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BILL ANALYSIS

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Senate Bill 878 (Substitute S-1 as reported)
Sponsor: Senator George A. McManus, Jr.
Committee: Appropriations

CONTENT

The bill would amend the Public School Employees Retirement Act to eliminate permanently the prefunding of health benefits and to provide permanently for differences between the estimated and actual aggregate compensation and the estimated and aggregate contribution rate to be reconciled over five years.

Under the bill, beginning with the 1995-96 State fiscal year, the contribution rate for health benefits would have to be computed using a cash disbursement method.

The Act generally provides that the differences between actual employer contributions received and compensations paid, known as reconciliation, are smoothed over a five-year period. However, current law states that this provision expired on September 30, 1995. This bill would remove that sunset date and make five-year smoothing a permanent provision.

MCL 38.1341

FISCAL IMPACT

The cost saving to local school districts, community colleges, and the seven public universities that participate in the Public School Employees Retirement System (PSERS) due to the adoption of the cash funding provision in the PSERS Act equals an estimated $263.6 million in FY 1995-96. However, the FY 1995-96 School Aid Act is in effect with the assumption that the cash funding provision will be extended; therefore, this cost saving is already being realized. As a result of the Michigan Supreme Court ruling in the *Musselman* case, prefunding of health benefits for the Public School Employees Retirement System cannot be constitutionally mandated. Without this amendment, the PSERS Act would continue to require that health benefits be prefunded. The difference in the contribution rate on a cash-funded rate rather than a prefunded rate would save the schools, community colleges, and the seven participating public universities an estimated $314.1 million in FY 1996-97.

Date Completed: 3-25-96 Fiscal Analyst: J. Carrasco