

Legislative Analysis



MPERS DC PLAN – INCLUDE FORMER PENSION PLAN PARTICIPANTS WHO SWITCHED TO DC IN 2012

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

House Bill 5093 (S-3) as Enacted
Public Act 169 of 2018
Sponsor: Rep. Beau LaFave
Committee: Financial Liability Reform
Complete to 10-18-18

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

SUMMARY:

House Bill 5093 would amend the Public School Employees Retirement Act to expand the defined contribution (DC) benefit that began in February 2018, under recently enacted MPERS revisions (SB 401, PA 92 of 2017¹), to include a group of active MPERS employees inadvertently excluded from the new DC benefit.

PA 92 revised a previous, optional MPERS DC plan, a 401k style retirement saving plan, to instead provide an automatic employer contribution equal to 4% of an employee's compensation plus an additional employer matching contribution equal to 100% of an employee's contribution up to 3% of the employee's compensation beginning February 1, 2018. PA 92 provided this increased DC benefit to employees hired since 2010 who chose the existing, optional DC plan, as well as those hired subsequently since PA 92 was enacted.

However, PA 92 did not extend the increased DC benefit to employees hired prior to 2012 who were in the pension plan but chose to freeze their pension and take a 4% DC plan for their remaining years of employment rather than paying the increased employee contributions that were required under previous MPERS revisions enacted under PA 300 of 2012.²

The bill would include this population in the new DC benefit, which would increase it to include, in addition to the automatic, flat 4% employer contribution, the option of contributing and receiving equal matching employer contributions capped at 3% of their compensation. The bill would provide a default employee contribution of 3% unless the employee elects not to contribute or to contribute a lesser amount.

FISCAL IMPACT:

The bill would increase costs to MPERS employers including school districts, intermediate school districts, community colleges, district libraries, and applicable public

¹ See House Fiscal Agency analysis for PA 92 of 2017:
<http://www.legislature.mi.gov/documents/2017-2018/billanalysis/House/pdf/2017-HLA-0401-A84AD1A8.pdf>

² See House Fiscal Agency analysis for PA 300 of 2012:
<http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-1040-6.pdf>

universities by creating additional employer retirement contribution costs to the extent that employees increase their DC contribution.

The applicable MPSERS active employee population to whom the bill would apply is a diminishing one, as it was tied to a retirement contribution decision in 2012, and each year a portion of that population retires. The number of applicable employees dropped from 5,272 in FY 2016-17 to 4,235 in FY 2017-18. The maximum potential increased cost, based on 2016 estimates provided by the Office of Retirement Services, is estimated to be between \$3.0 million and \$3.5 million in the first full year. The cost would diminish every year as applicable employees retire; the annual attrition would more than offset increases related to annual compensation increases.

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.