



Sub. S.B. 148
127th General Assembly
(As Passed by the General Assembly)

Sens. Faber, Mumper, Harris, R. Miller, Morano, Niehaus, Sawyer, Seitz, Smith, Wilson, Padgett, Amstutz, Spada

Reps. Hite, Zehringer, Boyd, Coley, Evans, Flowers, Gibbs, Wolpert

Effective date: *

ACT SUMMARY

- Revises retirement eligibility requirements and benefit calculations for School Employees Retirement System (SERS) members whose membership commences on or after the act's effective date.
- Increases the age at which a new SERS member is eligible to retire under a retirement incentive plan.
- Requires the SERS Board, at least once every ten years, to direct its actuary to evaluate retirement eligibility requirements.

CONTENT AND OPERATION

Retirement eligibility

(R.C. 3309.34)

Under prior law, regardless of when membership began, a member of the School Employees Retirement System (SERS) was eligible for service retirement once the member had at least five years of total service credit and had attained age 60 or had at least 30 years of total service credit at any age.

* The Legislative Service Commission had not received formal notification of the effective date at the time this analysis was prepared. Additionally, the analysis may not reflect action taken by the Governor.

The act revises service retirement eligibility requirements for members whose membership commences on or after its effective date so that a new member is eligible to retire if the member meets any of the following requirements:

- (1) Has earned at least ten years of total service credit and attained age 62;
- (2) Has earned at least 25 years of total service credit and attained age 60;
- (3) Has earned at least 30 years of total service credit and attained age 55.

The act makes no changes to retirement eligibility requirements for current members.

The act requires that the SERS Board direct its actuary to evaluate the act's retirement eligibility requirements at least once every ten years.

Retirement allowances

(R.C. 3309.36)

SERS has two different formulas to calculate a retirement allowance and uses the formula that provides for a larger allowance.¹ Generally, SERS calculates an allowance under a formula using the member's years of service credit, final average salary, and sometimes age.² A member who is age 65 or has at least 30 years of service credit receives an annual allowance of 2.2% of final average salary (or a minimum of \$86) for each of the first 30 years and 2.5% of final average salary for every year over 30. A member who retires early receives a reduced allowance in accordance with a schedule in the Revised Code (see **COMMENT**). The act modifies the reduction for members commencing membership on or after the act's effective date who retire before age 65 or with less than 30 years of service. (See "**Early retirement**," below.)

The alternative way in which SERS calculates an allowance consists of the lesser of the sum of the following amounts or a limit established under the federal Internal Revenue Code.³

¹ Telephone interview with Laurel Johnson, SERS Legislative and Communication Officer (April 27, 2007).

² "Final average salary" means the sum of the annual compensation for the three highest years of compensation for which contributions were made by the member, divided by three. (Revised Code § 3309.01(K).)

³ 26 United States Code § 415(b). The limit is \$160,000 annually indexed for inflation, so it is unlikely to be an issue for SERS members.

(1) An annuity with a reserve equal to the amount of the member's accumulated contributions;

(2) A pension of an equivalent amount;

(3) An additional pension of \$40 multiplied by the number of years of prior service credit;⁴ and

(4) For members who accumulated ten or more years of service credit prior to October 1, 1956, a basic annual pension of \$180, except that the annual pension cannot exceed the sum of the total annual benefits provided under (1), (2), and (3).

The act modifies the alternative formula to provide that an allowance for a new member consists of the lesser of (1) the sum of an annuity with a reserve equal to the amount of the member's accumulated contributions and a pension of an equivalent amount or (2) the IRS limit.

Early retirement

The act changes the way the reduction is determined for members commencing service on or after the act's effective date who retire before age 65 or with fewer than 30 years of service credit under the first formula described above.⁵ Instead of SERS reducing a member's allowance at a fixed percentage for every year in which a member retires before age 65 or with less than 30 years of service, the act provides that the member's allowance will be the actuarial equivalent of the member's retirement allowance, as determined by the Board's actuary, if the member retired at age 65 or with 30 years of service credit.⁶ However, the amount the member receives cannot be less than a percentage of the adjusted amount based on years of service credit in accordance with a schedule included in the act. (See **COMMENT**.)⁷ The act makes no changes to benefit calculations for current members who retire before age 65 or with less than 30 years of service credit.

⁴ "Prior service credit" means all service rendered prior to September 1, 1937: (1) as an employee under SERS law, (2) as an employee in a capacity covered by PERS or SERS, or (3) as an employee of an institution in another state, service credit for which was procured by a member under the Revised Code. (Revised Code § 3309.01(C).)

⁵ Under the formula, the retirement allowance is based on years of service and final average salary.

⁶ According to SERS, its actuary will determine the early retirement reduction factors based on actual demographic data of SERS membership.

⁷ For example, a member with 25 years of service credit cannot receive less than 75% of the retirement allowance.

The act requires the Board to direct its actuary to evaluate the actuarial equivalents at least once every ten years and permits the Board to adjust the equivalents in accordance with the actuary's recommendations.

Retirement incentive plans

(R.C. 3309.33)

Continuing law permits an SERS employer to establish a retirement incentive plan for its employees who are SERS members. Under a plan, the employer purchases service credit for eligible members in return for an agreement to retire within 90 days of receiving the credit. To be eligible to participate in a plan, a member must be eligible to retire or be made eligible by the service credit purchased by the employer. The act retains the requirement of current law that those who became members before its effective date be at least age 50 but, for those who become members on or after that date, provides that a member must be at least age 55 to be eligible to participate in a retirement incentive plan.

COMMENT

Continuing law includes the following schedule for reduction of the retirement allowance of a person who became an SERS member before the act's effective date and retires before age 65 or with less than 30 years of service credit. This schedule bases the reduction on either age or service credit.

Attained Age	or	Years of Ohio Service Credit	Per Cent of Base Amount
58		25	75%
59		26	80
60		27	85
61			88
		28	90
62			91
63			94
		29	95
64			97
65		30 or more	100

The act provides the following schedule of the minimum retirement allowance of a member whose membership commences on or after the act's effective date and who retires before age 65 or with less than 30 years of service credit. This schedule considers only service credit.

Years of Service Credit	Per Cent of Base Amount
25	75%
26	80
27	85
28	90
29	95

HISTORY

ACTION	DATE
Introduced	04-19-07
Reported, S. Health, Human Services & Aging	05-31-07
Passed Senate (31-2)	10-24-07
Reported, H. Financial Institutions, Real Estate & Securities	01-17-08
Passed House (88-2)	01-29-08

08-sb148-127.doc/kl

