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## PSERS; SEASONAL EMPLOYEES, RE-OPEN MIP OPTION

**House Bill 4943 as enrolled**  
**Public Act 123 of 1998**  
**Third Analysis (7-6-98)**

**Sponsor: Rep. Judith Scranton**  
**House Committee: Public Retirement**  
**Senate Committee: Appropriations**

### ***THE APPARENT PROBLEM:***

Under the Public Employees Retirement System Act, people employed by "reporting units" (local and intermediate school districts, public school academies, district libraries, and community colleges) are members of the retirement system on the first day of their employment. The only exceptions are certain specified categories of employees such as those employed through programs such as the neighborhood youth corps, summer youth employment programs, transitional public employment, and similar programs. Seasonal and athletic programs run by school districts are not specifically listed as being outside of the retirement system, so school districts are required to withhold employee contributions from such employees, report and remit both employee and employer contributions to the state, and so forth, just as they do for full-time employees. If such an employee leaves the employ of the district after a few months, such as with a summer job, the employee must fill out a form to request a refund of his or her contributions, and the school district and the state must do the related paperwork. It has been suggested that such employees be specifically excluded from membership in the retirement system.

In a related matter, the Public School Employees Retirement System was amended in 1985 to reinstate member contributions. Under the Member Investment Program (MIP), which took effect January 1, 1987, members of the retirement system contribute a percentage of their annual compensation (approximately 4 percent) in exchange for enhanced benefits upon retirement, including earlier retirement, larger monthly checks, annual benefit increases, and earlier survivor protection. Although initially participation in the contributory system was voluntary, in 1989 the legislature amended the act to make participation mandatory for all those joining the retirement system after January 1, 1990, and at the same time re-opened the "window period" for those

who had earlier chosen not to participate. That change was said to have been made both to enhance the actuarial soundness of the MIP plan, which provides much improved benefits over the basic plan, and to encourage new employees to begin planning and saving for retirement at an early age. (The 1989 legislation also provided for an option to dropout of the contributory program after three years of participation, but the Internal Revenue Service ruled that the provision would threaten the retirement system's tax exempt status, so the provision never became effective.) The result is that today, people who have joined the retirement system since 1990 are in the MIP program, as are those pre-1990 members who irrevocably elected to participate during two window periods, while those pre-1990 employees who opted out remain in the basic retirement plan.

It has been pointed out that there are a small number of current retirement system members who were employed by a school district in seasonal or athletic program positions (probably as high school or college students) during the period in which participation in the MIP was voluntary, and who opted for the basic plan, not realizing they were making an irrevocable decision that would seriously affect their retirement plans after eventually joining the PSERS as full-time employees (most likely, as teachers). This small group of people would like the opportunity to reconsider the option to join the MIP program.

### ***THE CONTENT OF THE BILL:***

The bill would amend the Public School Employees Retirement System Act to do the following.

Seasonal, athletic program employees. The bill would provide that a person under 19 years old who is employed by a school district only in a temporary,

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intermittent, or irregular seasonal or athletic position would not be considered a member of the retirement system.

New window period for MIP. Further, the bill would allow certain members of the retirement system to participate in the member investment program who had previously elected not to participate. It would apply to a person who was employed by a reporting unit (a local or intermediate school district, district library, public school academy, or community college) during the period of January 1, 1987 through January 1, 1990 (at the outset of the MIP program when participation was voluntary), was not a member of the retirement system during the second window period (1990-1993), had less than one year of credited service on January 1, 1990, and who had opted not to participate in MIP. Individuals meeting these criteria would have until December 31, 1998 to elect, irrevocably, to participate in the MIP program.

Individuals opting into the MIP program under the bill's provisions would be required to pay to the retirement system an amount equal to four percent of compensation received during the 1987-1990 period, plus 3.9 percent of compensation received from January 1, 1990 to the date of the election to participate, plus compound interest on those amounts, plus the net actuarial cost of the additional benefits attributable to service credited before January 1, 1987.

The bill specifies that these provisions would not apply until the Department of Management and Budget received notification from the Internal Revenue Service that the provisions would not jeopardize the tax status of the retirement system. If this notification was not received by July 1, 1998, then the December 31, 1998 deadline for electing to participate in the MIP program would not apply; instead, eligible persons would have 180 days after the IRS made its determination to elect to participate.

MCL 38.1305

### ***FISCAL IMPLICATIONS:***

According to the House Fiscal Agency, the bill would result in a slight decrease in costs for local school districts. (1-16-98)

According to the Bureau of Retirement Systems in the Department of Management and Budget, the bill would result in administrative savings since temporary student employees would not have to be enrolled in the

system and then later issued a refund of their contributions. The bureau estimated that this procedure cost about \$60,000 for the 1995-96 school year. This would be offset by a one-time cost of approximately \$100,000 to update informational material sent to reporting units. (1-22-98)

### ***ARGUMENTS:***

#### ***For:***

The bill would add temporary seasonal and athletic program employees to the list of those not included in the Public School Employees Retirement System. The inclusion of these people in the system merely results in extra costs and paperwork for employee, school district, and retirement system alike; most affected individuals apply for and receive a refund of their contributions to the system. The Department of Management and Budget has estimated that this costs the retirement system about \$24 per person, or close to \$60,000 for the roughly 2, 500 individuals in the 1995-96 school year who were in this situation.

#### ***Against:***

The bill would disadvantage those individuals who worked for schools as teenagers, and then re-entered the retirement system as prospective teachers or other full-time employees. These individuals would be precluded from receiving service credit for the periods of time spent working in seasonal jobs.

#### ***For:***

The bill would reopen the option to join the member investment program to a few current school employees who worked as summer or temporary employees for a school district while in high school or college. These individuals were asked to make an irrevocable decision regarding the retirement plan as summer employees at age 17 or 18, and may have failed to realize the future consequences of opting for the basic plan. The provisions are expected to affect only a few members, and to be actuarially neutral.

#### ***Against:***

It is unlikely that the provision could take effect, as the IRS will likely disapprove of allowing retirement system members to revisit an "irrevocable" decision.

Analyst: D. Martens

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.