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BILL ANALYSIS

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Senate Bill 343 (Substitute S-1 as reported)
Sponsor: Senator Tonya Schuitmaker
Committee: Appropriations

CONTENT

The bill would amend the Michigan Public School Employees Retirement Act by capping the amount universities contribute toward the unfunded accrued liabilities (UAL) in the Michigan Public School Employees Retirement System (MPSERS), and by providing a payroll "floor" on which to base university contributions toward the UAL.

Historically, seven universities were part of MPSERS: Central, Eastern, Ferris, Lake Superior, Michigan Tech, Northern, and Western. Public Act 5 of 1995 closed the defined benefit pension plan offered under the Act for people hired at these universities on or after January 1, 1996. Beginning with fiscal year (FY) 1996-97, the universities' contribution rates were calculated separately from the rest of the System (which includes K-12 school districts, community colleges, intermediate districts, and participating charter schools and libraries), and were based on a 40-year amortization schedule to pay down any UAL associated with their own employees who remained in MPSERS.

Employers make retirement contributions based on the "normal cost" (the cost of providing a year's worth of pension benefits for a year worked) and based on the shortfall in assets compared to benefits earned (the UAL). The bill would cap the amount participating universities pay into the system for the portion of the contribution rate that pays down UAL. The bill would freeze the UAL rate to not more than 25.73% applied to the combined payroll of both participating employees and employees who would have been part of MPSERS had the universities not been subject to legislation that closed the pension plan to future hires beginning in 1996.

The rate cap of 25.73% reflects the rate that universities were contributing toward the UAL in FY 2011-12. This fiscal year is also the year for which the rate was capped for the other MPSERS participating employers listed above, although the rate is different since universities have been calculated in a separate manner since the System was closed beginning in 1996.

The bill also would establish a payroll "floor" on which the UAL rate cap of 25.73% would be applied. The level of the floor would be at least the combined payroll projected for each upcoming fiscal year based on the September 30, 2012, actuarial valuation. The establishment of a "floor" would provide greater State fiscal stability by ensuring a minimum level of contributions from the universities, regardless of actual staffing levels. This would generate the UAL dollars that were projected by the actuary, and hold each university harmless for any payroll/offloading decisions of its peers. According to the Office of Retirement Services, the expected outcomes of this provision are 1) avoiding any stranded costs at either the MPSERS level or the university level, thereby allowing the economic gains of the past few years to be fully realized; 2) providing greater accuracy in cost projections for universities; and 3) providing greater accuracy in cost projections for the above-the-cap funding, which would be borne by the School Aid Fund, according to the bill.

MCL 38.1341 et al.

FISCAL IMPACT

The first-year cost of the university cap is estimated at $5.2 million from the School Aid Fund, which has been included in the conference report for the Higher Education budget bill. The long-term projection of costs is estimated as shown in Table 1. These figures will change based on actual experience versus assumptions, and will be modified yearly according to actuarial valuations.

Table 1

Fiscal Year	Above-the-Cap Estimates (In Millions)
FY 2015-16	$5.16
FY 2016-17	$5.34
FY 2017-18	$5.52
FY 2018-19	$5.72
FY 2019-20	$5.92
FY 2020-21	$6.12
FY 2021-22	$6.34
FY 2022-23	$6.56
FY 2023-24	$6.79
FY 2024-25	$7.03
FY 2025-26	$7.27
FY 2026-27	$7.53
FY 2027-28	$7.79
FY 2028-29	$8.06
FY 2029-30	$8.35
FY 2030-31	$8.64
FY 2031-32	$8.94
FY 2032-33	$9.25
FY 2033-34	$9.58
FY 2034-35	$9.91
FY 2035-36	$10.26

Source: Office of Retirement Services

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