



**House
Legislative
Analysis
Section**

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EXTEND RECIPROCAL RETIR. BREAK-IN-SERVICE

House Bill 5241 (Substitute H-1) **RECEIVED**
First Analysis (11-14-89)

DEC 19 1989

Sponsor: Rep. David M. Gubow
Committee: Senior Citizens and ~~Michigan~~ **Michigan State Law Library**

THE APPARENT PROBLEM:

Currently, some 240 state and municipal units of government have elected to come under the provisions of the Reciprocal Retirement Act. The purpose of the act is to allow individuals who work for two or more governmental units during their careers to "tack on" credited service from one governmental unit to another in order to meet the vesting requirements of the unit they wish to retire from. The act enables a person with periods of fairly continuous service in several participating public employee retirement systems to receive credit for retirement benefits from each system, provided that at least one of the systems is a reciprocal unit. Although service credit cannot be transferred from one system to another, years of service in one system can be applied to the total service of a person in the retirement system from which he or she retires in order to make up the minimum needed for vesting in that system.

Under the act, an employee who has credited service with one of the state's participating public employee retirement systems, and who leaves employment under that system and within five years takes employment with another local governmental unit, may receive a retirement allowance from the preceding system, provided that any contributions withdrawn are repaid with interest before July 1, 1989, and that the employee's total service with both units meets the preceding unit's minimum requirements for age and service retirement. The employee could also retire from a succeeding retirement system, in which case he or she could use previously acquired service in order to meet the service requirements for retirement required by that unit.

Although the act enhances the concept of portability in retirement pensions, it is somewhat restrictive in situations where, for example, an employee leaves public service for long periods of time, in situations, for example, where one parent decides to stay at home with preschool children. Since it has traditionally fallen upon women to fulfill this role, many have been penalized for doing so through loss of service credit which they might otherwise have been able to use to meet the vesting requirements of their retirement system. It has been suggested that, in order to provide equity, the act be amended to enable reciprocal retirement systems to grant employees a longer break-in-service.

THE CONTENT OF THE BILL:

Under the Reciprocal Retirement Act, a member of a reciprocal retirement system who moves from one governmental unit to another is entitled to receive a pension from the preceding system, provided that any contributions withdrawn are repaid with interest before July 1, 1989, and that the employee's total service with both units meets the preceding unit's minimum requirements. The member may also use previously acquired service to meet the service requirements of the system from which he or she retires. Both provisions of the act require that the break in service between the two governmental units may not be

longer than five years. Under the bill, this latter provision would be extended to fifteen years, and a member who had withdrawn his or her contributions from the preceding system would be required to repay the amount within five years after the date the member became employed by the succeeding governmental unit.

MCL 38.1104 et al.

FISCAL IMPLICATIONS:

According to the Retirement Bureau in the Department of Management and Budget, the bill would have an undetermined fiscal impact on the state. (11-13-89)

ARGUMENTS:

For:

Nationally, there is a movement underway in the private sector to make retirement pensions portable and to provide shorter vesting programs. The Municipal Employees Retirement System, for example, recently extended its break-in-service requirement from five to fifteen years. By extending the break-in-service period from five to fifteen years, the bill would also rectify an arbitrary and unfair requirement that has traditionally discriminated against those who chose to spend several years at home rearing families, and who had to forego previous years of governmental service that might have been used toward retirement vesting requirements. The bill would also enable employees who returned to public service to retain lost benefits by providing a five year period to pay back contributions they had withdrawn from their preceding retirement system.

POSITIONS:

The Municipal Employees Retirement Board supports the bill. (11-9-89)

The State Employees Retirement Association supports the bill. (11-9-89)

The Retirement Coordinating Council for Michigan Public School and State Employees supports the bill. (11-9-89)

The SEIU/Michigan Council 35 supports the bill. 11-9-89)

H.B. 5241 (11-14-89)