



OFFICE OF THE STATE BUDGET February 8, 2007

FY2008 Executive Budget Revaluation of MPSERS Assets

Background

The Michigan Public Schools Employee Retirement System (MPSERS) currently assigns an actuarial value to its assets by smoothing investment gains and losses over five years to even out annual employer contribution changes. The last time legislation was enacted to set the value of the assets at actual market value was in 1997.

Proposal

To avoid proration of school aid payments and balance the overall FY2007 budget, the Governor proposes to enact legislation directing MPSERS to revalue its assets by assigning them their actual market value as of September 30, 2006, allowing the system to recognize recent years of positive investment earnings. The net value of assets in the system would increase by an estimated \$3 billion, reducing the required amount of employer contributions to the system by \$185 million for schools and \$10.9 million for community colleges. This action would also reset the 5-year smoothing period.

Fiscal Impact

For FY2007, the retirement rate for schools and community colleges will remain unchanged at 17.74%. Instead, the Director of the Department of Management and Budget will issue credits totaling \$185 million for schools and \$10.9 million for community colleges to offset an equal amount of pension obligation payments that those entities would otherwise have to pay. The use of these credits will avoid proration of school aid payments by \$185 million. The use of these credits will also allow community college general fund appropriations to be reduced by \$10.9 million without harming community college budgets.

Currently, the FY2008 retirement rate is estimated to be 18.56%. If this proposal is enacted, the rate will be lowered to 16.72%. The lower rate will result in local cost savings for school districts and community colleges of \$185 million and \$10.9 million, respectively, as well.