Legislative Analysis

MPSERS ANNUAL CONTRIBUTION REQUIREMENTS

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House Bill 5803 (proposed substitute H-2)
Sponsor: Rep. Matt Koleszar
Committee: Appropriations [Discharged]
Revised 10-1-24

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, beginning with FY 2024-25, a reporting unit must contribute the normal costs for retiree health benefits under the act *and* the unfunded actuarial accrued liability (UAAL) amount *only if* the actuarial valuation prepared under the act demonstrates that, as of the beginning of a fiscal year and after all credits and transfers required for the previous fiscal year have been made, the sum of the actuarial value of assets and the actuarial present value of future normal cost contributions is *less than* the actuarial present value of retiree health benefits. Otherwise, the reporting unit would have to contribute only the normal costs for retiree health benefits under the act.
- Provide, for FY 2024-25, that the 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, except for the seven universities participating in MPSERS, the UAAL contribution rate applied to payroll must not exceed 14.56% in FY 2024-25 and must not exceed 13.96% in FY 2025-26 and subsequent fiscal years. (The current rate cap is 20.96%.)
- Eliminate, beginning with the 2024-25 fiscal year, 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:

The bill would provide a net cost for the state School Aid Fund, reduce eligible reporting unit costs, and reduce costs for retirement system members currently contributing 3% of salary for normal costs associated with other post-employment benefits (OPEB).

Currently, the Public School Employees Retirement Act includes a floor provision requiring annual contributions toward the pension and OPEB unfunded actuarial accrued liability (UAAL) 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 remain 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 doesn't affect savings (approximately $680.0 million) in future fiscal years because the savings were already anticipated.

The reduction in the non-university reporting unit UAAL contribution rate on payroll will reduce reporting unit costs by approximately $666.3 million in FY 2024-25 and $748.8 million in FY 2025-26. Due to rising payroll, the reporting unit savings increase annually, reaching an estimated $834.6 million by FY 2029-30. The net impact on the School Aid Fund from the removal of OPEB funding floor and the reduction in the reporting unit UAAL contribution rate on payroll is reflected 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 $181.5 million in FY 2024-25 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 13.9% and the costs incurred by shifting the employee 3% to reporting units is reflected in **Table 2**.

Table 1: Impact to School Aid Fund (HB 5803 (H-2))

Fiscal Year	OPEB Savings*	UAAL Cap Reduction Cost	Net Savings/Cost
FY 2025	$670.0	-$666.3	$3.7
FY 2026	680.0	-748.8	-68.8
FY 2027	680.0	-769.4	-89.4
FY 2028	680.0	-790.6	-110.6
FY 2029	680.0	-812.3	-132.3
FY 2030	680.0	-834.6	-154.6

* OPEB savings is $680m ongoing but will also cost $10m one-time in FY 25 for a net of $670m

Table 2: Impact to Reporting Units* (HB 5803 (H-2))

Fiscal Year	UAAL Cap Savings	3% Normal Cost Shift	Net Savings
FY 2025**	$666.3	-$181.5	$484.8
FY 2026***	748.8	-171.8	577.0
FY 2027	769.4	-161.9	607.5
FY 2028	790.6	-151.8	638.7
FY 2029	812.3	-141.9	670.4
FY 2030	834.6	-132.0	702.6

* 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.
**Represents 14.56% cap
***Cap lowered to 13.96% in FY 2026 and for all future years.

Legislative Analyst: Rick Yuille
Fiscal Analyst: Ben Gielczyk