Legislative Analysis

MPSERS – REVISE UAAL CONTRIBUTION AND PAYROLL GROWTH ASSUMPTION

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House Bill 5002 (H-1)
Sponsor: Rep. Julie Rogers
Committee: Appropriations
Complete to 9-18-23

SUMMARY:

House Bill 5002 is a budget implementation bill associated with 2023 PA 103 that would amend the Public School Employees Retirement Act to do both of the following:

- Revise the unfunded actuarial accrued liability (UAAL) contribution for a university reporting unit based on the deposit of an additional $200.0 million in FY 2022-23 to reduce the UAAL for the seven universities participating in the Michigan Public School Employees' Retirement System (MPSERS).
- Revise the payroll growth assumption rate for a non-university reporting unit to reflect the accelerated reduction funded in 2023 PA 103.

<u>UAAL Contribution</u>
The bill would revise the UAAL contribution for the seven universities participating in the MPSERS for FY 2023-24 to recognize the $200.0 million appropriation made in 2023 PA 103 in addition to the prior appropriation of $300.0 million that is required to be recognized under current law. Specifically, the bill would require the UAAL contribution for FYs 2022-23 and 2023-24 to equal the actuarial determined contribution rather than the FY 2021-22 amount (prior contribution floor). The bill would also have the effect of resetting the contribution floor to the FY 2023-24 calculated UAAL contribution for the subsequent fiscal year.

The actuarial determined contribution for FY 2023-24 would recognize the $200.0 million deposit made into the MPSERS system in a FY 2022-23 supplemental in 2023 PA 103 to lower UAAL contributions for the universities. $300.0 million was previously deposited into the MPSERS system through 2022 PA 144, a FY 2021-22 supplemental.

<u>Payroll Growth Assumption</u>
The bill would require that the pension and retiree health care payroll growth assumption rate for a reporting unit that is not a university reporting unit be 0.75% for FY 2023-24, a 50 basis point acceleration in the payroll growth assumption rate reduction required under current law. For subsequent fiscal years, beginning in FY 2024-25, the bill would retain the current requirement that the payroll growth assumption be reduced annually by 50 basis points until the rate is zero and level dollar amortization payments for UAAL are achieved.

For FY 2022-23, the payroll growth assumption was 1.75%, which represented a 75 basis point acceleration due to an appropriation under 2022 PA 144. Under current law, the payroll growth assumption will be lowered by 50 basis points each year until the assumption is 0%, presumably in FY 2026-27. 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 UAAL 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 MPSERS one year sooner than current law under current estimates.

MCL 38.1341

FISCAL IMPACT:

UAAL Contribution

The bill is expected to lower annual MPSERS UAAL contributions by an estimated $18.9 million for the seven universities that participate in the system. This represents additional savings over and above those realized by the universities due to the $300.0 million deposit in 2022 PA 144. A breakdown of anticipated cost savings for the universities is located in Table 1.

Table 1 – Estimated FY 2023-24 UAAL Contribution Savings

University	**Estimated FY 2023-24 UAAL Savings**
Central Michigan University	$4,704,599
Eastern Michigan University	2,348,271
Ferris State University	3,093,316
Lake Superior State University	580,542
Michigan Technological University	2,137,943
Northern Michigan University	1,775,282
Western Michigan University	4,321,796
TOTAL	**$18,961,749**

The estimated FY 2023-24 UAAL savings are a snapshot in time and reflect the $200.0 million UAAL payment in 2023 PA 103 and the most recent actuarial valuation made by ORS. University savings could be higher or lower depending on actual FY 2023-24 payroll. Contribution savings due to the UAAL deposits will continue in subsequent fiscal years, but would change from the amounts specified in the table based on future actuarial valuations.

Payroll Growth Assumption

The 50 basis point acceleration in the payroll growth assumption to 0.75% under the bill would increase baseline costs by an estimated $90.8 million in FY 2023-24, which is funded as part of the $215.8 million MPSERS Retirement Obligation Reform Reserve Fund appropriated under section 147c of the School Aid Act for FY 2023-24 (2023 PA 103). The remaining $125.0 million appropriated from the reserve fund accommodated the required 50 basis point reduction to 1.25% under current law. The state would realize an increase in baseline costs annually through FY 2025-26 because the annual payroll growth assumption rate would be lower than under current law (see Table 2). 2023 PA 103 deposits $400.0 million into the MPSERS Retirement Obligation Reform Reserve Fund, which could be used to help offset costs in future fiscal years.

Table 2 – Payroll Growth Assumption Rates

Fiscal Year	Current Law	HB 5002
2020-21	3.5%	3.5%
2021-22	3.0%	3.0%
2022-23	1.75%	1.75%
2023-24	1.25%	0.75%
2024-25	0.75%	0.25%
2025-26	0.25%	0.0%
2026-27	0.0%	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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