits an STRS member to withdraw contributions to STRS without withdrawing them from PERS or SERS if the member is a participant in a defined contribution plan under PERS or SERS.³

lesser payments during the former member's life but continues the same or lower payments to a surviving spouse or beneficiary. Payments are calculated so that a plan that includes survivor benefits (a joint and survivor benefit) is the actuarial equivalent of the single life annuity.

³ See "**Background**" under "**Waiver of spousal consent**" for a description of defined contribution plans.

Additional amount included in refund of accumulated contributions

(sec. 3307.563)

Under existing law, the STRS Board must pay an additional amount from the Employers' Trust Fund to a member who withdraws accumulated employee contributions.⁴ The additional amount paid by the Board depends on the member's years of service. If a member has five or more full years of service credit, the additional amount is equal to the sum of the following: (1) an amount equal to interest on the member's accumulated contributions, and (2) an amount equal to 50% of the member's employee contributions.

Under the bill, amounts paid to purchase service credit for a period of approved absence or leave will be included with the member's contributions in determining the additional amount for a member with five or more years of service credit.⁵

Service credit used in determination of credit amount

(sec. 3307.58)

Under existing law, a member's annual single lifetime benefit is generally calculated by multiplying the member's service credit by a percentage of the member's final average salary.⁶ The percentage increases for years in excess of 30 years of service. The bill adds to the service used in determining whether a member has 30 or more years of service for which contributions have been transferred from the Cincinnati Retirement System.

⁴ *To be eligible for an additional amount, a member must have at least three years of service credit.*

⁵ *A member is permitted to purchase service credit for a period of time when the member was prevented from making employee contributions due to the member's own illness or injury, or has been granted a leave for educational, professional, or other purposes approved by the STRS Board. The member may purchase up to two years of service credit for the period of approved absence or leave. R.C. 3307.77.*

⁶ *Final average salary is the average of a member's three highest years of salary.*

Waiver of spousal consent

(sec. 3307.87)

Background

The traditional STRS retirement plan is referred to as a "defined benefit plan" because benefits are based on a formula that takes into account the member's age, years of service, and final average salary. Members have survivor and disability protection and access to health care coverage in retirement. Some STRS members have the option of choosing a new plan, referred to as the "defined contribution plan." Under the defined contribution plan, retirement income is based on the performance of investment choices selected by the member for the contributions made by the member and employer. Survivor and disability benefits are limited to the value of the member's account. Access to health care coverage on retirement is not provided.⁷

Existing law

Under existing law, if a member who is participating in a defined contribution plan is married at the time the member begins receiving any benefits, benefits are to be paid in the form of an annuity, unless the member's spouse has consented to a different form of payment.⁸ If a member participating in a defined contribution plan is married at the time of the member's death, any benefits payable to the member must be paid to the member's spouse, unless the spouse has consented to the designation of a different beneficiary. A defined contribution plan must include requirements for valid consent that are the same as the requirements set forth in the Internal Revenue Code.⁹ The consent requirement may be waived if the spouse cannot be located or for any other reason specified in rules adopted in IRS regulations.

⁷ *PERS and SERS are in the process of developing defined contribution plans.*

⁸ *The annuity must consist of the actuarial equivalent of the member's benefits, in an 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. (R.C. 3307.87(A)(2)).*

⁹ *IRC, 26 U.S.C.A. 417(a)(2), as amended. For a waiver to be effective, the Internal Revenue Code requires the spouse of a participant to consent in a writing witnessed by a plan representative or notary public, or it must be established to the satisfaction of a plan representative that the consent required cannot be obtained because there is no spouse, the spouse cannot be located, or because of other circumstances as regulations prescribe.*

Operation of the bill

The bill eliminates the requirement that a defined contribution plan include requirements for valid consent identical to those set forth in the Internal Revenue Code. Under the bill, consent is valid only if it is evidenced by a signed statement that is witnessed by a notary public. The bill also provides that the consent requirement may be waived if a spouse is incapacitated or cannot be located or for any other reason specified by the plan or STRS rules.

Coverage through enrollment with a health insuring corporation

(sec. 3307.39)

Under existing law, if the STRS Board provides health, medical, hospital, or surgical benefits through any means other than a health insuring corporation, it must offer the alternative of receiving benefits through enrollment with a health insuring corporation to each individual eligible for the benefits if: (1) the health insuring corporation provides health care services in the geographical area in which the individual lives, (2) the eligible individual was receiving health benefits through a health maintenance organization or a health insuring corporation before retirement, and (3) the rate and coverage provided by the health insuring corporation to eligible individuals is comparable to the rate provided by the board.¹⁰ If the rate and coverage provided by the health insuring corporation is not comparable, the board may deduct the additional cost from the eligible individual's monthly benefit. The health insuring corporation must accept any eligible individual who requests enrollment.

The bill eliminates the requirement that the STRS Board offer the alternative of receiving benefits through enrollment in a health insuring corporation. It also eliminates the requirement that the health insuring corporation accept any eligible individual who requests enrollment.

¹⁰ A "health insuring corporation" means a corporation that pays for, reimburses, or provides health care services through either a health care plan that requires enrollees to use participating providers, or through a health care plan that provides incentives for enrollees to use participating providers and that also allows enrollees to use providers that are not participating providers. R.C. 1751.01. Thus, "health insuring corporation" includes health maintenance organizations (HMOs) and preferred provider organizations (PPOs).

Reemployment of a retired teacher receiving a disability benefit

(sec. 3307.01)

Existing law

Under existing law, "superannuate" is defined as a former teacher who is receiving a retirement allowance or benefit from STRS under a defined benefit or defined contribution plan. Also, for purposes of reemployment of retired teachers, "superannuate" means a former teacher who is receiving a combined service retirement paid in accordance with the coordination of benefits among STRS, PERS, and SERS, regardless of which system is paying the benefit.¹¹

Operation of the bill

The bill excludes from the definition of "superannuate" a former teacher who is receiving a disability benefit from STRS under a defined contribution plan. Because only a superannuate may be reemployed as a teacher, under the bill a former teacher who is receiving a disability benefit under a defined contribution plan cannot be reemployed as a teacher.¹²

Technical changes

(secs. 3307.51, 3307.56, 3307.761, 3307.763, and 3307.764)

The bill makes technical changes to several sections of the Revised Code.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced s0247-i.124/kl	03-07-02	p. 1557

¹¹ STRS, PERS, and SERS have coordination of benefits. This allows a person who has contributed to more than one of these systems to have his or her total contributions and service credit in these systems used to determine a person's retirement benefit. The system in which the person had the most service credit pays the benefit. If service credit is equal in two or more systems, the system having the largest amount of the person's contributions pays the benefit. The retirement system that pays the benefit receives from the other system or systems the member's refundable account at retirement. R.C. 3307.57.

¹² R.C. 3307.35(B).