

Members Only

AN INFORMATIONAL BRIEF PREPARED FOR MEMBERS OF THE OHIO GENERAL ASSEMBLY BY THE LEGISLATIVE SERVICE COMMISSION STAFF

Volume 126 Issue 4
March 17, 2006

Purchasing Credit for Exempt Service under the Public Employees Retirement System

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Normally, an individual employed in a position covered by the Public Employees Retirement System (PERS) automatically becomes a PERS member and is required to contribute to PERS. The individual earns PERS service credit for the period during which the person is employed and contributions are made. However, individuals may opt out of PERS membership for certain types of service, which, currently, is primarily service by students but, in the past, included certain part-time and temporary service. An individual who requests exemption from membership does not contribute to PERS and, therefore, does not earn service credit for the exempted service.

State law governing PERS allows PERS members to purchase various forms of service credit from the retirement system. For example, individuals who were employed in a comparable position with another state or the federal government and veterans may increase the amount of service credit they have in PERS by purchasing service credit for a portion of the time they were employed by the other state or federal government or served in the military. An individual who chose to be exempt from PERS membership is permitted to subsequently purchase service credit for each year or portion of a year of service for which the individual was exempt. This members' brief examines the state law governing the purchase of service credit from PERS for previous exempt service.

Why service credit matters

Service credit is important because it is a factor used in determining when a PERS member is eligible to retire and the amount of the retirement benefit. A PERS member with at least 30 years of total service credit may retire at any age. A member

Service credit is one of the factors that determines when a PERS member is eligible to retire and how much the member's retirement benefit will be.



who is at least age 55 with at least 25 years of total service credit can retire and receive a reduced benefit, as can a member who is at least age 60 and has at least 5 years of total service credit.¹

A PERS member who retires with at least 30 years of total service credit or at age 65 or older receives an annual retirement benefit calculated by multiplying the member's total service credit by 2.2% of the member's final average salary² for each of the first 30 years of service, plus 2.5% of the final average salary for each subsequent year of service. The annual retirement benefit of a PERS member who retires before age 65 with fewer than 30 years of total service credit is calculated in the same manner but then reduced by the percentage shown below:

If the member is the following age at retirement:	And the member has the following amount of years of total service credit:	The member's retirement benefit is reduced by the following amount:
55 to 58	<ul style="list-style-type: none">• 25• 26• 27• 28• 29	<ul style="list-style-type: none">• 25 %• 20 %• 15 %• 10 %• 5 %
59	<ul style="list-style-type: none">• 25 or 26• 27• 28• 29	<ul style="list-style-type: none">• 20 %• 15 %• 10 %• 5 %
60	<ul style="list-style-type: none">• 5 to 27• 28• 29	<ul style="list-style-type: none">• 15 %• 10 %• 5 %
61	<ul style="list-style-type: none">• 5 to 27• 28• 29	<ul style="list-style-type: none">• 12 %• 10 %• 5 %
62	<ul style="list-style-type: none">• 5 to 28• 29	<ul style="list-style-type: none">• 9 %• 5 %
63	<ul style="list-style-type: none">• 5 to 28• 29	<ul style="list-style-type: none">• 6 %• 5 %
64	<ul style="list-style-type: none">• 5 to 29	<ul style="list-style-type: none">• 3 %



Exempt service for which credit may be purchased

Service credit may be purchased for certain types of exempt service. The exempt service includes not only certain service that would be covered by PERS if not for an exemption but also certain service that, if not for an exemption, would be covered by the State Teachers Retirement System (STRS) or School Employees Retirement System (SERS).³

The currently exempt PERS service for which credit may be purchased is employment with a school, college, or university in which the individual is enrolled and regularly attending classes.⁴ An election to have employment exempted from PERS membership is made by filing a signed, written application for exemption with the PERS Board within the first month after being employed. An exemption request, once approved by the Board and filed with the employer, is irrevocable while the individual is continuously employed by the school, college, or university and regularly attending classes.⁵

According to PERS officials, credit may also be purchased for service for which exemption is no longer permitted but, until June 30, 1991, could be exempt.⁶ Under provisions in effect until that date, the following could choose to be exempt from PERS membership: students who were employed for no more than 1,500 hours in a calendar year, new employees who were not PERS members at the time of employment and worked less than 20 hours per week, and temporary and emergency employees

who did not work more than three calendar months.⁷

The STRS Board is permitted to deny the right to contribute or the right to become a member to any class of teachers whose compensation is partly paid by the state, who are not serving on a per annum basis, who are on a temporary basis, or who are not required to have an educator license. The STRS Board is also permitted to make membership or contributions optional for teachers in any of those classes. In addition, the STRS Board may at any time deny membership or the right to contribute to any teacher whose compensation, though disbursed by an employer, is reimbursed to the employer, in whole or in part, from other than public funds.⁸ An individual may purchase service credit from PERS for any such exempt service.⁹

Certain individuals are permitted to choose to be exempt from membership in SERS. The exemption option applies to (1) a student who is not a SERS member at the time of employment and is employed by the school, college, or university in which the individual is enrolled and regularly attending classes, (2) an emergency employee serving on a temporary basis in case of fire, snow, earthquake, flood, or similar emergency, and (3) an individual employed in a program established under the federal Job Training Partnership Act. Also, an individual who is already an SERS member and is employed by a school, college, or university in which the member is enrolled and regularly attending classes may elect to have that employment exempted from contribution

A PERS member may purchase credit for certain employment that was exempt from PERS coverage.

Service credit may also be purchased for certain employment that, if not for an exemption, STRS or SERS would have covered.



Credit will not be given for exempt employment that was concurrent with non-exempt employment.

A PERS member cannot purchase exempt service credit until the member has contributed to PERS, STRS, or SERS for at least 18 months.

A PERS member with more credit in STRS or SERS must purchase the credit from the other system.

A PERS member's earnable salary for the year before the member applies to purchase the credit is a factor in calculating the cost.

to SERS. The exemptions are made by filing a written application with the employer within the first month after being employed.¹⁰ An individual may purchase service credit from PERS for any such exempt service.¹¹

PERS will not give credit for service for exempt service that was performed concurrently with other service that is used to calculate a retirement benefit from PERS, STRS, or SERS.¹² Therefore, it would not be beneficial for a PERS member to purchase credit for exempt service that was performed during a month in which the member also performed service that was not exempt.

When purchase of credit for exempt service may be made

A PERS member may not purchase credit for exempt service until the member has been employed in a position in which he or she has contributed to PERS, STRS, or SERS for at least 18 months.¹³ The entire 18 months of contributions need not have been made to a single retirement system. Any number of the 18 months of contributions may have been to PERS and the remainder months to one or both of the other systems.¹⁴ However, a PERS member who is also a member of STRS or SERS is not eligible to purchase credit for exempt service from PERS if the member has a greater number of years of service credit in one of the other systems. Instead, the member is to purchase the credit from that other system.¹⁵

Cost of purchasing credit for exempt service

The cost of purchasing credit for exempt service is determined by multiplying the member's earnable salary for the 12 months of contributing service before the month in which the member applies to make the purchase by a percentage, currently 20%, that the PERS Board specifies.¹⁶ This calculation is made for each year or portion of a year of credit to be purchased.¹⁷

The following is an illustration of the cost.

Earnable salary	Percentage used in calculation	Years of credit being purchased	Cost of purchase
\$30,000	20%	3	\$18,000
\$55,000	20%	2	\$22,000

Purchasing credit in installments

An individual may purchase all or part of the credit for exempt service in one or more payments. If the purchase is made in installments, compound interest at a rate specified by the PERS Board must be charged on the balance remaining after the first payment is made.¹⁸ The installment payments may be made by payroll deduction if the individual is not already purchasing other service credit by payroll deduction.¹⁹

Exempt service credit may be purchased in installment payments.

Effect of purchasing credit for exempt service

The following chart shows the effect that purchasing credit for exempt service would have for an individual. The chart assumes that the individual purchased two years of credit for exempt service and had a final average salary of \$50,000.

Age	Years of total service credit without the exempt service	Years of total service credit with the exempt service	Eligible to retire without the exempt service?	Eligible to retire with the exempt service?	Percentage of final average salary received as an annual retirement benefit without the exempt service	Percentage of final average salary received as an annual retirement benefit with the exempt service
50	28	30	No	Yes	Not applicable	66 % (\$33,000)
50	30	32	Yes	Yes	66 % (\$33,000)	71 % (\$35,500)
55	23	25	No	Yes	Not applicable	41.25 % (\$20,625)
55	28	30	Yes	Yes	55.44 % (\$27,720)	66 % (\$33,000)
60	3	5	No	Yes	Not applicable	9.35 % (\$4,675)
60	5	7	Yes	Yes	9.35 % (\$4,675)	13.09 % (\$6,545)



Endnotes

¹ Revised Code §§ 145.33 and 145.34. Eligibility for retirement and the amount of the retirement benefit differs for members in the law enforcement division of PERS.

² “Final average salary” is the quotient obtained by dividing by three the sum of the three full calendar years of contributing service in which a PERS member’s earnable salary was highest, except that if the member has a partial year of contributing service in the year the member’s employment terminates and the member’s earnable salary for the partial year is higher than for any comparable period in the three years, the member’s earnable salary for the partial year is substituted for the member’s earnable salary for the comparable period during the three years in which the member’s earnable salary was lowest (R.C. 145.01(K)(1)).

³ It is possible for an individual to earn service credit from different state retirement systems during the course of his or her career in state and local government. A person with service credit in PERS, STRS, and SERS, or two of those systems, may retire under the system in which the person has the greatest number of years of credit (or, in case of an equal amount of service, the system to which the individual made the most contributions) and have the credit from the other system or systems counted in determining total service credit used in calculating eligibility for retirement and the amount of the retirement benefit. (R.C. 145.37, 3307.57, and 3309.35.)

⁴ An exception is that the service credit may not be purchased for employment subject to the tax on wages imposed by the Federal Insurance Contributions Act for Social Security disability and retirement coverage (R.C. 145.28(A)(2)).

⁵ R.C. 145.03(B).

⁶ Phone conversation with a representative of PERS, February 28, 2006.

⁷ Sub. H.B. 382 of the 119th General Assembly ended the exemption from PERS membership for these employment situations.

⁸ R.C. 3307.24.

⁹ An individual may also purchase service credit under PERS for a job that would have been covered by STRS if not for a former law. Under that former law, any college or university teacher employed after June 28, 1978, who taught not more than an accumulated total of five academic quarter hours or three academic semester hours per academic term was exempted from membership in STRS if, before January 1, 1980, or within the first month after being employed as a part-time teacher, the individual filed with STRS and the college or university a written application of exemption (former R.C. 3307.25).

¹⁰ R.C. 3309.23(B) and (C).

¹¹ An individual may also purchase service credit under PERS for a job that would have been covered by SERS if not for a former law. Under that former law, the SERS Board was permitted to (1) deny the right to become members to any class of employees who were on a temporary basis and (2) make optional with employees in any such class their individual entrance into membership (former R.C. 3309.25).

¹² R.C. 145.28(D), Ohio Administrative Code § 145-2-09(C), and an e-mail from Deborah McCarthy of PERS, November 29, 2005.

¹³ R.C. 145.28(A)(1).

¹⁴ Phone conversation with a representative of PERS, February 10, 2006.

¹⁵ R.C. 145.28(D).

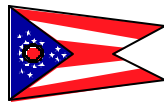


¹⁶ According to PERS, the PERS Board may change the percentage used in the calculation following an examination of PERS's system of incurring liabilities.

¹⁷ R.C. 145.28(B).

¹⁸ R.C. 145.28(C).

¹⁹ R.C. 145.294 and O.A.C. 145-1-38. The rule provides that the retirement system shall not accept a service purchase "by payroll deduction for more than one type of service credit at the same time. . ."



**PUBLISHED BY THE OHIO
LEGISLATIVE SERVICE
COMMISSION STAFF**

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