

Legislative Analysis



MPSERS – REVISE UAAL CONTRIBUTION AND PAYROLL GROWTH ASSUMPTION

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House Bill 6357 as introduced
Sponsor: Rep. Thomas A. Albert
Committee: Appropriations
Complete to 8-17-22

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 6357 would amend the Public School Employees Retirement Act to do both of the following for fiscal year (FY) 2022-23:

- Revise the unfunded actuarial accrued liability (UAAL) contribution for a university reporting unit.
- Revise the payroll growth assumption rate for a non-university reporting unit.

UAAL Contribution

The bill would revise the UAAL contribution for the seven universities participating in the Michigan Public School Employees' Retirement System (MPSERS) for FY 2022-23. Under current law, the universities participating in MPSERS are instructed that the UAAL contribution for the current fiscal year will not be lower than the UAAL contribution for the prior fiscal year until the UAAL is fully paid off. The bill implements an exception for FY 2022-23, which states that the FY 2022-23 UAAL contribution will equal the actuarial determined contribution. This would also reset the contribution floor to the FY 2022-23 calculated UAAL contribution for the subsequent fiscal year.

The actuarial determined contribution for FY 2022-23 is anticipated to recognize the \$300.0 million deposit made into the MPSERS system in a FY 2021-22 supplemental in 2022 PA 144 to lower UAAL contributions for the universities.

Payroll Growth Assumption

The bill would require that the pension and retiree health care payroll growth assumption rate for a reporting unit that is not a university reporting unit be 1.75% for FY 2022-23. For subsequent fiscal years, beginning in FY 2023-24, the bill would retain the current requirement that the payroll growth assumption be reduced annually by 50 basis points until the rate is zero.

For FY 2021-22, the payroll growth assumption used by the actuary is 3.0%. Under current law, the payroll growth assumption will be lowered by 50 basis points each year until the assumption is 0%, presumably in FY 2027-28. However, beginning in FY 2024-25, the Office of Retirement Services (ORS) has the authority to reduce the rate of return by 25 basis points instead in any year in which the direct cost of a 50-basis-point reduction would increase the combined pension and retiree health care UAAL contribution by 7% or more compared to the previous year. This authority would remain under the bill.

The bill would effectuate level dollar amortization for MPSERS one year sooner than current law under current estimates.

MCL 38.1341

FISCAL IMPACT:

UAAL Contribution

The bill is expected to lower annual MPSERS UAAL contributions by an estimated \$36.3 million for the seven universities that participate in the system. A breakdown of anticipated cost savings for the universities is located in Table 1.

Table 1 – Estimated FY 2022-23 UAAL Contribution Savings

<u>University</u>	<u>Estimated FY 2022-23 UAAL Savings</u>
Central Michigan University	\$9,013,678
Eastern Michigan University	4,499,121
Ferris State University	5,926,573
Lake Superior State University	1,112,278
Michigan Technological University	4,096,147
Northern Michigan University	3,401,315
Western Michigan University	<u>8,280,254</u>
TOTAL	\$36,329,366

The estimated FY 2022-23 UAAL savings are a snapshot in time and reflect the \$300.0 million UAAL payment in 2022 PA 144 and the most recent actuarial valuation made by ORS. University savings could be higher or lower depending on actual FY 2022-23 payroll. Contribution savings in subsequent fiscal years will change based on future actuarial valuations.

Payroll Growth Assumption

The bill would increase baseline costs by an estimated \$140.4 million in FY 2022-23, an amount equal to the MPSERS Retirement Obligation Reform Reserve Fund appropriated under section 147c of the School Aid Act for FY 2022-23 (2022 PA 144) for this purpose. The state would realize an increase in baseline costs annually through FY 2026-27 because the annual payroll growth assumption rate would be lower than under current law (see Table 2). 2022 PA 144 deposits an additional \$284.6 million into the MPSERS Retirement Obligation Reform Reserve Fund with the intent to offset costs associated with accelerating the reduction of the payroll growth assumption until the rate is zero by October 1, 2026.

Table 2 – Payroll Growth Assumption Rates

<u>Fiscal Year</u>	<u>Current Law</u>	<u>HB 4261</u>
2020-21	3.5%	3.5%
2021-22	3.0%	3.0%
2022-23	2.5%	1.75%
2023-24	2.0%	1.25%
2024-25	1.5%	0.75%
2025-26	1.0%	0.25%
2026-27	0.5%	0.0%
2027-28	0.0%	0.0%

As noted above, the bill would shift MPERS to a level dollar amortization method one year sooner than current law. A level dollar amortization method generally front-loads payments compared to a level percent of payroll method, creating an initial increase in costs compared to what would have otherwise been anticipated. Those short-term cost increases are offset by long-term savings because contributing those funds into the system earlier also allows them to gain investment returns over a longer period.

In sum, the bill would increase costs in the near term (noted above) and generate longer-term savings of an indeterminate amount.

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