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BILL



ANALYSIS

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Senate Bill 1360 (as introduced 11-8-12)
Sponsor: Senator Roger Kahn, M.D.
Committee: Appropriations

Date Completed: 11-26-12

CONTENT

Senate Bill (SB) 1360 would amend the Public School Employees Retirement Act to extend the deadline for school employees to make certain pension elections. Specifically, the bill would extend the election deadline initially included in SB 1040 (Public Act (PA) 300 of 2012) from October 26, 2012, to January 9, 2013. Under SB 1040, the election window for pension choices began on September 4, 2012, and ended on October 26, 2012. However, due to a temporary restraining order (TRO) issued in the Ingham County Circuit Court, the election window was "frozen", and not implemented. This bill would address the TRO by providing a longer election window. The bill also would extend the deadline for choosing to opt out of retiree health care coverage, and into a "401k for health" plan, with the same January 9, 2013, deadline for electing this change.

The elections that are part of the election window are required of each Michigan Public School Employees' Retirement System (MPSERS) employee hired before July 1, 2010 (i.e., those active employees not in the "hybrid" plan). The choices under the election window include: 1) to remit higher contributions in exchange for retaining the 1.5% pension multiplier for future years of service; 2) to remit the same contributions as before PA 300, but have a 1.25% pension multiplier for future years of service; or, 3) to remit no contributions, freeze the existing pension benefit, and convert to a specified 4% defined contribution plan for future years of service. In addition, employees choosing the first option are required to identify whether they wish to contribute the higher amounts until retirement, or until achieving 30 years of service.

Under the bill, employees hired before July 1, 2010, would have until January 9, 2013, to make one of the three election choices specified above. The contribution levels chosen would be implemented on the first payroll date after February 1, 2013.

MCL 38.1308 et al.

FISCAL IMPACT

The temporary restraining order issued by the Ingham County Circuit Court has effectively frozen the employee contributions at pre-SB 1040 levels. One of the intentions of SB 1040 was to use the proposed higher employee contributions to offset the cost of prefunding retiree health care, and to keep employer contributions relatively flat. However, this is not currently occurring and, since the practice of prefunding retiree health care is being implemented, employers and the State's School Aid Fund will have to pick up the cost of prefunding retiree health care if the higher pension contributions (and/or savings from the

lower pension multiplier) are not implemented. Specifically, if these elections are not implemented, then in the current year, another \$106.0 million will have to be appropriated from the State's School Aid Fund and school employers will need to pay another roughly \$91.0 million beyond the levels anticipated under SB 1040.

However, if this bill is enacted, if the pension election window is not disallowed by the courts, and if the pension elections are implemented, then the additional costs of prefunding retiree health care as identified above will be removed from employers and from the State, with one exception. Because of the two-month delay in implementing the pension elections, an estimated \$15.0 million to \$20.0 million will be required of the School Aid Fund to make up the foregone pension election contributions, and employers statewide will be required to pay roughly the same amount during the year.

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