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House Bill 5803 (Substitute S-1 as passed by the Senate)  
Sponsor: Representative Matt Koleszar  
House Committee: Appropriations (discharged)  
Senate Committee: Appropriations (discharged)

Date Completed: 9-26-24

### **CONTENT**

**The bill would amend the Public School Employees Retirement Act to do the following regarding the Michigan Public School Employee Retirement System (MPSERS):**

- Provide that, beginning in fiscal year (FY) 2025-26, normal costs for retiree health care benefits would be exempt from a requirement that they be not less than the normal costs for benefits in the immediately preceding fiscal year.**
- Provide that, in FY 2024-25, the unfunded actuarial accrued liability (UAAL) contribution due and payable would have to be equal to the actuarially determined contribution.**
- Provide that, beginning in FY 2025-26, the UAAL contribution rate applied to payroll would not exceed 15.21% for a reporting unit that is not a university reporting unit.**
- Beginning in FY 2025-26, eliminate a requirement that each member who first became a member before September 4, 2012, contribute 3% of their compensation toward the normal costs of retiree health care benefits.**

Currently, the Act requires that the normal cost contribution rate for benefits (except for the employee portion of the normal cost contribution rates for members who first became members on or after February 1, 2018) must not be less than the normal cost contribution rate in the immediately preceding fiscal year. This requirement is commonly referred to as a contribution rate floor. Beginning in FY 2025-26, the bill would exempt the normal cost contribution rate for retiree health care benefits from the normal cost floor.

The Act also requires that, until the UAAL is fully paid, the UAAL contribution for both the MPSERS pension and retiree health care benefits must not be less than the UAAL contribution for the immediately preceding fiscal year. This requirement is commonly referred to as a contribution floor. The bill would specify that in FY 2024-25, the UAAL contribution due and payable must be equal to the actuarially required contribution, which effectively would eliminate the contribution floor for that year.

The Act requires that the UAAL contribution rate applied to payroll for a reporting unit that is not a university reporting unit is 20.96%. This is commonly referred to as the UAAL rate cap. Unfunded actuarial accrued liability contributions above the rate cap are paid from the School Aid Fund. The bill would lower the rate cap for reporting units that are not university reporting units to 15.21% in FY 2025-26 and subsequent fiscal years. (The Act requires that the UAAL contribution rate applied to payroll for a university reporting unit is 25.73%. The bill would not change that rate.)

Members who became members before September 4, 2012, and did not opt-out of the MPSERS retiree health care benefits, must contribute 3% of their compensation toward the normal costs of the retiree health care system. The bill would eliminate this requirement beginning in FY 2025-26. Currently, the normal costs for the retiree health care system are paid partially from members through this contribution and partially by reporting units.

MCL 38.1341 & 38.1343e

### **FISCAL IMPACT**

The bill would reduce costs to the School Aid Fund in FY 2024-25 and would increase costs in subsequent fiscal years. The bill's provisions would result in net savings to eligible reporting units in all fiscal years.

Beginning in FY 2025-26, the bill would exempt the normal cost contribution rate for retiree health care benefits from the normal cost floor. Normal costs are paid by reporting units and (currently) by eligible members, so any savings would accrue to those entities and individuals. Since normal costs change from year to year based on several factors, it is not possible to determine the savings from the removal of the rate floor. However, removal of the floor would not increase costs in any scenario.

The bill would effectively eliminate the UAAL contribution floor for FY 2024-25. The actuarially required contribution for retiree health care benefits for FY 2024-25 is \$670.0 million less than the contribution for FY 2023-24. Since the amount of savings would be less than the amount the State must contribute toward the MPSERS UAAL contributions, all savings would accrue to the School Aid Fund. The retiree health care fund was 126.95% funded as of the September 30, 2023, valuation, so the floor provision would not apply beginning in FY 2025-26 regardless of whether the Act was amended. For this reason, while the savings in FY 2024-25 of \$670.0 million would be ongoing, the fiscal impact statement does not include savings beyond FY 2024-25, since they would accrue regardless of whether the Act was amended. (The actuarially required contribution for the MPSERS pension system will be larger in FY 2024-25 than it is in FY 2023-24, so the removal of the floor would have no effect on the contribution amount for that system.)

The bill would lower the rate cap for reporting units that are not university reporting units to 15.21% in FY 2025-26 and subsequent fiscal years. As the total UAAL contribution would remain the same, this change would reduce the costs for reporting units and increase the costs to the School Aid Fund. Based on the most recent projections from the Office of Retirement Services, the change would increase costs to the School Aid Fund (and reduce costs to reporting units) by \$615.1 million in FY 2025-26, with costs increasing in future years.

The bill would eliminate a requirement for certain members to contribute 3% of their compensation toward the normal costs of the retiree health care system beginning in FY 2025-26. Assuming that the normal costs for the system remain constant, this change would reduce the cost for members and increase costs for reporting units by the same amount. The total estimated member contributions for FY 2025-26 are \$171.8 million, and they will decrease in subsequent years as covered members retire.

Table 1 shows the net cost to the School Aid Fund for fiscal years 2024-25 through 2029-30. Table 2 shows the net cost to reporting units for fiscal years 2025-26 through 2029-30. Only reporting units that are not university reporting units would receive savings from the reduction in the UAAL rate cap, while all reporting units would share increased costs from the elimination of the 3% member contribution.

**Table 1**

<b>Net Impact to the School Aid Fund (in millions)</b>			
<b>Fiscal Year</b>	<b>Retiree Health Care</b>	<b>UAAL Rate Cap</b>	<b>Net Savings/Cost</b>
2024-25	(\$670.0)	\$0.0	(\$670.0)
2025-26	0	615.1	615.1
2026-27	0	632.0	632.0
2027-28	0	649.4	649.4
2028-29	0	667.2	667.2
2029-30	0	685.6	685.6

**Table 2**

<b>Net Savings to Reporting Units (in millions)</b>			
<b>Fiscal Year</b>	<b>UAAL Rate Cap</b>	<b>3% Normal Cost Shift</b>	<b>Net Savings</b>
2025-26	(615.1)	171.8	(443.3)
2026-27	(632.0)	161.9	(470.1)
2027-28	(649.4)	151.8	(497.6)
2028-29	(667.2)	141.9	(525.4)
2029-30	(685.6)	132.0	(553.6)

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.