

Milliman & Robertson, Inc.
House Bill 648 – Transfer of part-time service credits to OP&F

April 25, 2000

Mr. Aristotle L. Hutras
Director
Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, OH 43215-3580

Re: House Bill 648 – Transfer of part-time service credits to OP&F

Dear Aris:

As requested, we have estimated the cost to the Ohio Police and Fire Pension Fund, OP&F, of allowing members to transfer part-time service credit to the Fund and receive either full or partial credit for that service. We have summarized our analysis below.

Background

OP&F currently accepts only the transfer of full-time service credit from the non-uniformed retirement systems - the Public Employees Retirement System, PERS, the School Employees Retirement System, SERS, and the State Teachers Retirement System, STRS. The purpose of this analysis is to determine the cost of allowing OP&F members who have part-time service with PERS, SERS, and STRS to transfer that credit to OP&F.

In order to be a member of OP&F, a police officer or firefighter must be a full-time employee. But the statute governing OP&F does not define what is required to be considered a full-time employee. Hence the exact criteria applied to members varies by employer. As a result, in some municipalities a police officer or firefighter working a substantial work schedule might nevertheless be considered to be part-time and hence become a member of PERS. But in other municipalities, an employee working a similar schedule would be considered to be full-time and hence become a member of OP&F.

When a former member of PERS, SERS or STRS becomes a member of OP&F, he or she is allowed to purchase within OP&F credit for any full-time service as a member of the other system. But the service to be purchased must have been work performed on a work schedule of at least 37.5 hours per week. (The 37.5 hour requirement was established as policy by the OP&F Board for this purpose.)

Many fire departments in Ohio employ exclusively or predominantly part-time firefighters. As the department grows in size, it may convert to a full-time department. In these situations, firefighters who were members of PERS during their service as a part-time firefighter must move to OP&F when they transfer to a full-time work schedule. Without being given the opportunity to transfer their part-time PERS service to OP&F for either full or partial credit, many such firefighters would have difficulty becoming eligible for the level of retirement benefits provided to OP&F members who complete 25 years of service. (Note that the 25 years of service credit in OP&F need not be public safety service.)

In the past, OP&F erroneously allowed such members to purchase their part-time PERS service. It was later discovered that the OP&F statute did not authorize such purchases and OP&F reversed the initial purchases. To avoid hardships which could have been created by canceling the purchased service credit, legislation was enacted that gave a limited exemption for past purchases that were processed by mistake even though they were unauthorized.

Service crediting rules in OP&F and PERS, SERS and STRS

Since only full-time employees are allowed to be members of OP&F, there is no need for OP&F to have rules for determining service credits for members who work less than a full-time work schedule. Service credit is simply granted for the periods of time during which the member makes contributions to OP&F.

But PERS does not require that an employee be a full-time employee in order to become a member. As a result, PERS has rules for determining how much service is required in order to receive credit for a full or a partial year. If a member earns \$250 in a month, he or she receives credit for that month. To get one year of service credit, a member must receive 12 months of service credit. If he or she works fewer months than 12 months in a year, service is credited on a pro-rata basis.

The rules for SERS and STRS reflect the nature of a normal school year. If a member is employed and contributes for 120 or more days during a year, he or she receives credit for a full year of service. If the member works less than 120 days, a fractional year of service credit is granted based on the fraction whose numerator is the number of days worked and the denominator is 180 days. For example, if a member of SERS worked 90 days, he or she would receive credit for 90/180 or one-half of a year of service.

Cost of purchasing service credit in OP&F

In order for a member of OP&F to purchase service credit earned under another Ohio Retirement System, the member must transfer his or her accumulated member contributions from that system to OP&F. OP&F then contacts the other Ohio Retirement System and receives:

1. additional interest on member contributions at the lesser of the actuarial valuation interest rates used by the two systems, and,
2. the accumulated employer contributions with interest at the same valuation interest rate.

Analysis of Potential Cost of allowing purchase of part-time credit in OP&F

In order to estimate the potential costs associated with granting either full or partial credit in OP&F for part-time service in PERS, SERS or STRS, we received data from OP&F and PERS regarding employees who transferred from PERS to OP&F. It is hoped that this group of employees is representative of the other employees who may be eligible to purchase credit for such part-time credit within OP&F if a bill were enacted to provide for such purchases.

We estimated the full-time equivalent years of service based on accumulated member contributions with interest using the following fraction.

$$\frac{\text{(Accumulated member contributions with interest into PERS)}}{\text{(Initial full-time salary in OP\&F or PERS) times (PERS member contribution rate)}}$$

For example, if an employee had an initial salary upon joining OP&F of \$30,000, his annual contributions into PERS based on that salary would have been \$2,550 ($=\$30,000 \times 8.5\%$). If his accumulated member contributions in PERS were \$5,000, we estimated his full-time equivalent service in PERS to have been 1.96 years ($=\$5,000$ divided by $\$2,550$). If the member went from part-time to full-time in PERS prior to transferring to OP&F, the member's initial full-time salary in PERS was used to convert the prior part-time service to a full-time equivalent.

We took this approach because records of the actual number of hours worked by each employee were not available. We believe that by using accumulated member contributions with interest we have made a reasonable adjustment to reflect the probability that the employee would have received some salary increases during his or her period of part-time service.

The employee group consisted of 25 employees, 24 of whom were reported with part-time PERS service. Some summary information regarding these 24 employees is summarized below.

	Average	Minimum	Maximum
Age at transfer to OP&F	38	23	54
Years of PERS credited service	8.6 years	4.0 years	12.5 years
Estimated full-time equivalent years of service based on initial full-time salary in OP&F or PERS and accumulated member contributions with interest	1.9 years	0.4 years	3.6 years

Based on this information, we then estimated the increase in Actuarial Accrued Liabilities under OP&F if OP&F granted service credit for either:

1. the number of years of service credit earned while a member of PERS working in a part-time capacity, and,
2. the estimated full-time equivalent years of service worked by the member while on a part-time work schedule in PERS.

The results are summarized below.

(\$ Amounts in thousands)

	If credited service were granted by OP&F based on PERS credited service	If credited service were granted by OP&F based on estimated full-time equivalent service
Increase in Actuarial Liabilities	\$940	\$151
Assets transferred	261	261
Increase in Unfunded Liabilities	679	(110)
% of Actuarial Liabilities covered by transferred assets	28%	173%
Increase in UAL/(Surplus) per employee	\$28	(\$5)

As indicated above, based on the this group of employees OP&F would be made whole by the transfer of accumulated member and employer contributions assuming credited service were granted based on full-time equivalent service (the assets transferred would have more than covered the additional liabilities by approximately \$5,000 per employee).

Thus if this sample group of employees can be considered to be representative of other groups of employees who might be eligible to purchase credit for part-time service in OP&F, there would not be a loss to OP&F if employees were allowed to transfer part-time PERS service to OP&F. It is important to note, though, that this would be true only if credit were granted for the full-time equivalent years of service

rather than the total number of years of credited service in PERS. There would be a significant loss to OP&F if credit were given for all years of credited service in PERS. Presumably the results would be similar for transferees from SERS and STRS.

Actuarial Basis

These estimates were based on the data provided to us by OP&F and PERS regarding the 25 employees included in this analysis and the plan provisions, actuarial assumptions and methods used for the January 1, 1999 Actuarial Valuation of OP&F.

Please let us know if you have any questions or if you need any additional information.

Sincerely,

Katherine A. Dill

William A. Reimert

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