

AFT Michigan Retiree Legislative Update

December, 2013

NEW ATTACK ON DEFINED BENEFIT PENSIONS

Right before the legislature adjourned for the holidays, a seven bill package (SB 722-728) affecting school employee retirement benefits was introduced in the Senate, **with the primary goal of moving all new hires into a defined contribution plan.** The bills were sponsored by many of the senators who were on the “pro-defined contribution” side of the Senate Republican caucus during the legislative battle that led to PA 300’s enactment last session. At that time, thanks to AFT-Michigan and its allies in this fight, we blocked their efforts to move new hires into a solely defined contribution plan. Currently, newly hired school employees may choose between the Pension Plus Plan (a hybrid defined benefit plus defined contribution plan) and the Defined Contribution plan. In the Pension Plus Plan, “Tier 1” refers to the defined benefit part of that plan and “Tier 2” to the defined contribution part of it.

AFT-Michigan anticipates hearings on these bills, all of which were referred to the Senate Appropriations Committee, early next year. We believe that these hearings will be held jointly by the Senate Appropriations Retirement Subcommittee, chaired by Sen. Jansen, and the K-12 Subcommittee, chaired by Sen. Howard Walker (R-Traverse City). See below for contents of each of these bills:

- SB 722 (Sen. Arlan Meekhof, R-West Olive): Permits each reporting unit to set up its own Tier 2 (defined contribution) contract or account plan for school employees. The legislation specifically says that neither the state nor the employer has a duty to monitor the performance of the alternative provider nor do they have any liability to employees for “damages relating to the performance of the alternate provider.” The alternate provider shall offer the “same benefits and vesting provisions” and is prohibited from offering a defined benefit option.
- SB 723 (Sen. Phil Pavlov, R-St. Clair): Creates a technical fix to align with SB 722.
- SB 724 (Sen. Joe Hune, R-Hamburg): Prohibits initiation of purchase of service credits, after June 30, 2014, except for active duty military service credits.
- SB 725 (Sen. Mark Jansen, R-Gaines Township): Eliminates duty disability retirement service for employees hired after June 30, 2014.

- SB 726 (Sen. Bruce Caswell, R-Hillsdale): Reduces health insurance premium requirements for school retirees below 133% of federal poverty levels in each preceding year to 10% rather than current 20%.
- SB 727 (Sen. Mark Jansen, R-Gaines Township): Technical changes to align with other provisions in the previous bills by clarifying that employees who are hired on or after July 1, 2014 are not members of Tier 1 (the defined benefit part of the hybrid plan) and are not eligible to purchase service credits (except for active duty military) or receive duty disability pensions but are immediately invested in employer contributions under Tier 2 (defined contribution).
- SB 728 (Sen. Patrick Colbeck, R-Canton Township): Clarifies that the asset allocations for investments under PA 314 (the act which governs how defined benefit public pension funds can be invested) for new hires under Tier 2 do not apply to them. This is currently true of the Tier 2 (defined contribution) portion of the hybrid plan.

Clearly, these bills clear threat to the retirement security of school employees.

With the exception of Senator Caswell's bill, all of the other bills would directly reduce the retirement security of school employees hired on or after July 1, 2014. To the extent that reducing membership of the defined benefit system negatively affects the number of members in the MPERS system, it directly affects retirees in the defined benefit and hybrid plans by reducing, over time, the assets of the system and thus affecting investment options as well as the number of people with a stake in protecting retirees.

AFT-Michigan urges its active and retired members to contact their state senators in opposition to these bills.

December 19, 2013