SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 315 (Public Act 57 of 1987)
Sponsor: Senator William Sederburg
Senate Committee: Appropriations
House Committee: Appropriations

Date Completed: 8-24-87

SUMMARY OF SENATE BILL 315 (as enrolled):

This bill amended the State Employees' Retirement Act to provide for benefit increases/adjustments for current members and retirees/beneficiaries. The bill also includes significant changes in the way the retirement system is financed.

A. Changes in benefits are as follows:

1. A one-time cost-of-living increase is granted to retirees and beneficiaries who retired prior to October 1, 1986. The amount of increase varies from 4% to 30% based on the number of years since retirement, payable effective October 1, 1987. Retirement allowances as increased by this cost-of-living increase become the base for future increases.

2. The current 13th checks are replaced by annual benefit increases starting October 1, 1988, or the first October 1 that is at least 12 months after the retirement allowance effective date. The annual increase is 3% noncompounded, not to exceed $300, based originally on allowances as increased by the one-time cost-of-living provision described above. Those who retired prior to October 1, 1987, who receive 13th checks will be held harmless, that is, will receive no less than their 13th check would have been, but at least the annual 3% increase amount.

3. Benefits are recomputed for two cases of pre-January 1, 1974, retirees and beneficiaries, effective January 1, 1988:

   a. Prior to January 1, 1974, benefits were based on a two-tier formula that results in a lower allowance than the current 1.5% of final average compensation. Retirees'/beneficiaries' allowances will be recalculated based on the 1.5% formula, but there will be no retroactive payment.

   b. Prior to 1974, there was an early retirement penalty for persons who retired between the ages of 55 and 60 with 30 years of service. Allowances for these retirees/beneficiaries will be recalculated based on the full formula with no penalty, but there will be no retroactive payment.

4. Effective January 1, 1988, dental and vision insurance coverage will be available to retirees. The State will pay 90% of the premiums for any Civil Service authorized group health plan; the retiree pays 10% of the premium.

5. An "80 and Out" retirement option will be available between April 1, 1988, and April 1, 1989. A member who is 50 years of age or older with any combination of age and service that equals 80 may retire with full benefits during the one-year period.

6. The final average compensation factor of the highest five consecutive years of earnings is reduced to the highest three consecutive years of earnings for persons retiring on or after October 1, 1987.

7. Members who are elected State officials or those members in either the Executive or Legislative branches who are exempt from the classified State Civil Service have a vesting period of five years. Previously, elected or appointed officials had a vesting period of eight years; all other persons in exempt positions had 10-year vesting. This provision took effect June 23, 1987.

8. Additional options for service credit purchases are enacted for members with vested service. Payments may be made for:

   a. Maternity, paternity, or child-rearing, for up to five years (but the member must have returned to State employment without other intervening employment).

   b. Service as an employee of a city, county, township, or village of this State or as an employee of another state, for up to five years.

   c. Service with the Federal government, up to five years.

   The total amount of service credit purchased from any of the provisions listed above, however, may not exceed 10 years. Service credit may be purchased in separate increments of one or more years or remaining fraction of a year. These provisions took effect June 23, 1987.

9. Members who are granted a disability retirement allowance and who are less than 65 years of age receive an annual allowance until they reach age 65, when their benefits are recalculated using the basic retirement allowance formula. Public Act 57 increases the maximum benefit from $4,800 to $6,000 per year for members who are less than 60 years of age, and provides for benefits to be recalculated at the regular amount when a member turns 60. This provision took effect June 23, 1987.

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10. Currently, the minimum annual allowance for a retiree ranges from $600 to $1,800 depending on the number of years of service. Effective January 1, 1988, the minimum annual allowance for a retiree or retirement allowance beneficiary of a retiree with 20 or more years of service shall be $3,000. Any retiree or beneficiary who receives less than $3,000 per year based on 20 or more years of service shall receive $3,000 per year after January 1988.

11. The mandatory retirement at age 70 provision is repealed.

3. Changes in financing are as follows:

   1. a. Unfunded actuarial accrued liabilities are to be amortized over a period of 50 years.

      b. Actuarial present value of benefits attributable to the 1988-89 early retirement provision are to be amortized over a period of 10 years.

      c. Actuarial gains or losses after September 30, 1985, are to be amortized over a period of 15 years.

   2. If the actuarial value of the assets exceeds the present value of credited projected benefits by 5%, however, but not more than 10% (105% to 110% funded), the Director of Management and Budget and the State Treasurer may authorize amortization of actuarial gains over a period of 10 to 15 years. If the value of assets exceeds the value of benefits by more than 10% (more than 110% funded), then actuarial gains may be amortized over a period of six to 15 years. The Director of the DMB and the State Treasurer shall give the State Employees' Retirement Board 30 days' notice of any action to amortize actuarial gains over any period that is less than 15 years. The actuary is to make a report to the Retirement Board and Legislature discussing the appropriateness to date of the revised amortization periods.

   3. The actuary shall report to the Legislature by April 15 of each year:

      a. On the actuarial condition of the retirement system as of the end of the previous fiscal year.

      b. Projections of State contributions for the next fiscal year that are required to fund the system.

      c. That the assumptions and estimates used are reasonable and prudent.

      d. That the techniques and methodologies used are certified as generally accepted within the actuarial profession.

MCL 38.1 et al.

FISCAL IMPACT

The State's actuary has estimated the costs of the benefit increases/adjustments to be an additional 3.21% of gross payroll per year, or $55.8 million in the first year. This cost is offset by two changes in actuarial assumptions. The first is a reduction in the long-term pay assumption from 6.5% to 5.0%. The second is an increased investment return on all assets from 8.0% to 12.0% in the first year, graded down 8.0% after 10 years. These two changes increase the real rate of return to the retirement system, bringing additional income to offset the additional costs by 3.18% of gross payroll, or $55.3 million. It is anticipated that favorable market conditions and the shortened amortization period for actuarial gains will provide sufficient additional funds in the short term to cover the entire cost of the bill.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.