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BILL ANALYSIS

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Senate Bill 1450 (Substitute S-1 as reported)
Sponsor: Senator Wayne Kuipers
Committee: Education

CONTENT

The bill would amend the Public School Employees Retirement Act to exclude from the Michigan Public School Employees' Retirement System (MPSERS) a person who became employed by a tax-supported community or junior college that submitted a resolution to withdraw from MPSERS by December 1, 2009.

Under the Act, a public school employee is considered to be a member of MPSERS. Under the bill, "public school employee" would not include a person who first becomes employed by a qualified tax-supported community or junior college on or after January 1, 2010, unless the person also is a member or former member within 60 days of that date. The term would include a person who continues in a position with a qualified tax-supported community or junior college that has submitted an appropriate resolution to withdraw from MPSERS even if that person executes a new contractual agreement as a condition of employment. "Qualified tax-supported community or junior college" would mean a tax-supported community or junior college that has submitted an appropriate resolution to withdraw from the retirement system to the retirement board by December 1, 2009.

The bill also would remove from the definition of "reporting unit", beginning January 1, 2010, a qualified tax-supported community or junior college except to the extent that the college has employees on its payroll who are members of MPSERS.

MCL 38.1306 & 38.1307 Legislative Analyst: Curtis Walker

FISCAL IMPACT

To the extent that the State's 28 community colleges submitted resolutions to withdraw from the Michigan Public School Employees' Retirement System, the bill would have a fiscal impact on the State and local units of government. The retirement rate charged to MPSERS' reporting units consists of a pension rate (broken into a "normal cost" rate and a rate to recover unfunded liabilities) and a health benefits rate. According to the Office of Retirement Services (ORS), in the case of qualified community colleges, the normal cost rate as well as the unfunded actuarial accrued liability (UAAL) rate would be applied only to the portion of payroll of the employees who are members of MPSERS. Additionally, according to ORS, for the universities that have withdrawn from MPSERS, the State does not charge the health benefits rate charged to other member entities, and instead charges them the insurance premiums for their current retirees. The bill does not address modifications to the community colleges' contribution rates that could arise from the implementation of this legislation.

The normal cost rate is determined by the actuaries, and to the extent that the funds contributed to the system through this rate, employee contributions, and the return on investments do not meet pension liabilities, the system experiences UAAL. This liability is financed over a declining amortization period and, currently, 29 years remain to pay off this unexpected liability. Under the bill, other reporting units whose employees are members of MPSERS, such as community colleges that did not opt out, public school districts, intermediate school districts, participating public school academies, and participating local libraries, would experience UAAL contribution increases because the bill would not require the qualified community colleges to apply the UAAL rate to their total payroll; instead, they could apply the rate to the portion of payroll of their employees who are members of MPSERS. Thus, qualified community colleges would pay less than what they otherwise will pay for the system's unfunded actuarial accrued liability. As a result, the UAAL contribution rate would increase for remaining reporting units with MPSERS members.

For example, the UAAL rate for FY 2007-08 is 4.89% of payroll. That rate is based on an expected total payroll for fiscal year (FY) 2007-08. If payroll is $10 billion, then the retirement system can expect to receive $489 million in contributions toward UAAL. Under the bill, the total payroll on which the UAAL rate would be applied could decrease to the extent that community colleges withdrew from MPSERS. For example, if payroll of MPSERS members were to decrease by $100 million, the UAAL rate would not provide for the full $489 million. In order to get the full $489 million, the rate charged to all reporting units would have to be raised to 4.94%. Reporting units would have the rate of 4.94%, instead of the original 4.89%, charged on their total payroll, resulting in a negative fiscal impact on community colleges that did not withdraw from MPSERS, school districts, intermediate school districts, participating public school academies, and participating local libraries.

The fiscal impact on qualified community colleges with regard to the normal cost of pensions and retiree health benefit cost is indeterminate. Qualified community colleges would decrease their retirement-related expenditures if they enrolled employees in retirement plans or retiree health care plans with a normal cost rate less than their contributions to MPSERS. If qualified community colleges did not do so, they would incur increased costs. The table below outlines MPSERS' rate history.

The Office of Retirement Services would incur increased administrative costs associated with providing separate rate calculations to qualified tax-supported community and junior colleges.

MPSERS Employer Contribution Rates

Fiscal Year	Pension Normal Cost Rate	Pension UAAL Rate	Health Benefits Rate	Total Rate
1996-97	7.62%	3.60%	3.95%	15.17%
1997-98	7.14	0.00	3.98	11.12
1998-99	6.73	0.00	4.04	10.77
1999-2000	6.47	0.59	4.60	11.66
2000-01	6.42	0.19	5.55	12.16
2001-02	6.06	0.06	6.05	12.17
2002-03	6.26	0.68	6.05	12.99
2003-04	6.26	0.68	6.05	12.99
2004-05	6.31	2.01	6.55	14.87
2005-06	5.47	4.32	6.55	16.34
2006-07	5.49	5.70	6.55	17.74
2007-08	5.28	4.89	6.55	16.72
2008-09	5.17*	4.56	6.81	16.54

*For new employees, the pension normal cost rate will be 4.21% as a result of Public Act 111 of 2007 increasing the employee contribution rate for new employees.

Source: Office of Retirement Services

Date Completed: 11-13-08 Fiscal Analyst: Lindsay Hollander

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