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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
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Office

H.B. 310
135th General Assembly

Fiscal Note & Local Impact Statement

[Click here for H.B. 310's Bill Analysis](#)

Version: As Introduced

Primary Sponsor: Rep. Jones

Local Impact Statement Procedure Required: No

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Highlights

- No direct fiscal effect on the state or political subdivisions; the bill does not make any changes to contribution rates to the State Teachers Retirement System (STRS).
- Reducing the cost for eligible STRS members to purchase certain military service credit at a subsidized rate (i.e., at less than 100% of the actuarial equivalent value of the increase in the member's benefit as a result of the credit being purchased) would decrease revenue received by STRS for the credit being purchased. Thus, as a result of the lower payments, STRS liabilities would increase.
- The estimated revenue loss to STRS is undetermined but could be in the tens of millions of dollars per year, depending on the number of members purchasing such credit per year and the timing of such purchases. The estimated revenue loss may be indirectly passed along to other STRS members and employers through higher future contribution rates or reduced benefits.

Detailed Analysis

The bill modifies the current requirements related to the purchase of military service credit for: (1) military service occurring before State Teachers Retirement System (STRS) membership, and (2) interrupted teaching due to military service by STRS members who are participating in the STRS defined benefit (DB) plan.

Under the bill, for each year (or portion thereof) such service credit is purchased by a member, subject to STRS Board rules, the member must pay to the system¹ an amount equal to

¹ STRS credits payments received by the member to the member's accumulated account.

the sum of: (1) employee contributions that would have been paid, plus (2) the amount of employer contributions that would have been paid by the applicable public educator employer, if the member had been teaching during the year (or portion thereof) instead of serving in the military for the period that the member is purchasing credit. The bill also specifies that the STRS Board must separately calculate the cost for each year of service credit that a member elects to purchase. The bill prohibits the STRS Board from requiring the member to pay any amount to the system in addition to the required amount (described above) to purchase the service credit, including interest or an amount equal to any percentage of the actuarial liability resulting from the purchase.

Under existing law, an STRS member who is participating in the STRS DB plan and has been on an active duty or a reserve member component of any of the armed forces of the United States or the Ohio National Guard, may purchase up to five years of service credit for such military service, which is service that usually occurred prior to becoming an STRS member.² The member is required to apply to the STRS Board in a manner or form approved by the Board to purchase the credit. Under existing law, the member must pay to STRS an amount specified by the Board that is equal to 100% of the actuarial liability resulting from the purchase, as determined by the Board's actuary, for each year or portion of a year of such credit purchased. The existing law also requires the Board to adopt rules establishing criteria for determining eligibility for purchases of service credit and procedures for purchases of credit. The Board's determination is final.

In addition, under existing law an STRS member who is participating in the STRS DB plan may purchase a total of up to five years of service credit for military service that interrupted the member's STRS teaching service, provided the member was employed in an STRS position before the military service and returned to an STRS position within three months of completing the military service. Under existing law, to purchase this type of credit, the member and the member's employer, subject to board rules, must pay employee contributions, including any applicable interest and employer contributions, respectively, on earnings the member would have earned if not in military service.³ The bill removes the STRS Board's authority to charge the member interest, if the purchase is not completed within the lesser of five years or a period that is three times the member's period of military service. The bill also prohibits the Board from charging a member interest to purchase the credit.

Fiscal effect

The bill has no direct fiscal effect on the state or political subdivisions. The bill does not make any changes to contribution rates to STRS.

² An STRS member may also purchase up to five years of service credit for each year of service the member was a prisoner of war.

³ According to the [STRS DB Plan Purchasing Service Credit Brochure 2023/2024 \(PDF\)](#), no interest is charged if the purchase is completed within three times the length of the member's period of military service. Time is calculated from the date of reemployment. If purchase is completed after the interest-free period, interest is calculated from the date of reemployment or October 29, 1996, whichever is later. Employers pay the employer contribution without interest assessed.

However, reducing the cost to purchase military service before STRS membership for eligible STRS members by allowing such members to pay only the member's employee and the member's employer contributions that would have been paid as if the member had been teaching during the year (or portion thereof) instead of serving in the military service during the period for which the member is purchasing credit, instead of the 100% of the actuarial equivalent value of the resulting increase in the member's benefit,⁴ would decrease revenue paid to STRS for the credit being purchased. The estimated revenue loss to STRS is undetermined but could be in the tens of millions of dollars per year, depending on the number of members purchasing such credit per year and the timing of such purchases. Thus, as a result of the lower payments, STRS unfunded liabilities would increase. As the system is funded by employees' and employers' contributions and interest income on such contributions, the estimated revenue loss may be indirectly passed along to other STRS members and employers through higher future contribution rates or reduced benefits.

The provision prohibiting the STRS Board from charging interest on an STRS member, who is purchasing service credit for military service that interrupted the member's STRS teaching service and have not yet completed the payment for the purchase within the eligibility period, would also decrease revenues paid to STRS for the credit being purchased and increase STRS liabilities. However, according to an STRS official, the system has not certified any members for purchasing such type of service credit for many years.

The magnitude of the bill's potential revenue loss to STRS is undetermined due to lack of information on the actual number and detailed information of current and future STRS members, who are eligible to purchase the applicable service credit and would choose to purchase such credit on or after the bill's effective date. However, the estimated revenue loss could be in the millions of dollars per year, based on the assumptions below. The actual revenue loss would depend on the number of eligible members purchasing such credit, the total number of service credits being purchased per year, and the timing of such purchases. The estimated cost to STRS could be lower if eligible members purchased such credits at the beginning of their teaching career versus at the time when they almost retire.

Scope of eligible purchasers

According to data received from an STRS official, during the past five fiscal years, between 27 and 41 members per year were certified to purchase military service credit before STRS membership with an average credit between 2.66 and 2.88 years per person. During the same period, between 11 and 19 members per year made a lump-sum payment to purchase military service credit with an average purchase between 1.95 and 3.00 years of service credit and paid between \$15,085 and \$20,325 in averaged cost per year of service credit. At the time the purchases were made, the average age of such members was about 54 years old and on average accumulated 21.57 years of service credit with \$86,183 in averaged earnings. In addition, according to an estimate using the 2017-2021 American Community Survey (ACS) Public-Use Microdata Sample for Ohio, derived from the U.S. Census Bureau, there were approximately 3,954 Ohioans that were veterans working as teachers in kindergarten through twelfth grade. By assuming all those teachers worked in public schools, became STRS members, and are eligible to

⁴ The actual true liability of a service credit cost is not known until a member's retirement date.

purchase military service credit before STRS membership, the estimated number of STRS members that may purchase military service credit before STRS membership on or after the bill's effective date (i.e., at a subsidized cost) could be significantly higher than the historical purchase activity cited above.

Illustrative scenarios

To illustrate the estimated costs, the following two scenarios are presented. Scenario 1: a 40-year-old STRS member who had a year of active military service at age 19 and worked as a teacher within an STRS membership immediately after the service with a starting salary of \$30,000. Assuming the member has a final average salary of \$60,000, a 24% total (i.e., employee's plus employer's) contribution rate, and a 7% compounded interest rate on the purchase, the 40-year-old member would have to pay about \$29,812 to purchase one year of the credit under existing law versus \$7,200 under the bill. Scenario 2: a 60-year-old STRS member who had a year of active military service at the same age of 19, the same starting salary of \$30,000 and the estimated final average salary of \$60,000, and identical assumptions for contribution rates and interest rate, the 60-year-old member would have to pay about \$115,363 to purchase one year of the credit under existing law versus \$7,200 under the bill. The estimated revenue loss to STRS for the service credit purchase under scenario 1 would be about \$22,612 (i.e., \$29,812 - \$7,200 = \$22,612), while under scenario 2 it would be about \$108,163 (i.e., \$115,363 - \$7,200 = \$108,163). Thus, based on the potential number of eligible members suggested by ACS data, if 50 eligible members, who recently attained age 60, annually purchased five years of such service credit, the estimated total revenue loss would be about \$27.0 million per year (i.e., 50 members x 5 years of service credit x \$108,163 = \$27.0 million).