

SFA

BILL ANALYSIS

Senate Fiscal Agency

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House Bill 5241 (Substitute S-1 as reported)
Sponsor: Representative David M. Gubow
House Committee: Senior Citizens and Retirement
Senate Committee: Judiciary

Date Completed: 9-26-90

RATIONALE

More than 200 municipal units of government have elected to come under the provision of the Reciprocal Retirement Act. The Act allows individuals who work for two or more State or local governmental units during their career to carry credited service from one governmental unit to another in order to meet the vesting requirements of the unit from which they wish to retire. Although 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 approved of such a transaction.

Also, the Act allows an employee who has credited service with one of the participating public employee retirement systems, leaves employment under that system, and within five years takes employment with another governmental unit, to receive a retirement allowance from the preceding system, provided that any contributions withdrawn are repaid with interest before five years after the date of employment with the succeeding unit and provided that the employee's total service with both units meets the preceding unit's minimum requirements for age and service. The Act also contains a five-year limit on the break in service when a member retires from a succeeding retirement system and uses previously acquired service to meet the vesting requirements for retirement from the succeeding unit. Although

the Act provides for portability in retirement pensions in these ways, some feel that the five-year break-in-service period is too restrictive. They believe that, in order to provide equity and greater portability, the Act should allow reciprocal retirement systems to grant employees a longer break in service between periods of public employment.

CONTENT

The bill would amend the Reciprocal Retirement Act to extend, from five to 15 years, the maximum period between ending employment with a preceding reciprocal unit and beginning employment with a succeeding governmental unit after which a member of a reciprocal retirement system may be entitled to a retirement allowance payable by the preceding or succeeding reciprocal unit's retirement system, and to allow credited service to be transferred from one governmental unit to another for the purpose of determining benefit amounts.

The Act provides that credited service acquired in a governmental unit in which the member was previously employed may not be used in determining the amount of his or her retirement allowance payable by the system from which he or she retired, unless otherwise provided by the system. The bill would create an exception to this provision under which a preceding reciprocal unit could agree to transfer credited service of a member who left its employ and entered the employ of a succeeding reciprocal unit. The agreement would have to be by resolution of each unit's governing body and the resolution

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would have to specify the amount of credited service and financial consideration to be transferred. The financial consideration could not exceed either the accumulated contributions of the member, or the actuarial present value of the retirement allowance payable if the preceding reciprocal unit did not transfer the credited service, whichever was greater.

Before passing a resolution of agreement to transfer the service, the succeeding reciprocal unit would have to determine the actuarial present value of the retirement allowance that would be payable to the member and attributable to the credited service. The actuarial present value of the retirement allowance payable by each reciprocal unit would have to be calculated using the interest and mortality tables specified by the pension benefit guarantee corporation for calculating the actuarial present value of immediate and deferred pensions under a terminated pension plan, as provided in the Code of Federal Regulations (29 C.F.R. Part 2619).

MCL 38.1104 and 38.1105

SENATE COMMITTEE ACTION

The Senate Judiciary Committee adopted a substitute (S-1) to the bill that would allow a preceding reciprocal unit to agree to transfer a former employee's earned service credit to a succeeding reciprocal unit.

FISCAL IMPACT

The State or local governmental units could incur added system obligations if they accepted added benefit liability through a transfer of service credits from another reciprocal unit.

ARGUMENTS

Supporting Argument

Nationally, there is a trend toward increasing the portability of retirement systems and providing shorter vesting programs, in order to accommodate a more mobile work force. By extending the Reciprocal Retirement Act's break-in-service period from five to 15 years and 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 person's

ability to collect a fair retirement allowance even if he or she were employed by multiple governmental units over the course of his or her career, and/or had long-term breaks between service with those units.

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