Legislative Analysis

MPSERS ANNUAL CONTRIBUTION REQUIREMENTS

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Senate Bill 911 (H-3) as passed by the House
Sponsor: Sen. Kevin Hertel
House Committee: [Placed on second reading]
Senate Committee: Appropriations [Discharged]
Complete to 7-3-24

SUMMARY:

Senate Bill 911 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 17.46% for FY 2024-25, must not exceed 17.00% for FY 2025-26, must not exceed 16.00% for FY 2026-27, and must not exceed 15.21% for FY 2027-28 and subsequent fiscal years. The current rate cap, which would continue to apply to the university reporting units, 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:

Senate Bill 911 (H-3) would provide net savings for the state School Aid Fund in FY 2024-25, 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). As described below, savings for the School Aid Fund 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 will reduce reporting unit costs (and therefore increase costs to the state) by approximately $364.4 million in FY 2024-25 and $423.6 million in FY 2025-26. Due to rising payroll and the continued lowering of the cap to 15.21% in FY 2027-28 and beyond, the reporting unit savings increase annually, reaching an estimated $685.6 million by FY 2029-30. The net impact on the School Aid Fund 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.

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 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 School Aid Fund 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 bill's inclusion of a UAAL contribution rate reduction in FY 2024-25 would necessitate a corresponding $364.4 million budgetary adjustment to the UAAL contribution rate reimbursement payment to maintain current net savings to reporting units and net costs to the School Aid Fund under the recently adopted FY 2024-25 School Aid Budget.

The FY 2024-25 School Aid Budget also appropriates $181.5 million one-time School Aid Fund 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 (SB 911 (H-3))

Fiscal Year	OPEB Savings*	UAAL Cap Reduction Cost	Net Savings/Cost
FY 2025	$670.0	-$364.4	$305.6
FY 2026	680.0	-423.6	256.4
FY 2027	680.0	-545.2	134.8
FY 2028	680.0	-649.4	30.6
FY 2029	680.0	-667.2	12.8
FY 2030	680.0	-685.6	-5.6

* 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* (SB 911 (H-3))

Fiscal Year	UAAL Cap Savings	3% Normal Cost Shift	Net Savings
FY 2025	$364.4	-$181.5	$182.9
FY 2026	423.6	-171.8	251.8
FY 2027	545.2	-161.9	383.3
FY 2028	649.4	-151.8	497.5
FY 2029	667.2	-141.9	525.4
FY 2030	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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