



Ohio Legislative Service Commission

Final Analysis

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Sub. S.B. 345

129th General Assembly
(As Passed by the General Assembly)

Sens. Niehaus and Kearney, Bacon, Coley, Hite, Jones, Lehner, Schiavoni, Seitz, Tavares

Reps. R. Adams, Amstutz, Anielski, Antonio, Baker, Barnes, Blair, Blessing, Boose, Boyce, Boyd, Bulp, Buchy, Budish, DeVitis, Driehaus, Duffey, Fende, Foley, Garland, Goyal, Grossman, Hackett, C. Hagan, R. Hagan, Heard, Henne, Hill, Lynch, Martin, McGregor, Milkovich, Murray, Newbold, Pillich, Ramos, Roegner, Ruhl, Sears, Smith, Stebelton, Thompson, Wachtmann, Yuko, Batchelder

Effective date: January 7, 2013; one provision effective June 24, 2013; one provision effective January 1, 2015; Sections 3 and 4 effective December 26, 2012

This analysis has two parts. The first part describes all of the act's changes to laws governing the State Highway Patrol Retirement System (SHPRS). The second part is a table comparing to prior or continuing law significant changes to SHPRS plan features, including contribution rates, benefit eligibility and formulas, cost-of-living adjustments, and the deferred retirement option plan (DROP).

ACT SUMMARY

- Permits the State Highway Patrol Retirement (SHPRS) Board to adjust the member contribution rate to up to 14% of salary (from 10%) as the Board considers necessary to meet amortization period requirements, effective June 24, 2013.
- Requires the Ohio Retirement Study Council to study and make recommendations on the authority of the SHPRS Board to adjust the employee contribution rate.
- Provides that, for members participating in the deferred retirement option plan (DROP), amounts contributed by a member that exceed 10% of the member's salary are to be deposited in the SHPRS Employer's Accumulation Fund and not to accrue to the benefit of the member.
- Increases to five (from three) the years of contributing service averaged to determine a member's final average salary, which is used to calculate the member's pension or disability benefit (effective January 1, 2015).

- For most retirants, authorizes, rather than requires, the Board to provide a cost-of-living adjustment (COLA) not to exceed 3%.
- Requires the Board's determination of the COLA amount to be based on the annual actuarial valuation required by continuing law, except that recipients 65 years of age or older whose benefits are less than 185% of the federal poverty limit for a family of two continue to receive a 3% COLA.
- Provides that a retirement, disability, or survivor pension whose benefit begins on or after January 7, 2013, is not eligible for a COLA until age 60.

CONTENT AND OPERATION

Member contributions

Continuing law requires the State Highway Patrol Retirement System (SHPRS) to establish a period of not more than 30 years to amortize the system's unfunded actuarial accrued pension liabilities.¹ The act permits the Board to adjust member contributions to an amount not less than 10% and not exceeding 14% of member salaries as the Board considers necessary to meet the amortization period requirement.² The Board is to base its determination of the necessary rate on the annual actuarial valuation required by continuing law.

Prior law required members to contribute 10% of their salaries to SHPRS.

Report on authority to adjust contributions

The authority to adjust employee contribution rates takes effect June 24, 2013 (see, "**Effective dates**," below). The act requires the Ohio Retirement Study Council to study and make recommendations regarding the authority to adjust rates. The Council must prepare and submit to the President of the Senate and Speaker of the House a report on its findings and recommendations not later than March 26, 2013.³

Deferred Retirement Option Plan (DROP) contributions

Generally speaking, a deferred retirement option plan (DROP) is an arrangement under which a retirement system member who is eligible to retire and receive a pension continues to work. Instead of having continued salary and additional years of service

¹ Revised Code (R.C.) 5505.121.

² R.C. 5505.15.

³ Sections 3 and 4.

taken into account for purposes of the retirement system's pension formula, the member has the pension, interest, and the member's employee contributions credited to a separate account during each year of the continued employment. On termination of employment, the member receives a lump sum distribution of the account, in addition to whatever pension the member is eligible to receive based on the member's salary and years of service at the time DROP participation began.

Under law modified by the act, all of a member's employee contributions while in the SHPRS DROP accrue to the member's benefit. The act provides that any amounts of a member's contributions that exceed 10% of salary are to be deposited in the SHPRS Employer's Accumulation Fund and not to accrue to the benefit of the member.⁴

Final average salary

An SHPRS member's "final average salary" (FAS) is a component used to determine the pension or disability benefit of a member. FAS has been the average of the salaries for the three highest years of salary for contributing service. Effective January 1, 2015, the act increases to five the number of years of salary used to determine FAS.⁵

Cost-of-living adjustment (COLA)

A cost of living adjustment (COLA) is an annual pension increase, usually expressed as a percentage, that helps offset increases in the cost of living after the pension is granted.⁶ Prior law required the SHPRS Board to provide an annual COLA of 3% to each eligible person. The act changes who is eligible for a COLA and generally gives the Board discretion regarding whether a COLA is granted in any year.

Eligibility

Under law modified by the act, all of the following were eligible for a COLA:

(1) The recipient of an SHPRS retirement pension who was age 53 or older and had received the pension for not less than 12 months;

⁴ R.C. 5505.54 (primary) and 5505.03.

⁵ R.C. 5505.01.

⁶ A 3% COLA increase would increase the base pension amount by 3%. A \$1,000 pension, for example, would be increased to \$1,030. As expressed by the Social Security Administration, the purpose of a COLA is to ensure the purchasing power of a pension benefit is not eroded by inflation (<http://www.ssa.gov/cola/>).

(2) The recipient of an SHPRS disability pension who (a) was age 53 or older and had received the pension for not less than 12 months or (b) had received the pension for not less than 60 months regardless of age;

(3) The recipient of an SHPRS survivor pension who had received the pension for 12 months regardless of age.⁷

The act maintains eligibility described above only for persons whose pension effective dates are prior to January 7, 2013. A person whose pension effective date is on or after January 7, 2013, must be age 60 or older and have been receiving the pension for not less than 12 months to be eligible for a COLA.

Board discretion

Except for certain low income pensioners, the act eliminates the requirement that the Board provide an annual 3% COLA. The Board is instead authorized to provide an annual COLA of no more than 3% to eligible recipients. The exception is that the Board must provide a 3% COLA to each eligible pension recipient age 65 or older whose benefit is less than 185% of the federal poverty limit for a family of two.⁸

Any COLA granted to persons other than the low income pensioners described above must be determined by the Board based on compliance with the amortization period requirement of continuing law and the Board's annual actuarial valuation.

Effective dates

While the 90-day effective date of the act is December 26, 2012, most of its substantive provisions take effect on January 7, 2013. The exceptions to the January 7, 2013, effective date are as follows:

The provision authorizing the SHPRS Board to adjust the member contribution rate takes effect June 24, 2013;

The requirement that the Ohio Retirement Study Council study and make recommendations regarding the Board's authority to adjust the contribution rate takes effect December 26, 2012, and the Council's report is due March 26, 2013;

The provision increasing the number of years of contributing service averaged to determine a member's final average salary takes effect January 1, 2015.

⁷ R.C. 5505.174.

⁸ The federal poverty limit for a family of two in 2012 is \$15,130 (<http://aspe.hhs.gov/poverty/12poverty.shtml>).

Technical changes

The act makes a technical change regarding the name of the Medicare program.⁹

Table

The following table compares to prior or continuing law significant changes made by the act to SHPRS plan features, including contribution rates, cost-of-living adjustments, and Deferred Retirement Option Plan (DROP) accruals.

State Highway Patrol Retirement System (SHPRS)

	Prior or continuing law	The Act
Member contributions (R.C. 5505.15)	Member contributes 10% of salary.	Authorizes the Board to adjust member contributions to no more than 14% as it considers necessary to meet amortization period requirements of current law. Delays authority to adjust rates until June 24, 2013.
Retirement eligibility (R.C. 5505.16)	Unreduced retirement benefit granted with 25 years of service at age 48 or with 20 years of service at age 52. Reduced retirement benefit granted with 20 years of service at age 48.	No change. No change.
Benefit formula (R.C. 5505.17)	2.5% final average salary (FAS) for each of the first 20 years of service plus 2.25% FAS for next 5 years of service plus 2% for any additional years of service. ¹⁰	No change.
Final Average Salary (FAS) (R.C. 5505.01)	Calculated by averaging the highest three years of contributing service.	Calculated by averaging the highest five years of contributing service. (Effective January 1, 2015.)

⁹ R.C. 5505.28.

¹⁰ The benefit cannot exceed 79.25% of the member's FAS.



	Prior or continuing law	The Act
Cost-of-living adjustment (COLA) (R.C. 5505.174)	Annual 3% COLA for all of the following: (1) retirees and disability pension recipients age 53 or older who have been receiving a pension for at least 12 months, (2) disability pension recipients who have received a pension for not less than 5 years, and (3) survivors who have received a pension for not less than 12 months.	Authorizes the Board to grant a COLA of no more than 3%, except that the Board is to grant a COLA of 3% to a recipient age 65 whose benefit is less than 185% of the federal poverty limit for a family of two. A recipient of a retirement, disability, or survivor pension whose pension effective date is on or after January 7, 2013, will not be eligible for a COLA until age 60.
Deferred retirement option plan (DROP) participants (R.C. 5505.54)	The entire 10% member contribution is deposited in the DROP account for the member's benefit.	Member contributions are distributed as follows: (1) 10% of the member's salary deposited in the DROP account for the member's benefit; (2) Amounts contributed by a member that exceed 10% of salary deposited in the SHPRS Employer's Accumulation Fund and not to accrue to the member's benefit.

HISTORY

ACTION	DATE
Introduced	05-15-12
Reported, S. Insurance, Commerce & Labor	05-23-12
Passed Senate (31-0)	05-23-12
Reported, H. Health & Aging	09-10-12
Passed House (94-0)	09-12-12
Senate concurred in house amendments (32-0)	09-12-12

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