



**Sub. S.B. 148**

127th General Assembly

(As Reported by H. Financial Institutions, Real Estate, and Securities)

**Sens. Faber, Mumper, Harris, R. Miller, Morano, Niehaus, Sawyer, Seitz, Smith, Wilson, Padgett, Amstutz, Spada**

**Reps. Hite, Zehringer**

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**BILL SUMMARY**

- Revises retirement eligibility requirements and benefit calculations for School Employees Retirement System (SERS) members whose membership commences on or after the bill's effective date.
- Increases the age at which a new SERS member is eligible to retire under a retirement incentive plan.
- Requires the SERS Board, at least once every ten years, to direct its actuary to evaluate retirement eligibility requirements.

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**CONTENT AND OPERATION**

**SERS retirement eligibility**

(R.C. 3309.34)

Currently, a member of the School Employees Retirement System (SERS) is eligible for service retirement once the member has at least five years of total service credit and has attained age 60 or has at least 30 years of total service credit at any age.

The bill revises service retirement eligibility requirements for members whose membership commences on or after its effective date. Under the bill, a new member is eligible to retire if the member meets any of the following requirements:

- (1) Has earned at least ten years of total service credit and attained age 62;

- (2) Has earned at least 25 years of total service credit and attained age 60;
- (3) Has earned at least 30 years of total service credit and attained age 55.

The bill makes no changes to retirement eligibility requirements for current members.

The bill adds a requirement that at least once every ten years the SERS Board direct its actuary to evaluate the bill's retirement eligibility requirements.

### **SERS retirement allowances**

(R.C. 3309.36)

Currently, SERS has two different formulas to calculate a retirement allowance and uses the formula that provides for a larger allowance.<sup>1</sup> Generally, SERS calculates an allowance under a formula using the member's age, total years of service credit, and final average salary.<sup>2</sup> A member who is age 65 or has at least 30 years of service credit receives an annual allowance of 2.2% of final average salary (or a minimum of \$86) for each of the first 30 years and 2.5% of final average salary for every year over 30. A member who retires early receives a reduced allowance in accordance with a schedule in the Revised Code (see **COMMENT**). The bill modifies the reduction for members commencing membership on or after the bill's effective date who retire before age 65 or with less than 30 years of service. (See "**Early retirement**," below.)

The alternative way in which SERS calculates an allowance consists of the lesser of the sum of the following amounts or a limit established under the federal Internal Revenue Code:<sup>3</sup>

(1) An annuity with a reserve equal to the amount of the member's accumulated contributions;

(2) A pension of an equivalent amount;

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<sup>1</sup> Telephone interview with Laurel Johnson, SERS Legislative and Communication Officer (April 27, 2007).

<sup>2</sup> "Final average salary" means the sum of the annual compensation for the three highest years of compensation for which contributions were made by the member, divided by three. (Revised Code § 3309.01(K).)

<sup>3</sup> 26 United States Code § 415(b). The limit is \$160,000 annually indexed for inflation, so it is unlikely to be an issue for SERS members.

(3) An additional pension of \$40 multiplied by the number of years of prior service credit;<sup>4</sup> and

(4) For members who accumulated ten or more years of service credit prior to October 1, 1956, a basic annual pension of \$180, except that the annual pension cannot exceed the sum of the total annual benefits provided under (1), (2), and (3).

The bill modifies the alternative formula to provide that an allowance for a new member consists of the lesser of (1) the sum of an annuity with a reserve equal to the amount of the member's accumulated contributions and a pension of an equivalent amount or (2) the IRS limit.

### **Early retirement**

The bill changes the way the reduction is determined for members commencing service on or after the bill's effective date who retire before age 65 or with fewer than 30 years of service credit under the first formula described above.<sup>5</sup> Instead of SERS reducing a member's allowance at a fixed percentage for every year in which a member retires before age 65 or with less than 30 years of service, the bill provides that the member's allowance will be the actuarial equivalent of the member's retirement allowance, as determined by the Board's actuary, if the member retired at age 65 or with 30 years of service credit.<sup>6</sup> However, the amount the member receives cannot be less than a percentage of the adjusted amount based on years of service credit in accordance with a schedule included in the bill. (See **COMMENT.**)<sup>7</sup> The bill makes no changes to benefit calculations for current members who retire before age 65 or with less than 30 years of service credit.

The bill requires the Board to direct its actuary to evaluate the actuarial equivalents at least once every ten years and permits the Board to adjust the equivalents in accordance with the actuary's recommendations.

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<sup>4</sup> "Prior service credit" means all service rendered prior to September 1, 1937: (1) as an employee under SERS law, (2) as an employee in a capacity covered by PERS or SERS, or (3) as an employee of an institution in another state, service credit for which was procured by a member under the Revised Code. (Revised Code § 3309.01(C).)

<sup>5</sup> Under the formula, the retirement allowance is based on years of service and final average salary.

<sup>6</sup> According to SERS, its actuary will determine the early retirement reduction factors based on actual demographic data of SERS membership.

<sup>7</sup> For example, a member with 25 years of service credit cannot receive less than 75% of the retirement allowance.

### **SERS retirement incentive plan**

(R.C. 3309.33)

Current law permits an SERS employer to establish a retirement incentive plan for its employees who are SERS members. Under a plan, an employer may purchase service credit for eligible members, but may limit the number of members for whom it purchases service credit in a calendar year to not less than five per cent of SERS members it employs. If participation is limited, an employer must permit the members with the greatest length of service with the employer to participate first.

The amount of service credit an employer may purchase on behalf of a member cannot exceed the lesser of five years or in an amount equal to 20% of the member's total service credit. To be eligible to retire under a plan a member must be eligible to retire,<sup>8</sup> have attained age 50, agree to retire, and retire within 90 days after receiving notice from SERS that the employer has purchased service credit on the member's behalf.

The bill increases the age at which a new member may retire under a retirement incentive plan. It provides that a member whose membership commences on or after the effective date of the bill is eligible to participate in a plan if the member is eligible to retire, has attained age 55, agrees to retire, and retires within 90 days after receiving the notice from SERS. The bill makes no eligibility changes for current members.

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### **COMMENT**

Current law includes the following schedule for reduction of the retirement allowance of an SERS member who retires before age 65 or with less than 30 years of service credit. This schedule bases the reduction on either age or service credit.

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<sup>8</sup> The member must have sufficient service credit, which may include credit purchased by the employer under the plan.

Attained Age	or	Years of Ohio Service Credit	Per Cent of Base Amount
58		25	75%
59		26	80
60		27	85
61			88
		28	90
62			91
63			94
		29	95
64			97
65		30 or more	100

The bill would enact the following schedule of the maximum reduction of the retirement allowance of a member whose membership commences on or after the bill's effective date and who retires before age 65 or with less than 30 years of service credit. This schedule considers only service credit.

Years of Service Credit	Per Cent of Base Amount
25	75%
26	80
27	85
28	90
29	95

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## HISTORY

ACTION	DATE
Introduced	04-19-07
Reported, S. Health, Human Services & Aging	05-31-07
Passed Senate (31-2)	10-24-07
Reported, H. Financial Institutions, Real Estate & Securities	01-17-08

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