



**House
Legislative
Analysis
Section**

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MUNICIPAL EMPLOYEES RETIREMENT ACT

House Bill 4507 (Substitute H-1)
First Analysis (5-15-89)

RECEIVED

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Sponsor: Rep. Kay Hart

Committee: Senior Citizens and Retirement Law Library

THE APPARENT PROBLEM:

Nationally, there is a movement underway in the private sector to make retirement pensions portable and to provide five-year vesting programs. The Employee Retirement Income Security Act (ERISA), the federal act that governs private pension funds, has mandated five-year — or better — vesting rights by January 1, 1990. Public sector retirement systems have not kept up with the private sector in this area. In Michigan, for example, the Municipal Employees Retirement System (MERS), provides a ten-year vesting program. Under MERS, employees who leave a participating municipality for employment with another participating municipality will receive credit for that service if they return to a MERS system employer within 15 years of departure. Employees who leave a participating municipality for more than five years for employment with a non-MERS governmental unit, however, lose all service credit and must work another ten years before being vested. While many private sector pension plans provide five-year vesting programs in recognition of the mobility of today's professionals, few elected officials ever become eligible for a MERS retirement allowance, since few remain in the same elected position for the required 10 years. Many municipalities feel that it is time to come into line with the private sector by reducing the number of years required for vesting, and — since many government workers move from one governmental unit to another that may not be a MERS system member — by extending the break-in service period to 15 years across the board. In public hearings across the state, municipalities voiced support for legislation that would provide these options.

THE CONTENT OF THE BILL:

The bill would make general amendments to the Municipal Employees Retirement Act. Under the bill, a municipality or court could not participate in the retirement system unless, on the effective date of participation, ten percent or more of all employees were included as members. However, a municipality or court that included less than ten percent of all employees as members could participate if it had elected to include only individuals first hired after the effective date of participation. At present, the act lists employees who may not be classified as "municipal employees" for purposes of membership in the retirement system. The bill would delete from this list persons employed under the former Comprehensive Employment and Training Act (CETA), and would add to the list individuals who, on the effective date of the municipality or court's participation under the act, were members of another retirement system sponsored by the participating municipality or court, and who retained membership in the other retirement system.

Currently, the retirement board is required to provide credit to a member for qualifying service with the state or federal government, or with a political subdivision of a state, provided that the governing body of the participating municipality that employs the member adopts a resolution,

or the chief judge of the participating court that employs the member issues an administrative order, requesting the board to credit the member, and that the qualifying service is not followed by a break of 60 or more months in the member's employment by the governmental unit. The act also provides for credit for qualifying governmental service with another participating municipality or court if the service was rendered within 180 months of a break in employment. The bill would increase the length of the break in the former provision from 60 to 180 months; thus, service with any governmental unit within the 180-month period could be credited.

At present under the act, a vested former member is defined as a member with ten or more years of credited service at the time membership terminates. The bill would amend the act to define a "vested former member" as a member with 8 or more years of credited service and who is covered under the termination of membership vesting benefit program V-8 at the time his or her membership terminates, or a member with 6 or more years of credited service and who is covered under the termination of membership vesting benefit program V-6.

Under the act, a member or a vested former member of the Municipal Employees Retirement System (MERS) may retire if he or she meets the following requirements:

- is 50 years of age, and has 25 or more years of credited service;
- is 55 years of age, and has 15 or more years of credited service;
- is 60 years of age, and has 10 or more years of credited service.

Under the bill, a member or vested former member could retire at 60 years of age, with 8 or more years of credited service, if the member's participating municipality or court adopted the termination of membership vesting benefit program V-8 for the member. A member could also retire at 60 years of age, with 6 or more years of credited service, if the member's participating municipality or court adopted the termination of membership vesting benefit program V-6 for the member.

Currently, under retirement plans E-1 and E-2, which are annual cost-of-living adjustments to the basic retirement allowance, the act provides for a maximum cumulative adjustment of 100 percent of the cumulative percentage increase in the consumer price index since the date of retirement. The bill would amend the act to provide — for each plan that has adopted an E-1 or E-2 benefit increase — a maximum cumulative adjustment limitation of 100 percent of the percentage increase, if any, in the average consumer price index monthly values from the base index period to the current index period. The base index period, under the bill, would be the 12-month period ending on the September 30 that was 15 months before the first adjustment date; the current index period would be the

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12-month period ending on the September 30 that was immediately before the current adjustment date.

The bill would also amend the act to require the auditor general, or a certified public accountant appointed by the auditor general, to conduct — at least biennially — financial and compliance audits of the retirement system's books and financial records, and to submit copies of each report to the governor, the Retirement Board, and the Bureau of Retirement Systems not later than the February 28 following the fiscal year end of the period audited.

The act specifies that retirement benefits are subject to court orders for child support payments. The bill would add language specifying that the provision could not be construed to permit or require a benefit to be paid that would not otherwise be available under the act.

MCL 38.1502b et al.

FISCAL IMPLICATIONS:

The Bureau of Retirement Systems in the Department of Management and Budget reports that the bill would have no fiscal impact on the state, since the MERS system is self-supporting. (5-11-89)

ARGUMENTS:

For:

It is important that municipalities have pension funds that are competitive with those in the private sector if they are to attract the most creative and talented employees. It is equally appropriate that the people who lead in local governments — elected and appointed officials — be rewarded with some of the security granted other employees. While the bill would not guarantee these provisions to all municipal employees, it does provide a step in the right direction by giving municipalities the option of providing 6-, 8-, or 10-year vesting schedules, and making it easier for non-MERS employee groups to be enrolled, by local board action, in the MERS system.

For:

The state actuary has asked that the act be amended to include language that would establish base and adjustment periods for those communities that have adopted E-1 or E-2 annual cost-of-living adjustments to the basic retirement allowance. By providing that the base index period be the 12-month period ending on the September 30th that is 15 months prior to the first adjustment date, the bill would provide ample time for local actuaries to compute the consumer price indices.

POSITIONS:

The Bureau of Retirement Systems in the Department of Management and Budget supports the bill. (5-11-89)

The State Employees Retirement Association supports the bill. (5-11-89)

The Michigan Association of Counties supports the bill. (5-11-89)

SEIU/Michigan Council 35 supports the bill. (5-11-89)

The Michigan Municipal League supports the bill. (5-12-89)