

- The provision which authorizes members of PERS and SERS to have payment of dues and membership fees to retirement organizations deducted from their retirement allowances will result in minimal increases in administrative costs for the two retirement systems. PERS will spend up to \$54,000 on initial programming costs to set up the payroll deductions plus continuing maintenance costs, effective one year after the bill's enactment. For SERS, initial costs are estimated at \$50,000 with continuing maintenance costs of \$12 per hour.
- Charges to the retirement organizations for the payroll deductions will offset the expenditures for administrative costs of payroll deductions.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

CHANGES IN COMPUTING MILITARY SERVICE

Background

Current law allows Public Employee Retirement System (PERS) members to purchase PERS service credit for service as a member of the armed forces. The amount of military service credit that a member may purchase is the lesser of either five years or the number of years equal to the member's Ohio service. To purchase this credit, the member must pay an amount that is equal to the member rate in effect when military service began multiplied by the member's salary, earnable salary or compensation for full time employment during the first year of service covered by a state retirement system or the Cincinnati Retirement System after military service ended. Added to this amount is compound interest at a rate established by the Public Employees Retirement Board from the date active military service terminated to the date of payment.

This bill would change the method of computing a PERS member's payment for military service credit. Under the bill, the cost of the purchase would be an amount specified by the retirement board that shall not be less than fifty percent of the additional liability resulting from the purchase of that year of service as determined by an actuary employed by the board. A provision in the bill gives a member who is currently purchasing service credit via installment payments or payroll deduction the option to have a portion of the cost of the service credit recalculated. The recalculation will only apply to the amount still owed by the member as of the date the election to recalculate is filed.

The changes made by the bill would be in keeping with the current provision for the purchase of military service credit (i.e., subsidizing half of the total normal cost rate of the purchase) and would also make purchases more affordable in cases where there is a long period of time from the end of military service to the beginning of Ohio service. For those cases where the time from the end of military service to the beginning of Ohio service is not as extensive, the effect on purchase affordability is less clear.

Fiscal Impact

If enacted, this bill would result in additional costs to PERS. PERS will experience a decrease in revenues due to the lower payments received for purchase of military service credit. Additional liability would also be incurred from the additional purchases that would likely occur due to the lowered cost to the member for the purchase. According to the fiscal analysis conducted by the system's actuaries, the long-term effect of the bill is estimated to be 0.04-0.05% of covered payroll or \$3.5 to \$4.3 million. This cost could be absorbed within the current rate structure.

PAYROLL DEDUCTIONS FOR PAYMENT OF RETIREMENT ORGANIZATIONS' DUES

This bill also authorizes members of PERS and the School Employees Retirement System (SERS) to have dues and membership fees to retirement organizations deducted out of their retirement allowances, provided at least 500 benefit recipients allow the deductions for payment

to the same organization. Each deduction authorization must be in writing and signed by the recipient. The payroll deductions for PERS would begin one year after the effective date of this bill.

This provision would increase administrative costs for the two retirement systems. Initial computer programming costs of \$54,000 and \$50,000 for PERS and SERS, respectively, are expected. In addition, the payroll deductions would create continuing maintenance costs of \$12 per hour for SERS and an amount yet to be determined for PERS. However, the bill allows the retirement systems to recoup these administrative costs by charging the retirement organizations for the payroll deductions.

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