Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

PSERS: ADOPT A DEFINED CONTRIBUTION SYSTEM & GRADED PREMIUMS FOR HEALTH BENEFITS

House Bill 4947 (Substitute H-1)
Sponsor: Rep. Brian Palmer
Committee: Education

Complete to 6-30-05

A PRELIMINARY SUMMARY OF HOUSE BILL 4947 (H-1) AS REPORTED FROM COMMITTEE 6-29-05

The bill would amend the Public School Employees Retirement Act to replace the defined benefit retirement system with a defined contribution retirement system, beginning July 1, 2006. Employees who were hired prior to this date would continue to be part of a defined benefit retirement system, although they would have the option of electing, instead, the defined contribution retirement system.

The public school employees' retirement system, sometimes known as MPSERS (pronounced mip-sers) provides a pension and health insurance to nearly a half-million people—more than 338,000 active members, and about 150,000 retirees and beneficiaries. This includes public school employees, community college employees, and employees of some universities. The MPSERS plan is administered by the Office of Retirement Services in the Department of Management and Budget.

Currently, the traditional defined benefit pension system guarantees a lifetime pension benefit for those employees who are "vested" in the system (those who have at least 10 years of service), and the amount is based on a formula that multiples the employee's years of service times his or her final average compensation times 1.5 percent. Generally speaking, the system is funded by contributions made by employing school districts on behalf of their employees. The portion of the system devoted to pensions is actuarially calculated to ensure that the system has enough assets to pay benefits to current retires. The portion of the system devoted to health care has been funded on a pay-as-you-go basis for about the last decade.

By contrast, in the proposed new defined contribution system, a school district would contribute a fixed amount to each employee—four percent of his or her salary, plus a matching contribution of up to three percent, if the employee contributed an equal amount. Thus, a school district's contribution rate would remain steady at (at most) seven percent of payroll. (An employee could contribute an additional three percent, but that would not be matched by the employer.) The employee would take responsibility for investing his or her own account in a 401(k)-style plan, and bear the risk of whether the amount invested would grow enough to provide an adequate retirement income.

The bill also would create a graded premium for the health insurance coverage provided to retirees. After 10 years of service (but less than 30 years), the retirement system would pay a portion of the monthly premium equal to the product of three percent and the member's years of service. The amount covered would increase by three percent annually, up to 100 percent coverage after 30 years of service.

A more detailed summary of the bill will be available at a later date.

FISCAL IMPACT:

The bill requires an actuarial evaluation in order to determine its fiscal impact. An evaluation is in process.

[Under Public Act 728 of 2002—MCL 38.1140h and 38.1140m—a retirement system must provide an actuarial analysis before adoption of pension benefit changes. The supplemental actuarial analysis must be provided by the system's actuary, and must include an analysis of the long-term costs associated with any proposed pension benefit change.]

If the bill were adopted there could be increased costs in the short-term, since two retirement systems would have to be funded. Long-term cost savings are indeterminate, at this time.

POSITIONS:

The Ottawa, Muskegon, Kalamazoo ISD supports the bill. (6-29-05)

The Michigan Association of School Boards supports the bill. (6-29-05)

Oakland Schools supports the bill. (6-29-05)

The Calhoun ISD supports the bill. (6-29-05)

The Michigan Chamber of Commerce supports the bill. (6-29-05)

The DMB Office of Retirement Services has not yet taken a position on the bill. (6-29-05)

The Michigan State AFL-CIO opposes the bill. (6-29-05)

The Service Employees International Union opposes the bill. (6-29-05)

The Michigan Education Association opposes the bill. (6-29-05)

The Retirement Coordinating Council opposes the bill. (6-29-05)

The American Federation of State, County, and Municipal Council 25 oppose the bill. (6-29-05)

The Michigan Federation of Teachers opposes the bill. (6-29-05)

The International Union of Operating Engineers Local 547 opposes the bill. (6-29-05)

The Middle Cities Education Association opposes the defined contribution provision of the bill. (6-29-05)

Legislative Analyst: J. Hunault
Fiscal Analyst: Al Valenzio

■ 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.