

OR
SC

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Analysis

H.B. 186 - Rep. Jolivette (As Introduced)

March 10, 1999

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H.B. 186 - As Introduced

H.B. 186 would lower the purchase price of military service in the Public Employees Retirement System (PERS).¹ Under H.B. 186, the cost for each year of credit purchased would be determined by multiplying the member's rate of contribution in effect at the time Ohio service began by the member's salary for the first year of full-time employment covered by a state retirement system or the Cincinnati Retirement System, plus compound interest from the date service covered by a state retirement system or the Cincinnati Retirement System began to the date of payment,

For each year of military service credit purchased under current law, a member is required to pay an amount equal to the member's rate of contribution in effect at the time the military service began multiplied by the member's salary for the first year of full-time employment covered by a state retirement system or the Cincinnati Retirement System following termination of military service, plus compound interest from the date the military service ended to the date of payment.²

Staff Comments

During the last General Assembly, H.B. 64 was introduced, which also would have lowered the member cost for the purchase of military service credit. That bill, however, was much more expansive than H.B. 186. Not only would H.B. 64 have reduced the annual compound interest on the purchase of military service credit, but in some cases it would have completely eliminated the annual compound interest. It also would have allowed the purchased credit to be used to satisfy the ten-year service requirement for retiree health care coverage provided by PERS, and it would have expanded the types of military service that could be purchased to include inactive duty in the reserve components of the armed forces. The ORSC voted to recommend that the General Assembly disapprove the bill because under the existing military service credit provisions members pay only a fraction of the actuarial liability resulting from the purchases and within the last few years the legislature has refrained from any further liberalization of service credit provisions due to cost considerations.

In 1987 an actuarial study of the State Teachers Retirement System (STRS) service credit provisions indicated that the system's actuarial liabilities resulting from the purchase of service far exceeded the cost paid by the member. At the time of the study, the member cost for military service credit in all five systems was identical to the current PERS provision. The study found that for the purchase of military service credit, the member paid, on average, only 7.5% of the full actuarial cost. This study raised the issue of whether the Ohio public retirement plans are well served by a policy that allows some public employees to purchase service credit at a fraction of the full actuarial cost while requiring all public employers to absorb the majority of the cost.

¹PERS law grants up to ten years of military service at no cost to the member, provided: (1) the member has at least one year of payroll deductions before entering active duty and maintains membership in PERS; (2) the member returns to employment covered by one of the five state retirement systems or the Cincinnati Retirement System within two years after an honorable discharge; and (3) the member completes at least one year of service thereafter. Members who do not satisfy these provisions may purchase up to five years of military service.

²PERS members who are reemployed by the same public employer that employed them prior to their service in the armed forces may purchase up to five years of military service credit by paying an amount equal to the contributions they would have paid had they not been out of active service as public employees by reason of their service in the military. Annual compound interest is charged from the date of reemployment to the date of payment only if the member pays all or any portion of the required contributions later than the lesser of five years of a period that is three times the member's military service.

H.B. 186 - As Introduced

Since the STRS study was completed in 1987, the laws governing the purchase of military service credit in STRS and the School Employees Retirement System (SERS) have been changed, thereby creating inconsistencies among the five systems regarding the cost of military service credit. Based on that study, STRS law was amended to require 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, to pay at least 50% of the actuarial cost for future purchases of service, including military service (H.B. 293 eff. 9-15-89). For members of STRS who first established membership prior to July 1, 1989 and all members of PERS, the Police and Firemen's Disability and Pension Fund (PFDPF), and the Highway Patrol Retirement System (HPRS) the member cost for each year of military service purchased is the member contribution rate in effect at the time military service began multiplied by the member's salary during the first year of full-time employment in Ohio, *plus compound interest from the date military service ended to the date of payment.*

The purchase price for military service under SERS law was changed in 1996 and is the member's contribution rate in effect at the time military service began multiplied by the member's salary for the first year of service as a member of SERS, PERS, or STRS following termination of military service, *plus compound interest from the date the member began service as a member of SERS, PERS, or STRS following termination of military service to the date of payment.* Prior to 1996, determination of the purchase price was consistent with PERS, PFDPF, and HPRS law.

Generally, employee benefit laws and policies in both the private and public sectors have accorded preferential treatment to military service, particularly military service that interrupts employment. For example, the non-uniform employee retirement systems in Ohio provide up to ten years of free military service credit for military service that interrupts public employment under certain conditions. The above-noted inconsistencies in the purchase price for military service credit raise the public policy issue of whether the calculation of the member cost should be the same in all five public retirement systems. If it is decided they should be the same, then the question remains as to which method should be used to determine the purchase price.

Fiscal Analysis

A detailed fiscal analysis of H.B. 186 has not yet been completed.

ORSC Position

At its meeting of March 10, 1999, the Ohio Retirement Study Council deferred action on H.B. 186 pending additional information from all five retirement systems regarding the different methods of computing the member's cost for purchasing military service under their existing statutes and the actuarial impact of these different methods upon the retirement systems.