

Fiscal Note & Local Impact Statement

123rd General Assembly of Ohio

BILL: Sub. H.B. 416 **DATE:** January 10, 2000

STATUS: As Passed by the House **SPONSOR:** Rep. Ford

LOCAL IMPACT STATEMENT REQUIRED: No — No local cost

CONTENTS: Eliminates a provision that allowed PERS members making contributions as elected officials to contribute an additional amount to PERS on the basis of salary earned from a not-for-profit corporation formed as a professional sports organization; also, clarifies that the limit on pensions that may be paid by PERS applies when service credit is purchased for service as an elected official

State Fiscal Highlights

RETIREMENT SYSTEM	FY 2000	FY 2001	FUTURE YEARS
Public Employees Retirement System			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	- 0 -	Decrease in UAAL due to reductions in purchase of subsidized service credit

Note: The state fiscal year is July 1 through June 30. For example, FY 2000 is July 1, 1999 – June 30, 2000. PERS's fiscal year is the calendar year.

- No direct fiscal effect on the state.
- Eliminating the provision which allows elected officials to contribute additional amounts to PERS based on their earnable salaries as employees of not-for-profit corporations formed for the purpose of owning, managing, or operating professional sports organizations would potentially result in a decrease in unfunded actuarially accrued liability (UAAL).
- Consistency with federal tax law that goes into effect as of January 1, 2001 and which relates to elected officials' purchase of service credit would result in a capped purchase amount (5 years). Since the purchase of service credit is highly subsidized by the retirement system, this limitation will result in a decrease in expenditures (benefits paid).

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.



Detailed Fiscal Analysis

Elected Officials Contributing to PERS to Credit Certain Sports Organization Service

H.B. 416 eliminates a provision that allowed PERS members making contributions as elected officials to elect to contribute an additional amount to PERS on the basis of earnable salary as an employee of a not-for-profit corporation formed for the purpose of owning, managing, or operating a professional sports organization. Elected officials were authorized to credit service for such not-for-profit employment in Sub. S.B. 138 of the 117th G.A, which was codified into ORC 145.203. By removing the provision, this bill brings the Ohio Revised Code into compliance with a federal law that limits the purchased service amount for elected officials.

Sub. S.B. 138 was tailored to accommodate one former elected official. This individual is no longer an elected official and no one currently benefits from the provisions of ORC 145.203. Since H.B. 416 would only apply to contributors after the effective date of this bill, the individual that benefited earlier would still receive the earned credit. Thus, the bill has no real fiscal effect on the fund. However, the bill has the potential of decreasing the Unfunded Actuarially Accrued Liability because future elected officials would not be able to credit service to such a nonprofit organization.

Federal Policy: The Taxpayer Relief Act of 1997

The Taxpayer Relief Act of 1997 amended Section 415 of the IRS tax code relating to the purchase of permissive service credit for nonqualified service. Nonqualified service is defined in the code as "...service for which permissive service credit is allowed other than...service as an employee of the Government of the United States, any State or political subdivision thereof,...service as an employee of an educational organization...military service..."¹ The amendment to Section 415, which goes into effect on January 1, 2001, restricts the amount of such purchase to five years and requires that the purchase of such credit commence only after five years of participation under the plan by the purchaser.

Under current Ohio law, elected officials are permitted to purchase up to thirty-five percent of the service credit for the period of service as an elected or appointed official subsequent to January 1, 1935 with no restrictions on the total amount of years purchased. An elected official with twenty years of service could, for instance, buy an additional seven years (.35 x 20) of service credit. Such additional service credit would be considered credit for nonqualified service under federal tax code and under Section 415 (as amended) would be capped at five years.

Due to the grandfathering of current elected officials, however, only newly elected officials (i.e., those taking office on or after January 1, 2001) would be affected by these

¹ 100 Stat. 2085, 26 U.S.C.A. 415 (n), as amended.

limitations.² Limiting the purchase of service credit to a maximum of five years would decrease expenditures for PERS, since the purchase of service credit is highly subsidized by the retirement system.

House Bill 416 amends section of 145.201 of the Revised Code to reflect the changes to federal tax law and in doing so ensures that the retirement plan continues to meet the requirements of Section 415. Failure to meet these requirements could result in the loss of PERS's tax status.

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² Those newly elected officials with the maximum number of years of service allowed under the State Constitution (8 yrs.) would still be eligible for health benefits under current law. They could purchase 2.8 yrs (.35 x 8), bringing their total service credit to 10.8 and meeting the 10-year service credit needed for health benefits.