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Analysis

H.B. 455 - Rep. Schneider *As Introduced*

May 12, 2004

ORSC Position

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The bill would conform the laws of the Public Employees Retirement System (PERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS) and the Highway Patrol Retirement System (HPRS) with the current law of the Ohio Police and Fire Pension Fund (OP&F) with respect to the election of a joint and survivor annuity plan following marriage or remarriage.

Specifically, the bill would make the following two changes in PERS, STRS, SERS and HPRS:

1. The election of a joint and survivor annuity plan must be made *no later than one year after the date of the marriage or remarriage* for any marriage or remarriage by a retired member that occurs on or after the effective date of the bill. Presently, a retired member may make such election at any time prior to the member's death.

2. The election *shall become effective upon receipt of the application form approved by the retirement board*, though any change in the benefit amount shall commence on the first day of the month following receipt of the application. Under present law, the election becomes effective on the first day of the month following receipt of the application form by the board.

Am. Sub. H.B. 648 (eff. 9/16/98) made similar changes to OP&F law with respect to the election of a joint and survivor annuity plan following marriage or remarriage by retired police officers and firefighters.

Staff Comments - The proposed changes to the governing statutes of PERS, STRS, SERS and HPRS under this bill are modeled after those made to the governing statute of OP&F in 1998, and are intended to serve two important purposes. First, by limiting the time period for the election of a joint and survivor annuity plan in the case of post-retirement marriages to no more than one year after the date of marriage, the bill would mitigate the creation of additional liabilities resulting from adverse selection by the member against the retirement systems as permitted under existing law. For example, a member who is receiving a single life annuity (payable for the life of the member only) and subsequently marries has a financial incentive to delay making an election as long as possible to a joint and survivor annuity plan (payable for the life of the member and the member's spouse) due to the actuarial reduction required in the member's benefit. Therefore, the member may attempt "to game" the retirement systems by making an election to a joint and survivor annuity just prior to the member's death.

Second, by making the election of a joint and survivor annuity plan effective upon receipt of the application form by the retirement systems (rather than upon the first day of the month following such receipt), the bill would allow the retirement boards to give effect to the member's intention in the event the member were to die between the retirement system's receipt of the election and the first payment thereunder. There have been instances in the past where members have made an election to change from a single life annuity to a joint and survivor annuity but have died between receipt of the election by the retirement systems and the first payment thereunder, thereby preventing the retirement boards under existing law from giving effect to the member's election and paying a joint and survivor annuity to the member's spouse.

Fiscal Impact - According to the PERS Actuary Gabriel, Roeder, Smith & Co., H.B. 455 would have no measurable financial effect on PERS. The ORSC Actuary Milliman USA concurs.

ORSC Position - At its meeting of May 12, 2004 the Ohio Retirement Study Council voted to recommend that the Ohio General Assembly approve H.B. 455.