Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 795 (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 while he or she was on an employee organization professional services leave or employee organization professional services released time.

MCL 38.1371 Legislative Analyst: Nathan Leaman

FISCAL IMPACT

The bill would have an estimated cost of $400,000 per year for pension contributions made on behalf of affected employees. The cost would be paid from the School Aid Fund (SAF) if employees continued to go on professional services leave even without the accrual of pension service, or it would be paid by school districts if employees stopped going on professional services leave and remained at their employing district. The cost would remain until any unfunded accrued liabilities (UAL) in the pension system were paid off.

State: In school fiscal year 2016-17, an estimated 175 employees were on professional services leave. According to the Office of Retirement Services (ORS), the wages for time spent on this leave totaled $1.9 million. Retirement costs associated with those wages (20.96%, or about $398,000) were borne by professional services organizations (PSOs). Under the bill, if those employees continued to go on leave without the accrual of pension credit during the leave, those costs would be shifted to the SAF because the salaries would be "removed" from the pension system, thereby "stranding" costs that are currently remitted to the system by the PSOs. The "stranding" of the payroll would lead to an increase in the cost of the cap on the employer contribution rate for UAL. The ORS has estimated the annual cost at $400,000 based on the stranded salaries of the employees estimated to be affected, and that cost would remain as long as payroll was stranded and until the UAL in the pension system were eliminated. However, if those employees decided to remain working only at the local district (due to the elimination of service credit accrual during the leave), there would be no stranding of costs or additional burden on the SAF because the school district would retain the payroll and remit contribution for the costs directly, without reimbursement from the PSOs.

Local: If the employees continued to go on professional services leave but without the accrual of pension service time, there would be no direct fiscal impact on the local reporting units because public school employee organizations reimburse them for the pension costs. Since the bill would cease the accrual of service credit, the local reporting units would no longer pay in for the pension cost, but also would no longer receive reimbursement for it from the PSOs. Indirectly, because of the additional cost to the SAF, there would be less money available to be appropriated for other school purposes. However, if the employees chose not to take the leave, then the local school would bear the retirement cost currently reimbursed by the PSOs.

Date Completed: 3-14-18 Fiscal Analyst: Kathryn Summers

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.