



Oklahoma
State
Senate

Legislative Brief

July 2003

Retirement Legislation

I. Year of the "Back" Deferred Retirement Option Plans (DROP)

1. DROP

The Oklahoma Police Pension and Retirement System, Oklahoma Firefighters Pension and Retirement System and the Oklahoma Law Enforcement Retirement System are all hazardous duty retirement plans. Because of the nature of the service related to these plans, members meet their normal retirement date in 20 years. At any time after an active member meets his normal retirement date he may enter into a deferred retirement option plan (DROP). When a member enters the DROP, he agrees to terminate employment and retire by the end of five years. Under the DROP the member ceases to make employee contributions to the retirement system and employer contributions are divided between the retirement system and the DROP. The monthly retirement benefits that the member would have received had he retired on the date of entering the DROP are paid into the member's DROP account. These payments are paid into the account until the member actually retires (within five years). Upon retirement, the member receives a lump sum equal to the amount in the DROP account. The Oklahoma Firefighters Pension and Retirement System allows the member to accept an annuity in lieu of a lump sum.

The amount in the DROP account is equal to one-half of the employer contributions paid to the DROP on behalf of the member, the monthly retirement benefits paid to the DROP on behalf of the member (adjusted for any cost of living increases granted during the DROP period) and interest equal to two percent (2%) below the rate of return of the investment portfolio of the system but no less than the actuarial assumed interest rate.

In consideration for the benefit provided by the DROP, the member agrees that his regular retirement benefit calculation shall exclude any years of service that occur after the member entered the DROP.

2. "Back" DROP

In the 2003 Legislative Session, Senate Bill 668 and House Bill 1464 created a "Back" DROP for members of these systems. The "Back" DROP is a modified DROP retirement plan. The "Back" DROP allows the member flexibility by not having to commit to terminate employment within 5 years. Once a member has met his normal retirement date of 20 years, he can choose, upon retirement, to be treated as if he had entered into the DROP. A member, however, cannot receive credit to the DROP account based upon any years prior to when the member reached his normal retirement date. Once a member is ready to retire, he can make the election to participate in the "Back" DROP and can receive a DROP benefit based upon up to five years of participation. The member's regular retirement benefit will not take into account any years of service credited to the "Back" DROP.

Buck Consultant's, the actuarial consultant for the affected retirement systems, advised staff that the fiscal impact of the "Back" DROP is negligible. While the "Back" DROP is fairly new and, therefore, cost experience data is incomplete, Buck believes members may work longer and spend less time as a retired member, thereby saving the retirement system money. Buck believes the savings will offset the fact that

members will normally make the election, DROP or "Back" DROP, which is most financially beneficial to them.

II. Dedicated Revenues SB 206

The Legislature took action to restore essential state services by providing an additional \$85.8 million through a temporary use of the Insurance Premium Tax. The Insurance Premium Tax generates approximately \$144 million annually through an assessment on insurance companies based on billed premiums. SB 206 provides that the tax, most of which is dedicated to the Oklahoma Police Pension and Retirement System, Oklahoma Firefighters Pension and Retirement System and the Oklahoma Law Enforcement Retirement System, will be diverted for one year in order to help balance the State's budget. In return, the Police, Fire, and Law Enforcement retirement systems will be repaid over a five year period in an amount equal to the principal plus 7.5% beginning July 1, 2004.

III. Retirement Legislation Affecting Public Employees

Retirement legislation affecting the state retirement systems was enacted during the 1st Session of the 49th Legislature. The following is an outline of the highlights from various pieces of legislation that affect the retirement systems:

SUMMARY OF ACTIONS

(OPERS) OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM

- **SB 411 (Corn/Ellis):** This bill requires OPERS to conduct a study to determine what constitutes a hazardous duty position and to identify such participating positions. The study will look at the cost associated with placing such positions within a hazardous duty style retirement plan. Effective July 1, 2003.
- **SB 643 (Corn/Ferguson):** This bill allows a member to elect to increase his or her retirement multiplier from two percent (2%) to two and one-half percent (2 ½%) and make higher contributions to pay for such multiplier. Persons who make the election shall pay an additional two and ninety-one hundredths percent (2.91%) employee contribution. The multiplier will be applied to only complete years of service in which the higher employee contributions were paid. It will not affect any years prior to making the election to participate at the higher multiplier. This bill also increases the employer contributions to the system. The employer contributions shall increase by six percent (6%) over a six year period beginning July 1, 2006. Effective dates of July 1, 2003 and January 1, 2004.
- **HB 1647 (Ferguson/Corn):** Limits military service so that a member may only receive military service credit from the first state retirement system from which the member retires. Amends the date for the Oklahoma Public Employees Retirement System annual report. Effective July 1, 2003.

(OTRS) TEACHERS RETIREMENT SYSTEM OF OKLAHOMA

- **SB 4 (Lawler/McCarter):** Allows the Teachers' Retirement System of Oklahoma to deduct from retirement payments membership dues to a retired teacher's organization upon election by the member. Effective July 1, 2003.
- **HB 1362 (Ingmire/Morgan):** This bill reduces the vesting period from ten (10) years to five (5) years. It also allows employees of a comprehensive university who are age forty-five (45) or older to have an option to join the system upon employment. Effective July 1, 2003.
- **HB 1440 (Brannon/Corn):** Creates an election for retiring members to receive a partial lump-sum distribution. A member who retires can elect to receive a lump sum of one, two or three year's worth of unreduced benefits. For those who make the election, the remaining benefit payments shall be

reduced depending upon the amount of the partial lump-sum distribution. Only members who have thirty (30) years of creditable service may make such election. The election shall not be available to anyone who has already retired from the system prior to the effective date of this act. Effective July 1, 2003.

(FFPRS) OKLAHOMA FIREFIGHTERS PENSION AND RETIREMENT SYSTEM

- **SB 206 (Morgan/Mitchell):** For the fiscal year ending June 30, 2004, the dedicated revenue composed of certain premium taxes shall be deposited to the credit of the Education Reform Revolving Fund instead of going to the system. Beginning July 1, 2004, and ending June 30, 2009, the dedicated revenue from the premium tax shall resume and shall be increased. Effective July 1, 2003.
- **SB 286 (Monson/Erwin):** Extends the amortization period of the system. Allows survivor benefits to be paid to a guardian or trustee of the children of the deceased member. Effective July 1, 2003.
- **SB 422 (Monson/Sweeden):** This bill defines "combination fire department" and establishes requirements for volunteer firefighters of combination fire departments. It further clarifies what compensation is used to determine if a volunteer firefighter should be considered a paid firefighter. Effective July 1, 2003.
- **SB 639 (Corn/Brannon):** Provides Internal Revenue Service compliance language. Allows the FFPRS Board to require a second physical performance/agility test of new candidates. Effective July 1, 2003.
- **HB 1464 (Askins/Monson):** Provides a "Back" Deferred Retirement Option Plan (DROP) for members of the System. Those electing this option may go back up to five (5) years in order to calculate the deferred benefit balance but such years cannot be before the date the member completed twenty (20) years of credited service. The deferred benefit balance shall equal the monthly benefits that would have been paid to the member from the back drop date to the termination date, and all of the member's contributions and one-half of the employer contributions with interest. Members who have already entered the regular DROP cannot participate. Effective July 1, 2003.
- **HB 1647 (Ferguson/Corn):** Limits military service so that a member may only receive military service credit from the first state retirement system from which the member retires. Effective July 1, 2003.

(PPRS) OKLAHOMA POLICE PENSION AND RETIREMENT SYSTEM

- **SB 206 (Morgan/Mitchell):** For the fiscal year ending June 30, 2004, the dedicated revenue composed of certain premium taxes shall be deposited to the credit of the Education Reform Revolving Fund instead of going to the system. Beginning July 1, 2004, and ending June 30, 2009, the dedicated revenue from the premium tax shall resume and shall be increased. Effective July 1, 2003.
- **SB 292 (Capps/Walker):** Allows a municipality who only employs five or fewer police officers to employ one or more police officers who are over the age of forty-five (45). This section was amended in Senate Bill 643 (2003) to create a window for this provision that closes on August 2, 2003. Effective July 1, 2003.
- **SB 645 (Corn/Roan):** Changes certain report deadlines for the Oklahoma Police Pension and Retirement System. Allows more than one member of the Board to be from the same municipality. Amends special meeting notice requirements. Requires purchase of military service credit for eligible members who desire to purchase such credit and who join after the effective date of the act. Provides Oklahoma County as venue for actions brought against the system. Effective July 1, 2003.

- **SB 665 (Corn/Brannon):** Updates the Oklahoma Police Pension and Retirement System statutes to comply with the Internal Revenue Code. Removes certain references and abolishes “local boards”. Defines the number of hours for a person to be considered full-time for purposes of participating in the system. Effective April 25, 2003.
- **SB 668 (Corn/Ferguson):** Provides a “Back” Deferred Retirement Option Plan (DROP) for members of the System. Those electing this option may go back up to five (5) years in order to calculate the deferred benefit balance but such years cannot be before the date the member completed twenty (20) years of credited service. The deferred benefit balance shall equal the monthly benefits that would have been paid to the member from the back drop date to the termination date, and one-half of the employer contributions with interest. The member may also apply to receive certain employee contributions without interest. Members who have already entered the regular DROP cannot participate. Effective July 1, 2003.
- **HB 1647 (Ferguson/Corn):** Limits military service so that a member may only receive military service credit from the first state retirement system from which the member retires. Effective July 1, 2003.

(OLERS) OKLAHOMA LAW ENFORCEMENT RETIREMENT SYSTEM

- **SB 206 (Morgan/Mitchell):** For the fiscal year ending June 30, 2004, the dedicated revenue composed of certain premium taxes shall be deposited to the credit of the Education Reform Revolving Fund instead of going to the system. Beginning July 1, 2004, and ending June 30, 2009, the dedicated revenue from the premium tax shall resume and shall be increased. Effective July 1, 2003.
- **SB 281 (Leftwich/Roberts):** This bill clarifies that criminalists of the Oklahoma State Bureau of Investigation shall be members of the Oklahoma Law Enforcement Retirement System whether or not they are considered law enforcement officers. It also provides an exemption to allow a criminalist, Public Information Officer, Special Investigator or Assistant Director of the Oklahoma State Bureau of Investigation to use a state owned vehicle to and from such person’s residence. Effective June 6, 2003.
- **SB 668 (Corn/Ferguson):** Provides a “Back” Deferred Retirement Option Plan (DROP) for members of the System. Those electing this option may go back up to five (5) years in order to calculate the deferred benefit balance but such years cannot be before the date the member completed twenty (20) years of credited service. The deferred benefit balance shall equal the monthly benefits that would have been paid to the member from the back drop date to the termination date, and one-half of the employer contributions with interest. The member may also apply to receive certain employee contributions without interest. Members of this system may participate even if they have already entered the regular DROP. Effective July 1, 2003.
- **HB 1647 (Ferguson/Corn):** Limits military service so that a member may only receive military service credit from the first state retirement system from which the member retires. Provides Internal Revenue Code compliance language for the Oklahoma Law Enforcement Retirement System. Effective July 1, 2003.

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