Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

COMMUNITY COLLEGE RETIREMENT SYSTEM

House Bill 4074 as introduced
Sponsor: Rep. Bruce Caswell

House Bill 5314 (Substitute H-1)
Sponsor: Rep. Lorence Wenke
Committee: Higher Education and Career Preparation

First Analysis (11-28-05)

BRIEF SUMMARY: The bills would 1) remove community college employees hired after January 1, 2006 from the Michigan Public School Employees Retirement System, and 2) revise the definition of "eligible employees" to include administrators or faculty employed at a community college on a part-time basis.

FISCAL IMPACT: The change to the Michigan Public School Employees Retirement System that is proposed by House Bill 5314 requires an actuarial analysis by the system's actuary located in the Office of Retirement Services. Consequently, the increased cost is indeterminate at this time.

The fiscal impact of House Bill 4074 is indeterminate but should not be significant.

THE APPARENT PROBLEM:

The Michigan Public School Employees Retirement System—sometimes called MPSERS—is a statewide retirement plan that provides retirement, survivor, and disability benefits to public school, community college, and some university employees. It is a defined benefits plan. That is to say, members of MPSERS draw a pension based on their compensation when they were employed and their years of service. The retirement plan also provides health, dental, and vision care benefits to retirees and their eligible dependents.

In the mid-1990s, some of the state's defined benefits retirement systems were closed for enrollment, and newly hired employees are now required to participate in defined contribution plans. That is, more recently hired employees must contribute to their retirement plan, with contributions matched by the employer. This is true for state employees hired after March 31, 1997, and for employees hired at some universities hired after January 1, 1996.

Beginning in 1994, state law enabled community colleges to establish defined contribution retirement programs—sometimes called the 'optional retirement program' because it allowed full-time employees a choice. Full-time employees could opt for a defined benefit retirement plan by enrolling in MPSERS, or in the alternative, they could opt for a defined contribution retirement plan, the so-called 'optional retirement program'.

Some have argued that this transition to the defined contribution retirement plan has run its course, and that the defined contribution plan should now be required of new community college employees. They also argue that part-time employees and administrators should be allowed to join the defined contribution retirement plan.

THE CONTENT OF THE BILLS:

House Bill 4074 would amend the Optional Retirement Act of 1967 (MCL 38.382) to revise the definition of eligible employees to include administrators or faculty employed at a community college on a part-time basis.

Currently under the law, "eligible employees" is defined to mean the members of the faculty and administrative staff of state-supported institutions of higher education on a full-time basis whose positions require the performance of professional services in the discharge of the educational or administrative functions of the institution.

Under the bill this provision would also include the members of the faculty and administrative staff of community colleges on a part-time basis whose positions require the performance of professional services in the discharge of the educational or administrative functions of the institution.

House Bill 5314 (H-1) would amend the Public School Employees Retirement Act (MCL 38.1306 et al) to remove community college employees hired after January 1, 2006 from the Michigan Public School Employees Retirement System. Community college and junior college employees hired before that date who are already members of the public school employees' retirement system would continue their membership.

The bill also would alter the composition of the Michigan Public School Employees' Retirement Board, eliminating the requirement that the board include one administrator or trustee of a community college, and requiring, instead, three representatives of the general public (rather than two as is currently the practice).

The bill specifies that for fiscal years that begin on or after March 28, 2006, the retirement system would be required to determine a separate contribution rate for a reporting unit that is a tax-supported community or junior college, in a manner prescribed under the bill, including the requirement that the unfunded actuarial accrued liability be amortized over 40 years beginning October 1, 2006 and ending on September 30, 2046. The payment schedule for community or junior college employees would be based on, and applied to, the combined payrolls of the tax supported community or junior college employees who are members, and who were hired before January 1, 2006, and the employees who *would have been* members on or after January 1, 2006, *except for* the enactment of this legislation. The amount of the unfunded accrued liability on which the separate contribution rate is to be determined would be the amount that a community college was legally responsible for, and it would be calculated by actuarial analysis. Any reduction in the unfunded liability of the system following governmental action that affected the entire system would be allocated to all of the reporting units, including community colleges, as determined by the system's actuary.

ARGUMENTS:

For:

Many government and private-sector corporations have moved away from defined benefit retirement plans to defined contribution—or, 401(k)—retirement plans in order both to reduce their pension costs over the long-run, and to be able to better predict their pension costs from year to year. In addition to these cost-containment benefits for employers, the defined benefit plans are attractive to some employees, because they can be cashed out or rolled over when employees switch jobs.

In addition, the state's defined benefit retirement system was closed to new enrollment for employees hired after March 31, 1997. And, employees at some of the state's universities hired after January 1, 1996—those at Eastern, Western, Northern, Central, Michigan Technical, Lake Superior State, and Ferris State—are now required to participate in defined contribution retirement plans.

Since 1994, full-time community college employees have had the opportunity to choose "the optional retirement program"—generally a defined contribution plan—or the defined benefit retirement plan offered by MPSERS. In effect, community colleges have enjoyed a 10-year transition to lower cost defined contribution retirement systems. It is time to change the system for all new employees at community colleges, and to extend the defined contribution retirement system to part-time administrators and faculty, as well.

Against:

The coalition of 21 school, state employee, and retiree organizations that opposes this bill argues that although community colleges have been required to offer an alternative defined contribution retirement plan to their employees since 1994, few who have had a choice between this plan (a plan generally set up under TIAA-CREF) and MPSERS have selected the defined contribution system. Often that is because the 'optional retirement plan' requires employee contributions, and also because the defined contribution plans have no retiree health insurance coverage. The net effect of this legislation is that newly hired faculty and administrators would go into a substantially less popular retirement system and have no retiree health insurance for themselves or for their families.

The coalition also notes that the 40-year amortization period in the bill to pay off the unfunded accrued liability is longer than the 32-year amortization period required of all systems currently and longer than the period of time recommended by the General Accounting Standards Board (an independent, private-sector, not-for-profit organization that establishes and improves financial accounting and reporting standards for U.S., state, and local governments).

POSITIONS:

Lansing Community College supports House Bill 5314. (11-8-05)

Washtenaw Community College supports House Bill 5314. (11-8-05)

Grand Rapids Community College supports the bills. (11-8-05)

The Michigan Community College Association supports the bills. (11-8-05)

The Department of Management and Budget and the Michigan Public Schools Retirement System oppose the bills. (11-8-05)

The Retirement Coordinating Council opposes House Bill 5314. (11-1-05)

AFSCME Council 25 opposes House Bill 5314. (11-1-05)

International Union, United Auto Workers opposes House Bill 5314. (11-1-05)

The Michigan Association of Retired School Employees opposes House Bill 5314. (11-1-05)

The Michigan AFL-CIO opposes House Bill 5314. (11-1-05)

The Michigan Education Association opposes House Bill 5314. (11-8-05)

The Michigan-American Federation of School Administrators opposes House Bill 5314. (11-8-05)

Legislative Analyst: J. Hunault
Fiscal Analyst: Al Valenzio

■ 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.