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BILL ANALYSIS

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House Bill 4375 (Substitute S-2 as reported)
House Bill 5536 (Substitute H-1 as reported without amendment)
Sponsor: Representative Steven Johnson (H.B. 4375)
Sponsor: Representative Lori Stone (H.B. 5536)
House Committee: Education
Senate Committee: Education and Career Readiness

CONTENT

House Bill 4375 (S-2) would amend Section 61 of the Michigan Public School Employees Retirement Act (MCL 38.1361) to replace numerous existing criteria, restrictions, limitations, exemptions, and procedures for school retirees to return to work in a school setting and simultaneously draw a pension, with a requirement that the retiree not return to work before nine months had elapsed since retirement. The bill also would remove a requirement that school employers pay into the retirement system a portion of rehired retirees' wages to support retiree health care benefits and pensions, and would require school employers to report the rehiring of retirees to the Office of Retirement Services (ORS). In addition, the bill would 'grandfather-in' any existing retiree who currently is working at a reporting unit, which would remove any earnings limitations or sunsets limiting how long that retiree could work during retirement.

Under current law, retirees in the Michigan Public School Employees' Retirement System (MPSERS) generally may not return to work in a public school setting and also draw a pension unless the earnings do not exceed one-third of what the person was earning before retirement, or unless one of a number of exemptions are met. Existing law allows for retirees to return to work and draw a pension if various criteria are met and they are employed as substitute teachers, teach in critical shortage areas, are employed as instructional coaches, or meet one of a number of other specific situations outlined in the statute.

The bill would allow a retiree to return to work if he or she did so before nine months had elapsed after retirement, but the retiree would forfeit retiree health care benefits and pension for each month worked. Retirees in this situation could purchase retiree health care benefits from the System but would have to pay for it themselves.

House Bill 5536 (H-1) would add Section 61a to the Act to require the ORS to prepare one report showing the number of active retirees employed during the first year after enactment of the bill, and a second report showing the number of active retirees employed during the subsequent four years. The reports would have to be provided to the Senate Majority Leader, the Speaker of the House, the Senate and House Appropriations Committees, and to the Senate and House Fiscal Agencies. The bill is tie-barred to House Bill 4375.

MCL 38.1361

FISCAL IMPACT

The fiscal impact to a retirement system of allowing retirees to return to work and simultaneously draw a pension arises because, when this is allowed, people choose to retire earlier than they otherwise would if 'double dipping' were not allowed. Existing law has attempted to mitigate any negative fiscal impact on the retirement system by setting limitations and criteria as to the types of retirees may return to work, how much they may earn, how long they may work after retirement, the length of time after retirement before being allowed to return to work, and other restrictions. However, House Bill 4375 (S-2) would eliminate all but one requirement: that any retiree wait at least nine months before returning to the school workforce.

Therefore, while the nine-month wait period likely would forestall some workers from retiring early, others, knowing that they could return to work and both draw a pension and an active salary nine months after retirement, likely would retire earlier than they had otherwise planned. By doing so, the actuarial assumptions used, and contributions remitted, during each of those employees' years of work would be insufficient to fund their pensions, which would be drawn earlier than planned (and paid) for. This, then, would increase costs to the System as a whole, funded by the State and the School Aid Fund (SAF). The size of this increased State/SAF cost is indeterminate and would depend on how many people chose to retire earlier than otherwise planned, and how much this would increase unfunded liabilities associated with those retirees' pensions (being drawn earlier than planned for and funded).

In addition, House Bill 4375 (S-2) would remove existing provisions that require school employers to remit a portion of rehired retiree wages to support unfunded accrued liabilities related to pension and retiree health care. In so doing, this, too, would increase costs to the State and the SAF. On the reverse side, this would reduce those costs currently borne by school employers. According to the ORS, roughly $13.0 million was remitted by school employers in school year 2020-21 for this purpose. Even if no additional retirees retired earlier than otherwise planned, this aspect of the legislation would result in a net State cost increase (of approximately $13.0 million if numbers of rehired retirees remained stable) and an equal local cost decrease (since the cost would be shifted to the State/SAF).

To the extent school employers rehired retirees instead of hiring nonretirees, those employers likely would see reduced costs because they would not be paying health care insurance. Instead, health care coverage would be provided to the retirees who were rehired, using benefits provided under MPSERS. These savings would be in addition to the cost shift of the unfunded liabilities payments from the schools to the State.

The reports required under House Bill 5536 (H-1) would increase costs to ORS but, the increase should be minimal.

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