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Bill Analysis
Legislative Service Commission

H.B. 15

123rd General Assembly
(As Introduced)

Reps. Mottley, Ford, Tiberi, Schuler, Allen, James, Grendell, D. Miller, Opfer, Willamowski, Lucas, Gardner, Terwilleger, Britton, Thomas, Sulzer, Bender, Olman, Evans, Jolivette

BILL SUMMARY

- Permits a member of the Public Employees Retirement System (PERS), School Employees Retirement System (SERS), or State Teachers Retirement System (STRS) to purchase from the member's current retirement system service credit for prior service covered by one of the other systems.
- Requires, rather than authorizes, PERS, SERS, and STRS to have payroll deduction plans for restoring service credit or purchasing any credit a member is eligible to purchase under the law governing each system.
- At the member's election, requires a PERS, SERS, or STRS employer to make payroll deductions for credit for service with one of the other systems under a plan that defers income taxes on the sums deducted from the member's salary.

CONTENT AND OPERATION

Background

Under current law, a PERS, SERS, or STRS member may purchase service credit for a variety of prior service, including military service; police, fire, or highway patrol service; and out-of-state, federal, or Ohio municipal retirement service. A member of one system may not, with one exception, purchase credit for prior service in one of the other systems (see **COMMENT 1**). Instead, a PERS, SERS, or STRS member who withdrew member contributions on leaving public employment and then became a member of one of the other systems, may restore all or part of the member's prior service credit by redepositing with the former retirement system the amount withdrawn plus interest determined by the former

retirement system's board.¹ PERS, SERS, and STRS have "coordination of benefits" so credit earned or purchased in one system is equivalent to credit earned or purchased in one of the other systems.

At the time of retirement, all contributions and service credit in PERS, SERS, and STRS are used in determining benefit eligibility and the total retirement or disability benefit payable.

Purchase of service credit for prior service in PERS, SERS, or STRS

(secs. 145.2910, 145.311, 3307.282, 3307.413, 3309.261, and 3309.352)

Under the bill, a PERS, SERS, or STRS member who is a former member of one of the other two systems may purchase from the member's current retirement system all or part of the service credit for which the member received a refund of accumulated contributions. For example, a person who is currently a PERS member but is also a former STRS member may purchase credit in PERS for prior service covered by STRS for which the member withdrew STRS contributions.

The bill requires the retirement board on notification by a current member who wishes to purchase service credit under the bill to request from the former retirement system certification of how much it would cost the member to restore service credit in that system. The bill requires PERS, SERS, and STRS to respond to the requesting system within ten days with a calculation of the cost of restoring the service credit.

Once certification is received, the board is required to notify the member of the amount certified by the former system. The amount certified by the former retirement system is the amount the member must pay to purchase the prior service credit. The bill requires any payments made to purchase service credit under this provision to be considered part of the member's accumulated contributions should the member die or withdraw from service.

The PERS, SERS, and STRS boards are required to adopt rules to implement these provisions.

¹ *To be eligible to have credit restored, the member must have at least 18 months of service credit in the current retirement system.*

Transfer of employer's contribution at the member's retirement

(secs. 145.312, 3307.283, and 3309.262)

On application by a member for a retirement allowance or disability benefit, the member's current retirement system is required by the bill to request that the member's former retirement system transfer an amount of employer contributions equal to the amount paid by the member to purchase service credit under the bill. The former retirement system must transfer the amount requested not later than ten days after receiving the request.

Payroll deduction

(secs. 145.294, 3307.281, and 3309.37)

Current law permits PERS, SERS, and STRS to establish by rule a payroll deduction plan for members to restore or purchase service credit. Each retirement system currently offers a payroll deduction plan to its members.

Under the bill, PERS, SERS, and STRS are required to continue to have payroll deduction plans. At the election of a PERS, SERS, or STRS member seeking to buy credit for prior service in one of the other systems, a payroll deduction plan established for that purpose must be qualified by the Internal Revenue Service (IRS) as a "pick-up plan" under the Internal Revenue Code and IRS regulations. The amounts paid under a pick-up plan are treated as employer-paid contributions and income taxes are deferred for an employee until retirement or refund (see **COMMENT 2**).

COMMENT

1. A member of STRS may purchase service credit for prior service in PERS or SERS by paying an amount specified by STRS. For each year of service, the member must pay no less than 50% of the additional liability from the purchase of that year of service as determined by the board's actuary. Unlike the provision for restoration of credit, it is not necessary to have 18 months of contributing service credit in STRS to be eligible to purchase the credit.

2. Current law authorizes, but does not require, employers to have a payroll deduction plan that defers federal and state income taxes on the amounts deducted from the member's salary (sometimes referred to as an "employer pick-up plan"). To implement a pick-up plan, for example, a PERS employer must establish the plan and submit it to PERS for its approval. The plan must state which employees

are included and meet the requirements of federal law.² If, after review, PERS determines the plan does not meet those requirements, PERS has the authority to require the employer to secure a private letter ruling from the Internal Revenue Service confirming the plan's compliance with federal law.

HISTORY

ACTION	DATE	JOURNAL ENTRY
Introduced	01-20-99	p. 101

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² 26 U.S.C.A. 414(h)(2) and Internal Revenue Service Revenue Rulings 81-35 and 81-36.