

MSPERS Reform

FINAL ANALYSIS SB 1040 (H-3)



Senate Bill 1040 (H-3) makes sweeping changes to the Michigan Public School Employees Retirement (MPSERS) system, including increased contribution rates for current employees and reductions in benefits for current and future retirees.

This analysis focuses on the impact of these changes on current and future MPSERS members.

So what does this mean for you?

[FAC = Final Average Compensation

YoS = Years of Service

MIP = Member Investment Plan]

Basic or MIP – Choosing to Retire

Final Average Compensation

- FAC would continue to include any longevity pay and employer-paid tax sheltered annuities that are currently counted.
- FAC would NOT be capped.
- FAC would be calculated as provided under current law:
 - Basic – average of your highest 60 months of salary/wage compensation
 - MIP – average of your highest 36 months of salary/wage compensation

Retiree Health Care

- You would continue to be eligible for health insurance coverage during retirement based on your age and YoS as provided in the current law:
 - Basic – you are eligible at age 55 with 30 YoS or age 60 with 10 YoS
 - MIP – you are eligible at any age with 30 YoS or age 60 with 10 YoS (must be age 46 if purchased YoS)
 - Get more eligibility information at http://mi.gov/orsschools/0,4653,7-206-36504_36505---,00.html.
- The State would pay 80% of your retiree health insurance premium. (*down from the current 90%*)
- Current or future retirees who are actively collecting retirement on or before January 1, 2013 and are also at least 65-years-old by that same date will receive a retiree health insurance subsidy of 90% instead of 80%.

Basic or MIP – Choosing NOT to Retire/NOT ELIGIBLE to Retire

Final Average Compensation

- FAC would continue to include any longevity pay and employer-paid tax sheltered annuities that are currently counted.
- FAC would NOT be capped.
- FAC would be calculated as provided under current law:
 - Basic – average of your highest 60 months of salary/wage compensation
 - MIP – average of your highest 36 months of salary/wage compensation



8/15/12

Pension Changes and Increased Contributions

- For income earned after November 30, 2012, you would be required to choose one of the following options:
 1. Make an additional employee contribution to the MPSERS system and keep your 1.5% multiplier on all income for the purposes of calculating pension, OR
 2. Accept a reduced multiplier of 1.25% for that income earned AFTER November 30, 2012 (income earned before November 30, 2012 would have the higher 1.5% multiplier applied), OR
 3. Freeze FAC and YoS at their current level and enroll in a 401(k) with a 4% employer contribution.
- Members would be able to choose from one of the aforementioned options during a window beginning September 4 and ending on October 26.

Choosing Option #1 (The higher multiplier and higher contribution rate):

- Basic – Would pay 4% of your salary to MPSERS in addition to the 3% health care contribution for a total of 7%.
- MIP – Would pay 7% of your salary to MPSERS in addition to the 3% health care contribution for a total of 10%.
- Basic & MIP – You would also have the additional choice to continue that contribution until you retire or to only pay it until you reach 30 YoS and take a lower multiplier on YoS after 30.
 - If you pay the higher rate until retirement you'll get a 1.5% multiplier on all YoS when calculating pension.
 - If you choose to stop paying the higher rate once you have 30 YoS you get the 1.5% multiplier on your first 30 YoS and a 1.25% multiplier subsequent service. Your contribution after 30 years will revert to what you are currently paying (see below) PLUS the 3% retiree health contribution.
 - Basic – your current MPSERS contribution is 0%.
 - MIP – your current contributions are on a graded system ranging from 3% to 6.4% based on your hire date and salary.
(For a detailed breakdown: http://mi.gov/orsschools/0,4653,7-206-36450_36456---,00.html)
 - Basic & MIP – your pension would be calculated as explained below for someone choosing Option #2 and having two different multipliers.

Choosing Option #2 (The lower multiplier):

- You would continue to pay the same MPSERS contribution you are paying now along with the 3% for retiree health care contribution you are currently paying. Your pension would be calculated using one FAC and two different multipliers, as follows:

Employee X has 20 YoS in MIP and chooses Option #2. She retires 10 years from now with 30 YoS, 20 years at 1.5% and 10 years at 1.25%. Her best three years give her a final average compensation of \$50,000. Her pension would be calculated thusly:

$$\begin{array}{r} \$50,000 \times 1.5\% \times 20 = \$15,000 \\ + \quad \$50,000 \times 1.25\% \times 10 = \$6,250 \\ \hline \text{Employee X's Pension} = \$21,250 \end{array}$$

Choosing Option #3 (freezing your pension):

- You would NOT be required to contribute any percentage of your income toward your pension, though you would still be required to contribute 3% toward your retiree health care.
- No future pension benefits would accrue after November 30, 2012, meaning that your FAC and your YoS would be locked in at their current level, even if you work another 15 years.
- Instead, you would receive a 4% employer contribution into a 401(k) plan.

Retiree Health Care

- You would continue to be eligible for health insurance coverage during retirement based on your age and YoS as provided in the current law:
 - Basic – you are eligible at age 55 with 30 YoS or age 60 with 10 YoS
 - MIP – you are eligible at any age with 30 YoS or age 60 with 10 YoS (must be age 46 if purchased YoS)
 - Get more eligibility information at http://mi.gov/orsschools/0,4653,7-206-36504_36505---,00.html.
- The State would pay 80% of your retiree retiree health insurance premium. (*down from the current 90%*)



Pension Plus [a.k.a. Hybrid] *(employees first hired after 2010)*

- FAC would continue to include any longevity pay and employer-paid tax sheltered annuities that are currently counted.
- FAC would NOT be capped.
- FAC would be calculated as the average of your highest 60 months of salary.
- Your pension contributions would continue at their current rate.
- You would continue to be eligible for health insurance coverage during retirement as provided in current law.
- Maximum coverage of 80% of your total retiree health insurance premium. *(down from the current 90%)*

New Employees *(employees hired after September 4, 2012)*

- Would have a choice between enrolling in:
 - a) The Pension Plus retirement system (a.k.a. the Hybrid system), or
 - b) A defined contribution system which would provide a 50% employer match up to 3% of salary *(employee would contribute 6% and employer would match 3%)*
- FAC would continue to include any longevity pay and employer-paid tax sheltered annuities that are currently counted.
- FAC would not be capped.
- FAC would be calculated as the average of your highest 60 months of salary.
- Pension contributions would be calculated at the same rates currently in effect for the Pension Plus system.
- Employees would NOT be eligible for health insurance coverage during retirement.
- Employees WOULD be eligible to receive up to a 2% dollar-for-dollar matching contribution from their employer into a retiree health care 401(k) plan. *(employee would have to contribute 2% to receive the full match)*
- Employees would NOT be required to contribute 3% toward retiree health care.

Additional Notes to Consider

- The 80% cap on state contributions toward retiree health care premiums would apply to all current and future retirees.
- Current or future retirees who are actively collecting retirement on or before January 1, 2013 and are also at least 65-years-old by that same date will receive a retiree health insurance subsidy of 90% instead of 80%.
- The 3% employee contributions would be used to pre-fund the retiree health care system, moving Michigan away from its current pay-as-you-go system. *(NOTE: The court case that will decide whether the 3% employee contribution is constitutional, *McMillan v MPERS*, is still awaiting a ruling by the Michigan Court of Appeals. No date has been set for when a decision will be rendered.)*
- The bill caps the MPERS rate at the equivalent of 24.46% and maintains the current system of basing the rate on a percentage of payroll.
- The bill requires the state to contract with an independent third party to conduct a study and prepare a report analyzing the sustainability of the current retirement system. This study will explore the implications of transitioning to a defined contribution system, determine the appropriateness of basing district contributions on current operating expenditures, and making recommendations for additional changes to ensure the long-term sustainability of the retirement system.