Michigan Parents for Schools

Parents working for excellent public schools
—for our children, our communities, and our future.

Steven J. Norton
Executive Director
Jennifer Tanau
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Secretary
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Treasurer

Remarks prepared for Senate Appropriations Subcommittee on Retirement, hearings on SB 1040, 11 April 2012

Mr. Chairman and members of the Subcommittee,

My name is Steven Norton, and I am Executive Director of Michigan Parents for Schools, a non-profit, public interest advocacy organization working to ensure that our public schools have the tools and resources they need to provide an excellent education to all our children. Thank you for allowing me time to speak to you today in regards to Senate Bill 1040, which restructures the Michigan Public Schools Retirement System.

In testifying today, I cannot speak for those whose retirement plans will be affected, nor can I offer any particular expertise in the design of pension systems. But I do hope to speak for parents and citizens across Michigan who are very concerned with the impact of this bill on the current and future strength of our public schools.

On the one hand, there is no doubt that the current structure of the public school employee retirement system is not sustainable. Changes of some sort are needed so that education funding, and the future viability of the retirement system, is not put in jeopardy.

On the other hand, whatever changes we make to this system will have profound effects on our schools, and those who work and teach in our schools, long into the future. Moreover, the current problems facing MPSERS are in part the result of extraordinary turmoil in financial markets. We need to move forward with great care.

To put it simply, Michigan Parents for Schools has two key concerns with SB 1040 as currently drafted: funding and fairness.

Our funding concerns are quite straightforward: for all the changes made to the retirement system, and the added contributions employees would be required to make, the system created by the bill does very little to reduce the financial drain on local school districts in the near term. (The Senate Fiscal Agency analysis of the bill indicates that its first-year benefit to districts would be to reduce their mandatory contribution by a little over three percentage points. This amount roughly offsets the anticipated 3% increase in mandatory contributions expected for FY 2013.)

The costs of the system are simply re-distributed in the short- and medium-term, removing none of the continuing financial pressure on our public schools. How can we justify this kind of continued dis-investment in our schools (declining real spending on K-12 education) in the context of a recovering economy and state personal income that is—and is projected to continue—growing faster than inflation?

1217 Olivia Ave
Ann Arbor, MI 48104
(734) 730-2216
www.mipfs.org

Our concerns about fairness are somewhat more complicated. But they can be consolidated into three main points:

1) The bill places transition costs squarely on the shoulders of current employees and students (through their school districts' mandatory contributions). The pension system's current problems, however, are certainly not attributable to today's students and hardly attributable to present or past employees. Governance of MPSERS has always rested with the State Legislature; retirement benefits are not bargained-for. The current unfunded pension liability has ballooned because of an extremely poor investment environment over the last few years. The rising cost of retirement health coverage has been driven by the breathtaking increase in the cost of health care in this country, which has bedeviled both private and public entities. Is it fair to ask those currently in our education system—employees and their students—to absorb by themselves the cost of addressing these problems?

2) Any changes we make to the school retirement system ought to hold harmless those who have already completed their service and those who are close to retirement, yet the bill does not do this. Retired educators and those near the end of their careers have brought tremendous benefits to our communities and state; they also made financial decisions based upon the promises made to them years ago. Do not all our communities—our entire state—have responsibility for making good on those promises?

3) Finally, the changes to the school retirement system need to be weighed in light of their impact on the ability of school districts to attract and retain excellent teachers. SB 1040 makes significant reductions to the benefits current and future employees can expect. At the same time, financial pressures on school districts continue, making meaningful salary increases very unlikely. Many other legal changes have been enacted which make public school employment a much more uncertain option for new graduates. Already, we have heard reports that fewer undergraduates are interested in teaching careers, and even more disturbing reports of talented, early-career, teachers considering leaving the profession while good options are still available to them. This trend takes us in precisely the wrong direction if quality education is our priority.

Changing the public school employee retirement system is a complex undertaking. It is too easy, however, to become lost in the details and lose track of key guiding principles. Our guiding principals are these: the changes to retirement need to be fair; the costs should be borne by everyone who has benefitted from our public schools in the past and present; and retirement plans going forward should provide adequate savings for the future and reflect the importance we attach to the people in whom we entrust the education of our children. I believe that we stand ready as a community to help make that possible.

Thank you for your time and consideration.