Legislative Analysis

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SCHOOL RETIREMENT AMENDMENTS

Senate Bills 546 and 547
Sponsor: Sen. Wayne Kuipers
House Committee: Education
Senate Committee: Education

Complete to 9-27-07

A SUMMARY OF SENATE BILLS 546 & 547 AS PASSED BY THE SENATE 6-26-07

The bills would amend the Public School Employees Retirement System (MCL 38.43a et al.) to change the way retiree health benefits would be provided to those entering the retirement system (new school employees) after June 30, 2008; to make changes to provisions dealing with the purchase and use of service credit; and to increase the required contribution to the Member Investment Plan for those entering the retirement system.

<u>Graded Premiums.</u> Under the bills, generally, the retirement system would pay up to 90 percent of the monthly premium for health care benefits of a retirant and dependents after 30 years of service credit or employment.

If the retirant was under 60 years of age, then the 30 years of service credit would have to be service credit granted under Section 68 of the act based on hours of service performed during school fiscal years (and not purchased credit).

For a retirant (or deceased member) who was at least 60 years of age and had at least 10 years but less than 30 years, the system would pay 3 percent times the years of service (e.g., 30 percent of the monthly premium for ten years, 45 percent for 15 years, etc.).

The bills specify that the retirement system would not pay the premiums (or membership or subscription fees) until the retirant or beneficiary requests enrollment in the plans or combination of plans in the manner prescribed by the system.

The two bills contain the same provisions regarding retiree health care premiums. <u>Senate Bill 547</u> would amend Section 91 of the act as it is currently in force. <u>Senate Bill 546</u> would amend Section 91 as amended by Public Act 617 of 2006; the amended section takes effect January 1, 2009. Senate Bill 546 is tie-barred to Senate Bill 547.

<u>Purchasing Service Credit.</u> The bills would (1) prohibit employees from purchasing service credit without having earned at least two years of service credit based on hours of service performed; (2) prohibit the crediting of purchased service years toward vesting of health insurance premium payments; and 3) prohibit the public school retirement system, generally speaking, from paying health benefits to an individual unless he or she had been employed and had received a minimum total of one-half of a year of service credit

during the two school fiscal years or a minimum of one-tenth of a year of service credit during each of the five school fiscal years immediately preceding the effective date of the retirement allowance.

The bills specify that public school employees who elected to purchase service credit after July 1, 2008 would not be eligible for health care benefits until the effective date that the member would have been eligible to retire without the purchased of service credit.

MIP Contribution. Senate Bill 547 would increase the required contribution to the Member Investment Plan for a person who first became a member of MPSERS on or after July 1, 2008, and who earned over $15,000 annually.

Under the act, except as otherwise provided, a member of MPSERS who first became a member on or after January 1, 1990, must make the following contributions:

** If the member's annual earned compensation for the school fiscal year is not over $5,000: 3 percent of the member's compensation.

** If the member's annual earned compensation for the school fiscal year is over $5,000 but not over $15,000: $150 plus 3.6 percent of the excess over $5,000.

** If the member's annual earned compensation for the school fiscal year is over $15,000: $510 plus 4.3 percent of the excess over $15,000.

Under the bill, for a member who first became a member on or after July 1, 2008, whose annual earned compensation for the school fiscal year was over $15,000, the required contribution would be increased to $510 plus 6.4 percent (rather than 4.3 percent) of the excess over $15,000.

Current Provisions.

Graded Premiums. The current system does not grade premiums based on years of service or employment for retirees who retire directly from school employment (members). Currently, the system pays the costs of medical benefits for a retirant, although an amount equal to the cost chargeable to a Medicare recipient for Part B Medicare is deducted from the retirant's retirement allowance. (For 2007, the monthly deduction is $93.50) In addition, the system pays up to 90 percent of health benefit costs for dependants of retirants. The system also pays 90 percent of hearing, dental, and vision benefits for retirants and dependants.

However, deferred members (those who leave school employment before reaching the minimum retirement age) currently must pay the total premium for health care if they have less than 21 years of service; deferred members with from 21 to 29 years of service receive a partial premium subsidy equal to 10 percent for each year of service credit over 20 years. (For example, a deferred member with 23 years of service would receive a subsidy of 30 percent of premiums and have 70 percent deducted from the monthly pension.) Those with 30 years receive a 100 percent subsidy.

Purchase of Service Credit. Currently under the law, state employees and public school employees may elect to purchase up to five years of service credit in their respective public retirement systems. The additional years of service increase the amount of their pensions upon retirement. Employees can purchase the extra years of service at any time during employment (although the purchase, with some exceptions, will not be credited until the purchaser has vested). The purchased years typically cannot be used to satisfy the minimum number of years of service credit required to receive a retirement allowance.]

FISCAL IMPACT:

Graded Premiums

The bill would create an indeterminate future savings for local school districts.
According to the Office of Retirement Services, changing the retirement health benefits to a graded premium plan would be cost neutral for the first ten years and would take 30-40 years until most or all employees were covered under the new system to fully see cost savings. However, the ORS estimates that once the savings were fully achieved, costs would be reduced by 43%. If this type of plan had been in place for the last 40 years, employer costs for MSPERS retiree health care benefits would have been reduced by nearly $300 million in 2006.

Purchasing Service Credit

The bill would create significant savings to local school districts by reducing costs to maintain the Michigan Public School Employees Retirement System (MPSERS). According to ORS, prohibiting the purchase of service credit until after two years would save at least $5.7 million per year. They also report that the provision prohibiting purchased service credit from being credited toward vesting in retiree health benefits would save approximately $45.4 million per year.

MIP Contribution

Raising the Member Investment Plan (MIP) contribution rate for school employee pension costs from 4.3% to 6.4% would shift more of the costs from districts to the employee. As it would apply only to new hires, it would save approximately $5 million in the first year, but the savings would grow over time as a higher proportion of school employees were hired after the implementation date. By year 6, the Office of Retirement Services estimates that it would save about $29 million for the year. These figures would continue to grow over 30-40 years until the entire workforce had hired in under the new system.

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