



EXTEND RECIPROCAL RETIR. BREAK-IN-SERVICE

House Bill 5241 as enrolled
Second Analysis (12-5-90)

Sponsor: Rep. David M. Gubow
Committee: Senior Citizens and Retirement

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.

Under the act, an employee with one of the state's participating public employee retirement systems 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, among other requirements, that the employee's total service with both units meets the preceding unit's minimum requirement for age and service retirement. The act also contains a five-year limit on the break-in-service when an employee retires from a succeeding retirement system and uses previously acquired service in order to meet the service requirements for retirement required by that unit. Some feel that this five-year break-in-service is too restrictive, and that, in order to provide greater portability, a longer break-in-service period should be provided. In addition, although 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 number of years needed for vesting in that system, service credit cannot be transferred from one system to another to increase the amount of retirement benefits. Some feel that the transfer of service credit should be permitted for the purpose of determining the amount of a retirement allowance, if both units of government approve of such a transaction.

Other inequities in the act have surfaced: an employee who has at least 30 months of credited service with a participating retirement system, and who leaves that system for employment with another local governmental unit, may receive a retirement allowance from the preceding system, provided that the employee's total service with both units meets the preceding unit's minimum requirements for retirement. The employee could also retire from the succeeding retirement system, in which case he or she could use previously acquired service to meet the retirement requirements of the system from which he or she retires. Under the latter situation, however, the employee would have to work for the succeeding unit for at least five years. Some feel that this latter requirement presents an inequity in the law, as shown by these hypothetical examples:

A. Employee Brown worked for City A for three years, left City A (leaving her accumulated deposits in its retirement system), and immediately was employed by County B, where she worked for ten years. Both City A and County B have vesting requirements

of ten years. Brown is now 62 and would like to retire. She meets the county's age and vesting requirements for retirement, and is entitled to a county pension, based on her ten years of service there. Brown could, however, draw pension benefits from both entities if they have elected to come under the provisions of the Reciprocal Retirement Act, since she has worked for City A for three years, she could add seven years of service from County B to meet the city's ten-year vesting requirement.

B. Employee Smith also has thirteen years' employment in the public sector. Smith, however, has worked for City A for nine years and for County B for four years. Although he, too, could add one year's service from County B to meet the city's ten-year vesting requirement, he does not have five years of employment with the county, and cannot, therefore, "tack on" years of service from the city to meet the county's vesting requirement. Moreover, since the county retirement system provides free health insurance benefits, it would be much more beneficial for Smith if he could retire from that system.

It is proposed that the act be amended to correct this inequity.

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, or within five years after the date of employment with the succeeding unit. The employee's total service with both units must meet 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 break-in-service 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.

Currently, under the act, an employee who uses previously acquired service to meet the vesting requirements for retirement from a succeeding retirement system must have at least 30 months of service in the preceding unit and at least five years of service in the succeeding unit. Service credit from the previous unit may not be used for the purpose of determining the amount of the retirement allowance payable by the system from which he or she retires, unless otherwise provided by the system. Under the bill, the required amount of service in the succeeding unit would be reduced from five years to 30 months, and a preceding reciprocal unit could agree to transfer the credited service of a member who left its employ and entered the employ of a succeeding reciprocal unit, in order to determine retirement

benefit amounts. The agreement would be made by resolution of each unit's governing body, and each resolution would have to specify the amount of credited service and financial consideration to be transferred. In addition, each reciprocal unit would have to establish a written policy in order to implement the agreement uniformly.

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. (12-5-90)

ARGUMENTS:

For:

Although the act enhances the concept of portability in retirement pensions, it is somewhat restrictive in situations where 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.

For:

Nationally, there is a movement underway in the private sector to make retirement pensions portable. 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 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. By allowing public retirement systems that participate under the act to agree to transfer credited service and financial considerations for such service, the bill would enhance a member's ability to collect a fair retirement allowance, even if he or she were employed by multiple governmental units over the course of a career and had long-term breaks between service with each unit.

For:

In recognition of the mobility of today's work force, it makes sense to require that a public employee work two and one-half years instead of five years in a succeeding governmental unit. The bill would also rectify an arbitrary and unfair requirement imposed by the act: that a public employee need only work thirty months for one employer, while he or she must be employed by another for five years. The result of this inequity has been that, of employees who accumulate the same number of years of public employment, some will receive more in retirement allowances than others, depending on how their employment is proportioned between different employers.