SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

House Bill 4466 (Substitute S-2 as reported)
House Bill 4433 (Substitute S-1 as reported)
House Bill 4095 (Substitute S-2 as reported)
Sponsor: Representative Wilfred Webb (H.B. 4466)
Representative Justine Barns (H.B. 4433)
Representative Walter DeLange (H.B. 4095)
House Committee: Senior Citizens and Retirement
Committee: Judiciary (H.B. 4466 & 4433)
Human Resources and Senior Citizens (H.B. 4095)

Date Completed: 6-7-89

RATIONALE

Although the Public School Employees Retirement Act was virtually overhauled by Public Act 91 of 1985, there are a number of issues that many believe should now be addressed, particularly issues that relate to the purchase of service credit by members of the public school employees retirement system (PSERS), members' participation in the Member Investment Plan, the lack of system-provided dental, vision, and hearing benefits for retirants and their beneficiaries, the lack of service credit for absence from work due to work-related injuries, and the reduction of retirees' purchasing power due to inflation. These concerns are discussed in more detail below.

Purchase of Service Credit

The Act allows members, under certain circumstrances, 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, parental leave, employment with the Federal government, out-of-system public education employment, and sabbatical leave, for example. The formula used to compute members' contribution varies from option to option, but generally members must pay, for each year purchased, an amount equal to a certain percentage of a member's full-time compensation for the school fiscal year in which payment is made, or an amount equal to the amount the member would have contributed under a member contribution schedule. For purposes of computing payment, the Act specifies that the contribution amount cannot be less than the highest school year compensation previously received by the member.

Apparently, these formulas have caused problems concerning compensation unique to the teaching profession. School teachers can elect to receive their annual salary at 12 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. When members have gone from a 12-month pay period in one school year to a 10-month pay period in the next, however, a member actually may receive 14 months' salary in one year. This exaggerated salary figure has been used, according to some members, to calculate the amount they must pay to purchase service credit. Reportedly, 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, regardless of when it was earned, and this interpretation has been upheld by a 1988 Opinion of the Attorney General (OAG No. 6503). Some people believe that this is an inequity that should be corrected.

In addition, it has been suggested a nonspecific service credit provision should replace most of the 27 different types of service for which credit currently may be purchased. Reportedly, the law promotes a perception that the retirement system is elitist, because the current types of service are used primarily by teaching employees. Further, although additional types of service traditionally have been recognized in response to conditions affecting significant portions of the employee population, the more recent trend has been to allow buy-ins for many other types of service that have only limited application. Also, it is reported that the diverse buy-in provisions have bogged down the retirement system in its efforts to educate members and process service credit purchases.

Member Investment Plan

Until 1985, post-retirement increases were made only sporadically. Among the 1985 amendments was the creation of the Member Investment Plan (MIP), which was designed to provide members with reliable cost-of-living increases. Members of the system can make a one-time choice between the MIP and the basic plan. The MIP is funded by employee contributions at a rate of 4% of their annual compensation, although that rate is to be adjusted every three years to equal the percentage needed to fund MIP benefits. Although the two plans have benefits in common--including health insurance for retirants and eligible dependents, duty death benefits, duty and nonduty disability benefits, provision for deferred retirement, and provision for reduced retirement--the MIP offers enhanced benefits, which include earlier retirement, larger monthly checks, a yearly increase to help counter inflation, and earlier survivor protection.

The retirement system reports, though, that the MIP was selected by only 52% of the employees required to choose between the plans by the end of 1986, and participation in the MIP by new members has been a disappointing 31%, while the 4% contribution rate was based upon 100% participation according to the actuarial study that preceded the plan's creation. Further, some people believe that an inequity exists in the plan's funding. That is, because Public Act 91 of 1985 provided for enhanced benefits for all employees who choose the MIP and then retire, even if they retire only one year later, current and future MIP participants are paying for the enhanced benefits for those retirees as well as for themselves. The retirement system also cites the frustration and anger of employees who have chosen the basic plan through ignorance, indifference, or uncertainty, and then find themselves unable to change plans; the difficulty of educating 40,000 new employees annually about the plans; and the need of future retirees to obtain more and more of their retirement income from sources other than Social Security.

Dental, Vision, and Hearing/Medical Benefits

Although Public Act 91 extended to retired school employees many of the benefits enjoyed by retired State employees, the PSERS does not pay for dental, vision, and hearing benefits. When employees move from active employment with full benefits to retirement, they often suffer a reduction in benefits due to this lack, and many older retirees, especially those who have been retired for some time, report that dental, vision, and hearing care expenses take up an unreasonably large portion of their income.

Currently, the PSERS pays the entire premium or fee for medical benefits for all retirees, regardless of the length of their service (minus the amount they would have to pay for Medicare if they were of Medicare age). The system believes that this disproportionately favors noncareer, short-term employees, and has suggested a prorated subsidy of the premium based on years of service, in order to provide equity among retirees and to lower long-term costs.

Service Credit for Injuries

It has been suggested that the PSERS, like the State Employees Retirement System, should grant service credit for a member's absence due to work-related injury or illness that entitles the member to workers' compensation benefits. The system reports that the loss of retirement credit for this period of time reduces future retirement benefits and could even result in future ineligibility for benefits.

CONTENT

<u>House Bill 4466 (S-2)</u> would amend the Public School Employees Retirement Act to make the following changes, among many others, concerning the PSERS:

- **Require new members of the system to contribute to the Member Investment Plan, and set a contribution rate of 3.9% of a member's compensation.**
- **Include nonspecific provisions allowing the purchase of service credit for up to five years at actuarial cost, and set a January 31, 1991, deadline on the purchase of service credit for certain employment (e.g., with the Red Cross, the National Guard, or a county mental health program).**
- **Eliminate members' thirteenth check and provide, instead, for 1) an increase in a retirement allowance based on years of service and retirement, and 2) an increase based on a percentage of a retirement allowance; and retain the 3% annual increase.**
- **Revise the computation of members' retirement allowances.**

<u>House Bill 4433 (S-1)</u> would amend the Act to require the system to pay a percentage of the fee or premium for retirants' dental, vision, and hearing benefits; and to revise the percentage the system pays for medical benefits.

<u>House Bill 4095 (S-2)</u> would amend the Act to require that service credit be granted for the period a member was receiving workers' compensation payments for an absence from reporting unit service.

House Bills 4466 and 4433 are tie-barred to each other. A description of all of the bills follows.

<u>House Bill 4466 (S-2)</u>

<u>Member Investment Plan</u>

Under the bill, members who joined the system on or after January 1, 1990, would be required to make contributions to the Member Investment Plan. PSERS members who joined the system on or before December 31, 1986, but did not perform membership service between that date and January 1, 1990, and who returned to service on or after January 1, 1990, also would be required to contribute to the MIP. In addition, a member who joined the system on or before December 31, 1989, and elected to contribute to the MIP on or before that date, would be required to contribute to the plan. A member who joined the system before January 1, 1990, and previously did not elect to contribute to the MIP, would have until March 31, 1991, to elect irrevocably to make MIP contributions. Contributions, including compound interest, on the compensation received between January 1, 1987, and the date of election would be required of the member as determined by the retirement board.

On or after January 1, 1987, and before January 1, 1990, a member who contributed to the MIP would have to contribute 4% of his or her compensation to the plan. On or after January 1, 1990, a member who contributed to the plan would have to contribute 3.9% of his or her compensation.

The Act provides that a if member ceases to be a public school employee before satisfying the age and service requirements for a retirement allowance or if a member elected the optional retirement system, the member upon request must be paid the accumulated contributions standing to his or her credit in the annuity accumulation fund and the MIP fund plus 75% of certain other member contributions. The bill provides, instead, that the member would be paid the accumulated contributions standing to the member's credit in the reserve for employee contributions and in the reserve for MIP, plus a percent of the contributions standing to the member's credit in the MIP reserve to be paid from the reserve for employer contributions. The employer's contribution would range from

20% for 9.9 years of service or less, to 0% for 14 or more years.

Purchase of Service Credit

The bill provides that a member could elect to purchase up to five years of service credit, minus the years of service credit purchased under the current Act, upon request and payment to the retirement system of the actuarial cost. Purchased service credit could not be used to satisfy the minimum of 10 years of service credit required to receive a retirement allowance under the Act, or to satisfy the service credit requirements for a retirement allowance paid before age 46.

The bill provides for the repeal as of January 31, 1991, of sections of the Act that allow the purchase of service credit for employment with the Federal civil service, service with the Michigan-Ohio regional educational laboratory, teaching non-U.S. citizens in a foreign country or teaching with the merchant marines, employment with a county mental health program, working for the American Red Cross, duty with the Michigan National Guard or the U.S. armed forces reserve, service with VISTA or the Peace Corps, and employment with a municipal recreation department. The bill also would put a deadline of January 1, 1991, on service for which credit may be purchased by a person for teaching at a military base, in a foreign school for U.S. personnel or dependents, with the job corps, in a trust territory, or on an Indian reservation, or for out-of-system public education service performed while the person was a full-time student, or by a person who was excluded from membership but later becomes a member. In addition, the bill would repeal a section requiring service credit to be granted for a member who was granted a duty disability retirement allowance and returns to service.

Under the bill, credit both for specific service and for the proposed generic five years would be purchased at actuarial cost. Actuarial cost would be equal to the product of the following:

-- A percentage, determined by the retirement board and the Department of Management and Budget, that when multiplied by a member's compensation, as determined below, resulted in the average actuarial present value of the additional benefits, excluding 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 could not take effect before 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 to purchase and payment for the service were made. The compensation amount could not be less than the highest 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 exceeded a member's final average compensation determined at the time of retirement, the payment would have to be recomputed using the member's final average compensation, and a refund would have to be made based on the recomputation.

If the compensation amount used for computing payment for purchasing credit for certain service before the bill's effective date exceeded the full-time or equated full-time compensation earned in the school fiscal year used in that computation, the payment for that purchase would have to be recomputed using the greater of either the full-time or equated full-time compensation amount earned for the school fiscal year in which payment was made, or the highest school fiscal year compensation previously earned by the member. A refund would have to be made based on the recomputation, but could be made only to a member, deferred member, or retirant who applied in writing to the retirement board. (The service to which these provisions apply includes teaching at a military base, in another state or territory, at a foreign school for U.S. personnel or dependents, with the job corps, in a trust territory, on an Indian reservation, in a foreign country, or with the merchant marines; employment with a county mental health program; time spent on sabbatical leave; active duty with the armed forces; service with the Red Cross, the Michigan National Guard, the U.S. armed forces reserve, VISTA, or the Peace Corps; time spent on maternity, paternity, or child-rearing leave; employment with a municipal recreation department; and service by a person previously excluded from membership who later joins the system.)

If a member who made a service credit purchase payment died and a retirement allowance beneficiary had not been designated, or if the member withdrew from service before his or her retirement became effective, the payment would have to be refunded to the member or to his or her refund beneficiary upon request.

Thirteenth Check/Allowance Increases

Under the Act, every March, each retirant and retirement allowance beneficiary must be paid a single supplemental payment (commonly called a "thirteenth check") from the excess of the distribution amount. Under the bill, the last thirteenth check would be paid in March 1989.

Each retirement allowance that was effective before January 1, 1990, would have to be increased as of that date. The annual amount of the increase would have to equal the excess, if any, of $20 times the individual's number of distribution units as of September 30, 1989, over the individual's cumulative increase amount for the year ending on that date. The amount of increase for a retirant or retirement allowance beneficiary of a retirant or member who contributed to the MIP would be zero. ("Distribution units" are credited for each full year of retirement and each full year of service credit on the date of retirement. Cumulative increase amounts must be calculated for retirement allowances effective on or before January 1, 1987.)

Each retirement allowance that was effective before October 1, 1981, would have to be increased effective January 1, 1990. Generally, the amount of the increase would have to be a percentage of the allowance that would be payable as of 1990 without this increase or the increase described above, depending upon the effective date of retirement. (The calculation would be different for a retirant, other than a disability retirant, aged 60 or younger who elects to coordinate his or her retirement allowance with Social Security benefits.) The percentage would range from 1% for retirement between October 1, 1980, and September 30, 1981, to 22% for retirement before October 1, 1960.

In addition, the bill provides for an annual increase, beginning October 1, 1990, for each retirement allowance that was effective on or before January 1, 1987. Generally, the amount of the increase would equal 3% of the allowance that would be payable without this provision. (This would replace the annual 3% increase that would be discontinued under the bill.)

Retirement Allowance Computation

Generally, upon retirement, a member is entitled to a retirement allowance that consists of the following:

- An annuity that is the actuarial equivalent of the member's accumulated contributions standing to the member's credit in the annuity accumulation fund and the MIP fund.
- A pension that when added to the annuity must equal the product of the member's total years of credited service multiplied by 1.5% of the member's final average compensation. (This credit must be reduced if a member with less than 30 years of credited service retires before his or her 60th birthday.)

The bill would delete reference to the annuity, and retain the formula for computing the pension. The bill provides, however, that for effective dates of retirement on or after January 1, 1990, the retirement allowance could not be smaller than the amount that was the actuarial equivalent of the member's accumulated contributions standing to his or her credit in the reserve for employee contributions (currently called the annuity accumulation fund) and the MIP reserve at the time of retirement. The calculation of the actuarial equivalent amount would have to reflect any annual adjustments payable to MIP contributors.

Postretirement Service

Under the Act, if a retirant is receiving a retirement allowance other than a disability allowance payable under the Act, on account of age or years of service, and becomes employed by a reporting unit, the retirant is not entitled to a new final average compensation or additional service credit unless five or more years of service credit are performed. The bill would add that a member who had contributed to the MIP would be entitled to a new final average compensation or additional service credit if three or more years of service credit were performed. The bill also would revise the computation of the repayment that a retirant must make before a retirement allowance can be recomputed.

The Act also requires that the retirant's retirement allowance be reduced by the amount that his or her earnings exceed the amount permitted under the Social Security Act without a reduction in benefits. The bill provides that the retirement allowance would have to be reduced by either the Social Security limitation or one-third of the retirant's final average compensation, whichever was less. For the purpose of computing allowable earnings, the final average compensation would have to be increased by 5% for each full year of retirement.

Other Provisions

The bill provides that the reserve for retired benefit payments would be the account from which all retirement allowances and refunds (made when retirement allowance payments terminate before a retirant's accumulated contributions have been paid) would have to be paid. After receiving each annual actuarial valuation, the balance in this reserve would have to be brought into balance with the actuarial present value of retirement allowances to be paid after the end of the fiscal year to retirants and retirement allowance beneficiaries receiving retirement allowances at the end of the fiscal year, by a transfer between the reserve for employer contributions (currently called the pension accumulation fund) and the reserve for retired benefit payments.

The reserve for undistributed investment income would be the account to which would be credited all income from the investment of assets, all gifts and bequests received by the retirement system, and all other money, whose disposition was not specifically provided for, received by the system. The retirement board would have to transfer from this reserve all amounts necessary to credit the interest required under the Act to the reserve for employee contributions, the reserve for employer contributions, the reserve for MIP, the reserve for retired benefit payments, and the reserve for health benefits, and to fund the reserve for administrative expenses (currently called the expense fund).

The bill provides that if members' employment with a reporting unit were terminated because the unit discontinued a library or museum, those members and any former members of that reporting unit who subsequently became employed by a district library could remain members of the PSERS.

The Act allows a person to purchase service credit if the person left service as a public school employee, or left out-of-system public education service, for maternity, paternity, or child-rearing purposes. The Act also allows a member to purchase service credit if he or she reduces hours of employment with a reporting unit for maternity, paternity, or child-rearing purposes. The bill would allow the purchase of service credit if a person reduced hours of out-of-system public education service for those purposes and subsequently became a member of the PSERS.

House Bill 4433 (S-1)

The bill would require the Public School Employees Retirement System to pay a percentage of the monthly premium or membership or subscription fee for dental, vision, and hearing benefits of a retirant or retirement allowance beneficiary. The percentage would be based on years of employment and would range from 20% for less than five years' employment, to 100% for 25 or more years.

The bill also would revise the system's payment of medical benefits for persons who became members of the system on or after January 1,

1990. Instead of paying the entire monthly premium or membership or subscription fee for hospital, medical-surgical, and sick care benefits (minus the amount that would be payable for Medicare), the system would have to pay a percentage based on years of employment and eligibility for Medicare. The percentage would range from 10% for Medicare-eligible and 20% for Medicare-ineligible for a person with five years' employment, to 85% for Medicare-eligible and 100% for Medicare-ineligible for 25 or more years.

The bill would require the system to pay a percentage of the monthly premium or membership or subscription fee for dental, vision, hearing, and medical benefits for health insurance dependents of retirants. The percentage would have to be based on the proposed schedules for retirants, but could not exceed 90%. Currently, the system must pay up to 90% of the premium or fee for medical benefits for dependents.

In addition, the bill would amend the definition of "compound interest" to provide for interest on MIP contributions to be compounded quarterly, rather than annually.

Finally, the bill would require that at least 12 months elapse between the date of termination and the date of retirement for a person to be considered a retiring deferred member. This would apply to a member who terminates service before age 60 with at least 21 years' service and does not withdraw accumulated contributions; such a member is entitled to 10% of the payments for benefits paid by the system, plus 10% for each year beyond 21.

House Bill 4095 (S-2)

The bill would require the retirement board to grant up to five years of service credit to a member who was or had been absent from reporting unit service because of personal injury or mental or physical illness that occurred while serving as an employee of a reporting unit for the time period the member was absent from service, if the member were in constructive receipt of weekly workers' compensation payments for that absence. A member could not be granted service credit under the bill if he or she received service credit for the same time period under any other provision of the Act. (A reporting unit is a public school district, an intermediate school district, a college or university, a tax-supported community or junior college, or an agency with employees who are members of the PSERS.)

MCL 38.1303 et al. (H.B. 4466)
38.1304 and 38.1391 (H.B. 4433)
38.1375a (H.B. 4095)

FISCAL IMPACT

If these three bills are passed in their current form, there would be a net increase in the amount needed to cover the projected benefit obligation of $43,300,000 annually. These bills would be revenue neutral if this cost is balanced against the revenue gains realized through the PSERS Board proposed change in the investment rate of return assumptions. These changes would be made by the Board administratively.

House Bill 4466 (S-2)

The bill would have the following fiscal impact on the Public School Employee Retirement System:

Set MIP rate at 4%	$10,966,100
Mandatory MIP for new members (rate set at 3.9%)	(25,972,400)
More frequent postings of interest/Window to elect MIP	8,657,500
Recognize cost of supplemental payment	28,281,100
Eliminate supplemental payment	(14,429,100)
Eliminate present buy-ins except military, MAT/PAT, O/S, Prof. Ser. Lv., Sab., Nonpublic School and provide non-specific purchase provision at actuarial cost of 5 years	3,462,000

Permanent increase for retirees (combined % increase and point value)	6,348,800
Portability-20% employer match <u>and</u> provide greater of defined contribution or defined benefit value	7,580,300
Increase co-pays for new hires	
Premium subsidy restructuring for new hires	(3,463,000)
Minus savings from Medicare Catastrophic Health Insurance coverage duplication	(2,308,700)
First year cost	$19,122,600

<u>House Bill 4433 (S-1)</u>

This bill would require an increase in the rate used to fund the retirement system to cover dental, vision, and hearing benefits. The effect of the substitute (S-1) on contributions to the retirement system cannot be determined at this time, but the level of contributions would not be greater than the 90% plan included in the earlier version of the bill. The contribution rate with the 90% plan would be .36% of the Statewide payroll. The actuary reviews the contribution requirements annually, but rates for new benefits are designed to cover the projected benefit obligations of active members over a 50-year period. Statewide wages have been increasing at an annual rate of approximately 5%.

The increased contribution from the School Aid Fund would be $20,778,000 during the 1989-90 fiscal year if 90% of the insurance premium were paid by the State. This contribution might be expected to increase with the rate of inflation in subsequent years if the State share of the premium (90%) remained unchanged.

<u>House Bill 4095 (S-2)</u>

This bill would require an increase in the employer contribution rate of .03% of payroll to cover the medical leave service credits. Since this increase would be covered through the annual appropriation for the Public School Employee Retirement System (the rate for school districts and other employers is capped at 5% of payroll), an increase of $1,731,500 would be required from the State School Aid Fund.

There would be no fiscal impact on local government.

ARGUMENTS

<u>Service Credit Purchase</u>

Supporting Argument

Allowing PSERS members to purchase service credit for up to five years, for any reason, would eliminate the proliferation of buy-ins that currently plagues the system, and would provide consistent and equitable treatment of all members regardless of their educational service or employment background. Until the recent past, additional types of service were recognized, in large part, in response to conditions affecting a significant portion of the employee population. For instance, public employment in other states was recognized partly to attract teachers to Michigan from other states following World War II. More recently, credit became available for maternity, paternity, and child-rearing purposes, in recognition of the large number of individuals who interrupt a career to devote time to raising a family. The more recent trend, however, has been to recognize all manner of service, with no regard to its limited application. This has served to whet the appetite of others with career interruptions not directly related to the many types of service for which credit is now available. As a result, there are ever-increasing demands for more and more buy-ins to attempt to provide equity among a dramatically diverse population.

Supporting Argument

The generic buy-in would simplify the administration of service credit purchases, and enable the PSERS to fulfill its mission of providing retirement benefits for public school employees. Currently, this mission is diluted by the effort now required to provide complete information and administer the purchase process. With the addition of each new type of creditable service, the process of educating the membership becomes lengthier and more complex. It is time to concentrate PSERS attention and resources on more effective areas, such as preretirement planning. The current trends of retiring earlier and living longer illustrate the need for proper planning. Another example is expanded services to the growing population of retirees. Each change in the system, such as an IRS change, an insurance adjustment, or even a simple address change, adds complexity to the pension payroll process, and the PSERS should have the resources to provide whatever assistance is needed to allow smooth transitions and facilitate retiree understanding.

__Supporting Argument__
House Bill 4466 (S-2) would correct an unfair situation that requires PSERS members to pay for buy-ins based on a formula that reflects a higher salary level than their actual compensation. Most members are unaware of this problem until they actually make the request to purchase service credit, when they cannot retroactively correct the situation.

__Opposing Argument__
The generic service credit purchase provision could result in more buy-ins and increased processing of payments as a greater number of members purchased additional credit. Further, there would be no specific performance of service required in order to purchase credit; current law at least requires a member to have been employed in some particular way for the purchase of credit.

__Response__: The bill contains safeguards to prevent this provision from being abused. First, a person could not double-dip by purchasing generic service credit for the years for which credit was purchased under an existing buy-in. And, a person could not retire at an artifically low age (before age 46) by purchasing generic service credit.

Member Investment Plan

__Supporting Argument__
Mandating the contributory Member Investment Plan for all new employees would bring the PSERS benefit into closer alignment with income needs in retirement. In addition to the basic plan and Social Security benefits, retirees need income to maintain the same standard of living they enjoyed while working, and future retirees will likely need even more additional income because they won't receive Social Security benefits equivalent to those provided to retirees today. Although saving for retirement can be a relatively painless process if started at the beginning of a career, especially if savings are tax-deferred, research reportedly has shown that two-thirds of school employees fail to take advantage of tax-deferred investments, and those who do typically delay participation until their 30s. Participation in the MIP, however, guarantees that a member will achieve a maximum return on his or her investment because of the advantages of participating in the system's professionally managed fund. The member also enjoys security because the MIP is a defined benefit plan whose payout is protected by the State Constitution.

__Supporting Argument__
The current 4% contribution rate was based upon 100% participation of employees according to the actuarial study that preceded the MIP's passage into law. The actual, lower participation rate foreshadows problems with MIP funding. Reportedly, PSERS research shows that the 4% contribution rate is necessary for the plan to be competitive with alternative investments available to school employees. An increase in the rate to the level necessary to fund benefits would make the plan a financial liability to the current MIP participants. An increase also would severely decrease future MIP participation, which in turn would compound funding problems and make additional rate hikes necessary. Making MIP participation mandatory and capping the contribution rate would avoid this cycle.

__Supporting Argument__
Although school employees share a common identity through their work in education and because they are public sector employees, the present two-tiered retirement plan acts as a divisive force among the membership. The law requires new employees to make a choice at the very time in life and career when retirement planning is of least interest. Often a new employee will elect, or default to, the basic plan through ignorance, indifference, or uncertainty. The employee will then experience frustration and anger when he or she tries to change plans and finds that the decision not to choose the

MIP is irreversible.

Supporting Argument
Providing an informational program adequate to meet the needs of 40,000 new employees annually requires an exhaustive effort by both the retirement system and the reporting unit. This effort uses resources that could be applied to other important goals. According to the PSERS, scarce resources in many reporting units result in an inadequate informational effort and uncorrectable errors.

Supporting Argument
Capping the MIP contribution rate at 3.9% would remove the current requirement of adjusting the rate up or down every three years, and would enhance membership confidence in the plan. According to the PSERS, actuarial analysis has shown that in the long run, 3.9% would be sufficient to fund the current and proposed level of benefits within the plan. Variances in the underlying assumptions, such as investment return and rate of retirement, can increase or decrease the rate in the short run, and needlessly result in alarm and financial inconvenience to the membership.

Supporting Argument
House Bill 4466 (S-2) would provide a one-time open enrollment period for the MIP, to allow entry into the plan for those who did not avail themselves of the opportunity when it was initially offered. Numerous members who chose or defaulted into the basic plan now realize that their long-term interests would be better served by the MIP.

Supporting Argument
By requiring an employer match of up to 20% of MIP contributions for members who left public school employment before satisfying age and service requirements for retirement, the bill would increase the portability of pension benefits. Currently, employees must acquire 10 years of service to be vested and an employee who leaves before 10 years receives only a refund of his or her contributions. Under the bill, the employee also would receive the employer match. Portability of benefits is especially important as job mobility increases.

Opposing Argument
When the PSERS became noncontributory to all employees in 1977, it was a collective bargaining issue, and some reporting units gave up pay hikes, or accepted smaller raises, in acknowledgement of this employer contribution. Mandating participation in a contributory retirement plan now would be taking away this negotiated employee benefit.

Opposing Argument
Noncareer employees historically have preferred improvements in pay levels while working over inclusion in the membership of a retirement plan. Other employees would prefer to forego the MIP contribution deduction from their pay despite the earning of market interest rates, the availability of refunds at termination, or the ability to roll over savings into other tax-deferred plans. Members should continue to have the ability to make this decision.

Opposing Argument
Removing the three-year adjustment requirement could be a mistake. If experience proved the underlying assumptions wrong and the 3.9% either too high or too low, a change in the rate could occur only with a statutory amendment.

Dental-Hearing-Vision/Medical Benefits

Supporting Argument
Requiring the PSERS to pay for dental, hearing, and vision benefits would help those who need help the most. Reportedly, the average annual pension received by members is around $7,500, out of which they must pay for dental, hearing, and vision care. While many retirees have income augmented by Social Security benefits, Michigan public schools did not come under the Social Security program until 1955, and many who retired 25 or 30 years ago are not eligible for those benefits. The costs of dental work, eye examinations and glasses, and treatment for hearing problems unfortunately increase with age. Those who have been retired for some time, and do not have the financial resources to take care of these needs when they arise, often delay seeking medical help or other health care, while the problems worsen.

Supporting Argument
The current health premium subsidy is paid in the same amount to all retirees regardless of

the length of their service. This method disproportionately favors noncareer, short-term employees, and places a large financial burden on the retirement system for many retirees who spent a significant portion of their working life with other employers. Establishing a prorated subsidy based on years of credited service for all new employees would provide equity among retirees eligible for health care benefits, would lower the long-term cost to the system, and would encourage longevity.

Work-Related Injury/Illness

Supporting Argument
By requiring up to five years of service credit to be granted to members for time that they could not work due to a work-related injury or illness that entitled them to workers' compensation benefits, House Bill 4095 (S-2) would provide continuity to members' accrual of retirement credit when they are unable to work through no fault of their own. The bill also would ensure that such absences did not reduce future retirement benefits, and would enable some members to qualify for retirement. Further, the State Employees Retirement System already grants service credit for time spent while absent due to work-related injuries. It is only fair that the same provision be extended to members of the PSERS.

Opposing Argument
Granting credit for time during which no compensation was paid and, therefore, no contributions were remitted, would have an adverse effect on the system's funding.

Retirement Allowance

Supporting Argument
Providing for an increase in the current retirement allowance, while eliminating the thirteenth check, would more effectively make up for the erosion in retirees' purchasing power due to inflation. According to the PSERS, the supplemental payment is an inconsistent method of providing additional benefits. On average, payments can be expected in only 50% of the retired years and their amount is extremely volatile. Under House Bill 4466 (S-2), the increase based on years of retirement and years of service would benefit those who have been retired the longest and have the lowest allowances, and to whom the thirteenth check is particularly advantageous, while the increase based on a percentage of a member's retirement allowance would be beneficial to career employees, who are less advantaged by the thirteenth check. These changes also would give PSERS members parity with members of the State Employees Retirement System.

Supporting Argument
House Bill 4466 (S-2) would help both long-term career employees and short-term members by providing that a retirement allowance could not be less than the actuarial equivalent of the member's accumulated contributions at the time of retirement. This would give retirees the advantage of competitive interest earned over time on MIP investments.

Other Arguments

Supporting Argument
This package of bills is designed to be revenue neutral. Although some of the bills' provisions--such as the PSERS payment of dental, vision, and hearing benefits, permanent increases in existing retirement allowances, more frequent posting of interest, and the employer match of MIP benefits--would result in increased costs to the system, other changes would generate savings. Sources of revenue in the bills include mandating MIP participation for all new employees, lowering the system's costs for health insurance, and eliminating the thirteenth check. In addition, the PSERS reportedly would make administrative changes in the system's investment return assumptions, which are considered a revenue-generating source.

Response: There would be some risk that investment performance would not meet the contemplated assumption. Because the liquidity of the retirement system is constitutionally protected (Article 9, Section 24 of the Michigan Constitution), the State would be required to make up any shortfall.

Supporting Argument
Liberalizing postretirement earnings restrictions would encourage retirees, especially those who retired at an early age and are not yet receiving Social Security benefits, to accept postretirement work with a reporting unit. Less restrictive limitations also would give school administrators greater flexibility in resolving temporary programmatic needs for experienced personnel, since retirees could be

hired while long-term employees were being trained.

Response: Lowering the earnings limitation could increase the amount of work performed by retirees at the expense of younger workers, since employing retirees could reduce payroll costs.

Supporting Argument

House Bill 4466 (S-2) would allow the purchase of service credit by a person who reduced hours of out-of-system public education service for maternity, paternity, or child-rearing purposes and later became a PSERS member (a buy-in already available to public school employees). This would simplify administration of the system, since different treatment for different groups complicates the informational process and causes confusion among members. Further, the credit for this purpose should apply equally to members whose careers were interrupted regardless of whether they were Michigan residents or out-of-state residents when the absence occurred.

Supporting Argument

House Bill 4433 (S-1) provides for interest to be posted on MIP contributions quarterly, rather than annually. This would be only fair, particularly in a retirement plan being touted as an investment or a savings plan. More frequent posting also would enhance the value of the MIP as a retirement savings plan for those who do not continue working in the public schools until retirement. Presently, money must be on deposit between 12 and 24 months before interest is earned.

Supporting Argument

House Bill 4466 (S-2) would modernize and clarify the statute in several ways. The practice of breaking down a retirement allowance into annuity and pension portions serves no actuarial or accounting purpose, and discontinuing this practice would make the system easier to manage. Establishing "reserves" instead of "funds" would correspond to modern accounting practices. Redefining "actuarial cost" would establish a common equation to be applied in the calculation of the cost for the purchase of certain types of service credit, and would reflect recent amendments and retirement board action.

Legislative Analyst: S. Margulies
Fiscal Analyst: K. Lindquist

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