

## ESTABLISH NEW MPSERS EMPLOYEE ELECTION DATE

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**Senate Bill 1360 as passed by the Senate**

**Sponsor: Sen. Kahn**

**House Committee: Appropriations**

**Senate Committee: Appropriations**

**Complete to 12-4-12**

## A SUMMARY OF SENATE BILL 1360 AS PASSED BY THE SENATE 11-29-12

Senate Bill 1360 would amend the Public School Employees' Retirement Act of 1979 to extend the election and implementation dates previously established under Public Act 300 of 2012 (Senate Bill 1040 as enacted).<sup>1</sup> Under that act, all employees in the Michigan Public School Employees Retirement System (MPSERS) who were hired prior to July 1, 2010 (when new employees began entering a new hybrid retirement plan) were required to make an election between three options:

- Increase their own retirement contributions to 4% for the Basic Plan and 7% for the Member Investment Plan (MIP) and maintain a 1.5% pension multiplier.
- Maintain current contribution rates but freeze existing benefits at a 1.5% multiplier and receive a 1.25% pension multiplier for future years of service.
- Freeze existing pension benefits and move into a defined contribution (DC), 401(k)-style, plan with a flat 4% employer contribution for future service.

Under the amendatory act, the period for making that election began on September 4, 2012. The deadline for making the election was to be October 26, 2012, with the option selected to take effect December 1, 2012.

On September 4, 2012, a temporary restraining order (TRO) was issued by the Ingham County Circuit Court prohibiting the state from enforcing the election dates in Public Act 300. This action delayed implementation of the provisions of the act related to employee elections indefinitely.

Senate Bill 1360 would establish a new deadline for employees to make their elections, extending it from October 26, 2012, to January 9, 2013. The bill would also postpone the date for those elections to take effect, from December 1, 2012, to February 1, 2013.

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<sup>1</sup> For a complete summary of Public Act 300, see this HFA analysis:  
<http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-1040-6.pdf>

## **FISCAL IMPACT:**

Senate Bill 1360 would limit the reduction in intended cost savings from Public Act 300 currently being experienced by both the state and MPSERS employers due to the delayed implementation. Requiring employees to elect higher contributions toward their pension or choose one of the two other retirement plan options would have reduced retirement system costs by approximately \$200 million in the first year, allowing the total employer retirement contribution rate to be held flat for FY 2012-13 while beginning to prefund retiree health care costs.

By delaying implementation of those higher employee contribution amounts, the TRO has resulted in reduced cost savings for the system of between \$15 million and \$20 million per month. These higher costs are split nearly equally between local school districts (and other MPSERS employers) and the state, due to the cap on local employer normal costs established under Public Act 300.

By establishing a new implementation date for increased employee contributions, Senate Bill 1360 would limit the reduced cost savings to a period of two months. Higher costs for local employers and the state, compared to cost levels assumed under Public Act 300, would be limited, then, to approximately \$30 million to \$40 million total. Local employers are paying their half of the costs through a higher contribution rate, which will be reduced once the Public Act 300 changes are implemented. The rate is currently 25.36%, rather than the intended 24.46%. In the case of the additional state costs, funding will have to be appropriated from the School Aid Fund.<sup>2</sup>

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■ 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.

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<sup>2</sup> For additional information on projected state MPSERS costs under Public Act 300, see this HFA memo: <http://www.house.mi.gov/hfa/PDFs/MPERS%20prefunding%20scenario%20memo%20Aug29.pdf>.