

# OR SC

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# *Analysis*

## **S.B. 209 - Sen. Cupp (As Introduced)**

April 12, 2000

ORSC Position

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## **S.B. 209 (As Introduced) - Sen. Cupp**

S.B. 209 would allow members of the State Teachers Retirement System (STRS) to purchase up to five years of service credit for time spent teaching in a private school located in a foreign country that received grant support from the United States Department of State. Under the bill, the member would be required to provide evidence that the school was in fact receiving grant support from the United States Department of State during the years the member wishes to purchase.

The purchase price for members who first establish membership on or after July 1, 1989 or members who have purchasable service that began on or after July 1, 1989 would be at least 50% of the actuarial cost. Members who were members prior to July 1, 1989 or who have purchasable service that began prior to July 1, 1989 would be required to pay an amount equal to the member's contribution for full-time employment for the first year of Ohio service following termination of the service to be purchased, plus compound interest from the date of STRS membership to the date of payment.

Current law allows members to purchase up to five years of credit for teaching service in a public or private school, college, or university of any state, and for teaching service in any school or entity *operated by or for the United States government* and public service with another state or the United States government. The purchase price for these types of service is the same as would be required under S.B. 209.

### **Staff Comments**

Ohio's public retirement systems currently have some of the most liberal service credit provisions in the nation. In addition to out-of-state and federal public and private teaching service, members of STRS may purchase credit for military service, exempted service, and leaves of absence, to name a few. Additionally, Ohio law provides for the coordination of service credit among the non-uniformed systems and allows members to transfer uniformed service credit to STRS.

The concept of allowing members to purchase foreign service credit has been before the Council in the past. In 1985 the Council voted to recommend that the General Assembly disapprove a bill that would have allowed members of STRS to purchase service credit for military service in the Allied Forces during World War II. The reasoning underlying the recommendation was that allowing such credit would go beyond the purpose and intent of the law that allowed for the purchase of United States military credit and set a precedent for other special interest groups to seek credit for military service in foreign governments with whom the United States was aligned during other wars. The same principles are relevant with this bill and affect all five systems because they all have similar provisions regarding the purchase of out-of-state and federal service credit. The underlying rationale for allowing members to purchase up to five years of credit earned as a federal, state, or local government employee or private teaching service in the United States is to allow for some portability of credit earned in the United States that benefitted U.S. citizens.

Additionally, the bill could set a precedent for other groups to seek credit for service with foreign governments. Any person who worked for a foreign government that received any money from the United States could use this bill as a model for purchasing their foreign government service since STRS currently allows members to purchase credit earned as an employee with federal, state or local government.

This bill also creates an unfunded liability for the system because the member is not required to pay

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the full actuarial cost. In 1987 STRS completed an actuarial study on the purchase of service credit that raised the issue of whether the Ohio public retirement systems are well served by a policy that allows some public employees to accelerate retirement eligibility and/or increase retirement benefits by purchasing a variety of service at a fraction of the full actuarial cost while all public employers must absorb the remaining cost. Based on that study, STRS service credit provisions were amended to require members to pay at least 50% of the actuarial cost. Also, recent legislative sessions have marked an end to any further liberalization of the laws governing the purchase of service credit by generally requiring the member to pay the full actuarial liability or a greater portion of the liability (H.B. 383 - 119th G.A. - PERS, STRS, SERS - exempted service; H.B. 394 - 119th G.A. - OP&F service during lay-off period; H.B. 197 - 120th G.A. OP&F - federal and out-of-state service).

### **Fiscal Analysis**

According to the STRS actuary, Buck Consultants, sufficient data is not available to estimate the number of members who are eligible to purchase the credit or the number of eligible years that could be purchased. They based their estimate on a per-1,000 basis and assumed the member would purchase one year of service. Based on that, the financial impact of S.B. 209 will be an additional accrued liability of approximately \$6,600,000 per 1,000 members who purchase one year of credit. The funding period would be increased by less than 0.1 year.

### **ORSC Position**

At its meeting of April 12, 2000 the Ohio Retirement Study Council voted to recommend that the 123rd General Assembly disapprove S.B. 209 because it goes beyond the intent of present law and creates a precedent for other special interest groups to seek credit for service with a foreign government.