Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 546 (as reported without amendment)
Senate Bill 547 (Substitute S-1 as reported)
Sponsor: Senator Wayne Kuipers
Committee: Education

CONTENT

Senate Bill 546 would amend the Public School Employees Retirement Act to require the Public School Employees Retirement System (PSERS) to pay 90%, rather than 100%, of health insurance premiums for a retirant who became a member of the system after June 30, 2008; require the retiree to be at least 60 years old and have at least 30 years of service credit in order to receive the 90% payment; and provide for a reduced payment if the retiree were 60 or older and had at least 10 but less than 30 years of service credit. The bill is tie-barred to Senate Bill 547.

Senate Bill 547 (S-1) would amend the Act to do the following:

-- Increase the required contribution to the Member Investment Plan for a person who first became a member of PSERS on or after July 1, 2008, and who earned over $15,000.
-- Require all members aged 60 or older to have at least 10 years of credited service before being entitled to a retirement allowance, if they joined PSERS on or after July 1, 2008.
-- Require a person who became a member on or after July 1, 2008, to complete at least 10 years of service before purchasing service credit under the Act.
-- Require PSERS to pay 90%, rather than 100%, of health insurance premiums for a retirant who became a member after June 30, 2008, and who was at least 60 and had at least 30 years of service credit (as proposed by Senate Bill 546).
-- Remove current limitations on the benefit amount that a retirant may receive annually, and instead provide that benefits could not exceed limitations set forth in Section 415 of the Internal Revenue Code.
-- Provide that if any section of the Act were held to be invalid or unconstitutional for any reason, the holding would not affect the validity of the remainder of the Act or the Act in its entirety.

MCL 38.1391 (S.B. 546)
38.1343a et al. (S.B. 547)

Legislative Analyst: Curtis Walker

FISCAL IMPACT

Senate Bill 546 would have a small fiscal impact on the State. The Office of Retirement Services (ORS) already administers PSERS, but could need to increase staff or responsibilities associated with implementing the changes in this bill.

Under the bill's graded premium program provision, local districts eventually would see significant savings due to lower PSERS contribution rates for retiree health benefits. However, there would be no savings in the first 10 years of the program. Savings gradually would increase over the course of 30 to 40 years, when all retirees would be covered under the graded premium program. The ORS estimates that in the long term, districts could save up to 43% of total health care costs once all retirees fell under the plan and subsequently retired.

If this program had been in place over the past 40 years, the State's health care expenses for PSERS retirees would have been $433.2 million in FY 2005-06 rather than the $760.0 million actually incurred, savings of $326.8 million. Health benefit expenses have been increasing in recent years and are likely to continue to increase. Accordingly, the amount of savings generated by a 43% reduction in costs also would increase by the time the plan was fully developed and implemented.

The provision in this bill that would place an age requirement on health care benefits also would produce savings for districts in the long term. There would be no savings in the first 10 years of the program, since the earliest any newly hired employee could retire with benefits would be after 10 years of service when he or she was at least 60 years old. After 10 years, there would be gradually increasing savings for the next 20 to 25 years. Like the graded premium program, full savings would not be realized for 30 to 40 years, when all retirees fell under the plan and subsequently retired. It is difficult to project savings that far into the future, but in the current fiscal year approximately $119 million will be paid for PSERS retirees who are under 60 years old. Again, the actual savings likely would be higher due to increasing health care costs.

Senate Bill 547 (S-1) could have a small fiscal impact on the State. The ORS could need to increase staff or responsibilities associated with implementing the changes in this bill.

Increasing the member contribution rate from 4.3% of salary over $15,000 to 6.4% would produce savings for reporting units of PSERS. The member contributions are credited against what a district owes to PSERS for the normal cost portion of the retirement rate. Therefore, increasing member contribution would decrease the amount required from the district. Assuming 10,000 new public school employees are hired per year with an average starting salary of $35,000, this provision would generate savings of $7.35 million in the first year, with a similar additional cumulative amount in the following years.

The provision eliminating the "60 and 5" retirement provision also would create savings for districts. This provision allows a member to retire at age 60 with five years of service, provided the person worked through his or her 60th birthday and worked in each of the last five years. The total number of people falling under this age/service category is 3,345 out of a system with over 157,000 retirees, or about 2%. An estimate of cost savings is unavailable at this time. However, since the number of retirees who fall under this age/service category is a small percentage of the total, savings are likely to be small.

The provision in this bill requiring 10 years of service for purchased service credit would not generate savings for local districts. Under this bill, two different criteria would determine when a member could retire with full benefits. First, Member Investment Plan (MIP) members may retire as soon as they have 30 years of credited service. The proposed change would not affect this group. A second group may retire at 60 with 10 years of service. Under current law, purchased years of credit cannot count toward the 10-year service requirement, so this group would not be affected by the proposed change.

The fiscal impact of the bill's graded premium program provision and age requirement would be as described above, under Senate Bill 546.

Date Completed: 5-31-07 Fiscal Analyst: Kirk Sanderson

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