



Summary of Public Act (PA) 92 of 2017

Michigan Public School Employees' Retirement System Reform

This summary highlights changes to the Public School Employees' Retirement Act signed into law on July 13, 2017. The full law can be reviewed [here](#).

No changes to existing pension and retiree healthcare benefits

PA 92 does not change the pension and retiree healthcare benefits of those already retired, nor does it change the benefits or requirements for receiving a pension and retiree healthcare for members who first worked for a Michigan public school before July 1, 2010. In addition, PA 92 does not change the Pension Plus retirement plan for those who first worked between July 1, 2010 and January 31, 2018.

Elimination of service credit purchases for members who first work before 7/1/2010

Active employees who were first hired *before* July 1, 2010 will be unable to initiate a service credit purchase after **5:00 p. m. EDT on September 29, 2017**. Active Duty Military Service and repayment of refunded contributions will remain available. However, after that date, all other service credit purchases will be discontinued and unavailable for purchase. All active employees first hired before July 1, 2010 who wish to make a purchase, must make payment or must submit a completed *Tax-Deferred Payment (TDP) Agreement (R0392C)* with their employer before the closing date.

Important: ORS *must* receive the payment or the *Tax-Deferred Payment (TDP) Agreement* signed by both employee and employer by **5:00 p. m. EDT, September 29, 2017** for the service credit purchase to count towards retirement.

Enhanced contributions for defined contribution participants hired since 9/4/2012

All employees hired on or after September 4, 2012 were given the opportunity to opt out of Pension Plus retirement plan and enroll instead in a Defined Contribution (DC) plan.

All DC participants who first worked on or after September 4, 2012 will have new contribution and employer match amounts mandated by the new law:

- Employers will begin mandatory contributions of 4% for current DC participants hired since September 4, 2012 and all future DC participants. The contributions will begin with the first pay period after October 1, 2017.
- Employers will match 100% of the contributions made by the employee up to a maximum of 3% beginning on February 1, 2018. Employees must contribute at least 3% of wages to receive the 3% match from their employer.
- The DC plan is the default option for new employees who first work on or after February 1, 2018.

PA 92 also requires the DC plan to offer one or more fixed and variable annuity options that members can use at retirement.

New Hybrid Plan begins 2/1/2018

This law establishes a new hybrid plan for Michigan public school employees who first work on or after February 1, 2018. This plan is similar to the Pension Plus retirement plan established in 2010 (and changed again in 2012) in that it will have both a pension component and a savings component. Eligibility for pension benefits remains the same as Pension Plus at 60 years old with at least 10 years of service. Contributions are made in the savings component by both the employer and employee and are deposited into a 401(k) and/or 457 tax deferred account.

An employee must affirmatively elect the new hybrid plan to participate. If the employee makes no choice, as mentioned above, the default set by the law means the employee will be enrolled in the DC plan. The Office of Retirement Services will provide each employee with a summary of the benefit options available.

Summary of PA 92

PA 92 establishes fiduciary controls and triggers on the new hybrid plan to help control future costs. These include:

- The assumptions for the new hybrid plan are more conservative, namely, the assumed rate of return on investments will be 6%.
- The contributions for normal cost of the new hybrid plan will be divided 50/50 between the employer and employee. If any future unfunded actuarial accrued liabilities emerge on this plan, contributions towards that will be shared 50/50 as well.
- PA 92 mandates that liability will be amortized using a level dollar amortization method over a 10-year period. This is a technical requirement of the law to ensure that, if unfunded accrued actuarial liability does emerge on this plan, it is paid off within a mandated time-frame.
- ORS regularly conducts studies to determine validity of risk assumptions following best-in-class practices for retirement systems throughout the nation. Beginning in October 2019, PA 92 indicates that, if life expectancy increases one full year since the last study, the Michigan Public School Employees' Retirement System (MPERS) Board, along with the director of the Department of Technology, Management, and Budget, may raise the regular retirement age by at least one year. PA 92 allows an exception if members are within five years of regular retirement age. The MPERS board may also exempt those members who are between 5 and 8 years of retirement. Regular retirement age as of the beginning of the plan on February 1, 2018 is set at 60 years of age.
- The plan can be closed to new employees if the actuarial funded ratio falls below 85% for two consecutive years. If this occurs, the legislature has 12 months to appropriate funds to increase the funded ratio. If the legislature does not take action, all new hires will not have the option to elect the new hybrid plan and will participate in the DC plan. Members already enrolled in the new hybrid plan will continue to accrue service credit under that plan.

PA 92 also establishes new employer contribution schedules and codifies the timing of actuarial experience studies. The law also stipulates ORS will submit additional reports to the legislature outlining the financial condition of the retirement plan.