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## STATE RETIREMENT SYSTEMS

### **School Employees Retirement System contribution based benefit cap**

- Requires the School Employees Retirement Board (SERS Board) to establish the “contribution based benefit cap” (CBBC), a limit on the retirement allowance a member may receive.
- Requires the SERS Board, beginning August 1, 2024, to calculate a member’s CBBC based on the member’s contributions converted to an annuity and multiplied by the CBBC factor designated by the Board and reduce the member’s retirement allowance to an amount equal to the member’s CBBC if the retirement allowance would exceed the CBBC.
- Applies the CBBC to retirement allowances and to survivor benefits that are based on retirement allowances.

### **PERS combined plan consolidation**

- Allows the Public Employees Retirement System (PERS) to consolidate the PERS combined plan with the PERS defined benefit plan and establishes requirements for how members’ accounts and funds are to be treated following the consolidation.
- Specifies the eligibility requirements for age and service retirement of a member participating in the PERS combined plan following consolidation with the PERS defined benefit plan.
- Establishes the formulas used to calculate the amount of the retirement allowance such a member is eligible to receive based on the funds in the member’s individual account.
- Specifies that provisions of the law governing PERS regarding coordination of benefits, purchases or transfers of service credit, refunds of contributions, service as a PERS law enforcement or public safety officer, and long-term care insurance do not apply to a member’s individual account if the member was a participant in the PERS combined plan at the time of consolidation.

### **Additional PERS service credit purchase**

- Allows a PERS member appointed by the Speaker of the House or Senate President to serve full-time as a member of a board, commission, or other public body to purchase additional PERS service credit for the appointment period.

### **School Employees Retirement System contribution based benefit cap**

(R.C. 3309.363)

The bill requires the School Employees Retirement (SERS) Board to establish the “contribution based benefit cap” (CBBC). The CBBC is a limit on the retirement allowance a

member may receive. It also is a limit on the survivor benefit based on a member's retirement allowance the member's beneficiary may receive. Under the bill, if the member's retirement allowance exceeds the member's CBBC, beginning August 1, 2024, the Board must reduce the allowance to an amount equal to the CBBC.

The SERS Board must designate a number as the "CBBC factor" and may revise the CBBC factor based on the advice of an actuary appointed by the Board. According to SERS, the CBBC factor reflects the size of the gap between a member's statutorily calculated benefit and the annuity payable based on the member's accumulated contributions.<sup>233</sup> The bill requires the SERS Board, beginning August 1, 2024, to determine a member's CBBC before paying a retirement allowance. To determine the CBBC, the Board must do both of the following:

1. Determine the amount that would result if the total of employee contributions made by the member was paid out as an annuity for the member's life;
2. Multiply the amount determined under (1) by the Board-designated CBBC factor.

If the SERS Board reduces the member's retirement allowance under the bill, the reduced retirement allowance is the member's single lifetime allowance.

For example, if the CBBC factor was six, the SERS Board would multiply the amount determined under (1) above, which is based on the member's contributions, by six. The result would be the member's CBBC. If the member's retirement allowance would exceed the CBBC, the retirement allowance is reduced to equal the CBBC.

The Board may adopt rules to implement the CBBC.

## **PERS combined plan consolidation**

(R.C. 145.196 and 145.335, with conforming changes in multiple R.C. sections)

The bill allows the Public Employees Retirement System (PERS) to consolidate the PERS combined plan with the PERS defined benefit plan and establishes requirements for how members' accounts and funds are to be treated following the consolidation. Under continuing law, PERS may offer one or more defined contribution plans under which benefits are based on a member's accumulated contributions in an individual account. A defined contribution plan also may offer definitely determinable benefits similar to the benefits under the PERS defined benefit

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<sup>233</sup> [Benefit Inflation Control \(PDF\)](#), which may be accessed by conducting a keyword "sustainability" search on the School Employees Retirement System website, [ohsers.org](https://ohsers.org), navigating to the "sustainability" page, and selecting the "Materials" PDF link next to "Exploring Benefit Inflation Control Measures."

plan.<sup>234</sup> Benefits under the defined contribution plans are governed by plan documents adopted by the PERS Board, rather than by the Revised Code.<sup>235</sup>

The PERS combined plan is a hybrid plan that includes a defined benefit plan component and a defined contribution plan component that includes definitely determinable benefits. PERS stopped offering the option for new members to enroll in the PERS combined plan beginning January 1, 2022.<sup>236</sup>

### **Treatment of consolidated funds and member accounts**

The bill specifies that, if PERS consolidates the PERS combined plan with the PERS defined benefit plan, the combined plan ceases to be a separate legal entity and all members participating in the combined plan become members of the defined benefit plan. All former members of the combined plan are entitled to the rights and benefits the member was entitled to under the combined plan before the consolidation occurred, subject to future amendments to the defined benefit plan.

The bill also requires PERS to maintain each former combined plan member's individual account and deposit and credit the member's contributions under the defined benefit plan in the account. A member's individual account consists of the member's contributions under the PERS combined plan that are maintained in the Defined Contribution Fund and used to pay the member's benefits under a defined contribution plan. If PERS maintains a member's individual account in the Defined Contribution Fund for purposes of investing the account's funds, it must treat the account as deposited and credited to the defined benefit plan for accounting purposes. The bill also requires PERS to administer a member's account in accordance with rules adopted by the PERS Board and in a manner consistent with the PERS defined contribution plan.

PERS must deposit and credit the employer contributions made under the defined benefit plan for a former combined plan member in the Employers' Accumulation Fund to pay the member's benefits.

### **Benefit eligibility and amounts**

A PERS combined plan member must meet the same eligibility requirements for age and service retirement, disability, survivor, or death benefits under the bill that a PERS defined benefit

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<sup>234</sup> R.C. 145.81 and 145.82, not in the bill.

<sup>235</sup> See [The Public Employees Retirement System of Ohio Combined Defined Benefit/Defined Contribution Plan \(PDF\)](#), which may be accessed by conducting a keyword "Combined plan document" search and clicking on "OPERS Legal" on the PERS website: [opers.org](https://opers.org).

<sup>236</sup> [Update to OPERS Plan Selection Options for New Hires \(PDF\)](#), which may be accessed by conducting a keyword "Plan selection options" search on the PERS website: [opers.org](https://opers.org).

plan member must meet under continuing law.<sup>237</sup> The bill also establishes the benefit formulas used to calculate a combined plan member's retirement allowance.

Under continuing law, a member's retirement eligibility is designated as "Group A," "Group B," or "Group C," depending on when the member is eligible to retire as follows:

- **Group A** – members who, not later than January 7, 2018, met the eligibility requirements in effect before January 7, 2013;
- **Group B** – members who met the eligibility requirements in effect on January 7, 2013, not later than January 7, 2023, or have 20 or more years of service credit as of that date;
- **Group C** – members who are not in Group A or B and meet applicable eligibility requirements.

Under the bill, and the same as under the Combined Plan document,<sup>238</sup> a Group A or Group B member's retirement allowance is calculated by multiplying 1% of the member's final average salary (FAS) by the first 30 years of service, plus 1.25% of the member's FAS for each subsequent year of service. The calculation for a Group C member is 1% of FAS for the first 35 years of service plus 1.25% of FAS for each subsequent year of service. A Group A or Group B member's FAS is the average of the member's three highest years of earnable salary; for a Group C member it is the average of the highest five years. A combined plan member is eligible for a reduced benefit if the member retires before becoming eligible for an unreduced benefit, similar to a defined benefit plan member under continuing law.

The benefit amounts for disability, survivor, or death benefits under the bill are similar to the amounts under the PERS combined plan before the consolidation.<sup>239</sup>

Similar to benefits under the defined benefit plan, benefits paid to a former member of the combined plan cannot exceed the lesser of the following limits:

- If established, the contribution based benefit cap (prevents spiking in allowance amounts);
- 100% of the member's FAS; or
- Limits established under the Internal Revenue Code.

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<sup>237</sup> For eligibility requirements and benefit amounts for disability, survivor, and death benefits, see [OPERS Member Handbook \(PDF\)](#), which may be accessed by conducting a keyword "Member handbook" search on the PERS website: [opers.org](http://opers.org).

<sup>238</sup> See Section 9.03 of [The Public Employees Retirement System of Ohio Combined Defined Benefit/Defined Contribution Plan \(PDF\)](#).

<sup>239</sup> See [The Public Employees Retirement System of Ohio Combined Defined Benefit/Defined Contribution Plan \(PDF\)](#).

As under the Combined Plan document, benefits are paid in accordance with the same benefits plans to which defined benefit plan members are subject.<sup>240</sup>

## Exceptions

The bill specifies that the following provisions of the law governing PERS do not apply to the individual account of a member participating in the PERS combined plan at the time of consolidation:

- The calculation of a member's retirement allowance who is participating in the PERS defined benefit plan or is a PERS public safety or law enforcement officer;
- Coordinating benefits for a member who also has service credit with the State Teachers Retirement System or School Employees Retirement System;
- Participation in long-term care insurance, if offered by PERS;
- Refunding a member's contributions who leaves the member's public employment;
- Treating a member's regular PERS service credit or PERS public safety officer service credit as PERS law enforcement officer service credit;
- The reemployment of retirants in certain positions covered by PERS;
- Continued employment of a PERS member who retires from one, but not all, positions in which the member works at the time of retirement;
- Restoring a member's service credit after the member withdrew the member's contributions from the system;
- A member's ability to make additional voluntary contributions to the member's account;
- The establishment of a retirement incentive plan by an employer for its employees;
- The calculation of the mitigating rate for alternative retirement programs;
- Crediting interest to certain members' accounts.

Under continuing law, these provisions do not apply to a PERS defined contribution plan unless the plan document governing the plan specifically incorporates the provision.<sup>241</sup>

## Additional PERS service credit purchase

(R.C. 145.201)

Under the bill, a PERS member appointed by the Speaker of the House or Senate President to serve full time as a member of a board, commission, or other public body may, before retirement, purchase additional PERS service credit for the appointment period in an amount up

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<sup>240</sup> See [The Public Employees Retirement System of Ohio Combined Defined Benefit/Defined Contribution Plan \(PDF\)](#).

<sup>241</sup> R.C. 145.82, not in the bill.

to 35% of the credit allowed for that period. Continuing law allows a PERS member who is an elective official or is appointed by the Governor with the advice and consent of the Senate to serve as a full-time member of a board, commission, or other public body to purchase the additional service credit for the period as an elective or appointed official.

Continuing law allows the PERS Board to determine by rule who is full time for the purpose of determining eligibility for a purchase of additional service credit. Under those rules, a member of a board, commission, or other public body must earn a salary of at least \$1,000 per month to be considered full time.<sup>242</sup> Of the boards and commissions that have Speaker- or President-appointed members who are not legislators and participate in PERS, it appears that only the members of the Transportation Review Advisory Council appointed by the Speaker or President could earn enough salary in a month to be considered full time and eligible to purchase additional PERS service credit under this provision.<sup>243</sup>

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<sup>242</sup> O.A.C. 145-2-07.

<sup>243</sup> R.C. 5512.08, not in the bill.