Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 1040 (Substitute H-3 as passed by the House)
Sponsor: Senator Roger Kahn, M.D.
Senate Committee: Appropriations
House Committee: Appropriations

Date Completed: 6-14-12

CONTENT

Pension Changes

-- Increases employee contributions to retain 1.5% multiplier for future years of service, to 4.0% flat for Basic and 7.0% flat for Member Investment Plan (MIP). Or, employees can choose to pay existing amounts, but take a reduced multiplier of 1.25% for future years of service. Or, employees can opt out altogether by freezing existing pension and going into Defined Contribution (DC) with 4.0% employer contribution for future years.
-- Allows new hires to choose DC instead of the hybrid plan, with an employer contribution of 3.0% if the employee contributes 6.0%. Existing hybrid members will remain in hybrid plan.

Retiree Health Changes

-- Prefunds retiree health care, beginning in FY 2012-13.
-- 80% employer/20% retiree payments (80/20) for retiree health, beginning January 1, 2013. However, for retirees who are Medicare-eligible as of January 1, 2013, retiree health coverage will be 90.0%. For dental and vision benefits, retirees must be age 65 on January 1, 2013 in order to have the 90/10 coverage; otherwise, it will be 80/20. (Reduces State savings $20 million - $25 million from earlier estimates.)
-- New hires would not have retiree health care coverage; instead, they would receive up to 2.0% matching contributions into a 401k account for savings to be used toward the purchase of retiree health, or for any other purpose.
-- Allows existing members to opt out of retiree health care coverage, whereby those employees' 3.0% retiree health contributions made to date would be credited to their 401k account, and they would accumulate matching 401k contributions of up to 2.0%.
-- Provide refunds of 3.0% contributions for retiree health care if a member reaches age 60, but does not vest in retiree health care benefits.

Stranded Costs

To address the issue of stranded costs, applies Current Operating Expenditures (COE) as the basis on which to spread unfunded accrued liabilities, to local districts only (not ISDs, public school academies (PSAs), community colleges, etc.), beginning in FY 2013-14. For ISDs, PSAs, community colleges, etc., MPSERS payroll will continue as the basis for paying unfunded accrued liabilities.

Capping Employer Contribution Rate

Caps the employer contribution rate at 11.9% of COE, or 20.96% of payroll, as applicable, for unfunded liabilities. Requires an appropriation from the School Aid Fund to pay for any excess liabilities above those amounts.

Required Studies and Reports

-- Requires a 12-month study of university retiree health care under MPSERS, along with data to the universities in preparation for implementation of new retiree health care coverage benefit design options for MPSERS university retirees.
-- Commissions an independent study, at a cost of not more than $100,000, to examine the MPSERS system, including the fiscal impact of DC and addressing GASB rules/recommended funding levels, risks to the system, and other items. The study would be completed by 12/31/12.
-- Requires a study regarding the degree to which COE is a stable, growing, and equitable base for charging unfunded accrued liability to local school districts, compared to other measures.

Miscellaneous

-- Allows an individual on leave to remain a member only if the leave is less than two years.
-- Amortizes the early retirement incentive program of 2010 over 10 years, instead of five, as in current law. (This is part of the proposal to pay for the capping of the employer contribution rate at current amounts.)
-- $4.7 million appropriation to the Office of Retirement Services for administering the changes found in Senate Bill 1040.

FISCAL IMPACT

	Current Law (No Changes)	**Senate Bill 1040 (H-3)**
Employer Contribution Rates for FY 2012-13	27.37%	24.46%
Pension Unfunded Accrued Liability	$17.6 billion (from 2010 valuation)	$16.0 billion
Retiree Health Unfunded Accrued Liability	$27.6 billion (from 2010 valuation)	$13.6 billion
Total Liability	$45.2 billion	$29.6 billion
Additional School Aid Fund Necessary to Keep Employer Rate Flat at 24.46%	$0	$150 million - $155 million (This is higher than the original $130 million because it includes the smaller savings due to the 90/10 health care provision for retirees who are Medicare-eligible on January 1, 2013, instead of a straight 80/20 for all.)

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