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BILL ANALYSIS

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Senate Bill 726 (as introduced 11-10-21)
Sponsor: Senator Dale W. Zorn
Committee: Education and Career Readiness

Date Completed: 2-22-22

CONTENT

The bill would amend the Michigan Public School Employees Retirement Act to reduce, from 12 to two 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 retirement benefits reduced.

Except as otherwise provided, if a retiree is receiving a retirement allowance other than a disability allowance, because of either age or years of personal service performed, or both, and becomes employed by a reporting unit, the following must occur:

-- The retiree is not entitled to a new final average compensation or additional service credit under the retirement system unless additional service is performed equivalent to five or more years of service credit or, if the retiree has contributed to the member investment plan, the equivalent of three or more years of service credit.
-- The retiree's retirement allowance must be reduced by the lesser of the amount that the earning in a calendar year exceed the amount permitted without a reduction of benefits under the Social Security Act, or one-third of the retiree's final average compensation.

Until July 1, 2025, the above provision does not apply to a retiree who meets the following conditions:

-- Retires after June 30, 2010.
-- Is employed as a substitute teacher by a reporting unit, by an entity other than the reporting unit, or as an independent contractor.
-- The amount of earnings attributable to employment by or at a reporting unit in a calendar year does not exceed one-third of his or her final average compensation.

The retiree also must have been retired for at least 12 months before becoming reemployed as a substitute teacher unless, following a bona fide termination, the retiree is employed at a reporting unit that provides instruction under an extended COVID-19 learning plan. Under the bill, a retiree would have to be retired for at least two months instead of 12.

MCL 38.1361 Legislative Analyst: Dana Adams

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 existing 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 two months, 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 two 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 the requirement that the State pay the percentage of unfunded liabilities in excess of the statutory cap).

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.

Fiscal Analyst: Kathryn Summers