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BILL ANALYSIS

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House Bill 4752 (Substitute H-3 as passed by the House)
Sponsor: Representative Matt Koleszar
House Committee: Education
Senate Committee: Education

Date Completed: 9-11-23

CONTENT

The bill would amend the Public School Employees Retirement Act to allow a retiree to work for a reporting unit and continue to receive the retiree's pension and retirement health care benefits if the retiree had retired after a bona fide termination of employment *and* earned $10,100 or less per calendar year.

The Act provides the Michigan Public School Employees' Retirement System (MPSERS) to the State's public school employees. The MPSERS retirement plan is funded by employer and employee contributions, payments made for the purchase of service credit, and the investment earnings on these dollars. Generally, MPSERS employers are referred to as "reporting units" because they report wage and service records for each MPSERS member to the Michigan Office of Retirement Services (ORS). The Act defines "reporting unit" as a university or an agency with employees on its payroll who are members of the retirement system, or a public school district, intermediate school district, public school academy, or tax supported community or junior college.

Under the Act, MPSERS members (generally, public school employees) who have retired receive a retirement allowance (pension) and a subsidy for health care benefits (for more information, see **BACKGROUND**). Currently, if a retiree becomes employed at a reporting unit once again, he or she forfeits these benefits, other than a disability allowance payable under the Act, for each month in which the retiree is employed by the unit. Once the retiree ends employment with the reporting unit, the pension and health care subsidy resume without recalculation.

There are exceptions to this required forfeiture under the Act. For example, a retiree employed at a reporting unit is exempt if he or she retired after a bona fide termination of employment and was retired for at least nine consecutive months before becoming employed by a reporting unit. Under the bill, a retiree also would be exempt if the retiree retired after a bona fide termination of employment and the earnings of the retiree did not exceed $10,100 per calendar year. ("Bona fide termination of employment" means that a retiree has completely severed the employer-employee relationship with his or her reporting unit employer.)

MCL 38.1361

BACKGROUND

All public school employees who do not fall into an excluded category are automatically considered members of MPSERS. This includes temporary and intermittent employees, such as substitute teachers and crossing guards. It does *not* include individuals employed under specified acts or programs, including the Michigan Youth Corps Act and the PATH (Partnership. Accountability. Training. Hope.) program, among others, unless the individual was regularly employed by a reporting unit prior to participation in these programs. Additionally, newly hired employees at certain universities, individuals employed by community colleges and universities who opted into an optional retirement plan (ORP), reporting unit board members, and transition youth or youth training program participants (such as those enrolled in the Neighborhood Youth Corp Program) are ineligible to become members of MPSERS. There are 19 possible retirement/health care plan options for MPSERS members based on their date of entry into the system and elections made in 2013 for then-new and existing members.[1]

Currently, there are five different *retirement plan* options: 1) the Basic plan; 2) the Member Investment Plan (MIP); 3) the Pension Plus plan; 4) the Pension Plus 2 plan; and 5) the Defined Contribution (DC) plan. The Basic Plan includes employees who were hired prior to January 1, 1990, and who did not opt into the MIP when it was introduced in 1987. Employees hired between 1990 and 2010 contribute to the MIP. Employees hired after 2010 contribute to the Pension Plus or Pension Plus 2 plan unless they opted out. Employees hired after 2012 may opt out of the Pension Plus or Pension Plus 2 plan and opt into the DC plan. The DC plan allows employees to make contributions to a 457 account and receive an employer match of up to 3% made to a 401(k) account, after a mandatory employer contribution of 4%.

There are two retirement *health care plans* currently in use: 1) MPSERS members hired before September 4, 2012, are required to make a 3% healthcare contribution (HCC) to the Retiree Healthcare Fund; and 2) MPSERS members hired on or after September 4, 2012, or employees hired previously who opted in, contribute to a personal healthcare fund (PHF). Currently, members with a PHF contribute to a 457 account that is matched up to 2% by an employer contribution to a 401(k) account. A member may increase or decrease his or her healthcare contribution; however, this may result in a change to employer contribution.

Public Act 184 of 2022 amended the Michigan Public School Employees Retirement Act 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 the current requirements and exceptions.

Legislative Analyst: Abby Schneider

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 requires a retiree to wait at least nine months before returning to the school workforce to reduce the number of people who may retire earlier, because they would have to wait nine months before returning to the school workplace and simultaneously drawing a pension. The bill would allow a retiree to return to work faster than the nine-month waiting period if the retiree's earnings did not exceed $10,100 in a calendar year.

Some workers, knowing that they may return to work, and draw a pension and an active salary (albeit capped at $10,100) prior to nine months after retirement, likely would be induced to retire earlier than they have 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 MPSERS as a whole, funded by the State and the School Aid Fund (SAF). The size of this increased State/SAF cost is indeterminate and

[1] For information about plan eligibility, contribution rates, vesting periods, and more, see the ORS's *Reporting Instruction Manual*, which can be found online at michigan.gov/psru.

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, Public Act 184 of 2022 removed provisions that required school employers to remit a portion of rehired retiree wages to support unfunded accrued liabilities related to pension and retiree health care. This increased costs to the State and the SAF. On the reverse side, this reduced 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 remain 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 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. Further, school employers rehiring retirees would not pay costs related to the support of MPSERS (normal costs and payments to support unfunded accrued liabilities related to pension and retiree health care) that those employers would pay if hiring nonretirees.

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