

New Michigan Public School Employee Pension Requirements Upheld

February 6, 2014

The 2012 law that changed Michigan public school employee pension requirements has been upheld by the Michigan Court of Appeals.

The new requirements enacted in PA 300 of 2012 will remain in effect for the foreseeable future. The law requires public school employees to choose among three options in terms of future retirement pension benefits:

1. Members of the Basic Plan, who historically contributed nothing to their pensions, contribute 4 percent of their income to their pensions. Employees hired between January 1990 and July 2010 and certain members who had transferred from the Basic Plan must contribute 7 percent, an increase from their previous contribution rates. These members would retain the 1.5 percent pension multiplier.
2. Plan members maintain their current contribution rates, freeze their existing benefits at the 1.5 percent multiplier, and receive a 1.25 percent multiplier for future years of service.

Or

1. They may freeze existing benefits and move to a defined contribution, 401(k)-type plan with a flat 4 percent employer contribution for future service.

Members who contributed the three percent toward retirement health care, but did not meet eligibility requirements to receive health care at retirement, would be refunded their contributions for a period of five years, starting at age 60. The law also required any employees who wanted retirement health care benefits to contribute three percent of their compensation to receive it. They could also "opt out" of the benefits if they didn't want them.

Public school employees and their unions challenged the law, asserting that it violated their respective collective bargaining agreements, diminished their retirement benefits, violated due process and resulted in an undue enrichment to the state pension system (MPERS). The trial court rejected these arguments, ruling the law valid because it dealt with future benefits and did not impact the vested benefits of the employees.

PA 300 was the Michigan Legislature's second effort to require public school employees to contribute to their own retirement benefits. The first, PA 75 of 2010, was found to be unconstitutional in 2011.