Legislative Analysis

EARNINGS CAP FOR RETIRED SCHOOL PERSONNEL TO STILL RECEIVE RETIREMENT ALLOWANCE

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House Bill 4752 as introduced
Sponsor: Rep. Matt Koleszar
Committee: Education
Complete to 6-22-23

SUMMARY:

House Bill 4752 would amend the Public School Employees Retirement Act to allow a retiree to be ***employed at a reporting unit*** and continue to receive their retirement allowance (pension) and subsidy for retirement health care benefits as long as the retiree retired after a ***bona fide termination of employment*** and earns $10,000 or less in a calendar year.

> ***Employed at a reporting unit*** means employed directly by a reporting unit[1] as an employee, indirectly by a reporting unit through a contractual arrangement with other parties, or by engagement of a retiree by a reporting unit as an independent contractor.
>
> ***Bona fide termination of employment*** means that a retiree has completely severed the employer-employee relationship with their reporting unit employer, as determined by the retirement system. Completely severing that relationship includes a retiree's not working for their reporting unit employer during the month of their retirement allowance effective date and, before severing the employer-employee relationship, the retiree does not intend, expect, or have an offer or contingency to become employed at any reporting unit.

Presently an individual who is retired for at least nine consecutive months, following a bona fide termination of employment, is eligible to return to work at a reporting unit and still receive their retirement benefits.[2] The bill would allow an individual, after their bona fide termination of employment, to still work at a reporting unit and receive their retirement benefits, provided that they earn less than $10,000 per year. Under this provision, the individual would not need to be retired at least nine consecutive months before being eligible to work at a reporting unit and not have to forfeit their retirement benefits.

An individual who does not qualify for an exemption under both current law and the bill may still work for a reporting unit, but they would forfeit their retirement allowance and health care subsidy in each month they are employed. Once they terminate employment with a reporting unit, they are again eligible to receive those benefits, although the benefit amounts are not recalculated based upon the additional time spent working at a reporting unit.

MCL 38.1361

[1] A public school district, intermediate school district (ISD), public school academy (PSA), tax-supported community or junior college, or agency with employees who are members of the retirement system.
[2] This provision was added by 2022 PA 184, which also 'grandfathered in' retirees already working at a reporting unit on the day it took effect (July 25, 2022) by allowing them to do so without forfeiting their retirement benefits.

FISCAL IMPACT:

Generally speaking, the bill would create an incentive for some employees to retire earlier than they might have otherwise knowing that they may return to work immediately upon a bona fide termination of employment and earn up to $10,000 in current compensation and a pension. When retirees retire earlier than anticipated under the retirement system's actuarial assumptions, it increases the unfunded liabilities in a pension system. While the bill's provision capping compensation at $10,000 per calendar year for the retiree to be eligible for immediate employment (as opposed to having the current nine-month wait) would have a mitigating effect on early retirements, there would still be a number of individuals who retire earlier under the bill than they otherwise would have under current law.

Increased unfunded liabilities would be borne by the School Aid Fund. The increased unfunded liabilities would be directly related to the number of employees choosing to retire earlier than the system otherwise assumed. Reporting units would realize reduced health care costs by hiring a retiree because the retiree would have health care costs covered by the retirement system and not need to have them covered by the reporting unit. For context, according to the Office of Retirement Services, if the number of individuals who retired at their earliest eligibility date increased from 10% to 12%, it would result in an increase of cost to the system of 0.5% of payroll. Using the FY 2021-22 valuation payroll of $8.5 billion this would increase the cost to the system by approximately $42.5 million.

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