House
Legislative
Analysis
Section

Washington Square Building, Suite 1025
Lansing, Michigan 48909
Phone: 517/373-6466

PSERS: ADD INSURANCE

House Bill 4559 (Substitute H-1)
First Analysis (11-29-88)

Sponsor: Rep. Justine Barns
Committee: Senior Citizens and Retirement

THE APPARENT PROBLEM:

Public Act 91 of 1985 virtually overhauled the Public School Employees Retirement System (PSERS), extending to retired school employees many of the benefits enjoyed by retired state employees. Many older retirees, however, especially those who have been retired for some time, report that dental, hearing, and vision care expenses take up a disproportionately large portion of their income. Some retirees are angry because their "13th checks" are spent on these expenses. Many people believe that dental, vision, and hearing insurance coverage, similar to that provided retired state employees, could be granted to public school retirees.

THE CONTENT OF THE BILL:

The bill would amend the Public School Employees Retirement Act to provide dental, optical, and hearing benefits for retirees, their beneficiaries, and their dependents, effective October 1, 1989. Under the bill, the retirement system would be required to pay 90 percent of the monthly premium, membership, or subscription fees for these services for persons entitled to benefits under the act.

MCL 38.1391

FISCAL IMPLICATIONS:

According to the Retirement Bureau in the Department of Management and Budget (DMB), the cost to the state of the additional benefits proposed in the bill have been initially estimated at $30-$34 million. This figure, however, is based on the assumption that the benefits would be pre-funded by the method now used to fund basic retirement health benefits. If, as has been proposed by the House Senior Citizens and Retirement Committee, the costs are instead funded by an annual cash-basis appropriation, the cost to the state would be cut in half, to $15-$17 million for the first year of the plan, but would increase each year thereafter, and would finally equal and then exceed prefunded annual costs. The House committee estimates that the bill would be revenue neutral, based on the assumption that the proposed benefits would be utilized by 75 percent of the retirement system's members and utilizing a combination of one or more of the following revenue enhancements: a .2 percent increase in the actuarial assumption on the active assets; utilization of funds realized from an increase in the actuarial cost for buy-ins; or an increase in expected retired life assets returns from the current 11.8 percent to 11.9 percent. According to DMB, the additional funds that would result from charging full actuarial costs for buy-ins would be amortized over 50 years, and the impact in any one year would be minuscule. DMB does agree that a .2 percent increase in assumed investment earnings would reduce the annual contribution requirement: based on September 30, 1987, active assets of $7.5 billion, a .2 percent increase in long-term investment earnings assumption would yield $15 million. DMB warns, however, that stock market trends make economic outcomes difficult to predict. (11-28-88)

ARGUMENTS:

For:

The bill would help those who need help most. According to the Retirement Bureau's latest pension payroll report, the average pension received by PSERS members is $7,567 per year, or $631 per month, out of which they must pay for dental, hearing, and vision care. While many of these retirees have incomes augmented by Social Security, Michigan public schools did not come under the Social Security Program until 1955, and many who retired twenty-five or thirty years ago are not eligible for those benefits. The costs of dental work, eye examinations and glasses, and hearing problems and hearing aids unfortunately increase as one ages. Many who have been retired for some time, and who do not have the financial resources to take care of these medical needs when they arise, often delay seeking medical help, and the problems get worse.

Against:

The state cannot afford to provide extended health care coverage for current and future retirees unless the method of funding used is the pre-funding method, and the bill will likely be vetoed by the governor for that reason.

The system's health insurance coverage is currently pre-funded, instead of being paid on a year-to-year basis. The act currently requires that state appropriations for health benefits be paid into a health benefits fund. Under pre-funding, the cost of health coverage is predicted for future years and each year's contribution is actuarially determined at a level percentage of payroll. More money is put into the fund than is initially needed so that increases due to rising medical costs and inflation are paid from investment income. Pre-funding therefore increases the security of health benefits by protecting against periods in which health care costs rise rapidly, when the legislature could decide that the state could not afford to fully pay premiums. On a cash, or "pay-as-you-go" basis, on the other hand, no reserves are built into the fund to pay for rising costs, so cash outlays are greater.

Pre-funding is preferred by actuaries. In the long run — and retirement benefits have to be looked at as long-term, since they are guaranteed by the constitution — pre-funding is more reliable and more stable than cash funding.

Against:

Despite the committee's intention that the new benefits be funded on a cash basis, the bill is drafted in such a way that it is unclear whether that could occur. Section 41 of the act requires an annual level percentage of payroll contribution rate (pre-funding) for health benefits, as well

OVER

H.B. 4559 (11-29-88)

as basic retirement benefits. Health benefits are paid for out of the health benefits fund. Although the definition of "health benefits" does not include the new dental, hearing and vision care benefits the bill intends to provide, the act says that "benefits payable pursuant to Section 91 shall be paid from the health benefits fund;" thus implying that the new benefits would be funded in the same manner as other health benefits. At the very least, the bill should be amended to clearly specify what method of funding would be used. Without that certainty, the legislature cannot possibly know the potential costs of the bill, which may be extensive.

POSITIONS:

The Michigan Federation of Teachers supports the bill. (11-17-88)

The Michigan Association of Retired School Personnel supports the bill. (11-17-88)

The Retirement Coordinating Council supports the bill. (11-17-88)

The Michigan Education Association opposes the bill as written, since it does not provide for a prefunding method of financing. (11-17-88)

The Retirement Bureau in the Department of Management and Budget opposes the bill since it has no provision for prefunding. (11-17-88)