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BILL ANALYSIS

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

Date Completed: 6-15-15

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.

The Act provides for a defined benefit retirement plan for public school employees, except those excluded under the Act (such as an employee who chooses to participate only in a defined contribution plan). Qualified members receive a pension after retirement that is determined by a formula that includes their final average compensation and years of service. Depending on when the member was hired and what elections he or she has made, the calculation of the pension amount will vary, as will the minimum age and years of service required before a member can begin collecting the pension.

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 Act defines "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. "Professional services released time" means a portion of the school fiscal year during which a member is released by the reporting unit from his or her regularly assigned duties to engage in employment matters for a public school employee organization to which he or she belongs. A "reporting unit" is a public school district, intermediate school district, public school academy, tax-supported community or junior college, or university, or an agency having employees on its payroll who are members of the retirement system.

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 remain at the district, then the local school would bear the retirement cost currently reimbursed by the outside organizations.

Fiscal Analyst: Kathryn Summers