Legislative Analysis

MPSERS – REVISE PAYROLL GROWTH ASSUMPTION

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House Bill 4261 as introduced
Sponsor: Rep. Thomas A. Albert
Committee: Appropriations
Complete to 2-16-21

SUMMARY:

House Bill 4261 would amend the Public School Employees Retirement Act to require that the pension and retiree health care payroll growth assumption rate for a reporting unit that is not a university reporting unit be 2.25% for fiscal year (FY) 2021-22. For subsequent fiscal years, beginning in FY 2022-23, the bill would retain the current requirement that the payroll growth assumption be reduced annually by 50 basis points until the rate is zero.

For FY 2020-21, the payroll growth assumption used by the actuary is 3.5%. Under current law, the payroll growth assumption will be lowered by 50 basis points each year, beginning in FY 2021-22, until the assumption is 0%, presumably in FY 2027-28. However, beginning in FY 2024-25, the Office of Retirement Services (ORS) has the authority to reduce the rate of return by 25 basis points instead in any year in which the direct cost of a 50-basis-point reduction would increase the combined pension and retiree health care unfunded actuarial liability (UAL) contribution by 7% or more compared to the previous year. This authority would remain under the bill.

The bill would effectuate level dollar amortization for the Michigan Public School Employees' Retirement System (MPSERS) one year sooner than current law under current estimates.

MCL 38.1341

FISCAL IMPACT:

The bill would increase School Aid Fund (SAF) baseline costs by between $160.0 and $170.0 million in FY 2021-22 based on the most recent actuarial analysis from ORS. The SAF would realize this increase in baseline costs annually through FY 2026-27 because the annual payroll growth assumption rate would be lower than under current law (see Table 1).

Table 1 – Payroll Growth Assumption Rates

Fiscal Year	Current Law	HB 4261
2020-21	3.5%	3.5%
2021-22	3.0	2.25
2022-23	2.5	1.75
2023-24	2.0	1.25
2024-25	1.5	.75
2025-26	1.0	.25
2026-27	.5	0.0
2027-28	0.0	0.0

As noted above, the bill would shift MPSERS to a level dollar amortization method one year sooner than current law. A level dollar amortization method generally front-loads payments compared to a level percent of payroll method, creating an initial increase in costs compared to what would have otherwise been anticipated. Those short-term cost increases are offset by long-term savings because contributing those funds into the system earlier also allows them to gain investment returns over a longer period.

In sum, the bill would increase costs in the near term (noted above) and generate longer-term savings of an indeterminate amount.

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