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# *Analysis*

## Sub. S.B. 148 – Sen. Faber
## (As Enacted by the General Assembly)

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## ORSC Position

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**Sub. S.B. 148 – Sen. Faber**

Sub. S.B. 148 would make the following changes to the laws governing the School Employees Retirement System (SERS):

- Change the eligibility requirements for retirement.
- Require new members to attain age 55 in order to participate in an early retirement incentive plan.
- Change the money purchase benefit calculation.
- Change the early retirement reduction factors.

**Staff Comments** - Sub. S.B. 148 would apply only to members who establish membership on or after the effective date of the bill; current members would continue to be subject to the current retirement provisions.

The bill would increase the retirement age and the minimum number of years of service new members need to be eligible for retirement. Under the bill, new members would be eligible for normal age and service retirement with no reduction in benefit if the member is age 55 with 30 years of service or age 65 with 10 years of service. The member would be eligible for early retirement with reduced benefits at age 62 with 10 years of service or at age 60 with 25 years of service.

Members who established membership before the effective date of the bill would be subject to current law, which provides that members are eligible for normal retirement if they are age 65 with 5 years of service or at any age with 30 years of service. Members are eligible for early retirement with a reduced benefit if they are age 60 with 5 years of service or age 55 with 25 years of service. Any member with less than five years of service is eligible only for a refund of contributions upon separation from employment.[1]

The bill would also require the SERS actuary to review the retirement eligibility requirements at least once every 10 years.

| | Current Law | Sub. S.B. 148 |
|---|---|---|
| Normal Retirement (no reduction) | Age 65 with 5 or more years of service<br><br>Any age with 30 or more years of service | Age 65 with 10 or more years of service<br><br>Age 55 with 30 or more years of service |
| Early Retirement (normal benefit reduced) | Age 60 with 5 or more years of service<br><br>Age 55 with 25 or more years of service | Age 62 with 10 years of service<br><br>Age 60 with 25 years of service |

[1] SERS is the only non-uniformed retirement system that does not provide interest upon the refund of a member's contributions.

The bill would also increase the minimum age required to participate in an early retirement incentive plan. In order to be eligible to participate in an early retirement incentive plan, the bill would require new members to be at least 55 years old. Current law, which would apply to members who established membership before the effective date of the bill, allows members to participate in an early retirement incentive plan offered by their employers upon attaining age 50. This change is consistent with the additional requirement in the bill that a member must be at least 55 years old to retire.

The bill would also change the way a benefit is calculated. The Revised Code provides three ways to calculate a retirement benefit: (1) final average salary related; (2) flat dollar related; and (3) money purchase benefit. The member receives the greater of these. In most cases, the member receives the final average salary related benefit because it provides the greatest benefit.

The final average salary related benefit is calculated by multiplying the member's final average salary[2] by the member's years of service by 2.2% for the first 30 years of service, plus 2.5% for each year of service over 30. The flat dollar related benefit is calculated by multiplying the member's years of service by $86. The money purchase benefit is calculated by adding the member's accumulated contribution, plus a matching amount of employer contributions, plus $40 for each year of prior service credit[3], plus $180 for members with 10 or more years of service accumulated prior to October 1, 1956. Sub. S.B. 148 would change the way the money purchase benefit is calculated for members whose membership is established on or after the effective date of the bill. The new money purchase benefit would be calculated by adding the member's accumulated contributions plus a matching amount of employer contributions.

Sub. S.B. 148 would change the reduction for new members opting for early retirement with a reduced benefit. These factors have not been changed for any of the non-uniformed retirement systems since 1976. Currently, there is no correlation between the reduction factors and the actuarial impact of early retirement. If a member retires early, the normal benefit is reduced based on the following statutory schedule:

| Attained Age | or | Years of Ohio Service Credit | Percent of Base Amount |
|---|---|---|---|
| 58 | | 25 | 75% |
| 59 | | 26 | 80% |
| 60 | | 27 | 85% |
| 61 | | | 88% |
| | | 28 | 90% |
| 62 | | | 91% |
| 63 | | | 94% |

[2] "Final Average Salary" is the average of the member's three highest years of compensation.
[3] "Prior Service" means service rendered prior to September 1, 1937.

| Attained Age | or | Years of Ohio Service Credit | Percent of Base Amount |
|---|---|---|---|
| | | 29 | 95% |
| 64 | | | 97% |
| 65 | | 30 or more | 100% |

The bill would provide that the normal benefit for new members who retire prior to normal age and service retirement eligibility would be reduced to the actuarial equivalent of the member's normal age and service retirement allowance, as determined by the board's actuary. However, the bill provides some protection for members with at least 25 years of service. If the member has between 25 and 29 years of service, the benefit would not be actuarially reduced below the following percentages:

| Years of Service Credit | Percent of Base Amount |
|---|---|
| 25 | 75% |
| 26 | 80% |
| 27 | 85% |
| 28 | 90% |
| 29 | 95% |

The bill would also require the SERS board to have its actuary evaluate the actuarial equivalents at least once every 10 years to determine their appropriateness and adjust them based on the actuary's recommendation.

As part of the report of the Joint Legislative Committee to Study Ohio's Public Retirement Plans (JLC) dated December 11, 1996, three of the recommendations included therein, but not acted upon by the legislature, were (1) that the normal retirement age of 65 should be increased in tandem with Social Security for PERS, STRS, and SERS, the 30-year service requirement should be increased at the same rate, and benefits prior to normal retirement age or service should be reduced; (2) the normal retirement age in the uniformed employee systems should be increased from 48 to 52 with a four-year phase-in and benefits prior to normal retirement age should be reduced; and (3) the statutory reduction rates for early retirement should be repealed and reduction rates for early retirement should be determined on an actuarial basis in all five systems. These recommendations were made in response to the continual improvements in life expectancies experienced among the memberships of all five retirement systems in Ohio, which directly increase each retirement system's benefit costs, including post-retirement health care costs. The provisions of Sub. S.B. 148 are generally consistent with these recommendations.

Although this bill affects only SERS, it raises a public policy issue of whether similar changes should be made to the retirement eligibility and early retirement reduction rate provisions of the other four retirement systems. This is particularly true for the retirement eligibility provisions for PERS, STRS, and SERS, which currently are the same and, when changes have been made, have been amended simultaneously for at least the past 48 years.

**Fiscal Impact** – According to the SERS actuary, Buck Consultants, the bill would reduce the system's unfunded liabilities. The actuary estimates that the unfunded actuarial accrued liability will be reduced by $3 million after the first year of implementation. After all active participants have been replaced with new hires, the actuary estimates SERS will have a $513 million decrease in its unfunded actuarial accrued liability.

**ORSC Position** - At its meeting of May 22, 2007, the Ohio Retirement Study Council voted to recommend that the 127th General Assembly approve Sub. S.B. 148.

**Effective Date** – May 14, 2008