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BILL ANALYSIS

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Senate Bill 427 (as introduced 4-30-03)
Sponsor: Senator Jim Barcia
Committee: Education

Date Completed: 5-22-03

CONTENT

The bill would amend the Public School Employees Retirement Act to increase to 1.75% the "multiplier" used to calculate members' retirement allowances, effective April 1, 2004.

Under the Act, a member of the retirement system must receive a retirement allowance that equals the product of his or her total years, and fraction of a year, of credited service multiplied by 1.5% of his or her final average compensation. (If the retiree contributes to a member investment plan, or MIP, "final average compensation" is the 36 consecutive months of highest compensation; if not, it is the 60 consecutive months of highest compensation.) The bill would retain the 1.5% multiplier through March 31, 2004, and increase it to 1.75% on and after April 1, 2004.

In addition, the bill provides that the retirement allowance of those members whose retirement allowance effective date was between July 1, 1956 and July 1, 1974, and who were beneficiaries under Chapter II of now-repealed Public Act 136 of 1945 (which governed public school employees retirement before 1980) would have to be recalculated with the higher multiplier after April 1, 2004. The retirement allowance of beneficiaries under Chapter I of that Act with a retirement allowance effective date before July 1, 1974, also would have to be recalculated.

MCL 38.1384 Legislative Analyst: Claire Layman

FISCAL IMPACT

State

The bill would result in an indeterminate cost to the retirement system as new retirees after April 1, 2004, would be eligible for a higher pension than what was actuarially assumed in the previous years. The added cost would increase the retirement system's unfunded accrued liability (UAL). The amount of increase in the system's UAL would have to be determined by the State's actuaries and therefore is indeterminate at this time. In regard to the increased pension costs alone, the average teacher salary across the State is an estimated $49,000 annually. Using this average salary and assuming an average of 25 years of service would yield an annual pension of $18,375 using the current-law multiplier of 1.5%. Under the bill, the multiplier would increase to 1.75% and thus yield an estimated yearly pension of $21,438. Based on the average teacher salary across the State, the increase in the multiplier would yield, at a minimum, a pension that would be $3,063 higher due to the increase in the multiplier.

Looking at the average salary of *all* members of the Public School Employees Retirement System yields a different cost. The estimated average salary for all school employees at retirement age is $41,000 and they will have worked an average of 26 years. Thus, under current law, that salary and length of service would yield an annual pension of $15,990. Under the bill, those averages would yield a yearly pension of $18,655 or $2,665 more under the increased multiplier of 1.75%.

Local

The increased pension costs could result in a direct cost to local school districts in the form of increased contribution rates paid to the retirement system. Any increase in the UAL of the retirement system could directly translate into a higher contribution rate for local school districts. However, districts also could realize an overall saving if the increase in the multiplier were enough of an incentive to attract veteran employees into an earlier retirement. If that happened, districts would be able to leave open the position vacated by the retiree or fill that position with a newer, lower salaried employee, resulting in savings to the district. Both the potential cost and savings are indeterminate since it is impossible to estimate the end result of the change in the multiplier from the current 1.5% to the proposed 1.75%.

Fiscal Analyst: Joe Carrasco

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