



# Ohio Legislative Service Commission

## Bill Analysis

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### Sub. S.B. 345\*

129th General Assembly  
(As Reported by H. Health and Aging)

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

This analysis has two parts. The first part describes all of the bill's changes to laws governing the State Highway Patrol Retirement System (SHPRS). The second part is a table comparing to current 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).

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## BILL SUMMARY

- Permits the State Highway Patrol Retirement (SHPRS) Board to adjust member contributions to up to 14% of salary (from 10%) as the Board considers necessary to meet amortization period requirements (effective 180 days after the effective date of the bill).
- Requires the Ohio Retirement Study Council to study and make recommendations on the authority of the SHPRS Board to adjust employee contribution rates.
- 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%.

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\* This analysis was prepared before the report of the House Health and Aging Committee appeared in the House Journal. Note that the list of co-sponsors and the legislative history may be incomplete.

- Requires the Board's determination of the COLA amount to be based on the annual actuarial valuation required by current 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 after the effective date of the bill is not eligible for a COLA until age 60.
- Establishes an effective date of January 7, 2013, for the bill.

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## **CONTENT AND OPERATION**

### **Member contributions**

Current 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.<sup>1</sup> The bill permits the Board to adjust member contributions to an amount not exceeding 14% of member salaries as the Board considers necessary to meet the amortization period requirement.<sup>2</sup> The Board is to base its determination of the necessary rate on the annual actuarial valuation required by current law.

Members currently contribute 10% of their salaries to SHPRS.

### **Report on authority to adjust contributions**

The authority to adjust employee contribution rates is delayed 180 days after the effective date of the bill. The bill 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 of Representatives a report on its findings and recommendations not later than 90 days after the bill's effective date.

### **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 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

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<sup>1</sup> Revised Code (R.C.) 5505.121.

<sup>2</sup> R.C. 5505.15.

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 current law, all of a member's employee contributions while in the SHPRS DROP accrue to the member's benefit. The bill 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.<sup>3</sup>

### **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. Under current law, FAS is the average of the three highest years of contributing service. Effective January 1, 2015, the bill increases to five the number of years used to determine FAS.<sup>4</sup>

### **Cost-of-living adjustment (COLA)**

Current law requires the SHPRS Board to provide an annual COLA of 3% to each of the following:

(1) The recipient of an SHPRS retirement pension who is age 53 or older and has been receiving the pension for not less than 12 months;

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

(3) The recipient of an SHPRS survivor pension who has been receiving the pension for 12 months regardless of age.<sup>5</sup>

The bill requires the Board to provide a 3% COLA to each pension recipient age 65 or older whose benefit is less than 185% of the federal poverty limit for a family of two.<sup>6</sup> For all other pension recipients, the bill authorizes, but does not require, the

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<sup>3</sup> R.C. 5505.54 (primary) and 5505.03.

<sup>4</sup> R.C. 5505.01.

<sup>5</sup> R.C. 5505.174.

<sup>6</sup> The federal poverty limit for a family of two in 2012 is \$15,130 (<http://aspe.hhs.gov/poverty/12poverty.shtml>).

Board to provide an annual COLA of not more than 3%. The amount of the COLA is to be based on the annual actuarial valuation required by current law.

A pension recipient whose pension effective date is on or after the bill's effective date is not eligible for a COLA until age 60.<sup>7</sup>

### Technical changes

The bill makes a technical change regarding the name of the Medicare program.<sup>8</sup>

### Table

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

#### State Highway Patrol Retirement System (SHPRS)

	Current law	The bill
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 for 180 days after the effective date of the bill.
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. <sup>9</sup>	No change.

<sup>7</sup> R.C. 5505.174.

<sup>8</sup> R.C. 5505.28.

<sup>9</sup> The benefit cannot exceed 79.25% of the member's FAS.

	Current law	The bill
Final Average Salary (FAS) (R.C. 5505.01)	Calculated by averaging the highest <b>three</b> years of contributing service.	Calculated by averaging the highest <b>five</b> years of contributing service. (Effective January 1, 2015.)
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 the bill's effective date 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.
Disability	No changes.	

## HISTORY

### ACTION

### DATE

Introduced  
Reported, S. Insurance, Commerce & Labor  
Passed Senate (31-0)  
Reported, H. Health & Aging

05-15-12  
05-23-12  
05-23-12  
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