House Legislative Analysis Section

Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

RETIREMENT: COMM. COLLEGES

Senate Bill 758 as passed by the Senate
First Analysis (6-1-94)

Sponsor: Sen. John J.H. Schwarz, M.D.
Senate Committee: Education
House Committee: Public Retirement

THE APPARENT PROBLEM:

Community colleges and seven Michigan universities (Central, Eastern, Northern, Western, Ferris, Michigan Tech., and Lake Superior) are included in the public school employees retirement system. However, the Optional Retirement Act explicitly allows six Michigan universities (Central, Eastern, Northern, Western, Ferris, and Michigan Tech.) to offer their faculty and administrators optional retirement plans as an alternative to the Michigan Public School Employees Retirement System (although Lake Superior State has been offering an optional plan, it is not specifically named in the statute). Such plans are common across the country as a means of offering transient academics and administrators, who may not remain with one institution long enough to vest in a retirement system, a "portable" benefit plan. When an optional plan member leaves a school, he or she can cash out his or her benefits or roll them over to another plan. Many colleges and universities (including those in Michigan) offer benefit plans administered by various annuity fund providers, such as Fidelity or TIAA-CREF (which stands for Teachers Insurance and Annuity Association-College Retirement Equities Fund, a pair of nonprofit, companion organizations whose charters limit their services to colleges, universities, and certain other educational and research organizations).

Community colleges in Michigan are not at present eligible to offer optional retirement plans to their employees. However, as professionals at community colleges also often move from institution to institution, and as community colleges now often conduct nationwide searches to fill some positions, it has been proposed that the optional retirement act be extended to community colleges, so that transient professionals and recruitment efforts may benefit from the advantages of having optional retirement plans.

THE CONTENT OF THE BILL:

The bill would amend the Optional Retirement Act to extend to community and junior colleges authority to offer optional retirement plans, and to include Lake Superior State University in the list of four-year institutions that may offer optional retirement plans as an alternative to the Michigan Public School Employees Retirement System.

MCL 38.382

FISCAL IMPLICATIONS:

The Senate Fiscal Agency reports that the bill would have no fiscal impact on state resources since community and junior colleges would continue to be responsible for all contributions made into any retirement plan. (3-21-94)

ARGUMENTS:

For:

Michigan's community colleges now face stiff competition with four-year institutions and with institutions in other states in their efforts to recruit and retain qualified professional staff. By enabling community colleges to offer retirement alternatives to the public school employees retirement system, the bill would aid those efforts. This is because optional retirement plans offer immediate vesting and "portable benefits" that can be cashed out or rolled over when a member leaves the institution. Such features are understandably attractive to academics who may work in several institutions over a number of years before getting on a tenure track, and to administrators whose professional progress depends largely on moving up from one institution to another. The bill thus would help Michigan's community colleges attract professional personnel by offering them their choice of an optional retirement plan or the public school employees retirement system.

Against:
Many are skeptical that community college recruitment efforts are hampered by the use of the Public School Employees Retirement System. To the degree that the bill drew people away from the public school employees retirement system, it would upset the actuarial assumptions on which that retirement system operates. At present, substantial sums are contributed on behalf of people who never vest in the system; if those sums are instead diverted to an optional retirement plan, it would be the remaining members of the system, or their community college employers (and thus, indirectly, the state), who would have to bear the increased costs to the system. Further, "optional retirement plans" are defined contribution plans; by widening the applicability of such plans, the bill could serve to support efforts to chip away at the protections offered by the state-funded retirement systems.

POSITIONS:

The Michigan Community College Association supports the bill. (5-31-94)

The Michigan Federation of Teachers supports the bill. (6-1-94)

TIAA-CREF supports the bill. (5-31-94)

The Department of Management and Budget is neutral on the bill. (6-1-94)

A representative of the Michigan Education Association testified in opposition to the bill. (5-31-94)