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RECIPROCAL RETIREMENT ACT: RETIREMENT AGE

Senate Bill 342 as passed by the Senate
First Analysis (12-6-00)

Sponsor: Sen. Joel D. Gougeon
House Committee: Appropriations
Senate Committee: Appropriations

THE APPARENT PROBLEM:

Currently, about 260 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 service requirements of the unit from which they wish to retire. 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, when an employee of one of the state's participating public employee retirement systems leaves one governmental unit and takes employment with another governmental unit, the employee may use previously acquired service to meet the requirements for retirement for the system from which he or she retires. In addition, the act permits reciprocal units to enter into agreements to transfer not only an employee's credited service but also financial considerations for such service, so that an employee's service credit could be used to determine the amount of the retirement allowance payable by the system from which the employee retired.

State and local retirement plans may differ in benefit calculations, minimum retirement age, and so forth. Under the Reciprocal Retirement Act, a person must be at least 60 years old to retire under the provisions of the act, even though participating units of government may allow retirement at age 55. It is proposed that the act be amended to eliminate the requirement that a person be at least 60 years old to retire under the Reciprocal Retirement Act.

THE CONTENT OF THE BILL:

The bill would amend the Reciprocal Retirement Act to delete the requirement that a person be at least 60 years old to retire under the act, instead requiring that a person must meet the minimum regular age and service requirements to receive a retirement benefit from the preceding governmental unit (or have reached age 60, whichever was earliest). The bill would also clarify that if a person withdrew accumulated contributions from the preceding governmental unit (and had not repaid the contributions with interest), he or she would be considered to have no service credit with that unit.

MCL 38.1104

BACKGROUND INFORMATION

An identical bill, Senate Bill 73 of the 1997-98 legislative session, was "pocket vetoed" by the governor.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill would have a negligible fiscal impact on the state. Retiring employees would not receive a new or additional benefit, but would be eligible to receive them sooner than currently allowed. The required contributions would have already been made to fully fund the member's minimum age pension allowance. Premiums for health insurance (funded on a cash basis) could have a budgetary impact by being moved up. The HFA also reports that the bill would have a negligible local fiscal impact. (12-4-00)

A representative of the Department of Management and Budget testified before the House Appropriations Committee that the department has estimated the costs to the state's two largest retirement systems (the State Employees Retirement System and the Public School Employees Retirement System) at $52 million over 20 years. This would include both pension and health care costs. (12-5-00)

ARGUMENTS:

For:

The Reciprocal Retirement Act provides a mechanism that allows public servants some "portability" in pensions. However, since retirement benefit programs vary from one governmental unit to another, one system may allow retirement with full benefits at age 55, while another may require a minimum age of 60. The Reciprocal Retirement Act requires a person using the provisions of that act (to combine years of service from one governmental unit to meet the service requirements to retire from another unit) to wait until age 60. For example, if a person worked for the State of Michigan for 10 years, beginning at age 25, and then goes to work for another unit of government and worked for 20 years, that person might have 30 total years of service at age 55, but would not be allowed to retire under the provisions of the State Employees Retirement System until age 60, even though the SERS allows retirement at age 55 with 30 years of service. The bill would allow a person in this situation to be treated the same as a person who had worked for the state for the entire 30 years (in terms of retirement age). It should be noted that this would affect only the person's retirement age, not their benefit amount (benefits under the above-cited example would be based only on the person's 10 years of state service).

Against:

According to the Department of Management and Budget, while the bill would not create a new benefit, it would create an expansion of existing benefits that would create a new unfunded pension cost and additional health insurance costs to state and local retirement systems. Though the number of individuals affected, and thus the costs, would be minimal, this bill would set a precedent for expanding costs that would be unanticipated and burdensome to employers.

POSITIONS:

The Department of Management and Budget opposes the bill. (12-4-00)

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.