Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 726 (Substitute S-2 as reported)
Sponsor: Senator Dale W. Zorn
Committee: Education and Career Readiness

CONTENT

The bill would amend the Michigan Public School Employees Retirement Act to do the following:

-- Reduce, from 12 to four months, the amount of time a retiree would have to be retired from teaching before he or she could be reemployed as a substitute teacher without having his or her benefits reduced, and specify that this change would apply until July 1, 2024.
-- Eliminate language pertaining to a retiree employed at a reporting unit that provides instruction under an extended COVID-19 learning plan.
-- Eliminate a provision requiring a reporting unit at which a retiree provides substitute teaching services to pay 100% of the contribution rates for the unfunded actuarially accrued liability for retiree health care and pension to the retirement system.
-- Require the retirement system, by May 1, 2024, to prepare and submit a report regarding the number of retirees who were reemployed between specified dates to various individuals and entities within the Legislature.
-- Require the retirement board and the Department of Education to include in the 2024 experience investigation study variances from assumptions in the rate of normal retirement or early retirement, if any, after the bill's effective date.

MCL 38.1361 Legislative Analyst: Eleni Lionas

FISCAL IMPACT

The bill could increase costs to the State in the short term, but the amount is indeterminate. When employees retire earlier than a pension system assumes, there are additional unfunded liabilities that accrue (since contributions into the system tied to that employee cease earlier than planned). The current provisions regarding the return of substitute teachers to employment attempt to mitigate the issue by requiring retirees to be retired for at least 12 months before rejoining the school workforce and being able to simultaneously draw a pension and a working wage.

The bill would reduce the 12-month period to four months until July 1, 2024, which likely would encourage more people to retire earlier than they otherwise would have because they could return to work as a substitute teacher after four months of retirement and simultaneously draw a pension. Any unfunded liabilities that occurred because of this would be paid for by the State (because of a requirement that the State pay the percentage of unfunded liabilities in excess of the statutory cap).

Also, until July 1, 2024, the bill would remove a requirement that districts hiring retirees as substitute teachers pay 100% of the contribution rates for unfunded liabilities in retiree health care and pensions. This would reduce costs for local districts and increase costs for the State by an indeterminate amount. From July 2, 2024, until July 1, 2025, the bill would restore existing provisions related to the hiring of retirees as substitute teachers, namely that the retirees be retired at least 12 months and that districts pay 100% of the contribution rates for unfunded liabilities in retiree health care and pensions.

The bill would provide school districts with additional teacher options by allowing the earlier return of retirees as substitute teachers, which could result in some local district savings for districts facing challenges in finding long-term teachers.

The bill would increase administrative costs to the State's Office of Retirement Services. The increases would result from the report detailing numbers of retirees from 2012 to 2021 who were rehired under the provisions of the Act, along with an experience investigation study related to variances from assumptions in the rate of normal or early retirement.

Date Completed: 3-22-22 Fiscal Analyst: Kathryn Summers