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BILL ANALYSIS

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House Bill 4047 (Substitute H-3 as passed the House)
Sponsor: Representative Kim Rhead
House Committee: Appropriations
Senate Committee: Appropriations

Date Completed: 12-12-95

SUMMARY OF HOUSE BILL 4047 (Substitute H-3) as passed by the House:

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 that are members of the MPSERS. The seven universities that have employees that are members of the MPSERS are: Central Michigan University, Eastern Michigan University, Ferris State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, and Western Michigan University. With the exception of full-time faculty and professional administrative staff, all employees of these seven universities are members of the MPSERS. Full-time faculty and professional administrative staff have the option of being enrolled in an optional retirement plan (ORP) such as the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).

The bill also would expand the definition of "out of system public education service" to include the service performed by a person who first becomes employed by an institution of higher education described in section 4, 5, or 6 of Article VIII of the State Constitution of 1963 on or after January 1, 1996. In addition, the definition of a public school employee would be amended to exclude anyone hired by one of the aforementioned public universities on or after January 1, 1996.

Further, the bill would amend the definition of a reporting unit to not include a public university, unless that university has employees on its payroll that are members of MPSERS.

Finally, House Bill 4047 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. In addition, if there is a reduction in the unfunded accrued liability of the retirement system, all reporting units, including the public universities, would receive uniform treatment.

MCL 38.1306 & 38.1307

FISCAL IMPACT

This bill would allow the seven public universities to realize a savings for new employees that would enroll in an alternative retirement plan to the MPSERS. Under this bill, any university employee hired after January 1, 1996, no longer would be eligible to become a member of the MPSERS. Under current law, approximately 61% of the employees of the seven public universities are members of the MPSERS, a defined benefit plan. The remaining 39% are members of an OPR, usually TIAA-CREF, a defined contribution plan.

It is estimated that these universities have an annual turnover rate of about 5%. There were an estimated 8,500 university employees that 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 that 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 was 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. The current MPSERS has a 10-year vesting requirement. It is estimated that about 60% of the MPSERS members for whom a university makes contributions never vest and thus do not receive any retirement benefits. Under this bill such 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.

Finally, the addition of Section 41A would allow the universities to have a separate contribution rate established for the remaining MPSERS members. However, the Department of Management and Budget has noted that the current language in the bill could be problematic and create an unforeseen fiscal liability for the State. The current language would allow the universities to share uniformly with the other reporting units in the savings that would result if there was a reduction in the unfunded liability of the system. The result could be that the universities would never fully repay the total amount of the unfunded accrued liabilities attributable to them or overpay their liability.

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