STRS OHIO

State Teachers Retirement System of Ohio

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Senate Finance Committee
Amended Substitute House Bill 96 – Interested Party Testimony
May 29, 2025

Chairman Cirino, Vice Chairman Chavez, Ranking Member Hicks-Hudson, and members of the Senate Finance Committee, thank you for the opportunity to provide written testimony on House Bill 96 on behalf of the State Teachers Retirement System of Ohio (STRS Ohio) and our over 500,000 members.

As described below, STRS Ohio has concerns related to two provisions of the bill, both of which relate to the independence of not only this system but the others as well. **Neither concern relates to funding.**

The first provision which we respectfully request be amended is that which includes the state retirement systems in the definition of "state agencies" in the section of the bill related to the Department of Administrative Services (DAS). The systems are not state agencies, but rather quasi-governmental entities. Ohio's retirement systems are regulated by state and federal laws and are subject to the oversight of the Ohio Retirement Study Council (ORSC). **Of importance to note, ORSC recently voted to disapprove of the language including state retirement systems in the definition of state agency, noting that this provision would blend the administration of the systems into DAS.** That report and the requested amendments are attached to this statement.

Given Ohio's statewide public pension systems are not "state agencies", they therefore, are not administered by nor subject to the policies of the Department of Administrative Services. Rather, they are independently governed by boards of trustees who oversee the administration of the system. R.C. 3307.04 plainly states that the "general administration and the management of [STRS Ohio] is hereby vested in the state teachers retirement board". The independent board has governed the system since its creation by the legislature over one hundred years ago. The provision in Am. Sub. H.B. 96 that includes the retirement systems in the definition of "state agency" threatens this independence.

The second provision to which we are seeking an amendment is language in R.C. 5747.071 and Section 801.130 that would authorize a retirement system benefit recipient to request that a state retirement system withhold school district income taxes in addition to state and federal tax withholdings. The legislation contemplates an effective date of January 1, 2026. As noted in the ORSC Staff Recommendation on Am. Sub. H.B. 96 presented to the ORSC on May 8, 2025, there are 188 school districts where this income tax is applicable. The practical effect is that programming for the withholding of a multitude of rates will require additional resources – both financial and personnel – that had not been anticipated**. For that reason, STRS Ohio respectfully requests the effective date be delayed until January 1, 2027.** The STRS Ohio finance team is currently implementing a large-scale project, and they will be the very ones tasked with implementing this withholding provision. It is to everyone's benefit for this to be done well and with time to execute appropriately. For that to happen again, we respectfully ask for the year's delay.

Additionally, the bill authorizes the tax commissioner to adopt rules governing this provision. Inasmuch as STRS Ohio has the authority in statute to promulgate rules governing system administration, we ask that this language be stricken from the legislation.

Chairman Cirino, Vice Chairman Chavez, Ranking Member Hicks-Hudson and members of the Senate Finance Committee, to reiterate, STRS Ohio is respectfully requesting the adoption of amendments removing the retirement systems from the definition of state agencies and a delayed effective date to January 1, 2027 for system retirees to be able to request withholding of school district income taxes. I appreciate the opportunity to provide these comments as you consider Am. Sub. H.B. 96.

Respectfully submitted,

Aaron Hood
Interim Executive Director

State Teachers Retirement System of Ohio

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SC1310

Am. Sub. H. B. No. 96
As Passed by the House
DASCD46

___________________________ moved to amend as follows:

In line 9625, delete "and includes the" and insert ". "State agency" does not include any of the following:

(a) The"

In line 9628, delete ". "State"

In line 9629, delete "agency" does not include a" and insert ";

(b) A"

In line 9630, delete "or the" and insert ";

(c) The"

The motion was __________ agreed to.

SYNOPSIS

State employee work location

R.C. 124.184

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Excludes the state retirement systems from the bill's requirements regarding state employee work location.

SC1312

Am. Sub. H. B. No. 96

As Passed by the House

TAXCD44

__________________________ moved to amend as follows:

In line 124547, after "or" insert ", in the case of a retirement plan,"

In line 141617, delete "2026" and insert "2027"

The motion was __________ agreed to.

SYNOPSIS

Income tax: withholding from retirement benefits

R.C. 5747.071; Section 801.130

Modifies a provision, added in the Executive version, authorizing a mechanism for non-state retirement plans to withhold income taxes from a retiree's benefits, in the following ways:

-- Changes the application date from January 1, 2026, to January 1, 2027;

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-- Limits the Tax Commissioner's rulemaking authority to retirement plans.

Ohio
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Am. Sub. H.B. 96 of the 136th General Assembly

Rep. Stewart

May 8, 2025

Staff Recommendation

Staff Contact
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Summary of Am. Sub. H.B. 96 (biennial budget bill)

Am. Sub. H.B. 96 contains a number of provisions relating to the state retirement systems. This analysis details only the provisions of the budget bill pertaining to the state retirement systems. These provisions are:

1) Transfer of Administration of the Public Employees Deferred Compensation Program to the Board of the Ohio Public Employees Retirement System;
2) Exclusion of Precinct Election Officials from Public Employees Retirement System (PERS) Service Credit;
3) Department of Administrative Services, State Agency, State Retirement Systems, and the ORSC; and
4) Withholding of School District Income Tax.

Transfer of Administration of the Public Employees Deferred Compensation Program to the Board of the Ohio Public Employees Retirement System

The Ohio Public Employees Deferred Compensation Program (ODC) is a 457(b) retirement plan available to all Ohio public employees. A 457(b) plan is available for employees of certain state and local government and non-profit organizations. It allows participants to defer tax on voluntary retirement savings. ODC provides a supplemental, elective, retirement plan to participants. ODC is governed by a 13-member Board. This ODC Board is the same as the PERS Board, except that the ODC board has two additional legislative members (one from the House of Representatives and one from the Senate). 77% of ODC participants are PERS members. H.B. 96 abolishes the ODC Board and transfers the governance and administration of the ODC program to the PERS Board.[1]

There is in existing law and practice considerable overlap between the governance and administration of ODC and PERS. All 11 members of the PERS board are also members of the ODC board. ODC currently contracts with PERS for a variety of services, including human resources, mail operations, internet and IT consultation services, and leadership. According to PERS staff, PERS administration of the ODC program will allow the existing ODC staff to focus on administering the 457(b) plan itself rather than the ODC administrative functions.

ODC participant accounts and PERS member accounts will remain, as under current law, separate under the amendment. The amendment is largely an administrative change.

Staff Recommendation

ORSC staff recommend approval of this primarily administrative change to the ODC program.

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[1] R.C. 148.02.

Exclusion of Precinct Election Officials from PERS Service Credit

Existing law provides that a poll worker is not a "public employee" for purposes of PERS coverage if the poll worker receives less than $600 per calendar year, or, in a year in which there is more than one primary and one general election (such as 2022), an additional amount not to exceed $400. The poll worker provisions are designed to prevent temporary poll workers from being considered members of PERS, which would result in them receiving service credit and providing employee and employer contributions to PERS. This policy position was referenced by the ORSC in its approval of the changes made in 2022 that added the additional $400 limit. Due to increases in poll worker pay, these amounts would need to increase over time, but existing law does not include a mechanism to increase those amounts.

H.B. 96 would exclude service as a "precinct election official" from PERS credit if that was the only service done by the individual.[2] ORSC staff understand the intent of the change to eliminate the need to periodically increase the poll worker pay in law. However, there may be unintended consequences in fully excluding these individuals, particularly for those members who are retired or are re-employed retirants.

Staff Recommendation

ORSC staff recommend removal of this provision from H.B. 96. Staff note that the issue of poll worker pay and PERS credit should be reviewed more fully in future legislation.

Department of Administrative Services, State Agency, State Retirement Systems, and the ORSC

The Revised Code includes a number of provisions that apply to "state agencies." "State agency" under R.C. 1.60 excludes the state retirement systems (and ORSC). Because neither any of the retirement systems nor the ORSC are a "state agency," they are not directly administered by the Department of Administrative Services (DAS). This separates the *administration* of the retirement system trusts and the ORSC from the executive branch of state government. H.B. 96 includes a definition of "state agency" that would explicitly include the state retirement systems and the ORSC.[3] This would blend the administration of the retirement systems and ORSC into DAS.

Staff Recommendation

ORSC staff recommend disapproval of amendments to R.C. 124.184 that would include the state retirement systems or the ORSC as a "state agency."

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[2] R.C. 145.012.

[3] R.C. 125.184.

Withholding of School District Income Taxes

Under current law, an income tax withholding mechanism exists for benefits paid from the state retirement systems. H.B. 96 includes a provision that would authorize a retirement system benefit recipient to request that a state retirement system withhold school district income taxes in addition to state and federal tax withholdings.[4] This would be effective for the January 1, 2026, tax year. Additionally, the bill authorizes the tax commissioner to adopt rules governing the withholding provisions, both for the school tax and more generally the existing income tax withholding. Currently, the retirement systems adopt rules governing the withholding provisions. This analysis addresses administrative issues identified by the state retirement systems related to this provision.

According to a majority of the retirement systems, implementation of the tax withholding provisions of the budget bill will have administrative expenses. The increased expenses will be for necessary upgrades to existing computer systems or requiring staff to manually make the withholding calculations. There is uncertainty on the cost impact of the bill as the tax withholding is an elective choice made by the benefit recipient. There are currently 188 school districts in Ohio that have taxing authority. If this provision remains part of the bill, ORSC staff recommend that the requirement be delayed beyond January 1, 2026, to allow the systems time to properly implement the bill's provisions.

Finally, the tax commissioner should not have the authority to bind the retirement systems through rulemaking. This ability of the tax commissioner to bind the systems through rules would cause the systems to become beholden to an external rulemaking authority apart from their respective boards. ORSC staff recommend disapproval of this provision of the bill or limit the tax commissioner's rulemaking to the new "retirement plans" defined in the bill.

Staff Recommendation

Should the income tax withholding provisions remain part of H.B. 96, ORSC staff recommend all of the following amendments:

1) Delay of the requirements beyond January 1, 2026, to allow the systems time to properly implement the bill's provisions; and
2) Removal or limiting the tax commissioner rulemaking over the state retirement systems.

Summary of Staff Recommendations

ORSC staff recommend all of the following regarding Am. Sub. H.B. 96:

1) Recommend approval of the transfer of the governance and administration of the Ohio Deferred Compensation program to the Board of the Ohio Public Employees Retirement System;

[4] R.C. 5747.071.

2) Recommend approval of the exclusion of precinct election officials from Public Employees Retirement System service credit;
3) Recommend disapproval of inclusion of the state retirement systems and the ORSC as a "state agency" in R.C. 125.184; and
4) Should the income tax withholding provisions remain part of H.B. 96, all of the following:
    a. Delay of the requirements beyond January 1, 2026, to allow the systems time to properly implement the bill's provisions; and
    b. Removal or limiting the tax commissioner rulemaking over the state retirement systems.