Legislative Analysis

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PUBLIC SCHOOL RETIREMENT SYSTEM: INDEPENDENT CONTRACTORS

House Bill 6005
Sponsor: Rep. Tim Melton
Committee: Education

Complete to 4-13-10

A SUMMARY OF HOUSE BILL 6005 AS INTRODUCED 3-25-10

House Bill 6005 would amend the Public School Employees Retirement Act to require a contribution to the retirement system from retirants who are working in the schools as independent contractors.

More specifically, the bill would require that beginning October 1, 2010, a retirant who works as an independent contractor for a reporting unit, or who contracts with third parties to work for a reporting unit, contribute to the public school employees retirement system an amount determined by the system, during the contract period.

Generally, a "reporting unit" means a public school district, intermediate school district, public school academy, tax-supported community or junior college, or an agency having employees on its payroll who are members of this retirement system.

MCL 38.1361

FISCAL IMPACT:

The bill would have no fiscal impact on the State and an indeterminate fiscal impact for local school districts and intermediate school districts.

Currently, districts and intermediate districts pay an annually determined percent of payroll into the Michigan Public School Employees' Pension System (MPSERS) for retirement pension and health care benefits. For FY 2009-10, that rate is 16.94%, but it is expected to increase to 19.41% for FY 2010-11. Districts and ISDs do not contribute on the portion of payroll paid to retirees working as an independent contractor or under a third-party contract. Such retirees do not earn additional retirement service credit while under contract but do draw their pensions and are eligible to receive health, vision, and dental benefits through MPSERS .

There is no available data to determine the number of contracted retirees or their applicable payroll base, nor does the bill specify the level of contribution that would be required. Any extent to which MPSERS required a contribution from such employees would benefit the system and could decrease the required contribution charged annually to districts and intermediate districts, although the impact would likely be minimal.

The bill could reduce the practice of school employees retiring and almost immediately returning to employment, which at a minimum shifts health care costs from the employing district to MPSERS, thereby distributing costs statewide to be shared by districts and ISDs. So the bill could potentially redistribute costs among districts and ISDs by effectively shifting those costs back to the employing district.

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