# Testimony regarding SB 1227/HB 5953

Thank you for this opportunity to provide comment on SB 1227/HB 5953. My name is Steve Goff and since 1994 I have been a teacher, coach, EA president and taxpayer working in Michigan. After graduating from Western I attended Princeton 's graduate Teacher Preparation Program and served in the Army and private sector before starting my teaching career.

Before final action by this committee I urge you to amend this bill to include a cap on the application of the 1.6% multiplier of a maximum increase of 3% in the multiplier (this equates to 30 years of service credit) and $80,000 of FAC. This amendment would effectively limit the pension increase under the bill to $200 per month or $2400 per year.

The rationale for this amendment is as follows:

First, the change would not decrease the level of participation among teachers, the most critical group of school employees since nearly all teachers in the state have FACs at or below $80000 and relatively few have appreciably more than 30 years of service credit. Teachers make up about 75% of personnel related expenses for schools. Unlike other school employees, teachers are paid largely based on the added experience and education through salary schedules with step and column advancement. Teachers with 15 or more years of service and a master's degree or higher make at least twice what a beginning teacher makes in the same district. Teacher retirements provide substantial savings to a district in both attrition and replacement. If you miss this point you have missed the whole point. It is the fundamental difference between school employee incentives and those designed for other state employees. Third, at least part of the rationale for this bill is to create jobs IN MICHIGAN schools for recent Michigan college graduates like my son who is student teaching in Iowa; my daughters teaching of necessity in New York and Washington; my daughter substitute teaching in Midland, and my son a social work student at CMU, all of whom are hoping to stay in or return to the Great state of Michigan.

Second, as the MASB can and will tell you, the current bill has the unintended unnecessary negative consequence of exacerbating a potential "brain-drain" in senior administration so critical at this time in reforming and transforming

Michigan's schools. It is largely for this reason that the bill includes a provision for allowing continued half-time employment for up to 3 years for select retirees at the discretion of the district. The proposed change will dissuade some of these key employees from participation to the benefit of both the school districts and the retirement system.

Third, by definition senior school administration, a critical shortage area, will participate at much higher rates than other groups, including teachers. There will be appreciable net loss with each of these high end retirements. Every one of them will put the state's school finances in further deficit. To prove this point I cite the fact that I know of only 1 district in the state in the last 10 years that has offered an ERI to administrators as well as teachers. They don't do it for 2 reasons. First, they lose money. Second, they lose key hard to replace employees. In the one case I know, a Macomb County district, 5 administrators took an unrestricted ERI at $70,000 each including the superintendent, who is now under a private administrative contract with an adjacent district. They spent $350,000 to save $40,000 in replacement salaries. I calculate that in my district if all 9 managers and administrators left and were replaced the district would likely save less than $50,000. If all 78 teachers did so and were replaced the district would save over $3 million dollars, nearly 30% of its operating expenses. I understand in this case that if you offer an incentive through MPSERS multiplier it has to apply to all members within the system. But what possible requirement or justification would you have for not including a cap on both years of credit and FAC that applies to all members equally?

Fourth, is it equitable to provide increased pension incentive to members retiring with already much larger than average MPSERS pensions while requiring that the burden of funding those increases be paid by the remaining employees and school districts? This question is particularly poignant given that these persons are in critical shortage, the net financial impact of each of their retirements will be negative, and the bill (and unfortunately the common practice of private contracting) already provides significant economic advantage to many of these employees by specifically providing for their continued post-retirement employment. This is not about class envy, salary caps, or administrator pay. It's about sensible public policy. To pass this bill without a cap would be the equivalent of a local school district pricing a local ERI so that administrators would get appreciably more than teachers. This would be exactly the wrong policy leading to exactly the wrong outcome and there isn't a single lobbyist or school leader in this room that could or would claim otherwise with a straight face.

Let me cite just three examples I'm familiar with that highlight the need for this proposed change in the bill. In one extreme case, according to the Oakland Press a superintendent in Oakland County making $205,282 recently announced his retirement. Assuming this reported salary amount roughly equates to his FAC and he has 35 years of service credit (he was 1st certified in 1975) his pension will increase by $8000 under the bill. If capped at 30/80 his pension would increase by $2400. This added $5600 is an unnecessary liability that will be borne by districts and remaining members already struggling with sizable deficits and significant declines in their real income and purchasing power.

Let me do the quick and dirty on this admittedly extreme case. These quotes are from immediateannuity.com as of March 15th (the site is rated #1 by *Smart Money, Businessweek, WSJ, and Kipplinger's*). MDE has the guy born in 1952. A 57-year old Michigan male Single Life Income with no survivor benefit annuity paying $8000 per year would cost $116,372. That's the true market cost of this bill in this case. If the cap is adopted the cost drops to $34,379. This difference of $82,000 is the true cost of not adopting the cap in this case.

Another more typical example is my current superintendent. He has an estimated FAC of $125,000 and 35 years of service credit. His pension increase under the bill would be around $4400 as opposed to $2400 under the cap. Again the extremely efficiently priced private annuity market indicates that having the cap would save the schools nearly $30,000 in this case. In my opinion he is the poster child of the brain drain issue in that he has ably led and continues to lead our district in needed reform. In short we need him. Even under a cap he still may retire under the bill but the last thing we should do is unnecessarily entice him to do so while at the same time requiring the district, already facing an estimated 10-11 school year deficit of 7%, and the employees, already facing a 3% increase in ORS rates and a 3% decrease in compensation through locally negotiated contract concessions, to pay an extra $30,000 for a result that actually ends up hurting the district near term and long term.

The last example I will share is that of my current principal and future principal. My current principal has been in his position for the last 12 years. His FAC is $82,000 and he has 32 years of service. His pension under the cap would be virtually unaffected, $19 a month less under the cap at an annuity cost of $3100. Interestingly and very tellingly his replacement will be retiring from a nearby district with an estimated FAC of $135,000 and 38 years of service credit. Under the current bill his pension will be increased by $5130 at a cost of $72,464 as compared to a capped increase of $2400 at a cost of $33,862. The nearly $40,000 in capped savings in this case is even more compelling when you consider that fact that he will be working as principal under a private contract for $80,000. His pension and contract costs, all funded directly or indirectly from the School Aid Fund, will be over $160,000. At the same time the ORS will be deprived nearly $30,000 a year in employee and employer ORS payments on a position as basic to a district as its high school principal. We're not talking about contracting tech support or food service here.

Some may argue that if the caps are put in place that the incentive will not be enough to move teachers in the higher paying districts to retire thus defeating the purpose of the bill. To this critic I make the following reply. First, nearly all of the state's teachers fall under the $80,000 cap and those that don't are paid only slightly more. Second, the private market value of the $2400 increase in lifetime pension for a 58-year old female annuitant is around $36,000 and $34,000 for a male. These amounts have proven successful for local ERIs. In other words even capped at 30/80 the 1.6 carrot is big enough and in some cases they may be right. But then there is the stick. The fact is we can't be as effective with a local ERI as you can be with a MPSERS ERI because we don't have the stick. This is the reason, AND THE ONLY REASON, I support the bill.

Oddly enough it will probably be the only reason my union won't support the bill. I guess when the primary concern of some here at the capital is political positioning rather than practical policy making this is inevitable. When you have supposedly serious folks in the capital calling for things like ending collective bargaining rights and imposing state solutions for local school finances-cut 5% here and pay 20% there- it's hard for anyone to take a reasonable middle ground and maintain any balance in the conversation. I use the word 'conversation' loosely here.

In conclusion, let me remind you that not one of the school employees retiring under this bill as written, or even as amended with a cap as I suggest, has paid 1 cent to fund any portion of the pension increase being provided to them. The costs will be entirely borne by others. Necessity alone commends this bill for consideration and, in my opinion, adoption. If necessity compels this bill's adoption then that same necessity compels its utmost efficiency in meeting its aims. Others may try to distract you but you must keep your eyes on the prize: Savings for Schools and Jobs for Grads, both now and in the future. Don't pass a bill that provides a needless, useless, and harmful retirement windfall for select employees at the expense of the districts, school employees, taxpayers, and students who are already struggling to do far more with far less.

Thank you for your time and your service on behalf of Michigan's schools.

References:
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https://mdoe.state.mi.us/teachercert/
http://blogpublic.lib.msu.edu/index.php/2010/01/20/mike-bishop-wants-to-cut-state-employee?blog=5
http://www.ourmidland.com/articles/2010/02/24/local_news/2446457.txt

Rates as of Monday, March 15, 2010 for Current Single Life Income with No Payments to Beneficiaries ("SL") according to immediateannuity.com (the #1 web site for income annuities according to *Businessweek, Smart Money, WSJ, and Kiplingers*).

| Cap | Max added pension under cap | 58 year old female | 58 year old male |
|---|---|---|---|
| 30/65 | 162/mo, 1950/yr | $29,202 | $27,862 |
| 30/70 | 175/mo, 2100/yr | $31,545 | $30,098 |
| 30/75 | 187/mo, 2250/yr | $33,708 | $32,162 |
| 30/80 | 200/mo, 2400/yr | $36,052 | $34,397 |

SHORT VERSION:

My name is Steve Goff. I am a teacher, MPSERS member, and EA local president in the Midland area. I have been a teacher in Michigan since 1994. My address is 1270 E Miller Rd, Midland, MI and my phone nuber is 989-837-6515. I hope that a draft bill will soon be sponsored and passed by the Michigan legislature regarding needed reforms in the public employee retirement system along the lines suggested by the governor. I hope that the bill when introduced or if needed, when amended prior to final consideration, will include a limit on application of any enhanced multiplier on the basis of both 30 years of service credit and $70-$80,000 of FAC. Without these limits the liability created by the enhanced pension payments would be increased substantially and nearly doubled in many instances with an absolute negative impact on the acturial requirements of the bill and absolutely no positive impact (in fact I would argue a potentially negative impact) on local school finances and service delivery going forward. I'm not a legislator or lawyer but I put the ideas into the applicable section of the draft bill below. Thank you for your work on behalf of the schools and students of Michigan. If you have any questions or would like me to share my rationale for supporting the draft bill or the changes I'm recommending don't hesitate to contact me.

Section 81.B found on PAGES 36 and 37 of the draft bill be amended (bold, italic, underlined) as follows:

(2) UPON HIS OR HER RETIREMENT AS PROVIDED IN THIS SECTION, A MEMBER SHALL RECEIVE A RETIREMENT ALLOWANCE EQUAL TO THE MEMBER'S NUMBER OF YEARS AND FRACTION OF A YEAR OF CREDITED SERVICE ***UP TO 30*** MULTIPLIED BY 1.6% OF THE MEMBER'S FINAL AVERAGE COMPENSATION ***UP TO $75000. FOR YEARS OF SERVICE CREDIT BEYOND 30 AND FINAL AVERAGE COMPENSATION BEYOND $75000 THE NORMAL MULTIPLIER OF 1.5% SHALL BE APPLIED.***