



**House
Legislative
Analysis
Section**

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PSERS: REVISE COMPENSATION FORMULA

House Bill 4466 (Substitute H-1)
Revised First Analysis (4-25-89)

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Sponsor: Rep. Wilfred Webb
Committee: Senior Citizens & Retirement

THE APPARENT PROBLEM:

The Public School Employees Retirement Act allows members, under certain circumstances, to purchase service credit for various types of public employment or for periods of time that cause interruptions or delays in public school employment. Members may purchase service credit for time spent in the military, for parental leave, for employment with the federal government, out-of-system public education employment, and sabbatical leave, for example. The formula used to compute member compensation for service credit purchase varies from option to option, but generally members are required to pay into the retirement system, for each year purchased, a specified amount, usually based on the actuarial cost, an amount equal to a certain percentage of the member's full-time compensation for the school fiscal year in which payment is made, or an amount equal to the amount he or she would have contributed under a member contribution schedule. For the purposes of computing payment, the act specifies that the compensation amount used shall not be less than the highest school fiscal year compensation previously received by the member.

While the above formulas would ordinarily present no problems for the average employee, problems have surfaced in the past two years concerning compensation unique to the teaching profession. School teachers can elect to receive their 12-month salary at regular pay periods throughout the year, or during the 10-month school year, in which case they receive their summer pay in a lump sum at the beginning of the summer break. In cases where members have gone from a 12-month pay period in one school year to a 10-month pay period in the next year, however, a member may actually receive 14 month's salary in one year, and this exaggerated salary figure has been used, according to some members, to calculate the amount they must pay to purchase service credit. The problem is that the retirement system has interpreted the act to mean that the compensation amount used to compute service credit payment must include all income received in a school fiscal year, and this interpretation has been upheld by an attorney general opinion, even though the compensation may represent more than one fiscal year of earned income. Some feel that the legislature obviously intended that the compensation amount used to calculate the cost of service credit purchase should be based on a member's school fiscal year salary earned, and not received, in the previous school fiscal year, and that the act should be amended to correct the inequities it imposes.

THE CONTENT OF THE BILL:

At present, under the Public School Employees Retirement Act, service credit may be purchased upon payment to the retirement system of 1) the actuarial cost, as determined by the Retirement Board within the Department of Management and Budget; 2) the actuarial cost — as determined by the Retirement Board — of the service credit (but not less than an amount equal to a certain percentage

of the member's full-time or equated full-time compensation for the school fiscal year); 3) an amount equal to a certain percentage of the members full-time or equated full-time compensation for the school fiscal year; or 4) an amount equal to the amount the member would have contributed under the schedule governing member contributions, plus interest. (The calculation varies according to which type of service credit is being purchased). The compensation amount used may not be less than the highest school fiscal year compensation previously received by the member. The bill would amend the act to revise the method used to compute the cost of purchasing credit. Under the bill, the compensation would be based on the member's full-time — or equated full-time — compensation earned in the school fiscal year immediately before the school fiscal year in which application was made to purchase the service credit, and payment for the service was made — regardless of the fiscal year compensation received by the member. The compensation amount used could not be less than the highest school fiscal year compensation previously earned by the member. Under the bill, if the school fiscal year compensation used to compute payment for purchase of service credit under the act exceeded the compensation earned in the period used in the computation, the payment for that purchase would be recomputed using the earned compensation, and a refund would be made based on the recomputation. This provision would only apply to a member, deferred member, or retirant who made written application to the board.

Under the bill "actuarial cost" would be defined as the product of the following three items:

- A percentage, determined by the Retirement Board, which when multiplied by a member's compensation resulted in the average actuarial present value of the additional benefits, exclusive of health benefits, resulting from the crediting of one additional year of service. The percentage could vary because of age, credited service, or benefit coverage. An increase or decrease in the percentage under this provision would not become effective until the expiration of six months or more after the board notified the reporting units of the increase or decrease.
- A member's compensation, which would be the member's full-time or equated full-time compensation earned in the school fiscal year immediately before the school fiscal year in which the application was made to purchase the service credit and payment for the service was made. The compensation amount used could not be less than the compensation previously earned by the member.
- The number of years, including any fraction of a year, of credited service a member elected to purchase up to the maximum allowed.

If the compensation amount used for computing payment for the service credit were to exceed the member's final average compensation determined at the time of

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retirement, the payment required would be recomputed using the member's final average compensation, and a refund would be made.

Under the bill, members would be required to pay the actuarial cost to purchase credit for the following:

- a) Service as an elementary or secondary teacher at a U.S. armed forces military base in the U.S. or overseas.
- b) Service in a nonpublic school or a nonpublic two- or four-year institution of higher education in the U.S. or in its territorial possessions; in a foreign country at a school for U.S. military personnel or their dependents, or the U.S. State Department; as a teacher with the Job Corps; as a teacher in a trust territory or former trust territory of the U.S.; or as a teacher on an Indian reservation in this country.
- c) Service with the federal government as a teacher in a foreign country teaching students who are not U.S. citizens, or as a teacher with the Merchant Marines.
- d) Service with a county mental health program, or as an employee in a day care or day training program for handicappeds.
- e) Service with the Red Cross on a military base during armed conflict.
- f) Service with the Michigan National Guard or the U.S. Armed Forces Reserve.
- g) Until October 1, 1990, time spent on an employee organization professional services leave or employee organization professional services released time.
- h) Time spent in a neighborhood youth corps program.
- i) Employment or out-of-system public education service performed while a graduate student.

As at present, members would be required to pay an amount equal to the amount he or she would have contributed under a schedule governing member contributions in effect at the time of the service, together with regular interest, to purchase service credit for the following out-of-system public education service performed before July 1, 1974:

- in public education in other states or in U. S. territorial possessions;
- at the University of Michigan; Michigan State, Wayne State, Grand Valley State, Oakland and Saginaw Valley Universities;
- at a county juvenile training school in Michigan; or at a community mental health service program for the severely mentally retarded that was transferred to an intermediate school district;
- as a teacher or administrator of American nationals in Department of Defense overseas public elementary or secondary schools.

For service performed after July 1, 1974, the bill would amend the act to require the above members to pay an amount equal to five percent of their full-time or equated full-time compensation earned in the school fiscal year in which payment was made.

Under the bill, members who purchased service credit for sabbatical leave or for "nonintervening" active duty with the armed forces would be required to pay an amount equal to five percent of their compensation earned in the school fiscal year immediately before the school fiscal year in which the sabbatical leave was granted, plus interest.

For a leave occurring after June 30, 1981, members purchasing service credit for sabbatical leave would be required to pay an amount equal to five percent of their compensation earned in the school fiscal year immediately before the school fiscal year in which payment was made. The compensation could not be less than the highest school fiscal year compensation the member earned from the reporting unit that granted the sabbatical leave. Members who purchased service credit for "nonintervening" active duty with the armed forces would be required to pay amount equal to five percent of their compensation earned in the school fiscal year immediately before the school fiscal year in which payment was made.

MCL 38.1303 et al.

FISCAL IMPLICATIONS:

According to the Retirement Bureau in the Department of Management and Budget, no cost analysis has been done on the bill. (4-17-89)

ARGUMENTS:

For:

The bill would correct an unfair situation that requires PSERS members to purchase service credit based on a formula that reflects a higher salary level than their actual compensation. In addition, most members are unaware of this problem until they actually make the request to purchase the service credit, at which time they cannot retroactively correct the situation.

POSITIONS:

The Michigan Federation of Teachers supports the bill. (4-17-89)

The Retirement Coordinating Council supports the bill. (4-17-89)

The Michigan Education Association testified before the House Senior Citizens and Retirement Committee in support of the bill. (4-13-89)

The Retirement Bureau does not oppose the bill. (4-17-89)

The Michigan Association of Retired School Personnel has no position on the bill. (4-17-89)