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BILL



ANALYSIS

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House Bill 5093 (Substitute H-1 as passed by the House)

Sponsor: Representative Beau LaFave

House Committee: Financial Liability Reform

Senate Committee: Education

Date Completed: 4-30-18

## **CONTENT**

The bill would amend the Public School Employees Retirement Act to provide for matching employer contributions of up to 3% of pay into an employee's 401k account, for those employees who, in 2012, chose to freeze their defined benefit pension contributions and enroll in the defined contribution plan going forward.

In 2012, active employees were allowed to choose between one of three options: pay higher contributions into the system and retain a 1.5% pension multiplier on all years of service; pay the same contributions into the system and receive a lower (1.25%) pension multiplier on future years of service; or, eliminate contributions into the system, freeze defined benefit years of service, and enroll in a defined contribution (401k) plan going forward.

For those employees who chose to eliminate contributions into the defined benefit plan and move into the defined contribution plan, the employer was required to contribute 4% of the employee's pay into the 401k account.

Effective in July 2017, Public Act 92 of 2017 amended the statute to establish an enhanced defined contribution plan for new employees, namely where the employer deposits 4% of pay into a 401k account and matches up to another 3% of employee contributions, for a maximum total employer cost of 7% of the employee's pay. This bill would provide the same 4% mandatory plus up to 3% matching contributions for those employees who chose, in 2012, to freeze their pension benefit and move into the 401k defined contribution plan.

MCL 38.1384b

## **FISCAL IMPACT**

The bill would affect a closed pool of employees: those who chose, in 2012, to freeze their pension benefit and move to a defined contribution plan going forward. At the time, there were 5,272 employees who made that decision; in fiscal year (FY) 2016-17, there were 4,235 such employees remaining.

The estimated partial-year FY 2017-18 cost is \$1.0 million, paid by the School Aid Fund (SAF). (The cost reflects the additional employer match of up to 3% of the employee's pay, required under the bill to be paid by the SAF.) The FY 2018-19 full-year cost to the SAF is estimated at \$3.5 million. The cost should decline annually as employees in the closed pool retire.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.