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BILL ANALYSIS

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House Bill 4422 (Substitute S-1 as reported)
Sponsor: Representative Holly Hughes
House Committee: Education Reform
Senate Committee: Education

CONTENT

The bill would amend the Public School Employees Retirement Act to do the following:

-- Change the sunset date from July 1, 2018, to July 1, 2021, on provisions that allow a public school retiree to work in an area identified as a critical shortage discipline, as a substitute teacher, or as an instructional coach or school improvement facilitator, without forfeiting a portion of his or her pension.
-- Require a person rehired as a substitute teacher to have retired after June 30, 2010, and before September 2, 2017, rather than on or before September 1, 2015.
-- Change the sunset date from July 1, 2018, to July 1, 2021, on a requirement that a reporting unit pay 100% of the contribution rates for unfunded actuarial accrued liability (UAAL) for retiree health care and pension for a retirant employed as an independent contractor in a critical shortage discipline.

Generally, if a Michigan Public School Employees' Retirement System (MPSERS) retiree is employed by a reporting unit, his or her retirement allowance must be reduced by the amount that the earnings in the calendar year exceed the lesser of the amount permitted without a reduction of benefits under the Social Security Act, or one-third of the retiree's final average compensation. The Act makes a number of exceptions to this requirement, including those described below.

Until July 1, 2018, the forfeiture requirement does not apply to any of the following:

-- A retirant who is employed for not more than three years, after at least 12 months of retirement, by a reporting unit in an area that has been identified by the Superintendent of Public Instruction as a critical shortage discipline.
-- A retirant who retired after July 1, 2010, and on or before September 1, 2015, and becomes employed as a substitute teacher by a reporting unit, by an entity other than a reporting unit, or as an independent contractor.
-- A retirant who retired after July 1, 2010, and on or before September 1, 2015, and becomes employed as an instructional coach or a school improvement facilitator by an entity other than a reporting unit or as an independent contractor.

The bill would change the sunset date on these provisions from July 1, 2018, to July 1, 2021.

MCL 38.1361 Legislative Analyst: Nathan Leaman

FISCAL IMPACT

To the extent that extending the critical shortage exemption (allowing MPSERS retirees to collect both a pension and an active wage under certain conditions) led to more retirements, or earlier retirements, than actuarially assumed, there would be additional liabilities in the Michigan Public School Employees Retirement System related to additional pension and health care benefits paid out to those retirees. However, the requirements for the critical shortage exemption that would have to be satisfied likely would lead to a fairly narrow use of the provision.

Specifically, as currently required, retirees would have to be retired at least one year, the length of reemployment under the exemption could be not more than three years, the retiree would have to be reemployed in a critical shortage field, and reporting units would have to pay UAAL percentages for these rehired retirees, whether directly or indirectly rehired. Also, this provision has a sunset of three years and, under the bill, would be subject to a new three-year sunset date. Because of these conditions, it is likely that the negative fiscal impact on MPSERS would be fairly insignificant.

It is likely that numerous retirees would seek to take advantage of the delayed sunset for the substitute teacher and instructional coach/school improvement facilitator provisions, but because this exemption would allow only individuals already retired (as of September 1, 2017) to use the provisions, there would be no incentive to retire earlier than otherwise planned; therefore, there should be no negative impact on the status of the MPSERS unfunded accrued liabilities.

Date Completed: 4-18-18 Fiscal Analyst: Kathryn Summers