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Analysis

H.B. 15 - Rep. Mottley
(As Introduced)

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Staff Recommendation

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H.B. 15 - As Introduced

The bill would make the following changes to the Public Employees Retirement System (PERS), State Teachers Retirement System (SIRS), and School Employees Retirement System (SERS):

- Allow members of PERS, SIRS, and SERS to purchase certain service credit covered by one of the other non-uniformed systems through payroll deductions.

  Under current PERS, SIRS, and SERS law, service credit earned in another non-uniformed retirement system that is refunded cannot be purchased through payroll deduction. It can only be purchased directly from the system in which it was earned. This bill extends the payroll deduction option, it does not provide for the purchase of a new type of service credit.

- Require the PERS, SIRS, and SERS boards to establish by rule a payroll deduction plan for payment of the cost of purchasing service credit.

  Current law allows the boards to establish payroll deduction plans for restoring service credit or purchasing credit that a member is eligible to purchase under the laws governing each system, but it does not require the boards to establish a plan.

- Require employers, at the election of the member, to make payroll deductions under a tax deferred plan for the purchase of service credit covered by one of the other non-uniformed systems.

  Current law authorizes but does not require employers to establish a payroll deduction plan that defers taxes.

Staff Comments

Payroll deduction was established to facilitate the purchase of service credit by allowing members to pay the cost of the credit over a period of time, rather than in a lump sum. In 1986 the Police and Firemen's Disability and Pension Fund was the first system authorized to establish a payroll deduction plan to allow members to purchase service credit (H.B. 721, eff. 7-24-86). Three years later, the General Assembly authorized PERS, STRS, SERS, and the Highway Patrol Retirement System to establish payroll deduction plans for their members (H.B. 58 eff. 11-2-89). Establishment of a plan was permissive rather than mandatory for the retirement boards.

PERS, SIRS, and SERS have all established payroll deduction plans. PERS currently has 4,300 members who are purchasing service credit through payroll deduction; SERS has 83 members utilizing the plan to purchase service credit; and STRS has 3,501 members presently buying credit through payroll deduction.

Payroll deduction currently is available only for the purchase of credit allowed under the laws of the system of which the employee is a current member. Members who wish to restore all or part of their service credit that was earned in another non-uniformed retirement system but later refunded must purchase that credit directly from the system in which it was earned, not from the system in which they are current members. The member must contact the system in which the credit was earned and directly pay that system the purchase price of the credit in a lump sum payment. For example, a member of PERS who had contributed to STRS but received a refund of contributions from STRS must repurchase that credit directly from STRS, not from PERS. Upon retirement, membership in the systems is coordinated and the system in which the member has the most credit pays the benefit.

Since credit earned and refunded in another non-uniformed system cannot be purchased through the member's current system, the member cannot use payroll deduction to buy the credit. H.B. 15 would change that by allowing the member to restore credit earned in another system through the member's current system and by requiring the retirement system to offer a payroll deduction plan. Although the bill allows the member to use payroll deduction to purchase the credit through the system in which he or she is a current member, the cost of the credit and the eligibility for purchasing it would still be determined under the laws of the system in which the credit was earned. The bill changes the method of purchasing the credit, not the laws governing the purchase.

The public policy at issue is portability of service credit. H.B. 15 provides greater portability by making it easier to pay for service credit earned in another non-uniformed retirement system. Because the payments can be made over a period of time, the member is not forced to come up with a large lump sum payment.

The bill also facilitates the purchase of credit by providing the member with tax advantages. The bill requires the deductions to made under a plan that is in compliance with Section 414(h)(2) of the Internal Revenue Code if the member requests it. This means that the money deducted from a member's pay is done so on a pre-tax basis, which defers income taxes on that amount until retirement or refund. The tax deferred requirement is limited to service credit that is earned in another non-uniformed retirement system. For the purchase of all other service credit, the decision to offer a tax-deferred payroll deduction plan remains at the option of the employer.

The bill is also consistent with recent federal proposals that encourage people to plan ahead in order to ensure financial stability during retirement. For example, a recent federal proposal would allow the use of 403(b) and Section 457 deferred compensation plan funds to purchase service credit through a direct transfer to state and local plans without having to take a taxable distribution of these amounts.

Fiscal Impact

The bill would entail minimal additional administrative costs to the systems. The systems already have established payroll deduction plans; this bill simply extends the plans to the purchase of other non-uniformed service credit.

Staff Recommendation

The staff recommendation is that the Ohio Retirement Study Council vote to recommend that the 123rd General Assembly approve H.B. 15.