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BILL ANALYSIS

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Senate Bill 180 (as reported without amendment)  
Sponsor: Senator Tony Stamas  
Committee: Education

Date Completed: 4-20-05

### **RATIONALE**

The Public School Employees Retirement (PSER) Act allows members of the retirement system to purchase service credit that may be applied to the years required for retirement. In the past, members could purchase credit for "out of system public education service", which included teaching experience at a United States armed forces military base. Public Act 194 of 1989, however, amended the PSER Act to set a deadline of January 31, 1991, on the purchase of service credit for teaching at a military base and in other situations, and repealed sections that allowed the purchase of service credit for other specific types of employment. Public Act 194 also established what is called a "universal buy-in", which allows a member of the retirement system to purchase up to five years of service credit for any reason.

In at least one case, a member of the retirement system taught at a military base before January 31, 1991, but was not able to purchase credit for that service before the deadline. Although this person may purchase service credit under the universal buy-in, doing so would be more expensive than purchasing credit for out of system public education service. It has been suggested that retirement system members in this situation should again be allowed to purchase service credit for military base teaching experience at the rate allowed for out of system public education service.

### **CONTENT**

The bill would amend the Public School Employees Retirement Act's definition of "out of system public education service" to include, beginning October 1, 2005, service

performed as an elementary or secondary teacher at a United States armed forces military base in the United States or a foreign country, if the service were performed before January 31, 1991.

MCL 38.1306

### **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

#### **Supporting Argument**

Someone who served his or her country by teaching the children of members of the armed forces at a U.S. military base should be allowed to purchase retirement service credit for that time, without paying the higher cost associated with the universal buy-in. The bill simply would reinstate one service credit buy-in for people who qualified for it when the service credit was allowed, but were unable to purchase it at that time.

#### **Opposing Argument**

According to the Department of Management and Budget, about 30 service credit buy-ins were phased out between 1991 and 1995. This lowered the overall cost to the retirement system, which previously had to verify numerous types of employment experience. It also eliminated certain buy-ins that actually could be purchased for less than their actuarial cost. These included the service credit for teaching at a military base. By re-establishing the opportunity to buy credit for this service at below-actuarial cost, the bill would require local districts to subsidize the benefits.

The bill also would set an unwelcome precedent that could open the door to requests for other types of service credit that have been eliminated. When Public Act 194 of 1989 eliminated the proliferation of buy-ins that had existed, it created the universal service credit to provide for consistent and equitable treatment of all members of the system, as well as reduce the costs to the system and school districts. The bill would begin to reverse this progress.

Legislative Analyst: Suzanne Lowe

### **FISCAL IMPACT**

The bill would have an indeterminate fiscal impact on both the State and local school districts. The bill would allow members to receive an enhanced benefit above and beyond current actuarial costs. This could result in the payment of higher benefits from the system's assets, which would increase unfunded liabilities. This, in turn, could result in higher contribution rates for local and intermediate school districts and public school academies. Current law allows the universal buy-in of up to five years of service, which are accounted for in the system's annual actuarial valuation. This bill would allow, under specific circumstances, a buy-in that would supercede the current universal buy-in provision, thus resulting in the additional unfunded liabilities just described.

Fiscal Analyst: Joe Carrasco

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