ORSC

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Analysis

Am. H.B. 339 - Rep. Vesper

(As Enacted)

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The bill would make the following changes to the State Teachers Retirement System (STRS):

- Increase the minimum annual single-life annuity from $6,000 ($500/month) to $9,600 ($800/month) or its actuarial equivalent for retired teachers and their beneficiaries who are receiving, on the effective date of the bill, a service retirement benefit based on 30 or more years of Ohio service credit. The benefit increase shall take effect on the first day of the month following the effective date of the bill.

  The current minimum annual pension of $6,000 was established in S.B. 162 (eff. 7/20/88) for retired teachers and their beneficiaries who were receiving, on or before July 20, 1988, a service retirement benefit based on 30 or more years of Ohio service credit.

- Provide an ad hoc post-retirement increase to retired teachers and their beneficiaries who, on the effective date of the bill, are receiving service, disability or survivor benefits that have been payable for at least twelve months.

  The retirement board shall determine an amount equal to the sum of the following:

  70% of the member's original benefit amount; plus

  70% of the member's original benefit amount multiplied by the cumulative percentage change in the CPI-W from December 31 of the year immediately preceding the year in which the benefit commenced to December 31 of the year immediately preceding the effective date of the bill.

  The effect of this proposed change is increase benefits to not less than 70% of the original benefit amount as adjusted for the cumulative change in the CPI-W.

  If the member's benefit on the effective date of the bill is less than the amount determined by the board, the benefit shall be increased to such amount. For members whose retirement became effective prior to July 1, 1979, the benefit shall be increased to no less than 103% of the annual benefit payable on the effective date of the bill.

  The benefit increase shall take effect on the first day of the month following the effective date of the bill, and shall be included for purposes of calculating the annual cost-of-living allowance (COLA).

  The last ad hoc post-retirement increase was enacted in S.B. 329 (eff. 4/10/91). The following increases were made payable beginning June 1, 1990 for benefit recipients whose awards became effective prior to July 1, 1979:

Effective Date of Award	Percentage Increase in Benefit
Prior to July 1, 1971	4.15%
July 1, 1971 through August 31, 1976	2.65%
September 1, 1976 through June 30, 1979	1.4%

- Increase the service retirement benefit formula for teachers who retire with over 31 years of contributing service credit.

  Currently, the benefit formula for service retirement is 2.1% for the first 30 years of contributing service, plus 2.5% for each year of contributing service over 30 years.

  The benefit multiplier would increase by 0.1% for each year of contributing sex-vice over 3 1 years as follows:

Year **of** Contributing Service Credit	Benefit Multiplier for That Year
30.01 - 31.00	2.5%
31.01 - 32.00	2.6%
32.01 - 33.00	2.7%
33.01 - 34.00	2.8%
34.01 - 35.00	2.9%
35.01 - 36.00	3.0%
36.01 - 37.00	3.1%
37.01 - 38.00	3.2%
38.01 - 39.00	3.3%
39.01 - 40.00	3.4%
40.01 - 41.00	3.5%
41.01 - 42.00	3.6%
42.01 - 43.00	3.7%

The service retirement benefit formula was last increased in H.B. 293 (eff. 9/15/89) from 2.0% for each year of service to 2.1% for each year of service, except that each year of contributing service over 30 is credited at 2.5%.

- Allow a member in STRS who retires with 31 or more years of service credit as a teacher on or after July 1, 1997, but prior to the bill's effective date, to request a recalculation of the member's benefit based on the increased percentages proposed by the bill.

- Declare an emergency.

Staff Comments

In 1970 an annual cost-of-living allowance (COLA) was adopted for retired teachers and their beneficiaries. It now provides for an annual increase equal to the actual percentage change in the CPI-W or such change plus any prior accumulations, up to a maximum of three percent, to all

STRS benefit recipients on the rolls for at least twelve months. The COLA increase is based on the member's original benefit amount, unless a new base is established by the legislature; the COLA increase is not calculated on a compound basis. Any percentage change in excess of three percent is "banked." Each group of benefit recipients has a separate bank based on the effective date of the benefit; therefore, the banks are greater for those retired longer than those retired more recently. Since the first COLA payable on July 1, 1971, STRS has paid out more than $231.9 million.

In 1980 STRS was also authorized to grant an annual lump-sum supplemental benefit check in December for each person who has been a benefit recipient for the preceding twelve months. The supplemental benefit is based on the member's years of service and the effective date of the benefit; therefore, members who have greater years of service and have been retired longer receive a higher benefit than members who have fewer years of service and have recently retired. The benefit is paid from investment income in excess of the actuarial requirements of the fund, and is payable at the discretion of the board. Since the first supplemental benefit check payable in December 1980, STRS has made 17 consecutive payments at a cost of over $521.9 million.

Despite the retirement income protection provisions described above, ad hoc post-retirement increases are granted by the legislature from time to time in an effort to offset at least partially the loss in the purchasing value of benefits during periods of high inflation. The following table provides a comparison of the percentage increase in Ohio retired teacher benefits with the percentage increase in the cost-of-living as of June 30, 1996:

Year Ended June 30	Increase in Benefit	Increase in C-O-L	Change in Purchasing Power
1956	408.9%	456.9%	-18.7%
1957	414.4%	448.7%	-6.3%
1958	375.5%	429.3%	- 10.2%
1959	324.9%	414.8%	-17.5%
1960	295.3%	411.3%	-22.7%
1961	300.3%	402.7%	-20.4%
1962	265.8%	397.7%	-26.5%
1963	242.9%	392.8%	-30.4%
1963	239.1%	386.4%	-30.3%
1965	234.3%	380.1%	-30.4%
1966	197.3%	372.6%	-37.1%
1967	193.6%	359.5%	-36.1%
1968	167.1%	335.8%	-40.1%
1969	152.0%	328.0%	-41.1%
1970	140.4%	306.0%	-40.8%

Year Ended June 30	Increase in Benefit	Increase in C-O-L	Change in Purchasing Power
1971	116.5%	284.1%	-43.6%
1972	104.1%	268.1%	-44.6%
1973	101.6%	255.8%	-43.3%
1974	95.4%	235.1%	-41.7%
1975	96.5%	202.0%	-34.9%
1976	89.0%	176.9%	-31.7%
1977	84.0%	161.9%	-29.7%
1978	78.4%	146.0%	-27.5%
1979	76.2%	128.4%	-22.9%
1980	68.4%	104.9%	-17.8%
1981	64.3%	80.7%	-9.1%
1982	60.3%	63.9%	-2.2%
1983	54.7%	53.6%	0.1%
1984	42.2%	50.1%	-5.3%
1985	37.7%	45.0%	-5.0%
1986	34.5%	40.1%	-4.0%
1987	31.1%	37.9%	-4.9%
1988	30.6%	33.2%	-2.0%
1989	27.1%	28.0%	-0.7%
1990	23.6%	22.2%	1.1%
1991	20.3%	16.1%	3.6%
1992	16.35	11.5%	4.3%
1993	10.4%	8.4%	1.8%
1994	7.3%	5.4%	1.8%
1995	3.8%	2.9%	0.9%
1996	23%	0.0%	2.5%

As the table indicates, teachers who retired in the 60's and 70's have suffered the greatest loss of purchasing power due to periods of high inflation. The ad hoc post-retirement increase provided under the bill is primarily targeted at this group of retired teachers and their beneficiaries, and is intended to restore their purchasing power to a minimum of 70% of the original benefit amount, as adjusted for the cumulative change in the cost-of-living since retirement

The bill would increase the minimum annual single-life annuity from $6,000 to $9,600 or its actuarial equivalent for retired teachers with 30 or more years of service. This provision is intended to raise older teachers who retired on low final average salaries out of poverty. The federal poverty level in 1997 for a one-person household is $7,890; two-person household, $10,610.

The increase in the defined benefit formula is designed to reward teachers who remain teaching beyond the average 30-year career. It may serve as an incentive for some teachers to delay retirement from STRS.

Fiscal Impact

According to the STRS actuary, Buck Consultants, the increase in the accrued liability due to the 70% purchasing power guarantee is $289 million. It is estimated that this guarantee will increase the benefits of approximately 20% of STRS retirees and their beneficiaries.

The increase in the accrued liability due to the $9,600 minimum annual pension is 2.1 million. It is estimated that the benefits of approximately 3,000 older retirees will increase.

The STRS actuary has also determined that the increase in the defined benefit formula will be cost neutral to the retirement system. Cost savings due to delayed retirement, including health insurance coverage, is estimated to offset any increased costs associated with the higher benefit formula.

Therefore, the total accrued liability created by H.B. 339 is $291.1 million. According to the STRS actuarial valuation as of July 1, 1996, STRS currently has $306 million in special reserves to cover the cost of benefit improvements. These reserves were established by the board in 1990 and 1993 with investment income in excess of the actuarial funding requirements of the system. Use of these reserves to pay for the benefit improvements provided under the bill will result in no increase in either the current contribution rates or the current funding period. As of July 1, 1996, the funding period of the unfunded accrued liability was 28.4 years, which is below the maximum 30-year funding period established in S.B. 82 (eff. 3/6/97) for the five state retirement systems.

ORSC Position

At its meeting of April 24, 1997 the Ohio Retirement Study Council voted to recommend that the 122nd Ohio General Assembly approve H.B. 339.

Effective Date

August 6, 1997