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Analysis

Sub. H.B. 71
(As Enacted by the General Assembly)

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ORSC Position

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Sub. H.B. 71– Rep. J. Stewart

Sub H.B. 71 allows a member of the Ohio Public Employees Retirement System (OPERS), the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), and the Highway Patrol Retirement System (HPRS) to purchase service credit for active duty in the Ohio National Guard or armed forces reserves that consists of assembly for drill and instruction; training at encampments, maneuvers, outdoor target practice, or other exercises; and any training or duty in this state ordered by the governor.

Current law does not allow this type of active duty training to be purchased in PERS, STRS, SERS, or HPRS. Only the Ohio Police and Fire Pension Fund (OP&F) allows this type of service to be purchased.

The bill also allows a school district board of education or the governing body of a chartered nonpublic school to grant a high school diploma to any woman who left high school to support her family or the war effort during World War II, the Korean Conflict, or the Vietnam Conflict.

Staff Comments - The bill includes active duty in the armed forces reserves or Ohio National Guard for drill and instruction; training at encampments, maneuvers, outdoor target practice, or other exercises; and any training or duty in Ohio ordered by the governor as a type of military service credit that a member could purchase. Members of PERS, STRS, SERS, and HPRS may purchase up to five years of service in the armed forces. Armed forces is defined as the army, navy, air force, marine corps, coast guard, auxiliary corps as established by congress, Red Cross nurse serving with the army, navy air force, or hospital service of the United States, army nurse corps, navy nurse corps, full-time service with the American Red Cross in a combat zone, and such other service as may be designated by Congress. It also would allow them to purchase a portion of a year of service rather than a full year of service.

As introduced, the bill would have required the member to pay at least 75% of the additional actuarial liability. This raised the public policy issue of whether a member's purchase of service credit should be subsidized by the retirement system. When a member pays less than the full cost of the additional liability created by the purchase, an unfunded liability is created. This unfunded liability must be paid for out of employer contributions. Since 1989 the General Assembly has consistently been requiring members to pay more of the actuarial liability created by their purchase of service credit. In 1989, the law was amended to require STRS members who purchase service credit earned after July 1, 1989 to pay at least 50% of the additional actuarial liability created by the purchase (H.B. 293, eff. 9/15/89). In 1991, members of PERS, STRS, and SERS were first permitted to purchase credit for school board service provided they paid the entire additional liability resulting from the purchase (H.B. 382, eff. 6/30/91). In 1992, members of PERS, STRS, and SERS who purchase service credit for which they had previously exempted themselves were required to pay the entire cost of that credit (H.B. 383, eff. 5/4/92). Also in 1992, the law was amended to require members of OP&F who purchase credit for time they were laid off to pay the full cost of the additional liability created by the purchase (H.B. 197, eff. 10/11/94). Beginning in 1994, OP&F members who purchase out-of-state or federal service are required to pay the entire additional liability created by the purchase (H.B. 197, eff. 10/11/94). The most recent change that required members to pay more of the additional liability for purchases occurred in 2000.

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At that time, the law was changed to require members of PERS to pay at least 50% of the actuarial cost for military service credit (H.B. 186, eff. 3-17-00).

The substitute version of the bill, however, requires the member to pay 100% of the resulting additional actuarial liability. This change is consistent with recent legislative changes that have required members to pay more of the additional actuarial liability resulting from the purchase of service credit and with the ORSC recommendation for the introduced version of H.B. 71.

The substitute bill provides that the amount of credit eligible to be purchased is calculated by dividing the number of days actually served by 365. It also states that members may not purchase service credit for any period of military duty during which the member was contributing to the retirement system. (As introduced, the bill was unclear as to how much credit would be granted and whether a member could purchase more than one year of service credit during any twelve-month period.) These provisions are consistent with the ORSC recommendation for the introduced version of H.B. 71.

Fiscal Impact – The PERS actuary, Gabriel, Roeder, Smith & Company, reviewed the introduced version of H.B. 71 and found that there is no data upon which to make a detailed measurement of the financial effect of H.B. 71. However, based on a sensitivity test, the actuary concluded that the long term cost of H.B. 71 would be less than 0.05% of covered payroll and would not change the amortization period for unfunded actuarial accrued liabilities. In addition, the actuary noted that if the cost to purchase the service is set at 100% of the resulting additional liability, there would be no measurable financial effect on the system. The actuary also recommended clarifying the definition of inactive duty in order to limit the potential financial effect.

Pursuant to a request from the sponsor of the bill, the STRS SERS, and HPRS completed actuarial cost statements assuming they were amended into the bill. OP&F did not complete an actuarial analysis because their law already allows members to purchase service credit for inactive duty training in the armed forces reserves and the Ohio National Guard. According to the STRS actuary, Mellon, there is no data upon which to make a detailed measurement of the financial effect of H.B. 71 if STRS were included in the bill. Based on the assumptions used by Mellon, the funding period would increase from 42.2 years to 42.4 years. Mellon also completed the actuarial analysis for SERS and found that, regardless of the data used to calculate the cost of the bill, the overall impact on SERS most likely would be minimal given the magnitude of SERS' total liabilities and unfunded actuarial accrued liabilities and the fact that SERS would subsidize only 25% of the additional cost. According to HPRS' actuary, Gabriel, Roeder, Smith & Company, there is no data upon which to make a detailed measurement of the financial effect of H.B. 71. However, they conducted a sensitivity test and the actuary concluded that the long term cost of H.B. 71 would be less than 0.05% of covered payroll and would change the amortization period for unfunded actuarial accrued liabilities by less than one year. Again, they recommended clarifying the definition of inactive duty in order to limit the potential financial effect.

Sub. H.B. 71 should have no actuarial impact on the system because it requires the member to pay the full cost of the actuarial liability resulting from the purchase of service.

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ORSC Position - At the April 13, 2005 meeting of the Ohio Retirement Study Council, the ORSC voted to recommend that the 126th General Assembly approve H.B. 71 upon the adoption of the following amendments:

- That the proposed changes under the bill be made to the comparable laws governing STRS, SERS, and HPRS. *This amendment was adopted by the House Financial Institutions, Real Estate and Securities Committee.*
- That the bill be amended to allow for the purchase of inactive duty *training* rather than inactive duty and that the laws governing OP&F and HPRS interrupted and non interrupted military credit be made consistent with respect to inactive duty training. *The House Financial Institutions, Real Estate and Securities Committee adopted an amendment that allowed for the purchase of active duty training.*
- That the bill be amended to clarify how much credit a member can purchase for each day of inactive duty training and that a member purchasing service for inactive duty training may not receive more than one year of service credit for any twelve month period. *This amendment was adopted by the House Financial Institutions, Real Estate and Securities Committee.*
- That the bill be amended to require the member to pay the full cost of the additional actuarial liability created by the purchase of the inactive duty service credit. *This amendment was adopted by the House Financial Institutions, Real Estate and Securities Committee.*

Effective Date – March 30, 2007