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The Michigan Public School Employee Retirement System and Its Impact on Michigan Public Universities:

A Short History,
An Analysis of the Growing Financial Impact,
and a Presentation of Possible Solutions for MPSERS Universities

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Previous to today, I have since 2004 included MPSERS in my testimony before the Higher Education Appropriations Subcommittees of the House and Senate and testified before the House Retiree Healthcare Reforms Committee in September 2007. At that time I took a few moments to review the history of the Michigan Public School Employee Retirement System, or MPSERS. Since this is a complex topic with a convoluted history, I think it is worth reviewing the details of how Ferris and six other state universities came to be burdened with this system, while the remainder did not. In understanding MPSERS, it is useful to look back at the history of its development. (See Attachment One)

In 1945, the Legislature adopted the Michigan Public School Employee’s Retirement Act. Its purpose was to provide pension benefits (not health benefits) for former employees. Over the next several years, it grew to include Michigan K-12 public schools, various Michigan community colleges and junior colleges, and seven of the fifteen public universities.

Of the universities in existence at the time of the adoption of MPSERS or shortly thereafter, the University of Michigan, Michigan State University, and Wayne State University were not required to join the system. Participation was mandated at that time for the institutions which became Central Michigan University, Eastern Michigan University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Western Michigan University, and Ferris State University. Beginning with the University of Michigan-Flint, in 1956, newer institutions that subsequently became public universities were not put into MPSERS – Oakland University, University of Michigan-Dearborn and -Flint, Grand Valley State University, and Saginaw Valley State University.

At the time of its adoption in 1945 until 1974, the State fully funded the mandated costs for MPSERS retirees and dependents. The definition provided at that time is extremely important for this discussion and quite clear about the state’s obligation. The 1945 legislation defined the word “pension” as “annual payments for life derived from money provided by the State.” A significant policy shift occurred in 1974 when the State assessed MPSERS universities, community/junior colleges, and public schools a portion (up to 9%) of the MPSERS costs. In 1975 MPSERS was amended to include the cost for retiree health benefits – a State-mandated and, importantly, unfunded change.

In the early 1990’s the State transferred the full cost burden for MPSERS to the MPSERS entities. Public schools, as a result of Proposal A, received additional resources to support the full MPSERS costs, universities did not (other than a small amount in 1992-93). In 1995, MPSERS universities expected help from legislation that excluded any new university employees hired after January 1, 1996 (unless they had previous MPSERS
experience) from belonging to the system. Nevertheless, with the passage of time, the relief that was expected to be provided by the legislation never materialized and contributions for unfunded liabilities continue to increase. Today the MPSERS universities are required to pay these substantial unfunded liabilities.

From 1974 to the present, the legislature has increased benefits for MPSERS retirees, without input from the universities, and without recognition of the resulting increased costs. One of the strategies of MPSERS has been to reduce benefits for new members rather than to limit them for those already in the system. Since higher education is not adding additional members, taking this path of least resistance exacerbates rather than reduces our challenges. As a result, MPSERS costs to the universities have continued to skyrocket.

MPSERS assesses costs pursuant to three components:

1. **Pension Current or Normal Costs** – the monthly cash benefit earned by active employees. MPSERS assesses a percentage against the payroll of current MPSERS employees to provide sufficient funds to cover the cost attributed to the current year. This year (FY 2012) we estimate that percentage to be 3.12%.

2. **Unfunded Actuarial Accrued Pension Liability** – this is the amortization of the amount that MPSERS is short when comparing the present value of all earned or accrued benefits to the value of current assets. MPSERS assesses each university a percentage of payroll for current university MPSERS employees AND current university employees who would have been in the system but for the January 1, 1996 legislation to exclude new hires. This year we estimate that contribution rate to be 13.41%.

3. **Current Costs for Retiree Health Benefits** - these are set out in actual dollars and are the projection of the year’s costs for the health benefits provided to current retirees of the MPERS institutions.

Of the estimated $49 million the universities will pay into MPSERS this year, 48% will support retiree health costs, 45% unfunded liability, and 7% normal pension costs.

At our University we have capped retirement costs for all employees at no more than 10-12%. For our 300 MPSERS employees we currently pay more than 38% of salary. Based on preliminary information for next year we estimate that amount will continue to increase. Without relief it seems likely that our contributions for members will exceed 50% in two years. This pace of increase and is predicted to exceed 80% by 2020. (See Attachment Two.) Beyond that it is important to understand that we also pay a charge for our 492 employees who are not members of MPSERS, but would have been had new higher education employees not been added to the system beginning in 1996. The 13.41% we currently pay for these employees is a rate that has quadrupled in three years. (See Attachment Three)
This year, the MPSERS universities estimate they will pay $49 million back to the State to support MPSERS costs. Our unfunded liability increased 52% in the last three years, going from $14.5 to $22.1 million. The simple reality is that this year Ferris State University will return 20% of our state appropriations for this overburdened and underfunded retiree pension and healthcare plan. By 2020 this amount will easily exceed 25% of our state appropriation (See Attachment Four.) Put another way, since I last testified on this topic in 2007, the MPSERS mandate has cost Ferris State University more than $28,600,000.

The MPSERS issue is one that has for many years defied efforts to slow or reduce this mandate. This increase has created a two-tier system among state universities. I was heartened by Governor Snyder’s recent budget proposal. His public recognition of the problem is a very positive step forward in finding a solution to this growing problem. Beyond that recognition, Gov. Snyder’s proposal showed that he is willing to entertain bold and innovative steps to address long-standing issues. Please keep in mind that resolving the legacy of MPSERS is indeed important for the seven universities saddled with the cost. This year Ferris State University has budgeted $8.35 million for this liability.

There are two important steps Michigan lawmakers should take to assist higher education. The first is to eliminate the unfunded liability charge to the MPSERS Universities. This is a state responsibility that has been shifted with great inequality to some universities and not others. Returning MPSERS funding to the state would help restore a level competitive playing field among the universities and, more importantly, would mean more transparency in the budgeting process.

Second Michigan must get the skyrocketing healthcare costs of MPSERS under control. Currently this is an astonishing 48% of our total MPSERS costs. No other former employees at our University receive retiree healthcare. Benefits must be radically reduced in this program and retired employees must pay the cost for this. This could be accomplished by reducing benefits to a core program of catastrophic health coverage with optional benefits available through additional payments by retirees.

The State continues to penalize higher education for not placing new employees in MPSERS and the fixes introduced for new people added to the system provide no benefit for higher education at all. The problem universities face with MPSERS will only increase as the numbers of working MPSERS employees continue to dwindle and the costs are increasingly borne by our non-member employees. This could be mitigated if MPSERS universities pay a fixed annual percentage. This could be accomplished through providing a State appropriation for the difference between this fixed percentage and calculated university annual costs.

While of lesser effect, it would be useful if the state could recognize the impact of past employment on unfunded liability, pension, and retiree costs. Currently we pay full liability for employees that began in the K-12 system and moved to higher education. It
would also be useful if the State directly funded MPSERS costs rather than sending these dollars to the universities and then back to the State. Under this approach, university obligations for MPSERS payments would not be reduced by budget cuts from the State.

Governor Snyder has made it clear that he is willing to look at ways of doing the public’s business so as to create a new paradigm to address seemingly intractable problems. We are where we are today with MPSERS because of the old way of doing business. At Ferris State University we have addressed and controlled retiree costs for all employees except for those in MPSERS. This is true simply because MPSERS is something we do not control, you do.

Ultimately it is our students who are most disadvantaged by the state’s inaction in controlling the financial impacts of MPSERS. This year the cost to each full-time student at Ferris State University for MPSERS is $694.

Please take advantage of this opportunity to reverse the mistakes of the past. This is an issue that needs to be resolved to help Michigan’s MPSERs universities become more flexible and adaptable – qualities that are increasingly needed as our state universities and its graduates face the challenges and possibilities of the global economy.