

SCHOOL EMPLOYEES RETIREMENT: ALLOW SEPARATE DEFINED CONTRIBUTION PLANS

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4338
Sponsor: Rep. Forlini
Committee: Financial Liability Reform

Analysis available at
<http://www.legislature.mi.gov>

Complete to 3-7-2016

SUMMARY:

Under provisions of the Public School Employees Retirement Act of 1979 added in 2012, an optional “Tier 2” defined contribution (457) retirement plan was created for employees of school districts and other reporting units that are part of the retirement system. Under that plan, an employee can receive an employer match of up to 3% of wages if the employee contributes 6% of his or her wages (50% match), with an additional 2% employer contribution in lieu of a retiree health care benefit. For new employees, this plan is an alternative to a hybrid retirement plan that has both defined benefit and defined contribution components. Currently, the Tier 2 plan for all reporting units is administered by the state’s Office of Retirement Services (ORS).

House Bill 4338 would amend the act to allow a reporting unit (a school district or other employer within the system) to designate its own Tier 2 contracts or account plans by an alternate provider to offer to its employees who are Tier 2 participants. The reporting unit would be required to substantially comply with the provisions of the act and applicable state rules and federal regulations, and could not offer a defined benefit option. The reporting unit would be required to offer the same benefits and vesting provisions that are currently provided under the Tier 2 plan.

The Department of Technology, Management, and Budget (in which ORS is housed) would be prohibited from collecting Tier 2 contributions from an employer or employee from a reporting unit that designated an alternate contract or plan unless authorized to do so by the reporting unit. The state would have a duty to monitor the alternate provider’s performance. The state and the reporting unit would, however, not be liable to employees for damages relating to that performance.

The bill would require the department to implement a system to facilitate the administration of Tier 2 contracts or account plans designed by a reporting unit under the bill’s provisions. The department could employ or contract with personnel for services needed for proper administration of Tier 2 contracts and account plans and could select a third party administrator to administer contracts or account plans, subject to that administrator not being affiliated with any entity that provides services to the retirement system or any reporting unit. Finally, the bill would prohibit materials related to an annuity plan provided by the retirement system to a reporting unit, or by a reporting unit to its employees, from favoring a specific annuity or investment provider or product.

FISCAL IMPACT:

The bill would have a fiscal impact on state government by creating costs for ORS in implementing a system to monitor and account for alternate Tier 2 plans offered by individual reporting units. The amount of those costs would depend in part on the number of units opting to offer alternate plans.

Assuming any additional costs related to alternate Tier 2 plans would be paid through fees assessed on employees' retirement plan investment options, the bill would not have a direct fiscal impact on local units of government. To the extent those fees exceed the fees on investment options under the ORS-administered plan, they would reduce employee investment earnings over time. According to data from the Deloitte Investment Company Institute provided by ORS, fees vary substantially by plan size—from less than 0.40% for plans with over \$1 billion in assets to 1.40% for plans with less than \$1 million in assets. (The State of Michigan's defined contribution retirement plan, including the School Employees Retirement System, the State Employees Retirement System, and other smaller state-administered retirement systems, has nearly \$6.5 billion in assets.)

Fiscal Analysts: Kyle I. Jen
Bethany Wicksall

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