Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 5108 (Substitute S-1 as reported)
Sponsor: Representative Kim Rhead
House Committee: Appropriations
Senate Committee: Appropriations

CONTENT

The bill would amend the Public School Employees Retirement Act to limit the amount of compensation that could be reported and included in the earnings record of a Michigan Public School Employees Retirement System (MPSERS) member who began a leave of absence for employee organization professional services or for professional services released time on or after October 1, 1996. The bill also would create a new definition of "compensation" that describes what could and could not be included in the compensation used to determine retirement benefits for an MPSERS member.

Currently, all compensation paid to MPSERS members by a school employee organization is reportable to the retirement system. The final average compensation (FAC) that determines retirement benefits is based on the average of 36 consecutive calendar months of highest earnings for MPSERS Member Investment Plan (MIP) members, and 60 consecutive calendar months of highest earnings for regular MPSERS members. Thus, if a member takes a professional services leave or professional services released time to work for an employee organization and works for that organization for 36 or 60 consecutive months (depending on which plan the member belongs to), the total earnings from the employee organization that are reported to the retirement system will be used to determine the FAC if those earnings meet the highest earnings criteria.

For members beginning a professional services leave or professional services released time on or after October 1, 1996, the bill would limit the reportable compensation paid by a school employee organization to an MPSERS member to the rate of compensation paid to the member by the school district immediately preceding the date the member began the professional services leave or professional services released time. In addition, although increases in reportable compensation would be allowed, they would be limited to the normal and customary compensation increases that would have been paid to the member by the school district had the member remained in the same position held at the school district immediately preceding the date the member commenced the leave or released time. Additionally, if a member were not working a full 12-month period for the school district immediately prior to beginning the professional services leave or professional services released time, and were working a full 12-month period for the school employee organization, the member's rate of compensation paid by the school district immediately preceding the date the member began the leave or released time could be increased proportionately to reflect the additional time worked for the school employee organization. This adjusted compensation, including the normal and customary compensation increases that would be allowed under this bill, would then be used to set the limit of the reportable compensation paid by a school employee organization to an MPSERS member.

The bill would add a new section that would redefine “compensation”. For the most part, the definition is the same as current law; however, the new definition would be more specific. Salary and wages would include remuneration earned for all services performed as a public school employee. Compensation for sick leave would include weekly worker's disability compensation payments received for personal injury in the employ of and while employed by a reporting unit (school district). Compensation also would include merit pay as established by a reporting unit for the purpose of rewarding achievement of specific performance objectives.

Currently, certain payments are not included as compensation. The bill also provides that in cases in which the current job classification in the reporting unit had fewer than three members, the normal salary schedule for that job classification would be the normal salary schedule for the most nearly identical job classification in the reporting unit or in similar reporting units. The normal salary schedule used for this classification of employees would determine whether the increases from the previous year would be allowable increases for determining final average compensation. In addition, the bill would require the retirement board to determine whether any form of remuneration paid to a member was identified in this statute, and whether any unidentified form of remuneration should be considered compensation reportable to the retirement system under the Act.

MCL 38.1304 et al.

FISCAL IMPACT

This bill would have no fiscal impact on State government. All retirement contributions made to the MPSERS are paid by the local and intermediate school districts. The retirement benefits that are paid to MPSERS members who take a professional services leave or professional services released time are benefits that would be paid regardless of whether the employee had taken the leave or released time.

Local and intermediate school districts could realize a small decrease in the contributions made to the MPSERS. Currently, all compensation paid to members by a school employee organization is reported to the MPSERS. The compensation paid by the employee organizations is sometimes much higher than the compensation the member would have received at the school district. When a higher pension is paid to a member due to the higher compensation that was reported to the MPSERS during the professional services leave or released time, the higher-than-expected pension creates additional unfunded liabilities, resulting in a higher contribution rate for the local and intermediate school districts. This bill would limit the amount of reportable compensation paid by the school employee organization to the amount the person would have received from the school district, keeping the pension payments in line and reducing the amount of unfunded liabilities, thereby reducing the contribution rate for local and intermediate school districts. The dollar amount of this potential saving and the amount of decrease in the contribution rate cannot be determined because the factors needed to make this determination are unknown.

Date Completed: 5-15-96 Fiscal Analyst: J. Carrasco

floor\hb5108