

Background information on the School Retirement Conference Report (SB 1227)

- **Retirement Incentive for MPSERS Employees**-Currently, MPSERS employees have to be age 55 with 30 years of service, age 60 with 10 years of service to be eligible to retire, or may retire at any age with 30 years of service for persons in the Member Investment Plan. Under current law, the pension multiplier is 1.5%.
- Senate: The Senate did not include a retirement incentive.
- House: In addition to currently-eligible employees, the House bill also would allow employees to be eligible to retire if they had a combined age and years of service totaling 80 (as of August 31, 2010), if they retire between June 15 and October 1, 2010.
- House: The bill would provide a 1.7% multiplier in the pension formula for a person who retires between June 15 and July 1, 2010, and a 1.6% multiplier for a person who retires after July 1 but by October 1, 2010. A member's pension is calculated by multiplying years of service by the pension multiplier by the final average compensation (FAC). Under the House bill, a person retiring with a 1.7% multiplier would see a 13.3% increase in their pension, and a person retiring with a 1.6% multiplier would see a 6.7% increase. The bill also would cap the FAC of any member retiring under the incentives at \$114,000.
- House: The bill would allow for extensions to be requested, for an employee to remain working until July 1, 2011. The extensions would have to be approved by the State Superintendent of Public Instruction. Also, the bill would require the additional costs to the pension system created by the increased multiplier and early out to be amortized over a five-year period.
- **Increased Employee Contributions**- Employees in the Basic Plan (hired before January 1, 1990) currently pay nothing for retirement; employees hired before January 1, 1990, who switched to the Member Investment Plan (MIP) currently pay 3.9% of salary toward their retirement; employees hired after July 1, 1990, and before July 1, 2008, currently pay \$510 annually plus 4.3% of salary above \$15,000; and employees hired after July 1, 2008, currently pay \$510 annually plus 6.4% of salary above \$15,000.
- Senate: Effective with the first pay date after July 1, 2010, this bill would increase employee contributions to the retirement system by three percentage points, except for those hired after July 1, 2008, whose contribution would increase by 0.9 percentage point. As a result, all Basic Plan members would pay 3% of salary, and all other employees would pay \$510 annually plus 7.3% of salary above \$15,000 (except those who switched from the Basic Plan to MIP, who would have to pay 6.9% of salary).
- Senate: The bill specifies that the required contributions would have to be used to fund benefits for service credit earned after October 1, 2010, and could not be used to fund unfunded liability for accrued benefits earned by members before October 1, 2010. In addition, if an employee did not make the required contributions or if the payments made by an employee were subsequently refunded (e.g., by a court order), then the employee would not earn service credit during the period of time contributions were made.
- House: Beginning October 1, 2010, the bill would require all MPSERS employees to contribute 3% of their compensation into a funding account, specified as an irrevocable trust established under House Bill 4073 (the Public Employee Retirement Health Care Funding Act). Funds deposited into the irrevocable trust could be used to pay for retirement health care benefits for retirees and their eligible dependents now or in the future. The bill would determine and credit regular interest for employee contributions paid into the trust in the same manner as interest amounts for the MIP.
- **Hybrid Plan for New Employees**- Employees first hired on or after July 1, 2010, would be placed in a new "hybrid" pension plan, with a blending of defined benefit (DB) and defined contribution (Tier 2) components. A person under this plan would not be able to receive pension payments until age 60, and would be required to have worked at least 10 years as a public school employee. The purchase of service credit by these employees would be prohibited, and cost of living adjustments to the pension would not be

provided. The employee would have to contribute \$510 annually plus 7.3% of salary above \$15,000, in addition to the Tier 2 contributions described below.

- **Senate:** An employee under this plan would have to contribute 2% of salary to his or her Tier 2 account, unless affirmatively electing not to contribute or to contribute a lesser amount. The employer would have to match 50% of the employee's first 2% of salary contribution, for a maximum total employer payment of 1% of salary deposited into the Tier 2 account. This would be in addition to the employer cost for the DB pension of this employee. The employee would be allowed to contribute more than 2% of salary, but the employer would not match more than 1%, unless choosing to do so under a locally negotiated agreement. An employee described here would be immediately vested in his or her own contributions, and would vest in employer contributions as follows: 25% after two years of service, 75% after three years of service, and 100% after four years of service.
- **Senate:** The DB side of this hybrid plan would use a nine-year period on which to calculate the final average compensation (FAC), likely generating a lower FAC than is in current law. (For Basic Plan members, the time frame is five years; for MIP members, the time frame is three years.) Also, under this plan, the actuary would be required to assume a 7% rate of return on the investments in the portfolio (rather than the 8% rate under current law). The actuary could determine a different employer contribution rate for these members.
- **House:** The House did not include a hybrid plan for new employees.
- **Third-Party Contracted Employees-** Currently, members who retire and begin drawing pensions but then return to work can avoid the earnings limitations in statute if they return to work as contractual employees, using a third-party employer. The employer also does not have to pay contributions to the MPSERS system for these employees. In addition, current law does not require charter schools or any third-party contracted employees to be part of MPSERS.
- **Senate:** The Senate bill would require employees who have retired and returned to work under contract by a third party to pay a portion of their salary to MPSERS equal to the percentage paid by the employer for retiree health care (currently 7.25% of pay).
- **House:** The House bill would require charter schools to become part of MPSERS. Also, anyone working in a reporting unit or employer who is employed by a third party would become an employee of MPSERS. This would mean that the reporting unit would have to pay the contribution rate on the wages of all persons working in a reporting unit, even if they are employed by a third party, except in certain limited circumstances. However, this would not include a charter school employee who receives retirement benefits under the Optional Retirement Act.
- **House:** The House bill would require that a retiree who returns to work at a reporting unit remit the entire MPSERS contribution rate multiplied by their wages, deducted from their pension allowance.
- **Phased Retirement Option**
- **Senate:** The Senate did not include a phased retirement option.
- **House:** The House bill includes an option for retirees at least age 60 to retire, draw their pension, and return to work part-time without financial penalty. An employee utilizing this provision would have to reduce the number of hours worked by 50% and work no more than 1,040 hours. The option could be renewed annually, but could not exceed three years, and would have to be approved by the employer.
- **Retirement Rate Charged to Employers**
- The fiscal year 2009-10 rate that employers have to pay to the MPSERS is 16.94% of total payroll. The Governor's proposed K-12 budget for fiscal year 2010-11 included a MPSERS rate of 19.41%, along with language stating that the rate may decline if retirement reforms are enacted.

- Senate: The Senate bill mandated the FY 2010-11 MPSERS rate charged to employers to be no more than 17.08%.
- House: The House did not include a MPSERS rate.
- **Reporting Unit Requirements**-Currently, each reporting unit or employer is required to forward both employer and employee contributions to MPSERS monthly. Also, current law requires quarterly affidavits certifying aggregate reportable compensation, sources of contributions, and Federal wages, along with annual reports listing persons employed with salary, service, and contributions.
- Senate and House: The reporting would change from monthly to a manner determined by the retirement system. The employer reports would be required every pay period. A fee of not less than \$25 and interest charges of not less than 6% if errors weren't corrected prior to discovery by the retirement system, or found to be intentional.
- **Appropriations to Office of Retirement Services**
- Senate: Appropriated \$2.0 million to ORS for implementing the statutory changes.
- House: Appropriated \$4.5 million to ORS for implementing the statutory changes.