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STATE EMPLOYEES RETIREMENT; GENERAL AMENDMENTS

House Bill 4477
Sponsor: Rep. Eileen DeHart
Committee: Public Retirement

Complete to 3-27-97

A SUMMARY OF HOUSE BILL 4477 AS INTRODUCED 3-13-97

The bill would amend the defined benefit provisions of the State Employees Retirement Act in the following ways:

• Generally, a member of the retirement system may retire at age 60 with 10 years of service, or at age 55 with 30 years of service, with a full retirement benefit. Additionally, a person who is 55 with at least 15 years of service may retire, but the retirement benefit is reduced by .5 percent for each month that the person is under age 60. From time to time, the legislature has enacted "early out" provisions that have allowed, for limited periods of time, members to retire with full benefits with less than these established levels of age and length of service credit. The bill would add to the statute a permanent "80 and out" provision; that is, a member who was at least 50 years old and whose combined age and years of service equaled at least 80 years could retire with a full benefit.

• In addition, the bill would amend the provision that establishes the criteria for receiving a regular (unreduced) retirement allowance. This provision requires a person to be age 60 and have 10 or more years of credited service. The bill would add language clarifying that those members who are vested in the system after five years under other provisions in the act (elected officers, unclassified executive or legislative branch employees, and certain former employees of the state accident fund and the former Department of Mental Health) may retire with a regular retirement allowance at age 60 with five years of service.

• The bill would also amend the provisions for receiving a reduced retirement allowance upon attaining age 55 with less than 30 years of service. Currently, the statute requires a reduction of .5 percent for each month the member's age is less than 60. (With 30 or more years of service, a member may retire at age 55 with a full benefit.) The bill would decrease the number of years of service needed to retire at age 55 with a full benefit from 30 years to 25 years.

• Generally, retirement benefits are calculated using a formula of 1.5 percent of "final average compensation" times years of service. "Final average compensation" is the average of the highest total earnings during a period of three consecutive years of employment, and may include payment for up to 240 hours of accrued annual leave that a member has at the time of separation from state service. The bill would increase the number of allowable hours of accrued annual leave that may be included in final average compensation from 240 hours to 300 hours.

• Currently, the act allows for the purchase of service credit for certain specified reasons (VISTA or Peace Corps service, maternity or paternity leave, local government service, service as a federal employee or employee of another state). The bill would provide for a "generic" purchase of service credit; members could purchase up to five years of service credit at actuarial cost without meeting the criteria for the buy-ins listed above. As in the existing buy-in provisions, purchased service credit could not be used to satisfy the minimum number of years of service needed to receive a retirement allowance (to become "vested" in the system). If a member who had purchased service credit under this provision died or left state service before becoming vested, the payment would be refunded to the member or his or her estate.

• The bill would revise the definition of "actuarial cost" used in the calculation of the cost of purchasing service credit. (Actuarial cost is generally a percentage that, when multiplied by a person's annual compensation, results in the average actuarial present value of the additional benefits that the person would receive at retirement due to the additional year of service credit being purchased.) The act sets the percentage at 9 percent for purchases of service credit made before December 31, 1990, and specifies that beginning on that date and every three years thereafter, the percentage "shall be computed based upon actual experience". Under the bill, the retirement board would calculate the percentage used to determine actuarial value, which could vary because of age, credited service, or benefit coverage. The bill would also specify that a member's compensation used in this calculation would be the compensation earned in the fiscal year immediately preceding the year in which the purchase of service was made, and that it would be no less than the highest compensation previously earned by the member.

• A member of the system may retire with a regular retirement allowance payable throughout his or her life, or may receive the actuarial equivalent of that amount in a reduced retirement allowance payable throughout the lives of the retiree and his or her beneficiary (generally, a spouse). (This is intended to provide a continuing retirement benefit for the retiree's spouse if the retiree predeceases the spouse. If the spouse predeceases the retiree, however, the retirement allowance reverts ["pops-up"] to the regular retirement allowance amount.) Currently, the retiree chooses one of two options for the reduced retirement allowance: Option A provides a continuation of retirement benefits at the same rate as paid before the retiree's death. Option B allows for ½ of the reduced benefit to be payable to the beneficiary after the retiree's death. The bill would add a new Option C, which would provide for 3/4 of the reduced retirement allowance to continue to be paid to the beneficiary after the retiree's death. (All three options are based on the actuarial equivalent of the regular retirement allowance.)

• The bill would add language specifying that if a retiree who was receiving a retirement allowance died and there was no surviving spouse or other beneficiary who was entitled to receive a retirement benefit under the provisions of the act, the retirement allowance could be paid to the children of the retiree, under certain conditions. The bill specifies that 50 percent of the retirement allowance that would have been paid to the retiree if he or she had elected a regular (unreduced) retirement allowance would be paid to the children of the deceased retiree, "share and share alike", who: 1) were under 19 years of age; or, 2) were under age 25 and were enrolled as full-time students in secondary or postsecondary education; or, 3) were, regardless of age, incapable of self-sustaining employment due to a handicap, as defined in the Michigan Handicappers Civil Rights Act. Payment of a retirement benefit under these provisions would cease when a child (other than a handicapped child) reached age 19, or age 25 if applicable, and that child's share would be prorated among the remaining eligible children. In addition, a child eligible to receive a benefit under this provision would also be eligible for hospitalization and medical coverage insurance premiums, and dental or vision coverage premiums, as generally provided to retirees (but the child's spouse or dependents would not be eligible).

• Currently, retirees receive annual 3 percent post retirement adjustments (or cost of living increases), up to a maximum of $300. The bill would increase the maximum post retirement adjustment to $900 (but would retain the 3 percent figure).

MCL 38.1a et al.

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■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.