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BILL ANALYSIS



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House Bill 4422 (as passed by the House)
Sponsor: Representative Holly Hughes
House Committee: Education Reform
Senate Committee: Education

Date Completed: 10-17-17

CONTENT

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

- **Remove the July 1, 2018, sunset on 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 a portion of his or her pension.**
- **Delete a requirement that the reporting unit at which a retiree provides substitute teacher services pay 100% of the contribution rates for unfunded actuarial accrued liability (UAAL) for retiree health care and pension for that employment.**
- **Require a person rehired as a substitute teacher to have retired after June 30, 2010, and before September 2, 2016, rather than on or before September 1, 2015.**
- **Remove the July 1, 2018, sunset on a requirement that a reporting unit pay 100% of the contribution rates for UAAL for retiree health care and pension for a retirant employed as an independent contractor in a critical shortage discipline.**

Generally, if a Michigan Public School Employees' Retirement System (MPSERS) retiree is employed by a reporting unit, his or her retirement allowance must be reduced by the amount that the earnings in the calendar year exceed the lesser of the amount permitted without a reduction of benefits under the Social Security Act, or one-third of the retiree's final average compensation. The Act makes a number of exceptions to this requirement, including those described below.

Until July 1, 2018, the forfeiture requirement does not apply to any of the following:

- A retirant who is employed for not more than three years, after at least 12 months of retirement, by a reporting unit in an area that has been identified by the Superintendent of Public Instruction as a critical shortage discipline.
- A retirant who retired after July 1, 2010, and on or before September 1, 2015, and becomes employed as a substitute teacher by a reporting unit, by an entity other than a reporting unit, or as an independent contractor.
- A retirant who retired after July 1, 2010, and on or before September 1, 2015, and becomes employed as an instructional coach or a school improvement facilitator by an entity other than a reporting unit or as an independent contractor.

The bill would eliminate the sunset date that allows a retirant to be employed as described above, without forfeiting retirement benefits, only until July 1, 2018.

In the case of employment as a substitute teacher, the forfeiture requirement would not apply to a retirant who retired after June 30, 2010, and before September 2, 2016, rather than on or before September 1, 2015. In the case of an instructional coach or a school improvement facilitator, the forfeiture requirement would not apply to a retirant who retired after June 30, 2010, and before September 2, 2015.

Also, with respect to a retirant hired as a substitute teacher, the Act requires the reporting unit to pay to MPSERS 100% of the contribution rates for the unfunded actuarial accrued liability for retiree health care and for pension for that employment. The bill would delete this requirement.

In addition, the bill would eliminate the July 1, 2018, sunset on a requirement that, for a retirant who retired after June 30, 2010, who is employed for not more than three years as an independent contractor at a reporting unit in an area identified as a critical shortage discipline, or is employed at such a reporting unit by an entity other than the reporting unit, the reporting unit at which the retirant provides services pay to MPSERS 100% of the contribution rates for the UAAL for retiree health care and for pension for the employment.

MCL 38.1361

Legislative Analyst: Nathan Leaman

FISCAL IMPACT

The bill would increase costs to the State and lower costs to school districts for the foreseeable future. The bill would strike the current requirement for schools to pay, for those retirees rehired as substitute teachers under MCL 38.1361(9), 100% of the retirement costs attributable to unfunded accrued actuarial liability for pension and retiree health care, which totals roughly 32% of salary for fiscal year (FY) 2017-18, of which roughly 11% is indirectly reimbursed by the State due to the MPSERS rate cap on UAAL. For this group of rehired retirees, the bill would shift the remaining roughly 21% of those costs to the State. This shift would occur until the UAAL was paid off, estimated to be FY 2037-38. A total dollar amount of this shift in costs is not readily available.

The State also would see increased costs under the MPSERS rate cap if school districts changed their hiring pattern to hire retirees as substitutes instead of hiring active (nonretired) members, since the bill would allow districts to avoid paying UAAL on substitute teacher salaries. It is unknown whether and to what extent school districts would do so, but if this were a large phenomenon, it would result in additional State costs (required to be paid via the rate cap) as more UAAL costs were stranded in the system due to a reduction of covered payroll.

Any increased costs that the State must pay for the MPSERS rate cap are required, by statute, to be funded from the School Aid Fund (SAF). This means that, all else being equal, an increase in the costs for the rate cap would mean fewer SAF dollars available for other purposes.

The retirement system itself would see increases in overall UAAL in the event that the proposed changes resulted in more people retiring earlier than had been budgeted for in the system. Under the bill, the system could see some slight increase in UAAL due to the elimination of the sunset on rehiring retirees in critical shortage areas, but the limitations already in existence for that provision likely would mean that there would not be a large group of people retiring earlier than planned. Also, the changes under the subsections related to substitute teachers and instructional coaches continue to limit the available pool of retirees

to those who have already retired; this means that there would be no increase in UAAL in the system for retirees rehired under those provisions.

School districts would see a reduction in the amount required to be paid toward UAAL, with the net savings equal to roughly 21% of substitute teacher salary costs, for those retirees rehired as substitute teachers under MCL 38.1361(9).

Fiscal Analyst: Kathryn 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.