Legislative Analysis

UNIVERSITY MPSERS UNFUNDED LIABILITY CONTRIBUTION RATE CAP

Phone: (517) 373-8080
http://www.house.mi.gov/hfa

Analysis available at
http://www.legislature.mi.gov

Senate Bill 343 (S-1) As Passed the Senate
Sponsor: Sen. Tonya Schuitmaker
House Committee: Appropriations
Senate Committee: Appropriations

Complete to 10-5-15

SUMMARY:

Senate Bill 343 would amend the Public School Employees Retirement Act to cap the contribution rate for unfunded actuarial accrued liabilities (UAAL) paid by the 7 universities that participate in the Michigan Public School Employees' Retirement System (MPSERS) at 25.73% of applicable payroll. It would require that any necessary UAAL contributions above that which is paid by the universities would be paid by the School Aid Fund as an annual appropriation in the Higher Education budget (Article III of the School Aid Act).

However, the bill provides that the UAAL rate cap would not apply to a university that implements a tuition and fee rate increase greater than that which is provided in Section 265 of the Higher Education budget (MCL 388.1865). For FY 2015-16, the tuition and fee increase permitted under Section 265 is 3.2%.

The bill would also create a payroll floor by providing that the payroll to which the UAAL rate is applied for each university shall not go below the actuarially projected payroll for that university for each subsequent fiscal year based on the September 30, 2012 actuarial valuation.

BACKGROUND:

There are 7 universities that statutorily participate in the MPSERS system: Central, Eastern, Ferris, Lake Superior State, Michigan Tech, Northern, and Western. The pension plan for these 7 universities was closed to all new employees as of January 1, 1996[1]. Applicable employees hired prior to that date remain in the system. The universities were given a 40-year amortization period in which to pay off any unfunded liabilities related to the pension and retiree health care benefits earned by their employees.

[1] For a more detailed description of the university MPSERS history see the following House Fiscal Agency Memo: http://www.house.mi.gov/hfa/PDF/Retirement/MPSERSuniversitymemo.pdf.

The Office of Retirement Services (ORS) has a separate annual actuarial valuation completed each year for the 7 universities' share of the MPSERS unfunded liability. The cost of the unfunded liability is currently charged to the universities as an equal percentage across their remaining MPSERS payroll and applicable non-MPSERS payroll (those hired after January 1, 1996, who otherwise would have been part of the system).

MPSERS unfunded liabilities are also charged to other MPSERS employers (school districts, intermediate districts, community colleges, participating public school academies and libraries) as an equal percent of their MPSERS payroll. However, beginning in FY 2012-13, as part of pension system revisions made in PA 300 of 2012[2] (PA 300), the unfunded liability rate for these employers was capped at 20.96% of payroll, the rate in place in FY 2011-12. PA 300 required that any unfunded liability above that amount is to be paid out of the School Aid Fund, and annual appropriations have been made since in both the School Aid and Community Colleges budgets.

FISCAL IMPACT:

Senate Bill 343 would shift any future growth in the universities' share of MPSERS UAAL costs from the 7 applicable universities to the state. This would be accomplished through an annual appropriation in the Higher Education budget equal to the amount of any required contribution for the UAAL that exceeds 25.73% times the applicable university payroll. The rate cap was set at 25.73%, the universities' UAAL contribution rate the FY 2011-12 level, to mirror what was done for other employers in PA 300.

According to an actuarial analysis provided by ORS and based on the 2014 actuarial valuation, the estimated annual cost to the State (and equivalent savings to the 7 universities) would be as described below in <u>Table 1</u>, ranging from \$5.2 million for the current fiscal year to \$11.3 million by 2035-36, which is the last fiscal year in the MPSERS universities' UAAL amortization period. However, the actual cost may change from year to year depending on how closely actual pension system experience resembles actuarial estimates for factors like investment growth, payroll, retirement age, and mortality.

The FY 2015-16 Higher Education budget includes an appropriation of \$5.2 million to cover the costs of the initial year of the rate cap. However, one of the 7 applicable universities, Eastern, has established tuition and fee increases that exceed the 3.2% tuition restraint cap in the Higher Education budget, and thus would not be eligible for its share of the funding[3]. While the FY 2015-16 university allocations are not yet available, based on Eastern's share of a similar FY 2014-15 appropriation, this would reduce the cost of this line by approximately \$800,000.

---

[2] For further information see House Fiscal Agency analysis of PA 300 of 2012: http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-1040-6.pdf and http://www.house.mi.gov/hfa/PDF/Retirement/MPSERSreport.pdf

[3] For further information see the following House Fiscal Agency memo on university performance funding and tuition restraint: http://www.house.mi.gov/hfa/PDF/HigherEducation/tuition_memo.pdf

Table 1: Projected State Share of UAAL Contribution Above 25.73% Rate Cap (in millions)	
FY 2015-16	$5.2
FY 2016-17	$5.9
FY 2017-18	$6.1
FY 2018-19	$6.3
FY 2019-20	$6.5
FY 2020-21	$6.8
FY 2021-22	$7.0
FY 2022-23	$7.2
FY 2023-24	$7.5
FY 2024-25	$7.8
FY 2025-26	$8.0
FY 2026-27	$8.3
FY 2027-28	$8.6
FY 2028-29	$8.9
FY 2029-30	$9.2
FY 2030-31	$9.5
FY 2031-32	$9.9
FY 2032-33	$10.2
FY 2033-34	$10.6
FY 2034-35	$10.9
FY 2035-36	$11.3

Finally, the bill would have an indeterminate fiscal impact related to creating a payroll floor for each university to which the UAAL rate would be applied. By preventing a university's reported payroll from declining, it would prevent a university from leaving a portion of its historically accrued UAAL to be shared by the rest of the employers in the system, or in this case due to the rate cap, on the state. This would prevent a phenomenon which is often referred to as "stranded costs". This provision would eliminate the potential for the state cost to increase compared to the actuarial estimates above due to any future reductions in university payroll.

Fiscal Analyst: Bethany Wicksall

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.