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SFA BILL ANALYSIS

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House Bill 4082 (Substitute S-3 as reported)
Sponsor: Representative Gerald Law
House Committee: Senior Health, Security and Retirement
Senate Committee: Education

CONTENT

The bill would amend the Public School Employees Retirement Act to increase the allowable amount of postretirement earnings; and to exempt from the Act's provisions on recomputing a retirement allowance upon re-employment, a retirant who was one of the following:

-- A former teacher or administrator employed in a teaching or research capacity by a university that is considered a reporting unit.
-- Employed by a reporting unit that had an approved emergency situation that necessitated hiring a retirant as a teacher or principal to prevent depriving students of an education.
-- Employed by a reporting unit that had a situation that necessitated hiring a retirant in an area that had been identified as a critical shortage discipline.

A retirant employed under any of these exemptions would not be eligible to use any service or compensation from that employment to recompute his or her retirement allowance. A retirant hired by a reporting unit with an emergency situation or a critical shortage area would have to retire before July 1, 1999, and the exemption would apply only until July 1, 2002.

Currently, if a retirant is receiving a retirement allowance and becomes employed by a reporting unit, the retirement allowance must be reduced by the amount that the earnings exceed the amount permitted without a reduction of benefits under the Social Security Act, or one-third of the retirant's final average compensation, whichever is less. The bill would refer to one-half of the retirant's final average compensation.

MCL 38.1361 Legislative Analyst: L. Arasim

FISCAL IMPACT

Retirement costs for the State would increase due to the retirement system's having to include income that presently is subject to income limitations, and include that income in the pension payments of the rehired employees. This could result in employees' retiring earlier to take advantage of future rehiring opportunities and a chance at an increased pension. This could result in higher pension costs to the system that are not presently accounted for and thus increase the system's unfunded liabilities.

Local reporting units could be adversely affected by an increase in their retirement contribution rates to the retirement system. The increased retirement rate would be due to the increase in the system's unfunded liabilities that could result from the enactment of this legislation. The exact dollar amount of the impact is indeterminable.

Date Completed: 6-9-99 Fiscal Analyst: J. Carrasco