

STUDY ON SURVIVOR BENEFITS AND CONTRIBUTIONS

SENATE BILL 1134 (2004)

**UNIFORM RETIREMENT SYSTEM FOR
JUSTICES AND JUDGES**

December 1, 2004

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THE UNIFORM RETIREMENT SYSTEM FOR JUSTICES AND JUDGES

Study on Survivor Benefits and Contributions

I Introduction

Section 9 of SB 1134 requires the Oklahoma Public Employees Retirement System (“OPERS”) to conduct a study which focuses on restructuring the Uniform Retirement System for Justices and Judges (“URSJJ”) to create a uniform contribution rate for all members of URSJJ for the purpose of providing survivor benefits.

Based on a review of the existing structure of the URSJJ plan compared to other Oklahoma retirement plans along with data provided by the URSJJ actuary, the Board of Trustees recommends the following:

- A uniform 8% employee contribution rate be adopted for the URSJJ plan.
- Justices and Judges coming into the URSJJ plan after the effective date of the change receive survivor benefit options which are the same as Option A and Option B in the OPERS system.
- Justices and Judges who are members of the URSJJ plan before the effective date of the legislation receive the same options, but may keep their existing survivor benefit as an additional option.
- Any current member of the URSJJ plan who paid the extra 3% employee contributions in the past be given the option to forego any survivor option at their retirement and receive a refund of their excess contributions as an additional benefit over the first 60 months of their retirement. However, should they select any survivor at retirement, they will receive no refund.

Currently, the URSJJ plan provides for an 8% of salary employee contribution rate if survivor benefits are being provided and 5% rate for no survivor benefits. In addition to the dual contribution rates, the structure of the URSJJ results in other inequities such as:

- Survivor benefits can only be paid to a spouse.
- After retirement, if a member’s spouse dies there is no adjustment increasing the member’s benefit for the additional survivor benefit contributions made. Specific rules may apply in the event of a divorce after retirement.
- There is no provision to refund the additional 3% contribution if a member’s spouse dies or the member divorces prior to the member’s retirement, although the member may then elect to stop paying the additional survivor benefit contribution.

By comparison, OPERS has a uniform contribution rate paid by the employee. Members are provided a lifetime benefit and survivor benefits exist in the form of optional benefits chosen at the time of retirement. In the Oklahoma public safety plans, there is only one contribution rate and the lifetime benefits include a surviving spouse benefit. The Oklahoma Teachers Retirement System has a structure similar to OPERS.

The URSJJ system remains a well funded plan (funded ratio of 121.0% at July 1, 2004). However, recent benefit enhancements and potential assumption changes may negatively impact this ratio.

II Current Survivor Benefit Structure and Contributions

Actuarial data designated as “Current Statutes and Assumptions” in Appendix I shows the projected changes in the funded status along with other data based on the current actuarial assumptions and the scheduled statutory increases in employer contributions. This data shows that the funded status of the plan will decrease annually and reach the 100% funded status at July 1, 2011. The required employer contribution at this date as a percent of pay is 20.8%.

Currently the percentage established by the State Legislature for employer contributions is 2% of member salaries. Effective for the fiscal year ended June 30, 2006, the employer contribution rate will increase to 3.0% of member salaries and is scheduled to increase 1% annually up to 22% for fiscal years ending June 30, 2019 and thereafter. The Board is authorized to adjust the contribution rates to prevent a funded ratio of the Plan of less than 100%.

Effective July 1, 2004, the lifetime retirement benefit for Justices and Judges is determined at 4% of the highest three years of salary (final average salary) during active service times the number of years of service. However, in no event can the benefit exceed 100% of the final average salary. Normal retirement ages under the plan are (1) when the member completes at least eight years of service and the sum of years of service and age equals or exceeds 80, (2) when the member completes eight years of service and attains age 65, or (3) when the member completes ten years of service and attains age 60. There is also a disability retirement if the member meets certain criteria.

The survivor benefits currently provided by the plan are as follows:

- A lifetime monthly surviving spouse benefit in amount equal to 50% of the benefit of the deceased member was receiving or was entitled to receive is available for spouses of deceased Justices and Judges if:
 - The Justice or Judge paid the appropriate additional rate,

- The deceased Justice or Judge attained at least 8 years of service as a Justice or Judge,
 - The spouse was married to the Justice or Judge continuously at least 90 days prior to the date that the decedent terminated employment as a Justice or Judge and had been so married to the deceased continuously for a period of at least 3 years immediately preceding death, and
 - The spouse did not waive his or her survivor coverage.
 - Additionally, effective October 1, 2004, qualifying survivor benefits were increased five (5) to fifteen (15) percent based upon the length of payment of voluntary survivor benefit contributions made prior to July 1, 1999.
- Effective July 1, 1974, optional survivor benefit coverage was offered to members. Initially the voluntary contribution rate for survivor benefit coverage was 7% compared to a 4% regular member rate. These rates increased to 8% and 5% respectively, beginning July 1, 1976.
 - Beginning July 1, 1999, spousal survivor benefit coverage became mandatory for all married members. Each married member must cover his or her spouse and contribute 8% of his or her salary. Non-married members and married members whose spouses have irrevocably waived survivor benefit coverage contribute 5% of their salary.

III Possible Solutions/Changes to Consider

Uniform Rate with Revised Benefit Structure

The following structure would establish a uniform contribution rate for members and provide enhanced survivor benefit options.

- Adopt a uniform employee contribution rate at 8% of salary for all members
- Adopt a benefit structure similar to OPERS whereby at retirement, a member can elect a maximum benefit or select a retirement option providing survivor benefits that, depending on the age of the member and the named survivor, has an actuarial reduction factor is applied to the benefit. Designation of the survivor is not restricted to spouses. The benefit options would be:
 - Maximum – No survivor benefit coverage
 - Option A – 50% of benefit to survivor for their lifetime
 - Option B- 100% of benefit to survivor for their lifetime
 - Pop-up to maximum benefit for Options A and B if survivor predeceases member.
- Transition recommendations

- Current married members who made the required additional contribution would have no change in their benefit (maximum, with 50% survivor benefit) although they could elect an Option B benefit if they so choose.
- Current single members, at retirement, who previously were married and made the additional 3% contribution would have the option of (1) receiving a maximum benefit along with a refund of their 3% contribution to be received as an additional benefit over a five-year period or (2) electing an actuarially reduced option with a survivor benefit with no refund of their 3% contributions.
- Current single members who did not make the additional contribution would receive the maximum benefit.
- All new members would pay the 8% rate and have the above described benefit options at retirement.

Based on projections by the actuary as shown in Appendix 1, this benefit structure (Alternative A) would improve the funded status compared to the results under the Current Statutes and Assumptions, increasing the funded ratio to 101% at July 1, 2011, due primarily to the additional employee contributions.

Refund of 3% Contributions

Currently, a member of the URSJJ plan who pays the extra 3% contribution for survivor coverage but becomes single through divorce or the death of a spouse does not receive a survivor benefit or a refund. One solution to this situation may be to simply immediately refund the 3% contributions along with interest at the actuarially assumed investment rate of return of 7.5% to the member in this situation. The member could elect to receive the refund and waive the option of providing a survivor benefit. A number of tax issues exist in making an “in-service” distribution. Any such distribution could jeopardize the tax-qualified status of URSJJ. Additionally, the URSJJ actuary has estimated this would have a negative impact on the plan’s funded status (See Alternative B in Appendix I).

IV Closing Comments

It should be noted that the actuarial assumptions used for the data in the appendix did not reflect changes that may result from the 3-year experience study scheduled to be completed prior to the next valuation. The changes resulting from this experience study may have a negative impact on the funded status of the plan. Additionally, any changes to the URSJJ plan will need to be reviewed for tax considerations and may require approval from the IRS prior to implementation.

The OPERS Board of Trustees recommends that consideration be given to implementing a plan design similar to the provisions previously set forth in the “Uniform Rate with Revised Benefit Structure” section.

UNIFORM RETIREMENT SYSTEM FOR JUSTICES AND JUDGES
Survivor Benefit and Member Contribution Rate Study

	Current Statutes and Assumptions			Alternative A			Alternative B		
	Funded Status	Normal Cost (mid-yr)	Required Contribution (% of pay)	Funded Status	Normal Cost (mid-yr)	Required Contribution (% of pay)	Funded Status	Normal Cost (mid-yr)	Required Contribution (% of pay)
July 1, 2004	121 %	\$ 7.1	\$ 2.2 (8.7%)	121 %	\$ 7.1	\$ 2.1 (8.3%)	120 %	\$ 6.9	\$ 2.2 (8.5%)
July 1, 2005	114	7.4	3.5 (13.0%)	114	7.4	3.3 (12.2%)	113	7.2	3.3 (12.5%)
July 1, 2006	109	7.7	4.4 (15.5%)	109	7.8	4.1 (14.6%)	109	7.5	4.2 (14.9%)
July 1, 2007	107	8.1	4.9 (16.6%)	107	8.1	4.6 (15.6%)	107	7.8	4.7 (15.9%)
July 1, 2008	106	8.5	5.4 (17.4%)	106	8.5	5.0 (16.4%)	105	8.2	5.1 (16.7%)
July 1, 2009	104	8.8	6.0 (18.6%)	104	8.8	5.6 (17.4%)	104	8.5	5.7 (17.8%)
July 1, 2010	102	9.2	6.7 (19.7%)	103	9.2	6.2 (18.5%)	102	8.9	6.3 (18.8%)
July 1, 2011	100	9.6	7.3 (20.8%)	101	9.7	6.8 (19.4%)	101	9.3	6.9 (19.8%)
July 1, 2012	99	10.1	8.0 (21.8%)	100	10.1	7.4 (20.3%)	99	9.8	7.6 (20.7%)

Alternative A Survivor benefit options similar to OPERS
Uniform contribution rate of 8% for all members
Transition for existing members of return of excess contributions (3%) over 60 months if no survivor benefit option selected

Alternative B Current statutes and assumptions except that divorced and widowed persons now and in the future get immediate refund of excess contributions (3%) plus interest at 7.5%.