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BILL ANALYSIS

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Senate Bill 907 (Substitute S-2 as reported)
Sponsor: Senator Bruce Caswell
Committee: Reforms, Restructuring and Reinventing

CONTENT

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

-- Extend until July 1, 2017, provisions that allow 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 forfeiting his or her pension and retiree health care benefits.
-- Require a person who is rehired as a substitute teacher, instructional coach, or school improvement facilitator to have retired between July 1, 2010, and June 1, 2014.
-- Allow a retiree to be hired by an entity other than a reporting unit or to be an independent contractor performing core services, without forfeiting his or her pension or benefits.

As a rule, if an Michigan Public School Employees Retirement System (MPSERS) retiree becomes employed by a reporting unit, his or her retirement allowance must be reduced by one-third of his or her final average compensation or by the amount that the earnings in the calendar year exceed the amount permitted without a reduction of benefits under the Social Security Act, whichever is less. In addition, a public school retiree (who retired after July 1, 2010) must forfeit his or her pension and retiree health care benefits if he or she is reemployed by an MPSERS reporting unit, when the retiree's earnings exceed one-third of his or her final average compensation.

These requirements do not apply to a retiree who is employed by a reporting unit in an area that has been identified by the Superintendent of Public Instruction as a critical shortage discipline. The retiree may not be employed in this position for more than three years, and must have been retired for at least 12 months before becoming reemployed.

The requirements also do not apply to a person who retired on or after July 1, 2010, and who becomes employed as a substitute teacher by a reporting unit, by an entity other than a reporting unit, or as an independent contractor; or who becomes employed as an instructional coach or a school improvement facilitator by an entity other than the reporting unit or as an independent contractor. The retiree's earnings attributable to employment by or at a reporting unit in a calendar year must not exceed one-third of his or her final average compensation.

These exceptions apply until July 1, 2014. The bill would change that date to July 1, 2017.

In addition, subject to the conditions that apply to a person hired in a critical shortage area, the bill would allow a retiree to be employed by an entity other than the reporting unit or to be an independent contractor performing core services at the reporting unit as determined by MPSERS, without forfeiting his or her pension and retiree health care benefits. Currently, for a retiree employed in a critical shortage area, the reporting unit must pay to MPSERS

100% of the contribution rates for the unfunded actuarial accrued liability for retiree health care and pension. The bill would extend this requirement to an independent contractor or an entity other than a reporting unit that hired a retiree under this provision.

MCL 38.1361 Legislative Analyst: Suzanne Lowe

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 MPSERS related to additional pension and health care benefits paid out to those retirees who retired earlier than anticipated. However, the requirements 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 no more than three years, the retiree would have to be reemployed in a critical shortage area, and reporting units or other entities would have to pay unfunded liability percentages for these rehired retirees. Also, the sunset would be delayed only for a period of three years. Because of these conditions, it is likely that the fiscal impact on MPSERS would be fairly insignificant.

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

It is likely that numerous retirees would seek to use the substitute teacher and instructional coach provisions, but with an earnings limitations of one-third of the final average compensation, the delay of the sunset only until July 1, 2017, and the fixed pool of existing retirees eligible to be rehired under these exemptions, there would be no possibility of providing an incentive to retire early. Additionally, reporting units would have to pay 100% of the employer retirement and health accrued liability contribution rates regardless of whether the retired substitute or instructional coach was directly or indirectly hired, and this would assist with the financial health of the retirement system.

An MPSERS reporting unit considering using the substitute teacher 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.

Date Completed: 5-27-14 Fiscal Analyst: Kathryn Summers