

AFT Michigan Retiree Legislative Update

October 16, 2013

House Financial Liability Committee Hears So-called “Reform” Proposals on Public Pensions

Last week, the House Financial Liability Reform Committee took testimony from Pew Charitable Trusts and the Mackinac Center on public pensions and retiree health benefits. Pew’s presentation focused on changes being considered in Massachusetts, many of which (as the chair acknowledged) have already been enacted in Michigan. The Mackinac Center spokesman presented so-called pension “reforms” proposed by ALEC (the American Legislative Exchange Council), an organization not known for much concern about public employees and their families. Although these recommendations were presented in a manner that implied that their central goal was to help retirees, their proposals would shift risks from pension systems to current and future retirees. ALEC presents defined contribution pension plans as more advantageous and less risky, without pointing out that retirees in such systems run the risk of outliving their pensions.

The Coalition for Secure Retirement, a coalition of organizations that AFT Michigan helped form cautioned policymakers: “Elected officials must be wary of the goods that these divisive groups are selling.”

The “Real” News on School Employees’ Healthcare

At a recent MPERS Board meeting, AFT Michigan learned that total prescription drug spending actually decreased in 2012 from the previous year, both for retirees and for the system. Furthermore, the payment per retiree per month has again decreased in 2012, as has been true every year since 2008, when the average monthly payment for a retiree was \$43.96. In 2012, the average payment for retirees per month was down to \$31.01. The cost decrease was due in large part to greater use of generic medications but also to enhanced purchasing practices and change in plan design for this retirement system.

New Bill Introduced on Auto-Enrollment for DC Retirement Plans

Rep. John Walsh (R-Livonia) introduced HB 4964, legislation dealing with auto-enrollment in public pension defined contribution plans. This bill, which was sent to the committee on September 10, is very similar to SB 1142 from last session. At that time, AFT Michigan and the Coalition for Secure Retirement (CSR) had supported the bill, with some amendments that provided for more transparency regarding options for plan participants. However, SB 1142 did not make it through the Senate last year. The legislation is most immediately important for those AFT Michigan members who teach in universities and who are enrolled in TIAA-CREF. However, it also has resonance for more newly hired MPERS members who will be covered by the hybrid plan, which includes a defined contribution component.

The federal Pension Protection Act of 2006 included mandatory auto-enrollment for all private sector employers. However, this federal law left to the states whether to extend auto-enrollment to public sector plans and a number of other states—including Oregon, Colorado, and Kansas—have already enacted it. Most studies demonstrate that auto-enrollment—i.e., “drop out” rather than “drop in” plans-- result in significantly more employee participation. Some logical explanations for that are that new hires, particularly younger ones, are often overwhelmed by immediate decisions and new job responsibilities when they are initially hired. Secondly, newly hired employees do not always fully recognize the importance of utilizing all available options to prepare for their eventual retirement, particularly since they are faced with other, more immediate economic needs.

AFT Michigan plans to work with Rep. Walsh regarding making the legislation more transparent regarding member options.

Brief Updates on Other Public Pension Issues:

- **MPERS Stranded Costs Bill**-HB 4190 (Rep. Jeff Farrington, R-Utica). At this point in time, the House Financial Liability Reform Committee is waiting for an administrative alternative and some analysis, so that it can be compared to the Cost of Expenditure (COE model), which the bill originally proposed. Once this is received and reviewed, we expect the committee to take up HB 4190 and make a decision....one way or the other! As a reminder, AFT Michigan has supported moving to a COE model. Obviously, until we see the administration’s alternative, we have no opinion on how it compares from a “pure” COE model.
- **House Bill Would Permit “Return to Work” by Retired Paraprofessionals**- HB 4828 (Rep. Pat Somerville, R-New Boston) that permits a “return to work” limited exemption for school paraprofessionals appears to be a constituent-initiated bill. We therefore don’t expect much movement.
- **Defined contribution MPERS bill likely.** We are hearing that the proponents of a defined contribution MPERS system are not giving up and that new legislation may be introduced, soon. We will let you know immediately if we see a new bill dropped.
- **Michigan economy and retirees.** Recent media articles have pointed out that Michigan has the fourth highest proportion of retirees in the nation, not bad for a “non-sunshine” state. Rather than viewing our ranking as a negative sign of an aging population, we should be promoting the fact that retirees choose to live in Michigan and thus their pensions help fund our state’s economy.

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