Legislative Analysis

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EXPAND SITUATIONS FOR MPSERS RETIREES TO WORK WITHOUT LOSING BENEFITS

House Bill 5261(H-2) as amended
Sponsor: Rep. Holly Hughes
Committee: Education

Complete to 12-6-12

A SUMMARY OF HOUSE BILL 5261 (H-2) AS PASSED BY THE HOUSE 11-29-12

The bill would amend the Public School Employees Retirement Act to expand the situations under which retirees are allowed to retain their retirement allowances and health benefits while providing certain services to schools, to include the following situations: an approved emergency situation, an identified critical shortage discipline, or if employed by a third party or as an independent contractor under certain conditions.

Currently, the Act reduces either pension or retiree health benefits or both while a Michigan Public School Employees' Retirement System (MPSERS) retiree returns to work in a reporting unit, with varying reductions depending on the retirement date and the circumstances of the new employment. Under the Act, the term "reporting unit" means a public school district, intermediate school district, public school academy, tax supported community or junior college, or university, or an agency having employees on its payroll who are members of the retirement system.

The bill would create three types of exemptions from those benefit reductions for retirees returning to work, as described below.

Emergency Situation

The bill would exempt a retiree employed *by* or *at* a reporting unit that has an approved emergency situation (excluding a situation caused by a labor dispute) that necessitates the hiring of a retiree as a teacher, principal, stationary engineer, administrator, or other category as determined by the State Superintendent to prevent depriving students of an education.

The emergency situation provision would apply under the following circumstances:

- The state Department of Education approves the emergency situation.
- The retiree has been retired for at least 12 months before being reemployed.
- The retiree is employed for no more than a total of 3 years.
- The retiree is not eligible to use any of the service or compensation earned under the emergency situation for a recomputation of his or her pension.
- The reporting unit or employer pays to the MPSERS system 100% of the contribution rate for both pension and retiree health benefits for the retiree.

Critical Shortage Disciplines
Currently, the Act requires the State Superintendent to compile and annually update a list of critical shortage disciplines. The bill would exempt a retiree employed *by* or *at* a reporting unit that has a situation (excluding a situation caused by a labor dispute) that necessitates the hiring of a retiree in an area designated as a critical shortage discipline until July 1, 2014.

The critical shortage provision would apply under the following circumstances:

- The retiree has been retired for at least 12 months before being reemployed.
- The retiree is employed for no more than a total of 3 years.
- The retiree is not eligible to use any of the service or compensation earned for a recomputation of his or her pension.
- The reporting unit or employer pays to the MPSERS system 100% of the contribution rate for both pension and retiree health benefits for the retiree.

The bill also provides legislative intent that teacher preparation colleges and universities reform their program enrollment to target the shortages and increase the number of teachers in Science, Technology, Engineering, and Math and to increase the number of educators of students with disabilities before the critical shortage provision expires.

Core Services Performed by Independent or Third-Party Contractors
The bill would exempt retirees who perform core services either as an independent or third-party contractor as long as their earnings per calendar year do not exceed 1/3 of their final average compensation.

The bill also specifies that until July 1, 2014, the term "core services" does not include, and thus also exempts, services provided by a substitute teacher whose earnings per calendar year do not exceed 2/3 of his or her final average compensation.

FISCAL IMPACT:

The bill would have an indeterminate fiscal impact on state and local government. By allowing retirees to return to work under limited circumstances, the bill could create an incentive to retire earlier than an employee might have otherwise, knowing they may continue to work and earn both current compensation as well as a pension. When retirees retire earlier than anticipated under the retirement system's actuarial assumptions, it increases the unfunded liabilities in a pension system. Increased unfunded liabilities would be borne either by the state or MPSERS employers depending on the required employer contribution levels at the time compared to the capped employer rate which was enacted in PA 300 of 2012. However, the 12-month waiting period and the July 1, 2014 expiration date on two of the three exemptions would mitigate these added costs.

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