Department of Technology, Management & Budget

Summary of Senate Bill 1040 (2012)

Michigan Public School Employees Retirement System Reform

This summary highlights changes to the Public School Employees Retirement Act (P.A. 300 of 1980, as amended) outlined in Senate Bill 1040 of 2012, and passed by the Michigan legislature on August 15, 2012. The next step is for Governor Snyder to consider the bill for signature.

Summary and Election Window

The legislation grants all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Active members who first became a member before July 1, 2010, are also granted a voluntary election regarding their pension.

Any changes to a member's healthcare benefit and, if applicable, pension, would be effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.

DEADLINE: All elections must be made in miAccount beginning Tuesday, September 4, 2012, and no later than 5:00 p.m. EDT, Friday, October 26, 2012. Changes to any election must be made in miAccount before the election deadline.

The legislation also establishes benefits for employees who first work on or after September 4, 2012, directs changes to the rates that public schools contribute to the retirement system, and orders several plan- and benefit-related studies.

Retirement Healthcare Election

Members can choose to continue contributing 3 percent of their compensation to the Retiree Healthcare Fund and keep the premium subsidy benefit, or they can choose not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement.

- **Premium Subsidy:** Members who voluntarily elect this option will continue to contribute 3 percent of their compensation to the Retiree Healthcare Fund and will retain eligibility for the retiree health insurance premium subsidy offered by the state upon their retirement. The subsidy for members who first worked before July 1, 2008, is the maximum subsidy allowed by statute. The subsidy for members who first worked on or after July 1, 2008, is a graded premium subsidy based on career length where members accrue credit towards their insurance premiums in retirement, not to exceed the maximum subsidy allowed by statute. The legislation sets the maximum subsidy at 80 percent beginning January 1, 2013 (90 percent for those Medicare eligible and enrolled in the insurances on that date).
- **Personal Healthcare Fund:** Members who voluntarily elect this option will establish a portable, tax-deferred fund that can be used for paying healthcare expenses in retirement. They will opt-out of the premium subsidy benefit, effective as of their transition date, and they will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who select this option will stop paying the 3 percent Retiree Healthcare Fund contribution as of their transition date, and their prior contributions will be deposited into their 401(k) account on or before February 1, 2013.

Members who do not make an election before the deadline will continue to make the 3 percent Retiree Healthcare Fund contribution and will retain their premium subsidy benefit.

Former members who made contributions to the Retiree Health Care Fund but do not qualify for a retiree healthcare subsidy can request a refund of their contributions from ORS upon reaching age 60 or older. The refund will be paid in equal monthly installments over a 60 month (5-year) period as a supplemental retirement allowance.

Deferred or nonvested members on September 3, 2012 who are rehired on or after September 4, 2012, will contribute 3 percent to the Retiree Health Care Fund and will retain the premium subsidy benefit. Returning members who made the retirement healthcare election will retain whichever option they chose.

R1006C (rev. August 20, 2012)
Authority: 1980 PA 300, as amended

Pension Election

Members who first worked before July 1, 2010, and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, can voluntarily choose to increase, maintain, or stop their contributions to the pension fund. They are provided with the following options:

- **Option 1:** Members selecting Option 1 voluntarily elect to increase their contributions to the pension fund as noted below, and retain the 1.5 percent pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.
  - Basic Plan members: 4 percent contribution (currently 0 percent)
  - MIP-Fixed, MIP-Graded, and MIP-Plus members: a flat 7 percent contribution (currently 3.9 percent for MIP-Fixed, up to 4.3 percent for MIP-Graded, or up to 6.4 percent for MIP-Plus).
- **Option 2:** Members selecting Option 2 voluntarily elect to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5 percent pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place before their transition date (0 percent for Basic Plan members, 3.9 percent for MIP-Fixed, up to 4.3 percent for MIP-Graded, or up to 6.4 percent for MIP-Plus). The pension formula for any service thereafter would include a 1.25 percent pension factor.
- **Option 3:** Members selecting Option 3 voluntarily elect not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service before their transition date will include a 1.5 percent pension factor. The pension formula for any service thereafter will include a 1.25 percent pension factor.
- **Option 4:** Members selecting Option 4 voluntarily elect to no longer contribute to the pension fund. Their pension will be calculated based on their years of service and final average compensation as of their transition date, and a 1.5 percent pension factor. They will be switched to a Defined Contribution (DC) plan on their transition date, where they will receive a 4 percent employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to their 457 account.

Members who do not make an election before the deadline will maintain their current level of contribution to the pension fund. The pension formula for their years of service up to their transition date will include a 1.5 percent pension factor. The pension formula for any service thereafter will include a 1.25 percent pension factor.

Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will maintain their previous level of contribution to the pension fund. The pension formula for their years of service up to their transition date, will include a 1.5 percent pension factor. The pension formula for any service thereafter would include a 1.25 percent pension factor. Returning members who made the retirement plan election will retain whichever option they chose.

Benefits for New Hires

The state will no longer offer an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. All new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will be automatically enrolled in a 2 percent employee contribution into a 457 account as of their date of hire, earning them a 2 percent employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be $2,000 for participants who are at least 60 years of age at termination or $1,000 for participants who are less than 60 years of age at termination.

Employees hired on or after September 4, 2012, will be able to choose between two retirement plans: the existing Pension Plus plan, which is a hybrid plan that contains a pension component and a tax-deferred investment account that earns a 50 percent employer match on employee contributions of up to 1 percent of salary, or a Defined Contribution (DC) plan that provides a 50 percent employer match on employee contributions of up to 6 percent of salary. New employees will have 75 days from the date of their first pay period to make their election; if no election is made they will be placed in the Pension Plus plan. If they elect the DC plan, they will be automatically enrolled in a 6 percent employee contribution to a tax-deferred, 457 plan retroactive to their date of hire, earning them a 3 percent employer match into a 401(k) plan.