

for six years (rather than four) to receive the entire DROP accrual.

State Teachers Retirement System (STRS)

- Increases member contributions by increments to 12.5% (from 10%) of compensation beginning July 1, 2011.
- Increases the requirement for an unreduced retirement benefit to 35 years of service credit (from 30), beginning August 1, 2015.
- Increases the requirement for early retirement with a reduced benefit to 30 years of service credit (from 25) at age 55, beginning August 1, 2015.
- Reduces the benefit accrual rate to 2.5% of final average salary (FAS) for each year of service credit beyond 30 years (rather than 2.5% plus an amount increasing by .1% of FAS for each year beyond 30), beginning August 1, 2015.
- Increases the number of years used to calculate a member's final average salary (FAS) to five (from three), beginning August 1, 2015.
- Permits an STRS member who under current law would be eligible to retire on July 1, 2015 to retire on or after August 1, 2015 under current law's eligibility and benefit provisions.
- Reduces the cost-of-living adjustment (COLA) to an annual 2% (from 3%) for those retiring no later than July 31, 2011 and 1.5% (from 3%) for those retiring on or after August 1, 2011.

The bill modifies terminal pay to mean "payments made by an employer to an employee in contemplation of termination of employment regardless of whether the payments are made before or after termination" including, among others, "payments for overtime worked that are not included in the payroll for the period in which the overtime is worked or the payroll for any period ending not later than 60 days after the overtime is worked."

Deferred retirement option plan (DROP)

(R.C. 742.44 and 742.444)

Current law

Current law requires the OP&F Board of Trustees to establish a deferred retirement option plan (DROP). Under the DROP, an OP&F member eligible to retire has the member's retirement pension calculated but continues employment. While employment continues, the member's pension, employee contribution, and interest established by the Board are deposited in an account. The member does not earn additional service credit while participating in the DROP. After participating for a minimum of four years, a member may cease employment and receive the entire amount that has accrued in the account as a lump sum or periodic payments. A member who ceases participation with less than four years of participation forfeits any interest payments made to the account. Distribution of a DROP accrual begins no earlier than four years after DROP participation begins.

The bill increases the age of eligibility, required duration of participation for a full return, and beginning date of DROP distribution. Under the bill, to be eligible for the DROP, ^[67] an OP&F member must be eligible to retire and have attained age 52. The participant is required to participate in DROP for no less than six years (rather than four) to avoid forfeiting any accrued interest. Finally, DROP distribution is to commence no earlier than six years after DROP participation begins (rather than four years).

State Teachers Retirement System (STRS)

Member and employer contributions

(R.C. 3307.26 and 3307.28)

Current law

Members of the State Teachers Retirement System (STRS) contribute a specified ^[68] percentage of their compensation to STRS. Employers contribute an amount equal to a higher percentage of members' compensation. Currently, each STRS member contributes 10% of the member's compensation. The employer contributes an amount equal to 14% of

members' compensation.

The bill

The bill increases the maximum member contribution rate under a five-year schedule. Employer contribution rates are unchanged by the bill.

The maximum allowed member contributions are increased according to the following schedule:

- (1) For compensation earned not later than June 30, 2011, 10% of compensation (the current level);
- (2) For compensation earned not earlier than July 1, 2011, but not later than June 30, 2012, 10.5% of compensation;
- (3) For compensation earned not earlier than July 1, 2012, but not later than June 30, 2013, 11% of compensation;
- (4) For compensation earned not earlier than July 1, 2013, but not later than June 30, 2014, 11.5% of compensation;
- (5) For compensation earned not earlier than July 1, 2014, but not later than June 30, 2015, 12% of compensation;
- (6) For compensation earned on or after July 1, 2015, 12.5% of compensation.

Retirement eligibility and benefit

(R.C. 3307.58)

Current law

An STRS member may retire from a position covered by STRS and be granted an unreduced retirement benefit if the member has five years of service credit at age 65 or 30 years of service credit at any age.

A member granted a retirement benefit receives the greater of the following:

- (1) \$86 multiplied by the member's total Ohio service credit; or
- (2) 2.2% of the member's final average salary (FAS) ^[69] multiplied by the first 30 years of service credit, plus the following for each year thereafter:
 - (a) For the 31st year of service credit, 2.5% FAS;

- (b) For the 32nd year of service credit, 2.6% FAS;
- (c) For the 33rd year of service credit, 2.7% FAS;
- (d) For the 34th year of service credit, 2.8% FAS;
- (e) For the 35th year of service credit, 2.9% FAS;
- (f) For the 36th year of service credit, 3.0% FAS;
- (g) For the 37th year of service credit, 3.1% FAS;
- (h) For the 38th year of service credit, 3.2% FAS;
- (i) For the 39th year of service credit, 3.3% FAS.

A member may retire earlier or with less service credit and be granted a reduced benefit. To be eligible the member must have five years of service credit and have attained age 60 or 25 years of service credit and attained age 55. The benefit is reduced by a percentage specified in law that ranges from 3% to 25%.

The bill

The bill modifies the service and age requirements for both reduced and unreduced service retirement to increase the requirements. The bill also modifies the calculation used for determining a benefit.

Effective for members retiring on or after August 1, 2015, a member may be granted service retirement with five years of service credit at age 60 (maintaining current law), 30 years of service credit at age 55 instead of 25 years of service credit, or 35 years of service credit at any age (instead of 30 years under current law). The bill also modifies the enhanced benefit calculation used in determining a retirement benefit for service credit beyond 30 years. Under the bill, the benefit calculation is 2.2% of FAS multiplied by the first 30 years of service credit (as under current law), plus 2.5% of FAS for each year of service beyond 30 years (rather than the .1% increasing percentage used under current law).

Effective for members retiring on or after August 1, 2015, a member receives a reduced retirement benefit with five years of service credit at age 60 (as under current law) or 30 years of service credit at age 55 (instead of 25 years of service credit under current law). The bill eliminates the specified percentage reduction provided for in current law. Instead, the benefit of a member granted early retirement is reduced by a percentage determined by the STRS Board actuary for each year the member retires before the earliest of the following: earning 35

years of service credit, earning 30 years of service credit and attaining age 60, or earning five years of service credit and attaining age 65. The bill specifies that the actuary may use an actuarially based average percentage reduction when determining the percentage reduction. It is not clear if the result of the change would be a greater or lesser reduction of benefits.

Limited grandfather clause

The bill includes a provision allowing an STRS member who on July 1, 2015, would be eligible to retire under current law's eligibility and benefit provisions to retire under those provisions after August 1, 2015. The member will receive the greater of the benefit calculated under current law or under the bill.

Cost-of-living adjustment (COLA)

(R.C. 3307.67)

Under current law, the STRS Board is required to provide a cost-of-living adjustment (COLA) by annually increasing the allowance or benefit paid to each recipient by 3%.

The bill reduces the COLA and establishes two COLA groups, determined by the date the recipient's allowance or benefit begins, as follows:

(1) For those whose allowance or benefit begins not later than July 31, 2011, or is preceded by a disability allowance granted prior to that date, an annual 2% COLA;

(2) For those whose allowance or benefit begins on or after August 1, 2011, an annual 1.5% COLA.

Final average salary (FAS) calculation

(R.C. 3307.501)

Final average salary (FAS) is part of the calculation used to determine the retirement or disability benefit of an eligible member or of a member's survivor or beneficiary. Under current law, FAS is determined by calculating the average of the member's highest three years of compensation.

The bill provides that, effective August 1, 2015, FAS is determined by calculating the average of the member's highest five years of compensation.

School Employees Retirement System (SERS)

Retirement eligibility and allowance

(R.C. 3309.34 and 3309.36 (3309.38 repealed))