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BILL ANALYSIS

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House Bill 5261 (Substitute S-3 as reported)
Sponsor: Representative Holly Hughes
House Committee: Education
Senate Committee: Appropriations

CONTENT

The Public School Employees Retirement Act requires a public school retiree (who retired after July 1, 2010) to forfeit his or her pension and retiree health care benefits if reemployed by a Michigan Public School Employees' Retirement System (MPSERS) reporting unit, when the retiree's earnings exceed one-third of his or her final average compensation. The bill would amend the Act to reinstate an exemption that allowed retired school employees (who had been retired at least one year) in critical shortage discipline areas to return to work and simultaneously draw a pension while earning a paycheck from a reporting unit, as long as the retiree was directly re-employed (i.e., not contracted) by the reporting unit. This exemption expired July 1, 2011. The new exemption would sunset July 1, 2014. The maximum length of reemployment for a retiree under this exemption would be three years. An MPSERS reporting unit that reemployed a retiree under this exemption would be required to pay 100% of the contribution rates for the unfunded accrued liabilities for pension and health, for each retiree rehired.

The bill also would allow retirees (who retired after July 1, 2010) to be rehired, either directly or via a third party administrator, as substitute teachers, until July 1, 2014, and concurrently collect a pension. Retirees hired under this provision would be limited to earning not more than one-third of their final average compensation. A reporting unit engaging the services of a retiree as a substitute teacher would be required to remit 100% of the employer pension and health unfunded accrued liability rates, regardless of whether the retiree was hired directly or indirectly. A third party administrator would be required to provide the employee's name and wages to the reporting unit, and the reporting unit would be required to remit to the Office of Retirement Services the information on substitute teachers who were hired both directly and indirectly.

(Please note: Individuals who retired before July 1, 2010, are allowed to return to work and concurrently draw a pension and earn up to one-third of their final average compensation if directly reemployed by an MPSERS reporting unit, or earn an uncapped amount if employed by a third party administrator but providing services to a reporting unit.)

MCL 38.1361

FISCAL IMPACT

To the extent the extended critical shortage exemption (allowing MPSERS retirees to collect both a pension and an active wage under certain conditions) and the substitute teaching exemption led to more retirements, or earlier retirements, than actuarially assumed, there would be additional liabilities in MPSERS related to additional pension and health care benefits paid out to those retirees who retired earlier than anticipated. However, for the critical shortage exemption, the requirements in the bill that would have to be satisfied under the exemption likely would lead to a fairly narrow use of the provision. Specifically, retirees would have to be retired at least one year, the length of reemployment under the exemption would be no more than three years, the retiree would have to be reemployed directly and in a critical shortage field, and reporting units would have to pay unfunded liability percentages for these rehired retirees. Because of these requirements, it is likely that the fiscal impact on MPSERS would be fairly insignificant.

An MPSERS reporting unit considering using the exemption provision would have to determine whether hiring a retiree under the critical shortage provision were to the benefit of the reporting unit. The reporting unit would not have to pay active health care benefits, but would have to pay the unfunded accrued liability costs for these rehired retirees.

It is likely that numerous retirees would seek to use the substitute teacher provision, but with its earnings limitations of one-third of the final average compensation, and July 1, 2014 sunset, it is unlikely that this provision would give people an incentive to retire earlier than otherwise planned. Additionally, since reporting units would have to pay 100% of the employer retirement and health accrued liability contribution rates regardless of whether the retired substitute was directly or indirectly hired, there likely would be limited financial strain on the retirement system.

An MPSERS reporting unit considering using the substitute teacher provision would have to determine whether hiring a retiree under the provision were to the benefit of the reporting unit. The reporting unit would not have to pay active health care benefits, but would have to pay the unfunded accrued liability costs for these rehired retirees, whether directly or indirectly rehired.

Date Completed: 12-13-12 Fiscal Analyst: Kathryn Summers