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BILL ANALYSIS

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Senate Bill 511 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Sean McCann
Committee: Appropriations

Date Completed: 9-27-23

CONTENT

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

-- **Extend the suspension of mandatory floors for university payments to the Michigan Public School Employees' Retirement System (MPSERS) toward unfunded accrued liabilities (UAL) for one additional year.**
-- **Require the Office of Retirement Services (ORS) to reduce the payments universities must remit toward UAL, based on the deposit of an additional $200.0 million into MPSERS that was included in fiscal year (FY) 2022-23 under Public Act (PA) 119 of 2023.**
-- **Accelerate the reduction in the payroll growth assumption (PGA) by 100 basis points, from 1.75% to 0.75%.**

The FY 2023-24 education omnibus budget (PA 119 of 2023) contained a FY 2022-23 supplemental appropriation of $200.0 million to reduce the UAL associated with the seven universities that participate in the MPSERS system in an effort to reduce the annual UAL payments made to MPSERS by those universities. The FY 2022-23 payment, when combined with a total of $384.7 million in additional payments made in FY 2021-22, leave a remaining university UAL of approximately $50.0 to $100.0 million. The universities that participate in MPSERS are Central Michigan University, Eastern Michigan University, Ferris State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, and Western Michigan University.

The bill is a budget implementation bill that would require ORS and the State's actuary to recognize the additional $200.0 million payment to reduce the remaining UAL related to universities by approximately 75%. The bill would additionally require that the universities' UAL payments for FY 2023-24 be reduced to reflect this payment, rather than requiring an amount not less than what was paid in the prior fiscal year (the 'floor' payment). These changes would result in a $19.0 million reduction in MPSERS payments made by the seven participating universities for FY 2023-24; those savings would persist into future fiscal years.

Finally, the bill would reduce the payroll growth assumption for pension and retiree health care from 1.75% to 0.75% for FY 2023-24. Under current law, the PGA would have been 1.25% for FY 2023-24, so the bill accelerates that reduction by an additional 50 basis points. In subsequent fiscal years the PGA would continue to be reduced by 50 basis points (0.50% percentage points) each year until the rate is zero, consistent with current law.

MCL 38.1341

FISCAL IMPACT

The budget already included $200.0 million School Aid Fund dollars to pay down university UAL in MPSERS. The bill would lower UAL university contributions by an estimated $19.0 million, as illustrated in Table 1.

Participating MPSERS University	FY 2023-24 Estimated UAL Savings (in millions)
Central Michigan	$4.7
Eastern Michigan	2.3
Ferris State	3.1
Lake Superior State	0.6
Michigan Tech	2.1
Northwestern Michigan	1.8
Western Michigan	4.3
Total	**$19.0**

Related to the payroll growth assumption (PGA), the School Aid budget included funding to accelerate the reduction in the PGA to 0.75% (instead of what would have otherwise been 1.25%). The cost of this was an estimated $91.0 million.

Current law has been reducing the PGA over time, from 3.5% down to what will become 0.75% for FY 2023-24. After that, the PGA will be reduced 0.5% each year until reaching 0% (effectively transitioning the system from a 'level percent of payroll' funding mechanism to 'level dollar'. The bill would effectuate the funding and intent of the School Aid Act to accelerate the reduction in the PGA by one year.

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