HOUSE FISCAL AGENCY

MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) REFORM SB 1040 – PA 300 OF 2012

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MPSERS Basic Facts

For the Fiscal Year Ending September 30, 2012

▪ MPSERS Employers:	700+
▪ Current Active Employees:	223,739
▪ Retirees and Beneficiaries Receiving Benefits:	196,661
▪ Retirees receiving Health benefits:	145,874
▪ Pension Plan Assets:	$43.8 billion
▪ Pension Actuarial Funded Ratio (9/30/11):	64.7%
▪ Pension Unfunded Actuarial Accrued Liability (UAAL) (9/30/11):	$22.4 billion
▪ Other Postemployment Benefits (OPEB) Costs, i.e. Health benefits (9/30/11):	$968 million
▪ OPEB UAAL (9/30/11):	$25.9 billion

PENSION BENEFITS
Prior to PA 300 of 2012

The Basic Plan

- The Basic Plan includes only employees who were hired prior to January 1, 1990 and who did not opt into the MIP when it was introduced in 1987.
- Key Basic Plan Characteristics:
  - The Basic Plan was a non-contributory plan, in which the employees contribute nothing toward their pension.
  - Members vest after 10 years of service.
  - Normal Retirement eligibility = Age 55 with 30 years of service or Age 60 with 10 years of service
  - Final Average Compensation (FAC) = Average of 5 highest consecutive years
  - Pension Allowance Formula = 1.5% x FAC x Years of Service
  - Cost of living adjustments = NONE

The Member Investment Plan (MIP)

- Initially the plan began January 1, 1987 as an optional plan with the Basic. The MIP plan had better benefits but required an employee contribution.
- Beginning January 1, 1990 the Basic Plan was closed, and all new employees were automatically included in the MIP.
- The employee contribution has changed over time depending on when an employee was hired. The MIP plans and contribution rates were as follows:
  - MIP Fixed = 3.9%
    (Prior to 1990)
  - MIP Graded = 3% on first $5,000
    (1990 – 2008) $150 plus 3.6% on salary between $5,000 and $15,000
    $510 plus 4.3% on salary in excess of $15,000
  - MIP Plus = 3% on first $5,000
    (2008 – 2010) $150 plus 3.6% on salary between $5,000 and $15,000
    $510 plus 6.4% on salary in excess of $15,000

The Member Investment Plan (MIP)

- Key MIP Characteristics (Fixed, Graded, and Plus Plans):
  - The MIP Plan is a contributory plan, which means that the employees contribute to the plan.
  - Members vest after 10 years of service.
  - Normal Retirement eligibility = Any Age with 30 years of service or Age 60 with 10 years of service
  - Final Average Compensation (FAC) = Average of 3 highest years
  - Pension Allowance Formula = 1.5% x FAC x Years of Service
  - Cost of living adjustments = 3% fixed, non-compounding

The Pension Plus (Hybrid) Plan

- The Pension Plus Plan is a hybrid plan including both a defined benefit pension component as well as a defined contribution 401k style component.
- Includes employees hired after July 1, 2010
- Key Pension Plus Plan Characteristics:
  - The Pension Plan is a contributory plan with the same employee contribution levels as the MIP Plus plan had, which tops out at 6.4% on salary exceeding $15,000.
  - Members vest after 10 years of service.
  - Normal Retirement eligibility = Age 60 with 10 years of service
  - Final Average Compensation (FAC) = Average of 5 highest years
  - Pension Allowance Formula = 1.5% x FAC x Years of Service
  - Cost of living adjustments = NONE

RETIREE HEALTH BENEFITS Prior to PA 300 of 2012

Retiree Health Benefits

- Retiree health benefits include medical, prescription drug, dental, vision, and hearing.
- For members hired BEFORE July 1, 2008, MPSERS paid
  - 100% of the medical benefits for a retiree
  - 90% of the medical benefits for dependents
  - 90% of dental, vision, and health care benefits for retiree and dependents
  - However, for a retiree not yet eligible for Medicare, an amount equal to the cost chargeable to a Medicare recipient for Part B Medicare is deducted from a retiree's retirement allowance.
- For members hired AFTER July 1, 2008, MPSERS paid a graded premium depending on the retiree's years of service:
  - Minimum 10 years of service required to vest in health benefits.
  - 30% of premium beginning with 10 years of service.
  - An additional 4% per year for each year after 10
  - Capped at 90% with 25 years of service.

MPSERS Reforms
SB 1040 – PA 300 of 2012

PA 300 – Active Employee Changes

Both current and new employees had a number of choices to make regarding pension and health care benefits.

The following five slides lay out the changes and options for 3 groups of employees depending on hire date:

- ❑ Basic/MIP employees hired before July 1, 2010 –
  - Pension and Health
- ❑ Pension Plus (Hybrid) employees hired after July 1, 2010
  - Health
- ❑ New Employees hired beginning September 4, 2012
  - Pension and Health

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Basic/MIP Current Employees – PENSION (Hired Before July 1, 2010)

Choose between 1 of 4 Pension Options:

- ❑ Increase contribution rates and maintain a 1.5% Pension Multiplier for all future years of service.
  - Basic members from 0% to 4%
  - MIP members from between 3% and 6.4% to 7%
- ❑ Increase contribution rates and maintain a 1.5% Pension Multiplier until you reach 30 years of service after which the employee would receive a 1.25% multiplier for future service.
- ❑ Maintain current contributions with a lower 1.25% Pension Multiplier for all future years of service.
- ❑ Freeze existing pension and FAC and receive a flat 4% DC contribution for all future service.

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Basic/MIP Current Employees – HEALTH (Hired Before July 1, 2010)

Choose between 1 of 2 Retiree Health Care Options:

- ❑ Continue to pay 3% of compensation for future retiree health insurance premium subsidy of 80%. Employee contributions would be returned if an employee is not eligible to receive health benefits upon request of employee after reaching age 60.

- ❑ Discontinue paying 3% and opt out of retiree health insurance. Previous 3% contributions would be deposited into a 401(k) plan. Employers would contribute 100% match of an employee's contribution up to a maximum of 2% of compensation into the 401(k) plan.

Pension Plus (Hybrid) Current Employees (Hired After July 1, 2010)

No Change to Pension for Current Hybrid Employees

Choose between 1 of 2 Retiree Health Care Options:

- ❑ Continue to pay 3% of compensation for future retiree health insurance premium subsidy of 80%.

- ❑ Discontinue paying 3% and opt out of retiree health insurance. Previous 3% contributions would be deposited into a 401(k) plan. Employers would contribute 100% match of an employee's contribution up to a maximum of 2% of compensation into the 401(k) plan.

New Employees – PENSION
(Hired After September 4, 2012)

Choose between 1 of 2 Retirement Savings Options:

- ❑ Participate in the Pension Plus (Hybrid Plan) described above. Contribution rates are the same, 6.4% for pension component and optional DC match of up to 2% of compensation.

- ❑ Choose a 401(k)-style plan with an employer contribution equal to 50% of an employee's contribution of up to 6% of compensation (maximum employer contribution of 3%)

New Employees – HEALTH
(Hired After September 4, 2012)

No retiree health insurance offered to new employees. In lieu of retiree health care, they receive the following:

- ❑ Employer contributes 100% match of an employee's contribution up to a maximum of 2% of compensation into a 401(k) plan.

- ❑ Additionally, upon retirement and reaching age 60, an employee receives either $1,000 or $2,000 (depending on whether they had less than or more than 10 years of service) deposited into a health reimbursement account.

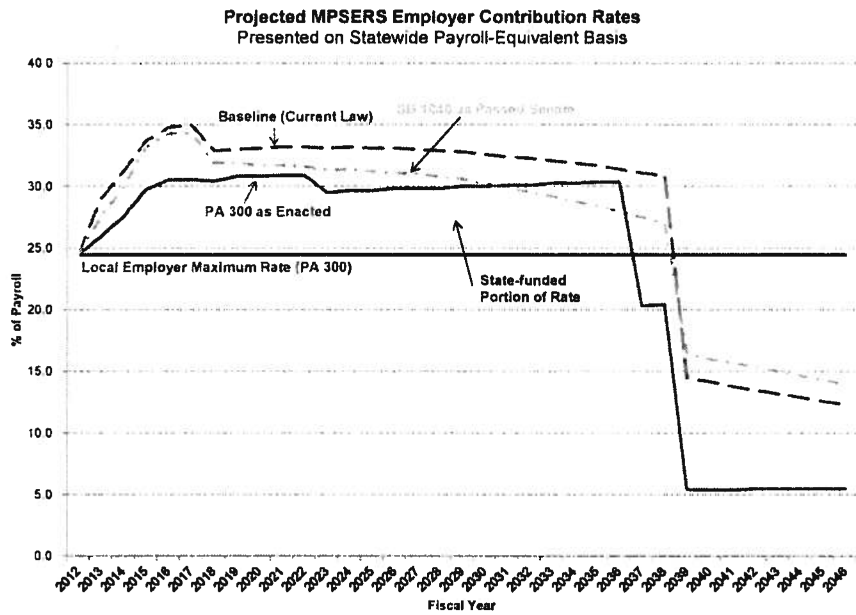
PA 300 - Current Retirees

No pension changes, but increased health insurance premium contributions beginning January 1, 2013:

- ❑ Current retirees who are 65 by January 1, 2013 will have to pay 10% of their insurance premium.
- ❑ Current retirees who are not 65 by January 1, 2013 will have to pay 20% of their insurance premium.

PA 300 - Additional MPSERS Reforms

- ❑ Begin Prefunding retiree health care using a combination of the employee's 3% contributions, employer contributions, and a State contribution from the School Aid Fund.
- ❑ Cap the employer's contribution rate for the unfunded liability at 20.96% with an estimated annual normal rate of approximately 3.5%, totaling around 24.46% to maintain FY 2011-12 levels.
- ❑ Provide balance of funding necessary to meet the annual required contribution using School Aid Funds



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PA 300 – Fiscal Impact

- **Increase employee pension contributions or reduce benefits – Reduces UAAL by $1.6 billion**
- **Increase retiree share of health care premiums to 20% for future and existing retirees – Reduces UAAL by $1.6 billion.**
- **Continue the 3% Employee retiree health contributions and begin using those contributions in addition to employer and state contributions to prefund future retiree health benefits – Reduces UAAL by $10.8 billion**

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MPSERS Appropriations for State share of UAAL exceeding the PA 300 cap

- School Aid Budget:

  FY 13 = $160 million
  FY 14 = $403 million
  FY 15 = $649 million

- Community Colleges:

  FY 13 = $13 million
  FY 14 = $31 million
  FY 15 = $49 million

Stranded Costs

Declining MPSERS Payroll Base

- ❑ Declining statewide pupil counts
- ❑ Privatization of noninstructional staff and substitute teachers
- ❑ Retirees returning to work under contract
- ❑ Flat or reduced state/local funding for schools resulting in lower wage growth
- ❑ Increase in alternative schools which aren't required to participate in MPSERS
    - PSAs, Cybers, EAA, Traditional districts converting to PSAs

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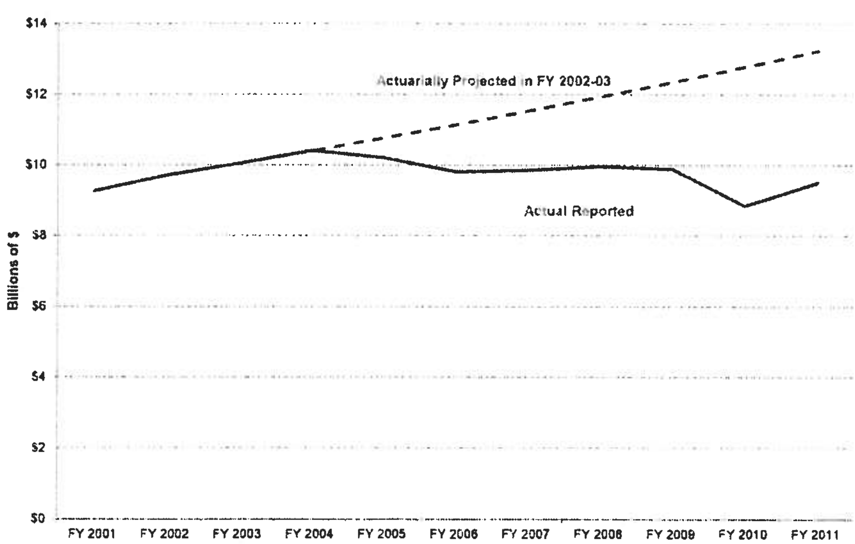
MPSERS Payroll



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Potential Stranded Cost Redistribution Options

- Stabilize base by bringing in alternative schools
  - Existing or only new
- Redistribute UAAL costs over an employer's entire Current Operating Expenditures (COE) instead of payroll
- Redistribute UAAL costs over a combination of payroll plus purchased services
- Redistribute UAAL costs on a per pupil basis
- Appropriate either a portion or all of the UAAL through direct state funding

Things to consider about each redistribution option

- Can the same method be used for each type of employer?
  - Districts, PSAs, ISDs, Community Colleges, Libraries
- Can the employer manipulate whatever base is chosen?
- Does the method provide for a more accurate way to compare private bids with current costs?
- Does the method allow a district to charge the UAAL costs to restricted and federal fund sources?
- Any redistribution will create winners/losers compared to current payroll method, but is there a method that most accurate shares the cost of UAAL over the existing employers?

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