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BILL ANALYSIS

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Senate Bill 279 (Substitute S-1 as reported)
Sponsor: Senator Marty Knollenberg
Committee: Education

CONTENT

The bill would amend the Public School Employees Retirement Act to discontinue the accrual of service credit for a member of the Michigan Public School Employees Retirement System (MPSERS) while he or she was on an employee organization professional services leave or employee organization professional services released time.

Under the Act, qualified MPSERS members receive a pension after retirement that is determined by a formula that includes their final average compensation and years of service. Generally, a member is credited with one year of service, for the purpose of the calculation, for each year he or she works as a public school employee. A member may receive service credit for time spent on a professional services leave or professional services release time. Under the bill, after its effective date, service credit would no longer accrue to members while on a professional services leave or professional services release time.

The bill would take effect 90 days after being signed into law.

MCL 38.1371 Legislative Analyst: Ryan M. Bergan

FISCAL IMPACT

Under current law, there are an estimated 50 employees on professional services leave whose costs for the retirement system are borne by professional services organizations. Under the substitute bill, if those employees continued to go on leave even without the accrual of pension credit during the leave, those costs would be shifted to the State's School Aid Fund because the salaries would be "removed" from the pension system, thereby "stranding" costs that are currently remitted to the system by outside organizations. The stranding of the payroll would lead to an increase in the cost of the rate cap implemented under Public Act 300 of 2012. The Office of Retirement Services has estimated the annual cost at $900,000 based on the stranded salaries of the roughly 50 employees who it is estimated would be affected by the bill, and that cost would remain as long as payroll was stranded and until the unfunded accrued liabilities in the pension system were eliminated. However, if those employees changed their behavior (due to the elimination of service credit accrual during the leave) and decided to remain working only at the local district, there would be no stranding of costs or additional burden on the School Aid Fund because the school district would retain the payroll and remit the costs directly, without reimbursement from the professional services organization.

If the employees continued to go on professional services leave but without the accrual of pension service time as provided under the bill, there would be no direct fiscal impact on the local reporting units because public school employee organizations reimburse the local reporting units for the pension costs under current law. Since the bill would cease the accrual of service credit, the local reporting unit would no longer pay in for the pension cost, but also would no longer receive reimbursement for that cost from the public school employee organization. Indirectly, because of the additional cost to the School Aid Fund, there would be less money available to be appropriated for other school purposes. However, if the employees changed their behavior and chose not to take any leave but instead remained at the district, then the local school would bear the retirement cost currently reimbursed by the outside organizations.

Date Completed: 6-17-15 Fiscal Analyst: Kathryn Summers

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.