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BILL ANALYSIS

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House Bill 4694 (Substitute S-6)
Sponsor: Representative Jim Lilly
House Committee: Government Operations
Senate Committee: Appropriations (discharged)

Date Completed: 12-9-20

CONTENT

The bill would amend the Michigan Public School Employees' Retirement Act to do the following:

-- Extend sunsets (from July 1, 2021, to July 1, 2025) related to the ability to rehire retired employees of the Michigan Public School Employees' Retirement System (MPSERS) and allow those retirees to retain their pensions and earn wages during their period of reemployment in the areas of critical shortage, substitute teachers, instructional coaches, and independent contractors.
-- Remove the three-year limit on reemployment for critical shortage positions and independent contractors.
-- For a critical shortage position or for an independent contractor, allow the rehiring of a retiree who has been retired for less than one year if he or she were reemployed by a district that provided instruction under an extended COVID-19 learning plan. (Current law requires a retiree to wait 12 months before becoming reemployed in a critical shortage position or as an independent contractor and earning wages while retaining a pension.)
-- For a substitute teacher or instructional coach, allow the rehiring of a retiree who retired after September 2, 2017. (Current law allows retirees retired after June 30, 2010, and before September 2, 2017, to become reemployed and retain full pension benefits, subject to the cap on earnings found in current law.)
-- Require a retiree who was reemployed as a substitute teacher or instructional coach to wait at least 12 months before reemployment, unless he or she was reemployed by a district operating under an extended COVID-19 learning plan. (This would make the rehiring of retirees as substitute teachers or instructional coaches consistent with the provisions regarding the rehiring of retirees to fill critical shortage positions.)
-- Extend the window during which an employee may retiree and become reemployed without forfeiting pension benefits, for a specific school leadership support program funded by a Federal grant, private grant, or both.

MCL 38.1361

FISCAL IMPACT

In general, if employees in a pension system have the ability to retire, draw a pension, and simultaneously earn wages during a period of reemployment, at least a portion of the employees are likely to retire earlier than they would in the absence of the ability to 'double dip'. The bill would extend sunsets on the ability to retain a pension while working, would remove narrow windows of retirees who could be rehired as substitute teachers, and would remove three-year limits on the reemployment of retirees in critical shortage positions and as independent contractors. With the changes found in the bill, it is likely that at least some MPSERS employees would retire earlier than they otherwise would have if faced with the conditions for reemployment found in current law. One cost-mitigating factor in the bill would be the requirement for retirees to have been retired at least 12 months (except for those retirees reemployed by a district operating under an extended COVID-19 learning plan).

The fiscal impact on the State would be an increased cost to the School Aid Fund to pay for additional unfunded accrued liabilities (UAL). The increase in UAL would be commensurate with the number of employees choosing to retire earlier than the retirement system planned for, meaning that pensions would be paid out earlier than had been assumed and funded. However, it is not possible to determine a magnitude of the increase in UAL.

The State's actuary for MPSERS assumes that 10% of employees will retire at their earliest eligibility date. To give an idea of potential magnitude, if that percentage increased to 12% as a result of the bill, the actuary has estimated that the cost to the system would be roughly 0.5% of payroll, or roughly $45.0 million, which would be added to the existing UAL and amortized (paid off over time). However, whether this percentage would increase by a significant amount because of the bill is unknown. Any increased cost would be paid for by the School Aid Fund.

The fiscal impact on local units of government (local districts, public school academies, and intermediate school districts) likely would be favorable. Schools would have more options to fill positions from the retiree pool. Also, the rehiring of a retiree would mean that the school could avoid paying health care costs (since the retiree's health care coverage would be paid by the retirement system).

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