

REMOVE SUNSET ON PROVISION ALLOWING MPSERS RETIREES TO WORK IN CERTAIN SITUATIONS WITHOUT LOSING BENEFITS

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House Bill 4422 as introduced
Sponsor: Rep. Holly Hughes
Committee: Education Reform
Complete to 4-19-17

SUMMARY:

House Bill 4422 would amend the Public School Retirement Act of 1979 (MCL 38.1361) to allow certain retirees to work without losing retirement benefits while providing certain services to schools in an identified critical shortage discipline¹ or as a substitute teacher, instructional coach or school improvement facilitator. These provisions currently are included in the Act with a sunset of July 1, 2018; the bill would remove the sunsets and revise additional conditions pertaining to substitute teachers

Previously, Public Act 464 of 2012 (House Bill 5261) amended the Act to allow retirees to retain their retirement benefits while serving in these roles; that bill sunsetted each of the provisions as of July 1, 2014. Subsequently, PA 219 of 2015 (HB 4059) extended the sunsets to July 1, 2018. House Bill 4422 would delete the sunsets entirely.

Absent HB 4422's removal of the sunset, beginning July 1, 2018, the Act would reduce either pension or retiree health benefits or both while a MPSERS retiree returns to work in a reporting unit, with varying reductions depending on the retirement date and the circumstances of the new employment.

- **Reporting unit** means a public school district, intermediate school district, public school academy, tax supported community or junior college, or university, or an agency having employees on its payroll who are members of the retirement system

Substitute Teachers

In addition to removing the sunset date, for substitutes only, the bill would make two additional changes.

Currently, a teacher who retired between June 30, 2010, and September 1, 2015, who meets the requirements of a bona fide termination and whose compensation as a substitute teacher would be less than 1/3 of the teacher's final average compensation, may work as a substitute teacher without losing certain benefits. (The retiree may not apply this substitute teaching for a recomputation of his or her pension.) The bill would extend the retirement deadline of eligible retirees by one year to September 2, 2016.

¹ The FY 2-16-17 list of critical shortage disciplines is available at https://www.michigan.gov/documents/mde/2016-17_Critical_Shortage_List_518812_7.pdf.

Additionally, the Act currently requires the reporting unit at which the retiree substitute teaches to pay 100% of the contribution rate for the UAAL² for the pension and for the UAAL for retiree health care to the Michigan Public School Employees' Retirement System (MPSERS). HB 4422 would remove this provision.

FISCAL IMPACT:

Sunsets

The bill would have an indeterminate fiscal impact on state and local government. By extending the sunset to allow retirees to return to work under critical shortage disciplines or as substitutes, instructional coaches, or school improvement facilitators, the bill could create an incentive to retire earlier than an employee might have otherwise, knowing they may continue to work and earn both current compensation as well as a pension. When retirees retire earlier than anticipated under the retirement system's actuarial assumptions, it increases the unfunded liabilities in a pension system.

Increased unfunded liabilities would be borne either by the state or MPSERS reporting units depending on the required employer contribution levels at that time compared to the capped employer UAAL rate enacted under PA 300 of 2012. However, the existing statutory limitations could limit the use of this provision and thus mitigate these added costs.

Substitute Teachers

Extending the date to September 2, 2016, by which a former teacher must have retired in order to return to work as substitute without foregoing retirement benefits would not create an incentive to retire earlier than an employee might have otherwise because that date has already passed, and thus creates no additional costs to the retirement system. However, 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 in the School Aid and Community Colleges budgets.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

² Unfunded Actuarial Accrued Liability, or the difference between the retirement system's assets and the pensions accrued (for past service) to current or future retirees. (According to the Michigan Office of Retirement Services, <http://www.michigan.gov/psru/0,2496,7-284-60462-345746--,00.html>)