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House Bill 5021 (as reported without amendment)
Sponsor: Representative Matt Koleszar
House Committee: Education
Senate Committee: Education

CONTENT

The bill would amend the Public School Employees Retirement Act to change the default retirement plan for newly qualified participants from Tier 2 (generally, the Defined Contribution (DC) plan) to Tier 1 (the Pension Plus 2 plan), beginning July 1, 2024.

MCL 38.1381d

BRIEF RATIONALE

Under current law, new teachers must elect either the Tier 1 or Tier 2 retirement plan within 75 days after their first payroll date. If a teacher does not make this election, the teacher is defaulted to participating in Tier 2. Retirement elections are final. Reportedly, many new teachers are young and inexperienced, prioritizing other concerns, such as adjusting to their new jobs and classrooms, over retirement. According to testimony before the Senate Committee on Education, teachers often regret defaulting to Tier 2 and would prefer the Tier 1 retirement plan. Accordingly, it has been suggested that the default option be changed.

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 Defined Benefit (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.

Date Completed: 11-3-23

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