Ohio
Retirement
Study
Council

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AM-134-3342 of the 134th General Assembly

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Staff Recommendation

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Summary of AM-134-3342

AM-134-3342 would implement in the School Employees Retirement System (SERS) the Contribution Based Benefit Cap (CBBC), which limits, in certain instances, the benefit a retiree can receive. The CBBC was first established in the Public Employees Retirement System (PERS) in S.B. 343 (pension reform).

Description of CBBC (AM-134-3342)

Under the CBBC, prior to determining a retiree's benefit, the system will be required to (1) determine the value of the member's accumulated contributions and interest on those contributions;[1] (2) determine the amount of a single life annuity that is the actuarial equivalent of that amount; and (3) multiply the annuity amount by the CBBC factor, which will be determined by the system's actuary. If the member's normal benefit exceeds the CBBC, the member's benefit will be reduced to equal the CBBC.

PERS currently uses a CBBC[2] to limit salary increases in the calculation of benefits and the State Teachers Retirement System (STRS) has had a percentage limit on salary increases since 1991.[3] PERS, STRS, Ohio Police & Fire (OP&F), and the State Highway Patrol Retirement System (HPRS) increased the years used in calculating Final Average Salary (FAS) from three to five in pension reform. All other things being equal, increasing FAS decreases benefit calculations and makes salary spiking more difficult.

When implemented by PERS, the CBBC was limited for those close to retirement. Members in Group A[4] could not have their benefit reduced by more than 5% of the member's single life annuity.

Staff Comments

The CBBC is intended to prevent spiking of final average salary, which can occur when a member works the majority of their public career in a lower paid position, then a few years prior to retirement, the member receives a considerable salary increase. The member's final average salary is then increased out of proportion to the salary he or she received during the majority of their career. The CBBC is designed so it will not impact members who receive typical salary increases and promotions throughout their careers. This is consistent with a recommendation made in 1996 by the Joint Legislative Committee to Study Ohio's Retirement Laws to limit disproportionate increases in

[1] "Accumulated contributions" in SERS includes interest on those contributions and therefore is not part of the CBBC language itself (R.C. 3309.01(J)).

[2] R.C. 145.333.

[3] R.C. 3307.501.

[4] Group A refers to those PERS members who were eligible to retire no later than 5 years after January 7, 2013.

salary prior to retirement, anti-spiking changes in pension reform, and the ORSC principles governing pensions.[5]

The amendment is substantively the same as PERS with one exception: The PERS CBBC calculation had a capped 5% reduction on members in Group A. This was in line with the PERS pension reform bill attempting to have minimal impact on those whose retirement was imminent. This amendment could affect some SERS members who have made certain salary/overtime arrangements prior to the effective date of the amendment. While the ORSC has been adamant and consistent on their views of spiking, it may still be advisable, for consistency reasons, to cap the reduction at 5% for an initial, brief period (<5 years), to phase in the reduction. However, the effective date of the legislation is delayed to August 1, 2023, providing what can be deemed sufficient time for members to plan on the change.

Based off of documents provided by SERS and Board discussions, a CBBC factor of 5 or greater would have affected the benefit of 83 age and service retirements in the period of May 2020-June 2021 (or 2.5% of non-disability conversion retirements).[6]

Staff Recommendation

ORSC staff recommend that the ORSC approve AM-134-3342 to implement the CBBC in SERS as it is consistent with past precedent and ORSC principles governing pension.

[5] Section B.I. of the Principles Governing Pensions discusses the abuses that may happen in lowering the years of FAS used in benefit calculation (i.e., spiking). Joint Legislative Committee to Study Ohio's Retirement Laws (1996).

[6] SERS, "Benefit Inflation Control" (September 2021).