Legislative Analysis

EXTEND PROVISIONS ALLOWING MPSERS RETIREES TO WORK IN CERTAIN CASES WITHOUT LOSING BENEFITS

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House Bill 4375 (proposed substitute H-1)
Sponsor: Rep. Steven Johnson
Committee: Education
Complete to 3-15-21

SUMMARY:

House Bill 4375 would amend the Public School Employees Retirement Act. Currently, the act reduces either pension or retiree health benefits, or both, while a Michigan Public School Employees' Retirement System (MPSERS) retiree returns to work in a ***reporting unit***, with varying reductions depending on the retirement date and the circumstances of the new employment. However, the act exempts certain categories of employment from those benefit reductions. The bill would extend the sunset (expiration date) for the exemption of some retirees and revise an additional condition regarding substitute teachers.

> ***Reporting unit*** is defined in the act as a public school district, intermediate school district, public school academy, tax-supported community or junior college, or university (with exceptions) or an agency having employees on its payroll who are members of this retirement system.

Sunset

The bill would extend the effectiveness of provisions that allow certain retirees to work without losing retirement benefits while providing certain services to schools in an identified critical shortage discipline[1] or as a substitute teacher, instructional coach, or school improvement facilitator. These provisions are already current law with a sunset (expiration) date of July 1, 2025. The bill would move the sunset to July 1, 2031.

Substitute teachers

Additionally, the bill would remove a provision that currently requires the reporting unit at which the retiree substitute teaches to pay to MPSERS 100% of the contribution rate for the ***unfunded actuarial accrued liabilities (UAAL)*** for the pension and for the UAAL for the retiree health care.

> ***Unfunded actuarial accrued liability (UAAL)*** is the difference between the retirement system's assets and the pensions or health benefits accrued (for past service) to current or future retirees.[2]

[Note: The bill would retain a requirement that reporting units pay 100% of the contribution rate when retirees are employed as independent contractors in critical shortage disciplines and, generally, when employed as school renewal coaches or high impact leadership facilitators.]

MCL 38.1361

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[1] The current list of critical shortage disciplines is available at: https://www.michigan.gov/documents/mde/2020-21_Critical_Shortage_Retirees_List_683021_7.pdf

[2] According to the Michigan Office of Retirement Services: http://www.michigan.gov/psru/0,2496,7-284-60462-345746--,00.html

BACKGROUND:

The proposed H-1 substitute for HB 4132 is a "conflict substitute" that makes no substantive changes but updates the section of law being amended to include changes made to that section by a recent amendatory act (2020 PA 267).[3] Generally speaking, conflict substitutes resolve potential conflicts between different bills that amend the same section of law. Without a substitute that takes both bills into account, the last bill signed into law would overwrite and undo the changes made by the earlier one.

FISCAL IMPACT:

The bill would have an indeterminate fiscal impact on state and local government.

By extending the sunset to allow retirees to return to work in certain critical shortage disciplines or as substitutes, the bill could create an incentive to retire earlier than an employee might have otherwise, knowing that they may continue to work and earn both current compensation and a pension. When retirees retire earlier than anticipated under the retirement system's actuarial assumptions, it increases the unfunded liabilities in a pension system. The early retirement incentive would be mitigated by the statutory provision requiring retirees to be retired for 12 months prior to being reemployed by a reporting unit. The 12-month waiting period does not apply to retirees reemployed by a reporting district providing instruction under an extended COVID-19 learning plan.

Increased unfunded liabilities would be borne by the School Aid Fund, but an estimate of the costs is not available. However, as noted above, the existing statutory limitations determining eligibility could limit the use of this provision and thus mitigate these added costs.

Eliminating the requirement that a reporting unit pay the UAAL contribution rate on a substitute teacher's compensation would decrease the direct cost to individual reporting units and shift those costs to the state share for UAAL, which is funded by the School Aid Fund. Lastly, reporting units could realize reduced health care costs by hiring a retiree because the retiree would have health care costs covered by the retirement system and not need to have them covered by the reporting unit.

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[3] http://legislature.mi.gov/doc.aspx?2019-HB-4694