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BILL ANALYSIS

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House Bill 4047 (Substitute H-3 as reported with amendment)
Sponsor: Representative Kim Rhead
House Committee: Appropriations
Senate Committee: Appropriations

CONTENT

The bill would amend the Public School Employees Retirement Act of 1979 to eliminate eligibility in the Michigan Public School Employees Retirement System (MPSERS) for all new university employees hired after January 1, 1996. Currently, seven of Michigan's public universities have employees who are members of the MPSERS. These seven universities are: Central Michigan University, Eastern Michigan University, Ferris State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, and Western Michigan University.

The bill also would add Section 41A which would provide for the seven public universities to have a separate contribution rate determined. In determining the separate contribution rate, the retirement system would amortize the unfunded actuarial accrued liability as a level dollar amount to be paid in 40 annual payments. The amount of the unfunded accrued liability on which the separate contribution rate would be determined would be only the amount that the universities would be legally responsible for as calculated by actuarial analysis.

MCL 38.1306 et al.

FISCAL IMPACT

This bill would allow the seven public universities to realize a savings for new employees who would enroll in an alternative retirement plan to the MPSERS.

It is estimated that these universities have an annual turnover rate of about 5%. There were an estimated 8,500 university employees who participated in the MPSERS in FY 1994-95. Their average salary in FY 1995-96 is $22,100. Thus, it is estimated that about 425 new employees who would be members of the MPSERS can be expected to be hired by the public universities in the upcoming year. Under this bill, these 425 new employees would become members of the university's Optional Retirement Plan. The average contribution rate for an ORP is 12.23% of payroll or 2.33% less than the FY 1995-96 MPSERS contribution rate of 14.56%. Under the current cash funding system, the result would be an estimated accumulated first-year savings for the public universities of $220,000. This savings would increase to an estimated $550,000 if the MPSERS contribution rate were at the prefunded level of 18.12% of payroll.

It is likely that this bill could result in increased costs for local and intermediate school districts as well as community colleges. Under this bill contributors who currently help to underwrite the benefits being received by retirees would no longer be joining the system. It is likely that the MPSERS contribution rate would have to be increased to cover the liability of those remaining in the system. This increased contribution rate would be spread across the board to all members of the MPSERS.

Date Completed: 12-13-95 Fiscal Analyst: J. Carrasco

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