Legislative Analysis

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RETIREMENT SERVICE CREDIT ACCRUAL

Senate Bill 279 (Substitute S-2 as passed by the Senate)
Sponsor: Sen. Marty Knollenberg
Senate Committee: Education
House Committee: Commerce and Trade
Complete to 12-7-16

SUMMARY:

Senate Bill 279 would amend the Public School Employees Retirement Act, beginning after the effective date of the enactment of the bill, to prohibit a member from receiving service credit toward the calculation of their pension for time spent on any of the following:

- Employee organization professional services leave
- Professional services leave
- Employee organization professional services released time
- Professional services released time

The Act defines "employee organization professional services leave" or "professional services leave" as a leave of absence that is renewed annually by the reporting unit so that a member may accept a position with a public school employee organization to which he or she belongs and which represents employees of a reporting unit in employment matters. It defines "employee organization professional services released time" or "professional services released time" as a portion of the school fiscal year during which a member is released by the reporting unit from regularly assigned duties to engage in employment matters for a public school employee organization to which he or she belongs.

BACKGROUND:

Public school employee collective bargaining units often provide for certain public school employees to spend time on union activities. Currently, the act allows a member to earn service credit for time spent on those activities, but requires the union to reimburse the employer for the normal and unfunded accrued liability costs that the employer pays to the retirement system related to compensation earned for that time. That service credit is then used to calculate a member's pension. Generally, the pension calculation formula is a member's final average compensation multiplied by his or her years of service multiplied by 1.5%.

MCL 38.1371

FISCAL IMPACT:

The bill would have an indeterminate fiscal impact on both local school employers and the state.

The bill could reduce long-term costs to the Michigan Public School Employees Retirement System—which are ultimately paid by public school employers and the State School Aid Fund—by eliminating the potential for future growth in the unfunded accrued liabilities tied to benefits earned for a member's professional services leave or released time. While the union currently must reimburse the employer for any related costs calculated now, future unfunded accrued liabilities would be borne by the system as a whole.

The bill could increase School Aid budget costs to the extent that compensation earned by members on professional services leave or released time would no longer be calculated as part of the public school employer's payroll, thus reducing the employer's share of unfunded accrued liability costs (which previously would have been reimbursed by the union), and thereby increasing the state's share. ORS calculated that in FY 2015-16, this applied to approximately 50 employees, for which an associated $900,000 in unfunded accrued liabilities would now accrue to the state share of unfunded liabilities paid out of the School Aid Fund if all the relevant members continued their professional services leave or released time.

Finally, the bill could increase public school employer costs if the member no longer participated in professional services leave or released time due to the bill, and the public school employer continued to be responsible for both the normal and unfunded accrued liability costs related to that member's compensation, but was no longer reimbursed by the union.

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