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EARLY RETIREMENT INCENTIVES

House Bill 5353 as enrolled
Third Analysis (5-26-92)

Sponsor: Rep. Justine Barns
Committee: Senior Citizens and Retirement

THE APPARENT PROBLEM:

The reduction in revenues resulting from the continuing recession could make fiscal year 1992-93 a very difficult one for the state. New ways to reduce state spending must be sought. One method that has been widely and successfully employed in the private sector is a reduction in payroll expenses through a program of early retirement. An early retirement program induces senior, relatively well-paid employees, who are either eligible for retirement, but do not choose to retire, or who are just short of retirement eligibility, to retire during a designated "window period." The inducement is accomplished through financial incentives. While this makes their retirement comparatively expensive for the employer, it produces overall savings because, in a well-managed program, the retiring employees are not replaced or are replaced to a limited extent with younger, less well-paid employees. Such a program can avoid the necessity of layoffs and positively affect morale by permitting the advancement of younger employees and enhancing the success of affirmative act programs. Public Act 62 of 1991 amended the State Employees Retirement System to establish such a window period, by providing a "70 and Out" retirement option, between October 1, 1991, and April 1, 1992, for employees who were at least 50 years old, and whose combined age and years of credited service equalled 70 years. However, although it is estimated that some 1,860 employees retired under this option, it is claimed that many more employees fell just short of either the age or length of service eligibility requirements. It is argued that, if the age 50 requirement were eliminated for a member who retired during the window period, some 1,800 additional employees would then be eligible to take advantage of this early retirement opportunity.

THE CONTENT OF THE BILL:

Under ordinary circumstances, a member of the State Employees Retirement System (SERS) is eligible to retire with a regular (unreduced) retirement allowance at age 60 with 10 years of service credit, or at age 55 with 30 years of service credit. House Bill 5353 would amend the State Employees' Retirement Act to permit a member whose age and years of credited service totalled at least 70 to retire during a "window" period. A member who qualified for early retirement benefits under the bill would receive a regularly computed retirement allowance: 1.5 percent of final average compensation multiplied by years of service. No penalty would be imposed for retiring before age 60.

70 and Out Plan. House Bill 5353 would amend the act to delete the requirement that a member must be 50 years of age to be eligible for early retirement. The bill would extend eligibility for an unreduced retirement allowance to any member who had been employed by the state for the 6-month period ending on the effective date of his or her retirement, and who:

--Met the service requirements to receive a retirement allowance (a member who was "vested" in the retirement system) on the effective date of his or her retirement.

--Applied for retirement between June 1, 1992, and July 15, 1992, and retired by August 1, 1992.

A member on layoff status from state employment or a disability beneficiary who had been restored to active service during the 6-month period would be considered to have met the employment requirements of the bill.

Legislative Employees. Public Act 62 of 1991 established two additional early retirement periods following the 1992 and 1994 elections for legislative employees. To be eligible, a member must be employed by the legislature for six months preceding retirement (or on layoff status), be "vested" in the retirement system, apply for retirement between November 15, 1992 and December 15, 1992 (or between those dates in 1994), and retire by February 1, 1993 (or 1995). House Bill 5353 would delete the age 50 requirement for legislative employees who chose to retire during these "window" periods, and would extend the filing dates to December 31, 1992 and 1994.

Lump Sum Payments. Accumulated sick leave would not be paid in a lump sum to a member who retired under the provisions of the bill. Instead, it would be paid in 60 consecutive equal monthly installments, beginning on October 1, 1992. Any amount that a member would otherwise be entitled to receive in a lump sum at retirement on account of accumulated annual leave, deferred hours, longevity or prorated longevity, or any other payment normally payable at retirement, would be paid between October 1, 1992, and December 31, 1992.

MCL 38.1 et al.

FISCAL IMPLICATIONS:

The Retirement Bureau in the Department of Management and Budget estimates that approximately 350 additional members would retire, resulting in a savings of $2 million for the current fiscal year. (5-26-92)

ARGUMENTS:

For:

Employees who have given years of service to the state deserve to be given the choice of leaving with dignity, rather than being laid off. The bill would accomplish this by producing a reduction in force for state employees by voluntary retirement, rather than forced layoffs. The bill would also produce savings for the state in a time of special need. Senior, relatively well-paid employees -- who are either eligible for retirement, but do not choose to retire, or who are just short of retirement eligibility -- would retire under the "70 and Out" program, and either would not be replaced, or would be replaced with younger, lower-paid employees. In addition, the programs would positively affect morale by permitting the advancement of younger employees.

For:

For the past year, many state employees have lived with the uncertainty of not knowing if, or when, they would be laid off. At the same time, rumors have circulated that early retirement programs would be introduced that would induce into retirement those who are old enough to retire from state employment, and who are young enough to enter a second career. If more employees were allowed to retire, the state's ability to avoid the disruption and economic hardship generated by layoffs would be enhanced, and employees would have an opportunity to make plans for the future.

Against:

House Bill 5353 would simply extend and expand upon the early retirement program initiated under Public Act 62 of 1991. In view of the current recession, the object of the present administration is to downsize state government. One element of this policy included the early retirement provisions of Public Act 62, which provided for an early retirement "window" period ending April 1, 1992 for employees who had reached 50 years of age, and whose combined age and amount of credited service equalled 70 years (to date, some 1860 members have retired under that provision). To continually offer new inducements would send a signal to employees that, if they wait long enough, more incentives will be added to make early retirement even more palatable. In addition, under federal law, early retirement programs must treat those similarly situated in a similar fashion. Therefore, the provisions of House Bill 5353 would have to be offered to all who are eligible for early retirement (including those who have already applied, under the provisions of Public Act 62) retroactively.