Legislative Analysis

MPSERS DC PLAN – TRANSFER FORMER PENSION PLAN PARTICIPANTS' COST FROM EMPLOYERS TO STATE SCHOOL AID FUND

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House Bill 5842 as introduced
Sponsor: Rep. Thomas Albert
Committee: Appropriations
Complete to 6-24-20

SUMMARY:

House Bill 5842 would amend the Public School Employees' Retirement Act to require an appropriation from the School Aid Fund to pay certain defined contribution (DC) benefit costs for a specified group of active Michigan Public School Employee Retirement System (MPSERS) employees that are currently paid by their employer.

The bill would apply to employees hired before 2012 who were initially in the pension plan but chose to freeze their pension and take a 4% DC plan for their remaining years of employment rather than pay the increased employee contributions that were required under MPSERS revisions enacted under 2012 PA 300.[1] Then, under 2018 PA 169, the benefit was increased to match the new DC plan in 2017 PA 92, which provides an automatic employer contribution equal to 4% of an employee's compensation plus an additional employer matching contribution equal to 100% of an employee's contribution up to 3% of the employee's compensation, which equals a maximum employer contribution of 7%.

The bill would transfer the 4% automatic employer contribution cost and the 3% matching employer contribution cost, for a total of 7%, from employers to the State School Aid Fund.

FISCAL IMPACT:

The bill would not increase total MPSERS costs,[2] but instead would shift them from MPSERS employers—including school districts, intermediate school districts, community colleges, district libraries, and applicable public universities—to the state School Aid Fund. Based on FY 2018-19 data, the bill would apply to 3,492 participants with total wages of about $114.0 million. The bill would require an appropriation from the State School Aid Fund for the cost of the automatic employer contribution equal to 4% ($4.6 million) of eligible compensation and for the cost of the matching contribution of 3% ($3.4 million)

[1] See House Fiscal Agency analysis for 2012 PA 300: https://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-1040-6.pdf

[2] However, assuming a 100% member match would likely overestimate the total required appropriation that would be paid on behalf of employees, which could mean overpayment if employees were not making their full match. The Office of Retirement Services has noted that there are typically high rates of full participation in the DC plan, so there would likely be only a small overpayment due to employees not contributing their full match.

of the compensation through an annual appropriation, for a total of the full 7% portion of the employer contribution, which would be about $8.0 million.

That said, this population of participants is a closed group[3] that has decreased from 5,272 in FY 2016-17 to 3,492 in FY 2018-19. The savings from the annual attrition will likely more than offset any cost increases related to annual compensation increases, which will result in declining annual DC retirement costs for this group of employees.

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[3] Participants can no longer make a selection into this pool of DC participants.