

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 6307**

**BILL NUMBER: HB 1282**

**DATE PREPARED:** Dec 2, 2000

**BILL AMENDED:**

**SUBJECT:** Military Service Credit for PERF and TRF Members.

**FISCAL ANALYST:** James Sperlik

**PHONE NUMBER:** 232-9866

**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
 **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides that active members of the Public Employees' Retirement Fund (PERF) or the Indiana State Teachers' Retirement Fund (TRF) who serve on active duty in the armed services of the United States for at least six months are entitled to purchase service credit for the time served on active duty, to the extent service credit is not granted for that time under existing PERF or TRF provisions concerning military service credit. The bill requires a member to have at least ten years of creditable service in PERF or TRF before the member may use the military service credit. The bill also provides that these purchase of service credit provisions apply to members who retire after June 30, 2001. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

**Effective Date:** July 1, 2001.

**Explanation of State Expenditures:** This bill can result in increased future payouts from PERF or TRF in certain situations, as described below.

*Background:* The bill provides that the purchase of the military service credits by members of PERF or TRF must be equal to the product of the following: 1) the member's salary at the time the member actually makes a contribution for the service credit; and 2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of PERF or TRF may wish to purchase military service credit and the potential impact to the funds are identified below.

1) If a member wanted to purchase military service credit (or any service credit), the actuary for the fund calculates the cost of that service based on the member's current salary, current PERF/TRF service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future Cost of Living Adjustments (COLAs) that may be awarded). In other words,

if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to either PERF or TRF. There also would be no immediate real gain to the member because the additional benefits received due to military service would be actuarially equivalent to the purchase price of the military service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to either PERF or TRF.

2) If the member purchases military service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the military service was based on the member's salary **at the time of purchase** before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** See Explanation of State Expenditures, above.

**Explanation of Local Revenues:**

**State Agencies Affected:** Public Employees' Retirement Fund; Teachers' Retirement Fund.

**Local Agencies Affected:** Local units with employees who are members of PERF or TRF.

**Information Sources:** Doug Todd of McCready & Keene, Inc., actuaries for PERF, 576-1508; Denise Jones of Gabriel, Roeder, Smith & Co., Inc., actuaries for TRF, 1-800-521-0498.