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House Bill 5021 (as passed by the House)
Sponsor: Representative Matt Koleszar
House Committee: Education
Senate Committee: Education

Date Completed: 10-24-23

CONTENT

The bill would amend the Public School Employees Retirement Act to change the default retirement plan for newly qualified participants from Tier 2 to Tier 1, beginning July 1, 2024.

The Act governs the Michigan Public School Employees' Retirement System (MPSERS) for the State's public school employees. The System is funded by employer and employee contributions, payments made for the purchase of service credit, and the investment earnings on these dollars. Generally, MPSERS employers are referred to as "reporting units" because they report wage and service records for each MPSERS member to the Michigan Office of Retirement Services (ORS). The Act defines "reporting unit" as a university or an agency with employees on its payroll who are members of the retirement system, or a public school district, intermediate school district, public school academy, or tax supported community or junior college. The System offers Tier 1 and Tier 2 retirement plans.

Generally, *Tier 2* means the Defined Contribution (DC) plan, which allows employees to make contributions to a 457 account and receive an employer match of up to 3% made to a 401(k) account, after a mandatory employer contribution of 4%.

Generally, *Tier 1* means the Pension Plus 2 plan. Members who elect this plan also are qualified participants under Tier 2, as the Pension Plus 2 plan combines a defined benefit (DB)/pension component and a DC/savings component. A member and an employer must contribute towards the DB and DC components; however, member contributions to the DC component may be reduced to 0.0%.¹ Employers must match 50% of an employee's defined contribution, up to 1%.²

Within 75 days after a qualified participant's first payroll date, the individual must elect either the Tier 1 or Tier 2 plan. If the individual does not make an election, the individual is defaulted to participating in Tier 2. Under the bill, this default to Tier 2 would apply until June 30, 2024. An individual who first became a qualified participant and first worked for a reporting unit after June 30, 2024, who failed to make an election would be defaulted into the Tier 1 plan. The qualified participant would be eligible to accrue any service credit or qualify for any retirement allowance under Tier 1. The qualified participant also would be a qualified participant under Tier 2.

MCL 38.1381d

¹ "6.03.03: Pension Plus and Pension Plus 2 plans", www.michigan.gov/psru. Retrieved on 10-23-23.

² *Id.*

BACKGROUND

All public school employees who do not fall into an excluded category are automatically considered members of MPSERS. This includes temporary and intermittent employees, such as substitute teachers and crossing guards. It does *not* include individuals employed under specified acts or programs, including the Michigan Youth Corps Act and the PATH (Partnership. Accountability. Training. Hope.) program, among others, unless the individual was regularly employed by a reporting unit prior to participation in these programs. Additionally, newly hired employees at certain universities, individuals employed by community colleges and universities who opted into an optional retirement plan (ORP), reporting unit board members, and transition youth or youth training program participants (such as those enrolled in the Neighborhood Youth Corp Program) are ineligible to become members of MPSERS.

Currently, there are five different retirement plan options: 1) the Basic plan; 2) the Member Investment Plan (MIP); 3) the Pension Plus plan; 4) the Pension Plus 2 plan; and 5) the Defined Contribution (DC) plan. The Basic Plan includes employees who were hired prior to January 1, 1990, and who did not opt into the MIP when it was introduced in 1987. Employees hired between 1990 and 2010 contribute to the MIP. Employees hired between 2010 and 2017 participate in the Pension Plus plan.

In 2017, Public Act 92 introduced two new plans: the Pension Plus 2 plan or the DC plan. Employees hired after February 1, 2018, could elect either.

Legislative Analyst: Abby Schneider

FISCAL IMPACT

For each person who defaulted into Tier 1 who, absent the bill, would have defaulted into Tier 2, the State would save (under Section 147e of the School Aid Act) an estimated 1.17% applied to that person's compensation, and local employers (schools) would pay an additional estimated 1.37% applied to that person's compensation. These percentages change slightly every year; they reflect a retirement plan's "normal cost" and vary based on actuarial factors. When projecting changes in costs for retirement systems, it is assumed that actuarial assumptions are met; if they are not, unfunded liabilities could occur or, conversely, a system could be "over-funded". This analysis only focuses on the differences in "normal costs"; under the current Tier 1 plan, if unfunded liabilities were to occur, they would be shared evenly (50/50) between employers and employees.

The overall fiscal impact is indeterminate because it is not possible to know how many people would unintentionally default into Tier 1 compared to how many otherwise would choose that plan. According to the ORS, since 2018, 58% of new employees failed to elect a plan and defaulted into the Tier 2 plan (DC). Whether that percentage would hold steady if the default were changed to Tier 1 (the hybrid DB/DC plan) is unknown.

The table below illustrates the current retirement costs for the State and for local employers (schools), for the Tier 1 (Pension Plus 2) plan and the Tier 2 (DC-only) plan. Combined, the State plus local cost of Tier 1 (Pension Plus 2 Plan, which combines a pension plan and a DC plan) is slightly higher than Tier 2 (a DC only plan), by 0.2 percentage points.

Cost as a Percentage of Compensation

Entity	Tier 1 (DB)	Tier 2 (DC)
State	2.83%	4%
Local	4.37%*	3%
Total Cost	7.20%	7%

*Includes 1% employer match on DC component of the Pension Plus 2 plan.

Fiscal Analyst: Kathryn R. Summers

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.