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BILL ANALYSIS

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Senate Bill 121 (as introduced 2-9-11)
Sponsor: Senator Bruce Caswell
Committee: Appropriations

Date Completed: 3-11-11

CONTENT

The bill would amend the Optional Retirement Act to extend participation in an optional retirement program to part-time community colleges faculty and administrators.

Under current law, only full-time faculty and administrative staff of institutions of higher education (including community colleges) whose positions require the performance of professional services in the discharge of educational or administrative functions are allowed to participate in an optional retirement program (ORP) rather than be members of the Michigan Public School Employees' Retirement System (MPSERS). The bill would amend the Act to allow such faculty and administrative staff of community colleges who are part-time, in addition to those who are full-time, to participate in a college-structured ORP rather than be members of MPSERS.

MCL 38.382

FISCAL IMPACT

To the extent that part-time faculty and administrative staff at the State's 28 community colleges chose an optional retirement program offered by the college and were removed from the Michigan Public School Employees' Retirement System, the bill would have a fiscal impact on not only those community colleges, but also other entities, or "reporting units", participating in MPSERS (public school districts, intermediate school districts, participating public school academies, participating local libraries, and other community colleges). Essentially, any time a group of members is removed from the payroll on which the retirement rate is applied, the rate charged on the remaining payroll will increase, to ensure a constant level of required contributions. Total MPSERS payroll attributable to community colleges in fiscal year (FY) 2009-10 was $654 million, of which an estimated one-fourth, or $164 million) was to pay for part-time faculty and administrative staff.

To finance the retirement system, a retirement rate is charged on the payroll of MPSERS reporting units. The rate consists of a pension rate (broken into a "normal cost" rate and a rate to recover unfunded liabilities) and a health benefits rate. The normal cost rate is determined by the State's actuaries, and to the extent that the funds contributed to the system through this rate, employee contributions, and the return on investments do not meet pension liabilities, the system experiences unfunded accrued actuarial liability (UAAL).

This liability is financed over a declining amortization period and, currently, 27 years remain to pay off this unfunded liability. Under the bill, reporting units would experience UAAL contribution increases on employees remaining in the MPSERS plan. This would occur to the extent part-time faculty and professional administrative staff were removed from the MPSERS, and the UAAL could no longer be spread on the payroll employees. As a result, the UAAL contribution rate would increase on the remaining payroll for reporting units with MPSERS members.

The same phenomenon occurs when, for example, a portion of school staff is privatized and removed from MPSERS membership, or when staff members retire and are not replaced. In the School Aid Highlights for the Executive Budget recommendation, the State Budget Office indicated that the MPSERS rates for fiscal years 2011-12 and 2012-13 are increasing for two primary reasons: severe investment losses driving up the UAAL and "significant membership declines". For employees hired before July 1, 2010, the FY 2011-12 total rate (normal plus UAAL plus health) is estimated at 24.46% of payroll; FY 2012-13 is estimated at 27.37% of payroll. (The total MPSERS rate for FY 2010-11 is 20.66% of payroll, of which 3.74% is the "normal" cost, 8.42% is for UAAL, and 8.50% is for health.)

To show a numerical example, the FY 2010-11 UAAL portion of the total MPSERS rate is 8.42% of payroll. That rate is based on an anticipated total payroll for the current year. If payroll is estimated to be $10 billion, then the retirement system would expect to receive $842 million in contributions toward UAAL. Under this legislation, the total payroll on which the UAAL rate would be applied would decrease to the extent that eligible staff of community colleges chose an ORP instead of MPSERS.

For example, if payroll in the MPSERS were to decrease by the entire $164 million of payroll attributable to such staff, the UAAL rate would not provide for the expected $842 million. In order to get the full $842 million, the UAAL portion of the MPSERS rate charged to all reporting units would have to be raised to 8.56%. Reporting units would have the UAAL rate of 8.56%, instead of the original 8.42%, charged on their MPSERS payroll, resulting in a negative fiscal impact on school districts, intermediate school districts, participating public school academies, participating local libraries, and remaining MPSERS payroll at community colleges.

However, though the UAAL rate would increase uniformly on all MPSERS payroll, community colleges would pay fewer dollars into MPSERS, and other entities would pick up a larger share of the UAAL. This would occur because the total college payroll, on which the marginally higher rate would be applied, would decline, again to the extent eligible staff chose ORPs. Numerically, assuming MPSERS payroll in FY 2010-11 is similar to the prior year, and assuming staff earning the entire $164 million in eligible payroll would have chosen ORP over MPSERS had it been available, colleges as a whole would be paying an estimated $13 million less in UAAL contributions, and all other entities would be paying $13 million more, to ensure the required payment toward the liability. If one-half of eligible part-time staff chose the ORP, the UAAL portion of the rate would increase from 8.42% to 8.49%, and the shift from community colleges to other entities would total around $6.5 million. Similarly, if one-quarter of eligible staff chose ORP, the rate would increase from 8.42% to 8.46%, and the cost shift would total approximately $3.3 million.

The overall fiscal impact on community colleges under this legislation is indeterminate. This is due to the fact that they would see savings if they eliminated portions of payroll from MPSERS; however, the rate charged for remaining MPSERS payroll would increase. Also, the way each ORP is structured compared to MPSERS costs would have a fiscal impact that is unknown and would vary. Community colleges would decrease their retirement-related expenditures if they enrolled employees in ORPs with a cost rate less than their contributions to MPSERS. If they offered a plan with a cost rate that was higher than their MPSERS contribution, they would incur increased costs.

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