Legislative Analysis

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PUBLIC SCHOOL RETIREMENT REVISIONS

Senate Bill 1227 (S-11)
Sponsor: Sen. Jud Gilbert
House Committee: Oversight and Investigations
Senate Committee: Appropriations

Complete to 4-20-10

A SUMMARY OF SENATE BILL 1227 AS PASSED BY THE SENATE 4-14-10

The bill would amend the Public School Employees' Retirement Act (MCL 38.1304 et al.) to make the following changes to the Michigan Public School Employees' Retirement System (MPSERS) benefits:

Increase Employee Contributions.
The bill would require that, beginning July 1, 2010, all MPSERS employees contribute an additional 3% of their salary toward their pension, except employees hired after July 1, 2008 who would pay an additional 0.9%. The table below shows how the bill would change the contribution rate for employees based on their hired date and whether they are in the Basic Plan or the Member Investment Plan (MIP).

MPSERS Employee Contribution Rates				
Plan	**Hire Date**	**Current Contribution**	**Proposed Contribution**	**Increase**
Basic	< Jan. 1, 1990	0.0%	3.0%	3.0%
MIP Fixed	< Jan. 1, 1990	3.9%	6.9%	3.0%
MIP Graded	Jan. 1, 1990 < July 1, 2008	Top Tier = 4.3%	Top Tier = 7.3%	3.0%
MIP Plus	> July 1, 2008	Top Tier = 6.4%	Top Tier = 7.3%	0.9%

The bill provides that the contributions shall be used to fund benefits for service credit earned after October 1, 2010, and may not be used to pay for any unfunded accrued liability associated with benefits earned prior to October 1, 2010.

In addition, the bill provides that employees would accrue service credit for each year in which they make an employee contribution, but requires that any service credit earned in that same period be forfeited by the employee if the payments are not made or if those payments are refunded to the employee, as for example, if a court orders that the contributions be returned to the employees.

Create a Hybrid Retirement Plan for New Employees.
The bill would move all newly hired school employees after July 1, 2010, into a hybrid pension and defined contribution system. The pension would be similar to the existing MIP plan with the following changes:

- Increase final average compensation period from 3 years to 9 years, which will decrease the final average compensation for most employees.
- Eliminate any cost of living adjustments (COLA).
- Increase the minimum retirement age to 60 (currently minimum age for Basic plan is 55 and the MIP plan has no minimum age with 30 years of service.
- Provide a defined contribution benefit (Tier 2) with a 50% employer match on a maximum employee contribution of 2% of salary, for a maximum employer contribution of 1%. The employee would automatically be enrolled with the maximum contribution of 2% unless they affirmatively elect not to contribute or to contribute a lesser amount. The employee would also be allowed to contribute additional funds without the match and subject to DTMB and the Internal Revenue Code. The employee would vest in the employer match as follows: 50% after 2 years of service, 75% after 3 years of service, and 100% after 4 years of service.
- Prohibit an employee in the new hybrid plan from purchasing service credit.
- Provide for a regular interest rate for the Hybrid of between 0% and 7%, and assumes a rate of return of 7%.

<u>Charge Health Care Contribution to Retirees working under Contract</u>
The bill would require that MPSERS retirees who return to work at a MPSERS employer, but either through an independent or third-party contract, reimburse the retirement system an amount equal to their wages being earned, multiplied by the contribution rate for retiree health benefits, which is currently 7.25%. The bill would allow the retirement system to deduct the amount from the retiree's monthly retirement allowance.

<u>Revise Reporting Unit Requirements</u>
Currently each reporting unit, or employer, is required to forward both employer and employee contributions to MPSERS monthly. The bill would change it to a schedule and manner determined by the retirement system.

In addition, the bill currently requires quarterly affidavits certifying aggregate reportable compensation, sources of contributions, and federal wages, and an annual report listing the persons employed with salary, service, and contributions. The bill would instead require a report every pay period, which includes persons employed as well as retirants working at the reporting unit who are employed by a party other than the reporting unit as well as wages, amounts paid, hours, and contributions required under the act.

The bill would also require a reporting unit to pay a daily late fee not less than $25 and interest charges not less than 6% if they fail to correct errors prior to discovery by the retirement system or if errors are found to be intentional.

<u>Provide Supplemental Appropriation for the Office of Retirement Services.</u> The bill would provide $2.0 million for FY 2009-10 for the Office of Retirement Services, which is in the Department of Technology, Management, and Budget, for administering the changes required under the bill. The appropriation would be designated a work project and the funds could be carried forward for use in FY 2010-11.

FISCAL IMPACT:

The bill would create significant savings by shifting a larger portion of employer pension costs to existing employees and by moving new employees to a hybrid retirement plan with fewer benefits. All of the savings associated with the bill would be local and would be experienced by the employers, which include public school districts, intermediate school districts, participating universities, community colleges, public school academies, and certain libraries.

Increased Contributions

Increasing the employee contribution by 3% for MPSERS employees would allow for a reduction in the future employer contribution rate, which is estimated to be 19.41% for FY 2010-11. The bill would require that the rate not exceed 17.01% for FY 2010-11. According to the State Budget Office and the Office of Retirement Services, a 3% increase in employee contribution would generate a savings of $207.0 million in FY 2010-11 and over 10 years, they estimate the cumulative savings would reach $2.4 billion and the savings would be ongoing.

New Hybrid Plan

Creating the new hybrid plan with fewer benefits would reduce the employer normal cost of the pension plan. The Office of Retirement Services had estimated that under the Governor's proposal the normal cost would decrease from a current 4.2% to 1.8% with an additional 1% possible for the defined contribution match. They had estimated a savings of $3.9 million for FY 2010-11 and a cumulative savings over the first 10 years of $410.6 million. However the Governor had proposed a minimum retirement age of 65, and the Senate bill changes that to 60, so the savings would be less than original estimates. Savings would continue to increase as the proportion of school employees in the new plan increases and would be fully realized after approximately 40 years.

ORS Appropriation

Finally, the bill would appropriate $2.0 million for FY 2009-10 for the Office of Retirement Services for implementation costs.

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