

OPTIONAL RETIREMENT FOR COLLEGE EMPLOYEES

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House Bills 5535 and 5629

Sponsor: Rep. Gene DeRossett

Committee: Tax Policy

Complete to 6-1-04

A SUMMARY OF HOUSE BILL 5535 AS INTRODUCED 2-12-04 AND HOUSE BILL 5629 AS INTRODUCED 3-10-04

Generally speaking, faculty and professional administrators of the state's community colleges and seven of the four-year universities (Central, Eastern, Northern, Western, Ferris State, Lake Superior, and Michigan Tech) are included in the Michigan Public School Employees Retirement System (MPSERS). However, the Optional Retirement Act of 1967 permits those colleges and universities to offer their employees optional retirement plans as an alternative to the public school employees retirement system.

House Bill 5535

The bill would amend the Optional Retirement Act of 1967 (MCL 38.383) to specify that the board of control of a community college may determine the eligibility of all employees for participation in the optional retirement plan.

House Bill 5629

The bill would amend the Optional Retirement Act of 1967 (MCL 38.382) to specify that the optional retirement plan would be available to all staff, rather than just faculty and professional administrators, of the state's community colleges and the seven listed four-year universities..

FISCAL IMPACT:

The bills would result in an indeterminate cost savings to community colleges. Based on a recent survey conducted by the Michigan Community Colleges Business Officers Association, the average Optional Retirement Plan (ORP) contribution rate at the 28 community colleges is approximately 12 percent of payroll costs. The contribution rate for the Michigan Public Schools Employee Retirement System (MPSERS) is 12.99 percent for FY 2003-04 and 14.87 for FY 2004-05. This rate could be significantly higher in FY 2005-06 and beyond, since the FY 2003-04 and FY 2004-05 rates are subsidized by contributions from a stabilization subaccount within the system. The actual amount of savings realized by the colleges would depend primarily on the number of newly-eligible employees that would opt to enroll in the ORP, rather than MPSERS.

The bill would have an offsetting impact on MPERS by reducing contributions to the system, with a likely smaller reduction in benefits paid by the system--since employees choosing to enroll in the ORP would tend to do so because of an expectation that they would not work long enough to vest in MPERS. Given that contributions to the system for community college employees make up less than five percent of the total, the impact on the overall system would likely be fairly minimal.

According to data from the Integrated Postsecondary Education Data System, there were 38,674 Michigan community college employees as of November 2003. Of this total, 8,206 were full-time faculty or administrative staff who are therefore currently eligible to participate in the ORP. An additional 8,552 employees were full-time staff with non-faculty/administrative functions who would become eligible for the ORP under the bills. The remaining 21,916 individuals were employed by colleges on a part-time basis. (House Bill 5629 refers to employees "on a full-time basis." House Bill 5535 allows college boards to determine the eligibility of "all employees." This analysis assumes the full-time restriction under House Bill 5629 would limit college boards' ability to determine eligibility under House Bill 5535.)

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