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BILL ANALYSIS



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House Bill 4059 (Substitute S-5 as reported)
Sponsor: Representative Holly Hughes
House Committee: Financial Liability Reform
Senate Committee: Education

CONTENT

The bill would amend the Public School Employees Retirement Act to do the following:

- Reenact, until July 1, 2018, expired provisions that allowed a public school retiree to work in an area identified as a critical shortage discipline, as a substitute teacher, or as an instructional coach or school improvement facilitator, without losing his or her pension.
- Require, until July 1, 2018, the reporting unit in a critical shortage area at which a retiree was hired by an entity other than a reporting unit or as an independent contractor to pay 100% of the contribution rates for unfunded actuarial accrued liability for retiree health care and pension for that employment.
- Require a person rehired as a substitute teacher, instructional coach, or school improvement facilitator to have retired between June 30, 2010, and September 1, 2015.
- Require the Department of Education to compile a listing of critical shortage disciplines and evidence of the shortages by April 1 annually, and post the listing and evidence on its website.
- Allow two or more contiguous reporting units to request that the Superintendent of Public Instruction add a discipline to the listing of critical shortage disciplines.
- Specify that a retiree who retired after June 30, 2010, was reemployed by a reporting unit, and met other conditions, would forfeit his or her pension and health care benefits for the entire month in which he or she was reemployed by the unit, instead of through the last day of reemployment.
- Specify that a retiree's retirement allowance and health care benefits would resume without recalculation on the first of the month following the month in which the retiree had terminated his or her employment.

MCL 38.1361

Legislative Analyst: Jeff Mann

FISCAL IMPACT

To the extent the extended critical shortage exemption (allowing MPSERS retirees to collect both a pension and an active wage under certain conditions) led to more retirements, or earlier retirements, than actuarially assumed, there would be additional liabilities in the Michigan Public School Employees Retirement System (MPSERS) related to additional pension and health care benefits paid out to those retirees. However, the requirements for the critical shortage exemption that would have to be satisfied likely would lead to a fairly narrow use of the provision.

Specifically, as currently required, retirees would have to be retired at least one year, the length of reemployment under the exemption could be not more than three years, the retiree would have to be reemployed in a critical shortage field, and reporting units would have to pay unfunded accrued liability (UAL) percentages for these rehired retirees, whether directly

or indirectly rehired. Also, the sunset would be delayed for a period of three years. Because of these conditions, it is likely that the negative fiscal impact on MPSERS would be fairly insignificant, and there could be some positive benefit to the system because of the new requirement that reporting units make payments toward UAL for people rehired in critical shortage areas as independent contractors.

An MPSERS reporting unit considering using the critical shortage exemption provision would have to determine whether hiring a retiree under the critical shortage provision would be to the benefit of the reporting unit. The reporting unit would not have to pay active health care benefits, but would have to pay the UAL costs for these rehired retirees.

It is likely that numerous retirees would seek to use the extended sunset for the substitute teacher and instructional coach/school improvement facilitator provisions, but because this exemption would allow only individuals already retired (as of September 1, 2015) to use the provisions, there would be no incentive to retire earlier than otherwise planned; therefore, there would be no negative impact on the status of the MPSERS unfunded accrued liabilities. Additionally, since reporting units would have to pay 100% of the employer retirement and health accrued liability contribution rates regardless of whether the rehired retiree was directly or indirectly hired, there could be some positive benefit to the system.

An MPSERS reporting unit considering using the substitute teacher or instructional coach/school improvement facilitator provision would have to determine whether hiring a retiree under the provision would be to the benefit of the reporting unit. The reporting unit would not have to pay active health care benefits, but would have to pay the unfunded accrued liability costs for these rehired retirees, whether directly or indirectly rehired.

There would be no fiscal impact associated with the proposed change clarifying that a retirement allowance and health care benefits would resume on the first of the month following the month in which a retirant had terminated his or her reemployment, because that change simply would codify current practice.

Date Completed: 10-13-15

Fiscal Analyst: Kathryn Summers

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