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Analysis

S.B. 114 - Sen. Furney

July 14, 1999

S.B. 114 would require the Police and Firemen's Disability and Pension Fund (PFDPF) to recalculate the cost of military service credit for certain members of the fund whose purchase cost was based on calculations made between August 2, 1995 and October 29, 1996. The recalculated purchase price would be determined by multiplying the employee contribution rate in effect when the member's military service began by the member's first year of full-time service in Ohio covered by any state or municipal retirement system in Ohio, plus compound interest from the date military service ended to the date of payment.

Under current law, members who purchased military service credit during that time paid an amount equal to the employee contribution rate in effect when the military service began multiplied by the member's annual salary for the first year of employment as a member of PFDPF, plus compound interest from the date military service ended to the date of payment.

Staff Comments

On August 2, 1995, H.B. 450 was introduced. Among other things, the bill changed the method of calculating the purchase price of military service credit in PFDPF. Under H.B. 450, which became effective on October 29, 1996, the cost is now determined by multiplying the employee contribution rate in effect when the member's military service began by the member's first year of full-time service in Ohio covered by any state or municipal retirement system in Ohio. Under this method, members pay, on average, only 19.5% of the increase in the actuarial liability; the remaining 80.5% is subsidized by the fund.

S.B. 114 would allow members who purchased military credit between the time H.B. 450 was introduced and the time it became effective to have the purchase price of that credit recalculated under the new method if they had contributed to another state or municipal retirement system in Ohio prior to becoming a member of PFDPF. For example, if a member, who purchased credit prior to the passage of H.B. 450, began contributing to PERS with a beginning annual salary of \$15,000 after leaving military service and later became a member of PFDPF with a beginning annual salary of \$25,000, the cost of that individual's military service credit was calculated using the annual salary of \$25,000. Under the provisions of S.B. 114, the cost would be recalculated based on the \$15,000 annual salary.

With any legislation that changes benefits, it is inevitable that certain persons will be cut off from receiving the benefit improvements. The question becomes where should

themselves. For example, last session H.B. 339 was passed, which provided a benefit increase for teachers with more than 31 years of service. As part of that bill, the legislature allowed teachers who retired on or after July 1, 1997 but before the effective date of the bill (August 6, 1997) to apply to have their retirement benefits recalculated in accordance with the new benefit formula provided for in H.B. 339. Again, that retroactivity was included in the bill that increased the benefit formula.

Fiscal Analysis

According to PFDPF's actuary, Watson Wyatt, the total estimated cost of S.B. 114 would be approximately \$172,500, plus administrative costs. However, it could set a costly precedent in terms of future changes to the benefit structure.

Staff Recommendation

The staff recommendation is that the Ohio Retirement Study Council recommend that the 123rd General Assembly disapprove S.B. 114 because it would set a costly precedent for future benefit improvements.