Legislative Analysis

MPSERS DC PLAN – INCLUDE FORMER PENSION PLAN PARTICIPANTS WHO SWITCHED TO DC IN 2012

Phone: (517) 373-8080
http://www.house.mi.gov/hfa

Analysis available at
http://www.legislature.mi.gov

House Bill 5093 proposed Substitute (H-1)
Sponsor: Rep. Beau LaFave
Committee: Financial Liability Reform
Complete to 10-17-17

SUMMARY:

The bill would amend the Public School Employees Retirement Act to expand the new defined contribution (DC) benefit that will begin in February 2018, under recently enacted MPSERS revisions (SB 401, PA 92 of 2017[1]), to include a group of active MPSERS employees inadvertently excluded from the new DC benefit.

PA 92 revised the existing, optional MPSERS DC plan, a 401k style retirement saving plan, to provide 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 beginning February 1, 2018. PA 92 provided this increased DC benefit to employees hired since 2010 who chose the existing, optional DC plan, as well as those hired subsequently since PA 92 was enacted.

However, PA 92 did not extend the increased DC benefit to employees hired prior to 2012 who chose to freeze their pension and take a 4% DC plan for their remaining years of employment rather than paying the increased employee contributions that were required under previous MPSERS revisions enacted under PA 300 of 2012.[2]

<u>The bill</u> would include this population, which would increase their DC benefit to include, in addition to the automatic, flat 4% employer contribution, the option of contributing and receiving equal matching employer contributions capped at 3% of their compensation. The bill would provide a default employee contribution of 3% unless the employee elects not to contribute or to contribute a lesser amount.

The bill would provide that the State School Aid Fund would pay the additional employer share proposed by the bill, based on an assumption of 100% participation.

FISCAL IMPACT:

The bill would create additional employer retirement contribution costs, which are paid by the state through an appropriation in Section 147e of the State School Aid Act.

[1] See House Fiscal Agency analysis for PA 92 of 2017:
http://www.legislature.mi.gov/documents/2017-2018/billanalysis/House/pdf/2017-HLA-0401-A84AD1A8.pdf
[2] See House Fiscal Agency analysis for PA 300 of 2012:
http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-1040-6.pdf

The applicable MPSERS active employee population to whom the bill would apply is a diminishing one, as it was tied to a retirement contribution decision in 2012, and each year a portion of that population retires. The number of applicable employees dropped from 5,272 in FY 2016-17 to 4,235 currently. The maximum potential increased cost, based on 2016 estimates provided by the Office of Retirement Services, is estimated to be between $3.0 million and $3.5 million in the first full year. With a start date of February 1, 2018, the maximum FY 2017-18 impact would be approximately $2.0 million.

After increasing in FY 2018-19 due to full-year implementation, the cost would continue to diminish every year as applicable employees retire; the annual attrition would more than offset increases related to annual increases in compensation.

Fiscal Analyst: Bethany Wicksall

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.