SFA BILL ANALYSIS

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Senate Bill 898 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Norman D. Shinkle
Committee: Judiciary

Date Completed: 7-31-90

RATIONALE

Public Act 91 of 1985 amended the Public School Employees Retirement Act to allow Public School Employees' Retirement System (PSERS) members to make an irrevocable election to participate in the system's Member Investment Plan (MIP). Such an election was permitted for a limited time. Reportedly, many PSERS members were discouraged from electing to participate in the MIP because the program included a variable employee contribution rate. Public Act 194 of 1989, however, established a range of fixed contribution rates to the MIP based on annual compensation. Since the MIP now includes a more stable system for employee contributions, it has been reported that many PSERS members who chose not to participate in the MIP when it originally was offered wish to have another opportunity to elect to participate.

CONTENT

The bill would amend the Public School Employees Retirement Act to provide that a person who became a PSERS member before January 1, 1990, and who did not elect to participate in the MIP before that date, would have until January 1, 1993, to elect irrevocably to contribute to the MIP at the rate specified in the Act for a member who previously joined the MIP (i.e., 4% of compensation before January 1, 1990, and 3.9% of compensation after that date). In addition, that member would have to contribute 4% of compensation received between January 1, 1987, and December 31, 1989, and 3.9% of compensation received between January 1, 1990, and the date of election, plus interest, plus an amount equal to the net actuarial cost of additional benefits attributable to service credited prior to January 1, 1987. Contributions would have to be deposited into the reserve for employee contributions. These provisions would not apply until the Department of Management and Budget was notified by the Internal Revenue Service that the provisions would not cause the system "not to be qualified for tax purposes under the Internal Revenue Code".

MCL 38.1343a

FISCAL IMPACT

The changes to the MIP proposed by this bill would not generate any systems costs that would result in increased contributions from State or local school districts. The participation rate in the MIP is expected to remain at 85% of PSERS active members. The increased cost of unfunded accrued liabilities would be shared among those members taking advantage of the window period created by this bill. This $6,060,300 would be covered through increased contribution required of each new MIP member. Depending on the age of the member and his or her age at the time of subscription into the MIP, an individual's contribution would be between 6% and 13% of his or her wage level.

ARGUMENTS

Supporting Argument

Many of the PSERS members who chose not to participate in the retirement system's MIP when the option originally was offered reportedly did so because of the uncertainty of fluctuating employee contribution rates. Since that characteristic of the MIP has been amended to provide more stable contributory rates, PSERS members deserve another opportunity to opt-in to the MIP.

<u>Response</u>: While offering another MIP election period might be admirable, the bill should also give an opportunity to opt-out to members who previously chose MIP participation, in order to be fair.

<u>Opposing Argument</u>

Offering a window period for PSERS members to opt-in to the MIP could be detrimental to the actuarial soundness of the program due to the costs of increased benefits.

<u>Response</u>: The bill would address the possibility of financial damage by requiring new MIP participants to make retroactive contributions in the same amount that current participants contributed. In addition, the bill would require an additional contribution by new participants to cover the net actuarial cost of additional benefits in an amount considered necessary by the PSERS board.

<u>Opposing Argument</u>

The timing of the bill is poor, since the retirement board is awaiting an IRS ruling pertaining to the 1989 revisions upon which the bill is based.

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