

Legislative Analysis



UNIVERSITY MPSERS UNFUNDED LIABILITY CONTRIBUTION RATE CAP

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Senate Bill 343 (H-1) Committee Substitute

Sponsor: Sen. Tonya Schuitmaker

House Committee: Appropriations

Senate Committee: Appropriations

Complete to 4-19-16

SUMMARY:

Senate Bill 343 would amend the Public School Employees Retirement Act to cap the contribution rate for unfunded actuarial accrued liabilities (UAAL) paid by the 7 universities that participate in the Michigan Public School Employees' Retirement System (MPSERS) at 25.73% of applicable payroll. It would require that any necessary UAAL contributions above that which is paid by the universities would be paid by the School Aid Fund as an annual appropriation in the Higher Education budget (Article III of the School Aid Act).

The bill would also create a payroll floor by providing that the payroll to which the UAAL rate is applied for each university shall not go below the actuarially projected payroll for that university for each subsequent fiscal year based on the September 30, 2012 actuarial valuation.

BACKGROUND:

There are 7 universities that statutorily participate in the MPSERS system: Central, Eastern, Ferris, Lake Superior State, Michigan Tech, Northern, and Western. The pension plan for these 7 universities was closed to all new employees as of January 1, 1996¹. Applicable employees hired prior to that date remain in the system. The universities were given a 40-year amortization period in which to pay off any unfunded liabilities related to the pension and retiree health care benefits earned by their employees.

The Office of Retirement Services (ORS) has a separate annual actuarial valuation completed each year for the 7 universities' share of the MPSERS unfunded liability. The cost of the unfunded liability is currently charged to the universities as an equal percentage across their remaining MPSERS payroll and applicable non-MPSERS payroll (those hired after January 1, 1996, who otherwise would have been part of the system).

¹ For a more detailed description of the university MPSERS history see the following House Fiscal Agency Memo: <http://www.house.mi.gov/hfa/PDF/Retirement/MPSERSuniversitymemo.pdf>.

MPSERS unfunded liabilities are also charged to other MPSERS employers (school districts, intermediate districts, community colleges, participating public school academies and libraries) as an equal percent of their MPSERS payroll. However, beginning in FY 2012-13, as part of pension system revisions made in PA 300 of 2012² (PA 300), the unfunded liability rate for these employers was capped at 20.96% of payroll, the rate in place in FY 2011-12. PA 300 required that any unfunded liability above that amount is to be paid out of the School Aid Fund, and annual appropriations have been made since in both the School Aid and Community Colleges budgets.

FISCAL IMPACT:

Senate Bill 343 would shift any future growth in the universities' share of MPSERS UAAL costs from the 7 applicable universities to the state. This would be accomplished through an annual appropriation in the Higher Education budget equal to the amount of any required contribution for the UAAL that exceeds 25.73% times the applicable university payroll. The rate cap was set at 25.73%, the universities' UAAL contribution rate the FY 2011-12 level, to mirror what was done for other employers in PA 300.

According to an actuarial analysis provided by ORS and based on the 2014 actuarial valuation, the estimated annual cost to the State (and equivalent savings to the 7 universities) would be as described below in Table 1, ranging from \$5.2 million for the current fiscal year to \$11.3 million by 2035-36, which is the last fiscal year in the MPSERS universities' UAAL amortization period. However, the actual cost may change from year to year depending on how closely actual pension system experience resembles actuarial estimates for factors like investment growth, payroll, retirement age, and mortality.

The Higher Education budget includes an appropriation of \$5.2 million for FY 2015-16 to cover the costs of the initial year of the rate cap, and the proposed Higher Education budget for FY 2016-17 increases that appropriation to \$5.9 million.

Finally, the bill would have an indeterminate fiscal impact related to creating a payroll floor for each university to which the UAAL rate would be applied. By preventing a university's reported payroll from declining, it would prevent a university from leaving a portion of its historically accrued UAAL to be shared by the rest of the employers in the system, or in this case due to the rate cap, on the state. This would prevent a phenomenon which is often referred to as "stranded costs". This provision would eliminate the potential for the state cost to increase compared to the actuarial estimates above due to any future reductions in university payroll.

² For further information see House Fiscal Agency analysis of PA 300 of 2012:
<http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-1040-6.pdf> and
<http://www.house.mi.gov/hfa/PDF/Retirement/MPSERSreport.pdf>

Table 1: Projected State Share of UAAL Contribution Above 25.73% Rate Cap (in millions)	
FY 2015-16	\$5.2
FY 2016-17	\$5.9
FY 2017-18	\$6.1
FY 2018-19	\$6.3
FY 2019-20	\$6.5
FY 2020-21	\$6.8
FY 2021-22	\$7.0
FY 2022-23	\$7.2
FY 2023-24	\$7.5
FY 2024-25	\$7.8
FY 2025-26	\$8.0
FY 2026-27	\$8.3
FY 2027-28	\$8.6
FY 2028-29	\$8.9
FY 2029-30	\$9.2
FY 2030-31	\$9.5
FY 2031-32	\$9.9
FY 2032-33	\$10.2
FY 2033-34	\$10.6
FY 2034-35	\$10.9
FY 2035-36	\$11.3

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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.