Legislative Analysis

MPSERS ANNUAL CONTRIBUTION REQUIREMENTS

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House Bill 5803 (S-1) as passed by the Senate
Sponsor: Rep. Matt Koleszar
House Committee: Appropriations [Discharged]
Senate Committee: Appropriations [Discharged]
Complete to 9-25-24

SUMMARY:

House Bill 5803 would amend the Public School Employees Retirement Act to do all of the following regarding the Michigan Public School Employees Retirement System (MPSERS):

- Provide that, for FY 2024-25, the unfunded actuarial liability (UAAL) contribution must equal the actuarially determined contribution (rather than having to equal or exceed the UAAL contribution amount for FY 2023-24).
- Provide that, beginning with FY 2025-26, the normal cost contribution rate for retiree health benefits is not required to equal or exceed the normal cost contribution rate in the previous fiscal year.
- Provide that, beginning with FY 2025-26, the UAAL contribution rate applied to payroll must not exceed 15.21%. This provision would not apply to the seven universities that participate in MPSERS. (The current rate cap is 20.96%.)
- Eliminate, beginning with FY 2025-26, the 3% contribution toward retirement health care benefits now required of MPSERS employees hired before September 4, 2012.

MCL 38.1341 and 38.1343e

FISCAL IMPACT:

House Bill 5803 (S-1) would provide net savings for the state School Aid Fund (SAF) in FY 2024-25, increase SAF costs by reducing eligible reporting unit UAAL costs (FY 2025-26 and beyond), and increase costs for eligible reporting units by reducing costs for retirement system members currently contributing 3% of salary for normal costs associated with other post-employment benefits (OPEB). Additionally, beginning in FY 2025-26 the normal cost contribution rate for retiree health care would be exempt from the normal cost floor, which would generate additional unknown savings to eligible reporting units when estimated normal costs are below the current-law rate floor of 1.25%. As described below, savings for the SAF for FY 2025-26 and beyond due to OPEB being fully funded were already assumed for purposes of this analysis.

Currently, the Public School Employees Retirement Act includes a floor provision requiring annual contributions toward the pension and OPEB unfunded actuarial accrued liability to be no less than the prior year until the UAAL reaches 100% funded status. Based on the 2022 valuation (used for the FY 2024-25 budget), the OPEB UAAL was 99.2% funded, which would retain the floor provision for FY 2024-25. The bill would remove the floor provision for FY 2024-25 (one year earlier than projected), which would reduce state costs by approximately \$669.4 million in FY 2024-25. Under current projections, the system would have triggered removal of the floor provision for FY 2025-26; therefore, the bill does not affect savings (approximately $679.8 million) in future fiscal years because the savings were already anticipated.

The reduction in the non-university reporting unit UAAL contribution rate on payroll to 15.21% would reduce reporting unit costs (and therefore increase costs to the SAF) by approximately $615.1 million in FY 2025-26. Due to rising payroll, the reporting unit savings increase annually, reaching an estimated $685.6 million by FY 2029-30. The net impact on the SAF from the removal of the OPEB funding floor and the reduction in the reporting unit UAAL contribution rate on payroll is reflected in **Table 1**, on page 3. It should be noted that the $680.0 million in savings that was anticipated under current law is included simply to show that the OPEB savings for the SAF would be passed on to eligible reporting units through the reduction in UAAL contribution rate. Relative to current law, the SAF would realize increased costs equal to the "UAAL Cap Reduction Cost" column in Table 1.

The bill would also remove the 3% contribution that OPEB-eligible teachers are paying for normal costs and shift those costs to the reporting unit. The 3% is expected to equal approximately $171.8 million in FY 2025-26 and is anticipated to decline by about $10.0 million per year as that closed class of teachers continues to retire. The net impact on reporting units from the savings generated from the reduction in the 20.96% UAAL contribution cap to 15.21% and the costs incurred by shifting the employee 3% to reporting units is reflected in **Table 2**, on page 3.

The FY 2024-25 School Aid Budget appropriates $598.0 million ongoing SAF revenue to reimburse reporting units for the equivalent cost of reducing the UAAL contribution rate on payroll to an estimated 15.22%. This does not lower the statutory cap in the Public School Employees Retirement Act, but does provide ongoing funding to local units in an amount equal to the savings they would receive under a 15.22% cap in FY 2024-25.

The FY 2024-25 School Aid Budget also appropriates $181.5 million one-time SAF revenue to reimburse OPEB-eligible teachers for their 3% contribution. As with the UAAL cap reduction, this does not include a statutory change to the Public School Employees Retirement Act. Unlike the UAAL cap reduction, however, the funding is intended for FY 2024-25 only and is not an ongoing appropriation. The budget also provides that, if the 3% requirement is removed from the Public School Employees Retirement Act (presumably, because the cost is shifted to local units), the $181.5 million must be retained by local units rather than sent to teachers.

Table 1: Impact to School Aid Fund

(amounts in millions)

Fiscal Year	OPEB Savings*	UAAL Cap Reduction Cost	Net Savings/Cost
FY 2024-25	$670.0	$0	$670.0
FY 2025-26**	680.0	-615.1	64.9
FY 2026-27**	680.0	-632.0	48.0
FY 2027-28**	680.0	-649.4	30.6
FY 2028-29**	680.0	-667.2	12.8
FY 2029-30**	680.0	-685.6	-5.6

* OPEB savings is $680.0 million ongoing but will also cost $10.0 million one-time in FY 2024-25, for a net of $670.0 million.

** OPEB savings in FY 2025-26 and beyond were anticipated under current law and would not be affected by HB 5803 (S-1). The expected savings are shown to indicate that the UAAL cap reduction is shifting the OPEB savings for the SAF to eligible reporting units. The cost to the School Aid Fund relative to current law would be equal to the UAAL Cap Reduction Cost column amounts. UAAL cap reduction costs begin to exceed OPEB savings in FY 2029-30.

Table 2: Impact to Reporting Units*

(amounts in millions)

Fiscal Year	UAAL Cap Savings	3% Normal Cost Shift	Net Savings
FY 2024-25	$0	$0	$0
FY 2025-26	615.1	-171.8	443.3
FY 2026-27	632.0	-161.9	470.1
FY 2027-28	649.4	-151.8	497.5
FY 2028-29	667.2	-141.9	525.4
FY 2029-30	685.6	-132.0	553.6

* Reporting units for UAAL include: traditional local school districts, public school academies (PSAs), intermediate school districts (ISDs), district libraries, and community colleges. Reporting units for 3% include the units for UAAL plus universities.

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