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LEGISLATIVE RETIREMENT AMENDMENTS

House Bill 6208 as enrolled
Public Act 501 of 1998
First Analysis (12-17-98)

Sponsor: Rep. Kim Rhead
House Committee: Public Retirement
Senate Committee: none

THE APPARENT PROBLEM:

After the voters adopted an amendment to the State Constitution of 1963 limiting terms of office of state legislators, the legislature made changes in the legislative retirement system to limit benefit levels. The imposition of term limits was said to have large and unintended fiscal implications for the retirement system, as greater legislative turnover meant that many more people would be retiring under the system. Public Act 359 of 1994 amended the Legislative Retirement System Act to make certain changes in benefit levels, contributions, health insurance coverage, and cost of living adjustments that applied to legislators who first became members of the retirement system after December 1, 1994 (generally, those elected in November 1994 and who took office January 1, 1995). Subsequently, Public Act 486 of 1996 amended the act to implement a defined contribution retirement system for all who become members of the system after March 31, 1997 (this was part of a general move to replace the traditional defined benefit programs for public employees with defined contribution plans). Thus, at present there are three different retirement programs operating under the umbrella of the Legislative Retirement System. The benefit program in place for those elected before 1994, though generous, is supported by nine percent member contributions and was designed as a traditional defined benefit program. A somewhat scaled down defined contribution program covers those elected in 1994 and 1996, and is supported by seven percent member contributions. And finally, members elected in 1998 come under the new defined contribution retirement plan, as do new state employees and judges.

It is proposed that those legislators elected in 1994 be treated, for pension purposes, similarly to those elected before that date. Further, several technical amendments have been suggested by the retirement system board, particularly a restructuring of the representation on the board to better reflect the retiree population, and an authorization for the board to direct member contributions to the health insurance fund, rather than to the fund that supports pension benefit payments (as that fund is said to be fully funded).

THE CONTENT OF THE BILL:

The bill would amend the Legislative Retirement System Act in the following ways. (Except as noted, the bill applies to that part of the retirement system known as Tier 1, the traditional defined benefit program that applies only to those who first became a legislator or lieutenant governor before March 31, 1997. Those who become legislators after that date are included in Tier 2, the defined contribution program.)

<u>Benefit levels, contributions; legislators first elected in 1994</u>. Public Act 359 of 1994 made certain changes in benefit levels, contributions, health insurance coverage, and cost of living adjustments that applied to legislators who first became members of the retirement system after December 1, 1994 (generally, those elected in November 1994 and who took office January 1, 1995). Under the bill, the changes made in the 1994 act would apply, instead, to those who first became members of the retirement system *after* January 1, 1995 (generally, those elected after that date). The bill would have the result of placing those legislators elected in November 1994 in the earlier pension system, with its higher benefits and contribution levels. Changes would include:

• a four-percent multiplier, rather than three percent, for the basic pension formula;

• an automatic, four-percent cost-of-living adjustment, compounding annually;

• health insurance coverage commencing at the time of separation from state service, rather than at the date of retirement;

• member contributions of nine percent of salary, rather than seven percent. In addition, the bill specifies that for the period of January 1, 1999 to December 31, 2000, those legislators who first became members of the system after December 1, 1994, and on or before January 1, 1995, would pay an additional four percent of their salary to the members' savings fund.

Military service. The act allows members and deferred vested members to purchase service credit for up to two years of active duty military service performed before January 1, 1977. Under the bill, the same would apply to military service performed after that date.

Definition of "leadership position". The bill would revise the definition, which currently lists the Speaker and Minority Leader of the House, the Senate Majority and Minority Leaders, and the Majority and Minority Floor Leaders, and the chairpersons of the Appropriations Committees of both houses. Under the bill, instead of listing the officers, "leadership position" would refer to a position in which a person receives a supplemental salary as determined by the State Officers Compensation Commission.

Member contributions. Under the act, members contribute a portion of their salaries toward retirement costs, as follows: to the members' savings fund, 7 percent of salary for a person who first became a member of the retirement system on or before December 1, 1994, and 5 percent of salary for those entering the system after that date; to the survivors' retirement fund, ½ percent of salary for service performed after December 31, 1994; to the grants and insurance revolving fund, ½ percent of salary for service performed after December 31, 1994; and to the health insurance fund, 1 percent of salary for service performed after December 31, 1994. (This amounts to a total contribution of 9 percent of salary for pre-1994 members, and 7 percent for those who became members after that time.)

The bill would modify the distribution (but not the total amount) of member contributions. Contributions to the members' savings fund, the survivors' retirement fund, and the grants and insurance revolving fund would be suspended on the effective date of the bill and until the retirement board reinstated them. Further, the bill would increase contributions to the health insurance fund to 9 percent of salary for those who became members of the system before January 1, 1995 (instead of December 1, 1994, as discussed above), and to 7 percent of salary for those who became members after that date. (Total contributions would still be 9 percent of salary for pre-1995 members and 7 percent of salary for those who became members after that time.) The bill specifies that the increased contribution rates would be in effect until the board reduced them. The bill would allow, but not require, the board to reinstate contributions that had been suspended, and reduce contributions that were increased under the bill, if the system's actuary determined that the system was less than 100 percent funded.

Disability retirement. The bill would clarify that a member *could* receive a disability retirement allowance (if determined eligible by the board).

Retirement Board. Under current law, the board of trustees of the retirement system consists of 11 members, as follows:

* Three House members, appointed by the Speaker of the House.

* Three members of the Senate, appointed in the same manner as members of standing committees are appointed.

* Two retirees appointed by the board.

* One deferred vested member appointed by the board.

* The Senate Majority Leader (or a senator designated by the Majority Leader), and the Speaker of the House (or a representative designated by the Speaker).

The bill would decrease the size of the retirement board from 11 members to 10 and specify the length of their terms, as follows:

* Two House members appointed by the Speaker of the House for two-year terms.

* Two Senators appointed in the same manner as members of standing committees are appointed, for two-year terms.

* Two retirees appointed by the Speaker of the House and two appointed by the Senate Majority Leader, for four-year terms.

* One deferred vested member appointed by the Speaker of the House and one appointed by the Senate Majority Leader. These members would be appointed for a two-year term beginning in 1999; subsequently, they would be appointed for four-year terms.

* One participant of Tier 2 who was a former member of Tier 1, and if there was no person meeting this

criteria, then an additional deferred vested member. This member would be appointed as follows: for a two-year term beginning in 1999, the member would be appointed by the Senate Majority Leader. Beginning in 2001, the member would be appointed alternately by the Speaker and the Senate Majority Leader for four-year terms.

Errors in accounts. The bill would add a new section specifying that if a change or error in the records of the retirement system resulted in a person receiving more or less than he or she was entitled to, the retirement system would have to correct the error, and, as far as practicable, adjust the payment to provide an actuarial equivalent of the correct benefit amount. An adjustment would not be made for an error totaling $10 or less annually.

Tier 2 - health benefits. Under current law, a member of Tier 2 (the defined contribution retirement plan) is vested for purposes of receiving health care benefits after six years of service as a qualified participant. House Bill 6208 would specify that a member who had completed five years of service as a qualified participant, and who was first elected to fill a vacancy in the House for a period less than the full term by more than ½ of the term office, would also be vested for purposes of receiving health care benefits. In addition, the bill would require that a member be at least 55 years old to receive health insurance benefits.

MCL 38.1021 et al.

FISCAL IMPLICATIONS:

Fiscal information is not available.

ARGUMENTS:

For:

The bill would increase pension benefits, and contributions, for members elected in 1994. Due to the timing of the changes made by Public Act 359 of 1994 (it was passed in the lame duck session of that year), these members ran for office with the expectation of a certain level of compensation and benefits. Subsequent to their election, but before they took office, the system was changed to cut their benefits. It is argued that this bill would return fairness to the system. Further, those who would benefit will pay for the increased benefits, by virtue of an extra four percent contribution for the next two years.

The bill would also address several inequities that have resulted due to unique circumstances (e.g., members elected to fill vacancies), and make numerous administrative and technical changes in the law that would allow the retirement board to more efficiently administer the retirement system.

Response:

Some would argue that the benefits for pre-1994 legislators are excessive, even if funded by salary contributions.

Analyst: D. Martens

■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.