Legislative Analysis

EXTEND SUNSET ON PROVISION ALLOWING MPSERS RETIREES TO WORK IN CERTAIN SITUATIONS WITHOUT LOSING BENEFITS

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House Bill 5357 as introduced
Sponsor: Rep. Steven Johnson
Committee: Education
Complete to 2-24-20

SUMMARY:

House Bill 5357 would amend the Public School Employees Retirement Act. Currently, the act reduces either pension or retiree health benefits, or both, while a Michigan Public School Employees' Retirement System (MPSERS) retiree returns to work in a ***reporting unit***, with varying reductions depending on the retirement date and the circumstances of the new employment. However, the act exempts certain categories of employment from those benefit reductions. The bill would extend the sunset (expiration date) for the exemption of some retirees and revise additional conditions regarding substitute teachers.

> ***Reporting unit*** is defined in the act as a public school district, intermediate school district, public school academy, tax-supported community or junior college, or university (with exceptions) or an agency having employees on its payroll who are members of this retirement system.

Sunset

The bill would allow certain retirees to work without losing retirement benefits while providing certain services to schools in an identified critical shortage discipline[1] or as a substitute teacher, instructional coach, or school improvement facilitator. These provisions were already in the act with a sunset of July 1, 2021;[2] the bill would move the sunset to July 1, 2031.

Substitute teachers

In addition to extending the sunset date, the bill would make two further changes for substitute teachers only.

Currently, a teacher who retired between June 30, 2010, and September 2, 2017, who meets the requirements of a bona fide termination and whose compensation as a substitute teacher would be less than 1/3 of the teacher's final average compensation, may work as a substitute teacher without losing certain benefits. (The retiree may not apply this substitute teaching for a recomputation of his or her pension.) The bill would remove the 2017 deadline.

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[1] The FY 2019-20 list of critical shortage disciplines is available at https://www.michigan.gov/documents/mde/2019-20_Critical_Shortage_Retirees_List_653834_7.pdf

[2] House Fiscal Agency analysis of HB 4422/2018 PA 141: http://www.legislature.mi.gov/documents/2017-2018/billanalysis/House/pdf/2017-HLA-4422-2442CE14.pdf

Additionally, the bill would remove the provision that currently requires the reporting unit at which the retiree substitute teaches to pay 100% of the contribution rate for the ***unfunded actuarial accrued liabilities (UAAL)*** for the pension and for the UAAL for the retiree health care to MPSERS.

> ***Unfunded actuarial accrued liability (UAAL)*** is the difference between the retirement system's assets and the pensions or health benefits accrued (for past service) to current or future retirees. (According to the Michigan Office of Retirement Services, http://www.michigan.gov/psru/0,2496,7-284-60462-345746--,00.html)

[Note: The bill would retain the requirement that reporting units pay 100% for of the contribution rate when retirees are employed as independent contractors in critical shortage disciplines and, generally, when employed as school renewal coaches or high impact leadership facilitators.]

MCL 38.1361

FISCAL IMPACT:

The bill would have an indeterminate fiscal impact on state and local government.

By extending the sunset to allow retirees to return to work in certain critical shortage disciplines or as substitutes, and by removing the deadline by which a retiree substitute must have retired to be eligible, the bill could create an incentive to retire earlier than an employee might have otherwise, knowing they may continue to work and earn both current compensation as well as a pension. When retirees retire earlier than anticipated under the retirement system's actuarial assumptions, it increases the unfunded liabilities in a pension system. The sunset extension for instructional coaches or school improvement facilitators would not create an incentive to retire earlier because the retirement deadline to be eligible under this category has passed (September 2, 2017).

Increased unfunded liabilities would be borne either by the state or MPSERS reporting units depending on the required employer contribution levels at that time compared to the capped employer UAAL rate enacted under 2012 PA 300. However, the existing statutory limitations determining eligibility could limit the use of this provision and thus mitigate these added costs.

Eliminating the requirement that a reporting unit pay the UAAL contribution rate on a substitute teacher's compensation would decrease the direct cost to individual reporting units and shift those costs to the state share for UAAL, which is funded in the School Aid and Community Colleges budgets.

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