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BILL ANALYSIS

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Senate Bill 907 (as introduced 4-23-14)
Sponsor: Senator Bruce Caswell
Committee: Reforms. Restructuring and Reinventing

Date Completed: 5-12-14

CONTENT

The bill would amend the Public School Employees Retirement Act to extend until July 1, 2016, provisions that allow a public school retiree to work in an area identified as a critical shortage discipline or as a substitute teacher without forfeiting his or her pension and retiree health care benefits. Currently, these provisions apply until July 1, 2014.

As a rule, if a 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 retirant 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 retirant 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 retirant who becomes employed as a substitute teacher by a reporting unit, by an entity other than a reporting unit, or as an independent contractor. The retirant'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.

Both of these exceptions apply until July 1, 2014. The bill would change that date to July 1, 2016.

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) and the substitute teaching exemption 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, for the critical shortage exemption, 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 directly and in a critical shortage field, and reporting units would have to pay unfunded liability percentages for these rehired retirees. Also, the sunset would be delayed only for +a period of two years. Because of these conditions, it is likely that the fiscal impact on MPSERS would be fairly insignificant.

An MPSERS reporting unit considering using the exemption provision would have to determine whether hiring a retiree under the critical shortage provision were 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.

It is likely that numerous retirees would seek to use the substitute teacher provision, but with its earnings limitations of one-third of the final average compensation, and delay of the sunset only until July 1, 2016, it is unlikely that this provision would give people an incentive to retire earlier than otherwise planned. Additionally, since reporting units would have to pay 100% of the employer retirement and health accrued liability contribution rates regardless of whether the retired substitute was directly or indirectly hired, there likely would be limited financial strain on the retirement system.

An MPSERS reporting unit considering using the substitute teacher provision would have to determine whether hiring a retiree under the provision were 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.

Fiscal Analyst: Kathryn Summers

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