Legislative Analysis

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PUBLIC SCHOOL RETIREMENT REVISIONS

Senate Bill 1227 As Enacted
Public Act 75 of 2010
Sponsor: Sen. Jud Gilbert
House Committee: Oversight and Investigations
Senate Committee: Appropriations

Complete to 6-28-10

A SUMMARY OF SENATE BILL 1227 AS ENACTED

The bill amends the Public School Employees' Retirement Act (MCL 38.1304 et al.) to make the following changes to the Michigan Public School Employees' Retirement System (MPSERS) benefits:

Retirement Incentives for MPSERS Employees
Currently MPSERS employees have to be age 55 and have 30 years of service to be eligible to retire in the Basic plan or may retire with 30 years with no minimum age requirement under the Member Investment Plan (MIP). The bill allows employees to be eligible if they have a combined age and years of service totaling 80 for employees who retire before September 1, 2010. Retirees would have to apply before June 11, 2010 and would have until June 11, 2010 to withdraw their application.

In addition, for members who retire by September 1, 2010 the bill provides a 1.6% multiplier in the pension formula for an employee who is eligible to retire under current eligibility and a 1.55% multiplier for members who qualify under the 80 and out. Currently a member's pension calculation equals their final average compensation (FAC) multiplied by their years of service multiplied by 1.5%. The bill caps the final average compensation to which the additional multiplier was applied at $90,000.

The bill allows for a superintendent or chief administrator to provide an extension to allow an employee to remain until September 1, 2011. Each reporting unit would be allowed to grant 1 extension. Another 2,500 extensions are available statewide to be distributed on a prorata basis by the Office of Retirement Services.

The bill requires that the additional costs to the pension system created by the increased multiplier and the early out be amortized over a 5-year period.

3% Contribution into Irrevocable Trusts for Retiree Health Care
Beginning July 1, 2010, the bill requires that all MPSERS employees contribute 3% of their compensation into a funding account, which under the bill means an irrevocable trust established under Public Act 77 of 2010 (HB 4073), the Public Employee Retirement Health Care Funding Act, and will be established and administered under Section 115 of the Internal Revenue Code. Employees who earn less than $18,000 will have to contribute 1.5% for FY 2010-11 but will contribute 3.0% in subsequent years.

Funds deposited in the irrevocable trust will be used to pay for retirement health care benefits for retirees and their eligible dependents.

Hybrid Plan for New Employees

The bill moves all newly hired school employees after July 1, 2010 into a hybrid pension and defined contribution system. The pension will be similar to the existing MIP plan with the following changes:

- Increase final average compensation period from 3 years to 5 years, which will decrease the final average compensation for most employees.
- Increase the minimum retirement age to 60 with 10 years of service (currently minimum age for Basic plan is 55 and the MIP plan has no minimum age with 30 years of service).
- Prohibit the purchase of service credit to meet service requirements.
- Eliminate cost of living adjustments to pension allowances.
- Provide a defined contribution benefit (Tier 2) with a 50% employer match on a maximum employee contribution of 2% of salary, for a maximum employer contribution of 1%. An employee will automatically be enrolled with the maximum contribution of 2% unless they affirmatively elect not to contribute or contribute a lesser amount. An employee will also be allowed to contribute additional funds without the match and subject to Department of Technology, Management, and Budget and the Internal Revenue Code. The employee vests in the employer match as follows: 50% after 2 years of service, 75% after 3 years of service, and 100% after 4 years of service.

  In addition, individual employers may negotiate higher contributions up to a maximum of a 50% employer match on an additional employee contribution of 4% of salary, for a total maximum employer contribution of 3%. Additional employer contributions and matches are subject to negotiations for both employees in the new hybrid plan as well as those in the Basic Plan and the current Member Investment Plan.

- Provides for a regular interest rate for the Hybrid of between 0% and 7%, and assumes a rate of return of 7%.
- Allows other entities that receive direct or indirect funding from the School Aid Fund to opt into the new hybrid system.

Rehired Retirees

For retirees who retire after July 1, 2010 and work directly for a MPSERS reporting unit, the bill allows them to maintain pension and health benefits if they earn less than 1/3 of their final average compensation. If they earn more than 1/3 of their final average compensation, their pension and health care benefits will be suspended until the employment ends.

For those retirees who retire after July 1, 2010 and afterward perform core services for a MPSERS reporting unit but who are employed independently or by a third party, the bill suspends their pension and health care benefits until the employment ends.

Revise Reporting Unit Requirements

Currently each reporting unit, or employer, is required to forward both employer and employee contributions to MPSERS monthly. The bill changes it to a schedule and manner determined by the retirement system.

In addition, statute currently requires quarterly affidavits certifying aggregate reportable compensation, sources of contributions, and federal wages, and an annual report listing the persons employed with salary, service, and contributions. The bill instead requires a report every pay period, which includes persons employed as well as wages, amounts paid, hours, and contributions required under the act.

The bill also requires a reporting unit to pay a daily late fee not less than $25 and interest charges not less than 6% if they fail to correct errors prior to discovery by the retirement system or if errors are found to be intentional.

Provide Supplemental Appropriation for the Office of Retirement Services

The bill provides $4.5 million for FY 2009-10 for the Office of Retirement Services, which is in the Department of Technology, Management, and Budget, for administering the changes required under the bill. The appropriation is designated a work project and the funds may be carried forward for use in FY 2010-11.

Tie-Bar

This bill would not have taken effect unless Public Act 77 of 2010 (House Bill 4073), which creates the Public Employee Retirement Health Care Funding Act, was enacted.

FISCAL IMPACT:

The bill creates both substantial costs and savings—all of which are local and will be experienced by the employers in MPSERS, which include public school districts, intermediate school districts, participating universities, community colleges, public school academies, and certain libraries.

A total of 14, 235 or 37% of the 38,600 employees who were already eligible for retirement retired under the bill with the increased multiplier of 1.6%. In addition, 2,828 or 16% of the 17,200 employees who were eligible under the bills 80 and out provision retired under the bill with an increased multiplier of 1.55%. In total 17,063 employees retired representing almost 31% of the total number of eligible employees.

Retirement Incentives

Increasing the pension calculation multiplier and allowing for an 80 and out will cost $2.3 billion. The costs will be distributed over the next 6 years, but will potentially be partially offset by an estimated $1.0 billion in savings from replacing fewer employees and due to the salary differential for new employees. These estimates assume that employers would replace 90%; to the extent that there are fewer replacements the savings would increase.

The savings to each MPSERS employer will vary depending on the extent to which each employer's staff and payroll is reduced through retirements, while the costs will be shared by all MPSERS employers as they are distributed statewide through increased employer contribution rates.

3% Contribution into Irrevocable Trusts for Retiree Health Care

Requiring an employee contribution of 3% for MPSERS employees toward retirement health care will allow for a reduction in the employer contribution. Estimated savings would be between $300 and $409 million depending on the year and could total between $3.5 billion over ten years. This provision will create savings only if the increased employee contributions are used to reduce the employer contribution rate as opposed to being saved to pay for future retiree health costs.

Rehired Retirees

Suspending pension and retiree health benefits for retirees who return to work for a reporting unit (who earn more than 1/3 of their final average compensation if now employed directly for a reporting unit or who make any portion of their previous salary if employed by a third party or independently employed) will create a savings to the pension system. However, there are no data available to determine the fiscal impact of these provisions.

Ten-Year Net Savings/Costs

See the attached table for a ten-year analysis of projected net savings/costs of the bill. The estimated net savings/costs range from a savings of $197 million to $538 million depending on the year as the added pension and retiree health care costs are paid off and the long term savings from the 3% contribution and the hybrid plan remain. Estimated savings over ten years total $3.33 billion.

ORS Appropriation

Finally, the bill appropriates $4.5 million for FY 2009-10 for the Office of Retirement Services for implementation costs.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

Estimated Fiscal Impact of PA 75 of 2010 (SB 1227)
(in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Cumulative 10 Year Total
Changes for Remaining and Future Employees											
Modified Hybrid Plan	$1.2	$4.0	$6.5	$8.9	$11.3	$13.8	$16.5	$19.4	$22.4	$25.4	**$129.4**
3% Employee Contribution into Sec. 115 trust	$300.0	$310.6	$321.4	$332.6	$344.2	$356.4	$368.7	$381.6	$395.1	$409.1	**$3,519.7**
subtotal	**$301.2**	**$314.6**	**$327.9**	**$341.5**	**$355.5**	**$370.2**	**$385.2**	**$401.0**	**$417.5**	**$434.5**	**$3,649.1**
Retirement Incentive: Current Eligibles											
Increase Multiplier to 1.60%	$0.0	($140.2)	($140.2)	($140.2)	($140.2)	($140.2)	$0.0	$0.0	$0.0	$0.0	**($701.1)**
Increased Retiree Health Costs	($143.9)	($143.9)	($143.9)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	**($431.7)**
Replacement Savings	$346.2	$259.7	$173.1	$86.6	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	**$865.5**
subtotal	**$202.3**	**($24.5)**	**($111.0)**	**($53.7)**	**($140.2)**	**($140.2)**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**($267.3)**
Retirement Incentive: 80 and Out											
Increase Multiplier to 1.55%	$0.0	($18.0)	($18.0)	($18.0)	($18.0)	($18.0)	$0.0	$0.0	$0.0	$0.0	**($90.2)**
Increased Retiree Health Costs	($32.8)	($32.8)	($32.8)	($32.8)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	**($131.2)**
Replacement Savings	$67.7	$50.8	$33.8	$16.9	($0.0)	$0.0	$0.0	$0.0	$0.0	$0.0	**$169.2**
subtotal	**$34.9**	**($0.1)**	**($17.0)**	**($33.9)**	**($18.0)**	**($18.0)**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**($52.2)**
TOTAL	**$538.4**	**$290.0**	**$199.9**	**$253.9**	**$197.2**	**$211.9**	**$385.2**	**$401.0**	**$417.5**	**$434.5**	**$3,329.6**
Subtotal Pension/Health Incentives and Reforms	**$124.5**	**($20.4)**	**($7.0)**	**$150.4**	**$197.2**	**$211.9**	**$385.2**	**$401.0**	**$417.5**	**$434.5**	**$2,294.9**
Subtotal Wages and Replacement Savings	**$413.9**	**$310.4**	**$206.9**	**$103.5**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$1,034.7**
TOTAL	**$538.4**	**$290.0**	**$199.9**	**$253.9**	**$197.2**	**$211.9**	**$385.2**	**$401.0**	**$417.5**	**$434.5**	**$3,329.6**

Notes:

1. 14,235 or 37% of the 38,600 employees who were already eligible took the retirement incentive
2. 2,828 or 16% of the 17,200 employees eligible with the 80 and out took the retirement incentive.
3. Assumes 90% replacement ratios. Replacing fewer employees would create additional savings.
4. Tapers replacement savings down over 4 years to assume those retirements would have happened over the next 4 years regardless.