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Senate Bill 700 (as reported without amendment)
Sponsor: Senator Jim Stamas
Committee: Appropriations

CONTENT

The bill would amend the State Employees' Retirement Act to do the following:

-- Require the retirement system to use layered amortization for new actuarial losses and use level dollar amortization to pay the layered amortization.
-- Reduce the time period over which payments resulting from reconciliation must be made.
-- Require that mortality tables be the most appropriate for the characteristics of the retirement system's population.
-- Codify the current assumed rates of return and discount rates into statute.

The bill would require the State Employees' Retirement System (SERS) to use layered amortization, beginning in fiscal year (FY) 2027-28. "Layered amortization" would mean a fixed and closed period that separately layers the different components of unfunded actuarial accrued liabilities (UAAL) to be amortized over a fixed period, not to exceed 10 years (because SERS is a closed plan) as additional unfunded accrued liabilities emerge. The bill would require that the amortization period for layered amortization use a level dollar amortization method (rather than a level percentage of payroll method).

In addition, beginning with FY 2021-22, the bill would require shortfalls or overages in actual contributions compared to actuarially determined contributions (i.e., the process of reconciliation) to be paid over three years instead of five years (the current requirement). The bill would require the Retirement Board and Department of Technology, Management, and Budget to adopt the most current mortality tables that were most appropriate for characteristics of the population in the system. Also, the bill would require that the normal cost contribution for any fiscal year not be less than the normal cost component of the actuarially determined contribution.

Finally, the bill would codify assumed rates of return on investments for the pension plan of not more than 6.7% and for retiree health benefits of not more than 6.9%. The percentages listed in the bill as maximums are what the SERS currently assumes for pension and retiree health care.

MCL 38.7 et al.

FISCAL IMPACT

The bill generally would have an indeterminate fiscal impact on the State (SERS). The requirement that reconciliation be recognized over three years instead of the current five years would result in increased short-term costs (if reconciliation were used to address a shortfall in contributions) but longer-term savings (because more money would be remitted

into the system earlier, thereby capturing a longer time period for potential investment earnings).

The requirement to use layered amortization for UAAL that accrues each year could result in higher long-term costs if those liabilities otherwise could have been paid off on time using the original amortization schedule. However, the bill does state that the amortization period to be used for layered amortization is fixed and *not to exceed* 10 years. Conceivably, then, the 'new' layered UAAL could be paid off on a cost-efficient schedule and may not result in higher costs.

Date Completed: 11-4-21 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.