## \*\*LEGISLATIVE ACTION ALERT\*\*

To: All CSR Coalition Members

From: Todd Tennis, Legislative Consultant

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Earlier today, Senator Roger Kahn (R-Saginaw) introduced Senate Bill 1040. This bill makes massive changes to the Michigan School Employee Pension System (MPSERS) that greatly shifts costs for pensions and retirement health care benefits onto school employees and retirees. House and Senate leaders have expressed their desire to have the bill move through the process at lightning speed, getting the bill to the Governor's desk by June.

Among other things, Senate Bill 1040 essentially eliminates all retirement health care benefits for future school employees, and requires current employees to pay a much greater share of for their retirement health care. It will also require existing employees who opt to remain in a defined benefit pension plan to increase their contribution rate to either 5% or 8% depending on whether they were currently members of the Basic System or the MIP system. Perhaps worst of all, it will greatly increase costs for those who are already retired by capping the state share of retirement health care premiums at 80%. A brief analysis below goes into more detail.

Sadly, this is only the latest in an ongoing string of legislative attacks on retirees that has resulted in fewer and fewer Michigan retirees being able to count on a secure retirement. Retirees in Michigan are having their pensions taxed for the first time as a result of legislation passed last year. State employee pensions were under the gun earlier this session, and after legislation that passed recently new state workers will find that they have no retirement health care benefits when they go to retire years down the road.

Now the Legislature has turned its eyes on school employees. Proponents of the bill claim that the current costs of school employee pensions are "siphoning money from the classroom." First off, this discounts the fact that teachers and other school personnel are the most important parts of the classroom, and their pensions are part of their overall compensation. But more galling is the notion that the moment teachers are out of the schoolroom and retired, they no longer have any value and can be discarded. Moreover, the language used by some proponents of these bills promotes the image that school personnel are somehow taking money from children to pay for their retirement. This is outrageous, especially when it is all too common these days for teachers and school workers to dip into their own pocketbooks to pay for school supplies which their districts can no longer afford.

The Coalition for Secure Retirement is asking its affiliates to pass this information along to their members. Please contact your State Senator and ask them to vote against this severe and onerous legislation.

## Senate Bill 1040 - Retirement Reform

## Pension Side:

- Allows current school employees not in the hybrid plan to choose one of the following *going forward*:
  - ✓ An increased contribution rate (to 5% or 8% -- see below), to retain the current multiplier of 1.5% for future years of service in the calculation of a pension.
  - ✓ Same existing contributions, but a reduced multiplier for future years of service (used to calculate their pension; from the current 1.5% of final average compensation (FAC) to 1.25% of FAC).
  - ✓ Freezing their benefits under the defined benefit system and going to defined contribution, with a 4% employer contribution to a 401k.
- Those in the basic system (hired before 1990, who did not choose to go into MIP) would pay 5% of salary if they choose the increased contributions to retain the existing 1.5% multiplier.
- Those who are in the MIP system (but not in the recently created hybrid system) would pay 8% of salary if they choose the increased contributions to retain existing 1.5% multiplier.
- Hybrid employees (those hired after July 1, 2010) remain in the hybrid plan at current contribution levels.
- Caps the salary amount that is used for calculating pension benefits for new employees at \$100,000.
- Prohibits some types of compensation from counting toward calculating pension amounts going forward. Those types are: tax-sheltered annuities, longevity pay and merit pay.

## Health Care Side:

- The system would pay no more than 80% of the retiree health care premium for those who have a premium subsidy (current retirees and current employees hired before July 1, 2012).
- Requires most current employees to be at least 60 years old before they can receive retiree health care benefits. However, there would be a phase-in period for current employees; up until June 30, 2013, those who are not yet 60 could qualify if their age and years of service add up to 85 by that date.
- Retroactively applies a graded premium retiree subsidy coverage for all employees.
   Under current law, only employees hired since July 1, 2008 are in graded retiree health care premium coverage, but this bill retroactively applies graded premiums to all employees.

- Creates a 2% retiree 401k account for new employees -- they would have no retirement health care premium subsidy. Employees could contribute up to 2% of their salary to the account and have up to that amount matched. Note: since employers are presently paying for current retirees' health care on a cash basis (meaning it is not pre-funded), this is actually an additional cost to employers for the next 30 years, but after that, health care costs will begin to decline significantly.
- Maintains the 3% employee contribution for health care for current employees only. (As
  described above, new employees would instead pay the 2% into the health
  reimbursement account.)