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MPSERS REFORMS SIGNED INTO LAW

Last year, members of the Michigan House and Senate pushed to realize a decades-long goal: the elimination of defined benefit pensions for public school employees. Legislation aimed at forcing new hires into a 401(k)-style plan gained traction, and in 2017, it became the top priority for both Senate Majority Leader Arlen Meekhof (R-West Olive) and Speaker of the House Tom Leonard (R-DeWitt Twp.). A coalition led by AFT Michigan, the Michigan Education Association, the Coalition for Secure Retirement, the Michigan AFL-CIO and other allies was able to defeat the legislation as it was introduced which would have eliminated any type defined benefit pension for school employees. In the end, what became law is still an affront to hard working school employees and a reduction in retirement security for future hires. However, the law does retain the ability for new hires to choose a hybrid pension plan that contains a secure defined benefit component.

The new law, which became Public Act 92 of 2017, makes several changes to the current MPSERS system. The negative changes include:

- The existing hybrid plan will be closed to new hires and a new hybrid plan will be opened for new hires.
- The new hybrid plan will contain a trigger that would require employees in the plan to pay for a portion of any unfunded liabilities if and when the fund drops below an actuarial valuation of 100 percent funded.
- The new hybrid also has a trigger that will automatically close the system within 12 months of the plan dropping below 85% of actuarial value unless the Legislature takes action to increase the fund above 85%.
- The new hybrid plan creates a system of calculating retirement age that could result in the retirement age increasing during the employees' career. Currently, the retirement age for the new hybrid plan is age 60 (the same as the current hybrid plan). However, employees in the new hybrid could see that retirement age creep up depending on the outcome of mortality studies and life expectancy over the next few decades. There is no cap on how high it could potentially go.
- Purchase of service credit (other than military) will be eliminated for ALL PLANS after September 29, 2017 at 5pm EDT.

Some of the reforms in the new law could be beneficial for new and current employees:

- The new hybrid plan will use a more conservative estimate for investment income that will make it more stable in the future, and the employer will pay a greater share of the cost.

- The 401(k)-style option for existing employees and for future employees will be increased from a maximum employer contribution of 3 percent of wages to a maximum of 7 percent of wages.
- There are no further reductions in retiree health care benefits.

Current employees in the Basic, MIP or Pension Plus (the current hybrid) should not be affected by the bulk of these changes. However, the restriction on the ability to purchase service credits in the future will apply to current employees. Other changes become effective for employees hired after February 1, 2018.