

**JUDGES RETIREMENT;
SUPPLEMENTAL INCREASE**

**House Bill 4675 (Substitute H-1)
First Analysis (12-12-01)**

**Sponsor: Rep. Jason Allen
Committee: Appropriations**

THE APPARENT PROBLEM:

The Michigan Judges Retirement System is a statewide, multiple-employer, defined benefit retirement system. (Judges or officials elected or appointed on or after March 31, 1997 become participants in a defined contribution plan, referred to as "Tier 2" in the statute, rather than in the defined benefit plan.) Public Act 234 of 1992 consolidated the former Judges' and Probate Judges' Retirement Systems into one retirement system. Because judges' salaries are paid by a combination of state and local funds, the retirement system has 174 participating employers. Membership in the retirement system includes judges of the district, probate, and circuit courts, the court of appeals, and the state supreme court, as well as the governor, lieutenant governor, secretary of state, attorney general, legislative auditor general, and the state court administrator. The system is administered by the Office of Retirement Services within the Department of Management and Budget, and is under the direction of a statutorily-constituted board.

Generally, a member of the Judges Retirement System is eligible for regular retirement benefits at age 60 with 8 years of credited service; at age 55 with 18 years of service; or with 25 years of service with no age requirement. The pension benefit varies based on years of service. For a member with less than 12 years of service, the amount is 3 percent of final annual compensation times years of service; for 12 or more years of service, the pension amount is 50 percent of final annual compensation plus 2.5 percent of that compensation for each year in excess of 12, to a maximum of 60 percent of final compensation. The formula for former Michigan Judges Retirement System members varies from that described above; the maximum cannot exceed $66 \frac{2}{3}$ of final annual compensation. "Final annual compensation" also varies, depending on type of judicial service; the statute contains seven benefit "plans" distinguishing among various judgeships and service as state officials. Members contribute from 3.5 percent to 7 percent of their salaries, again, depending on type of

judicial service. The retirement system provides, in addition, a disability retirement allowance, and a death benefit to surviving spouses or dependent children. A subsidized health premium benefit is provided only to state elected officials, court of appeals judges, and supreme court justices; other members may enroll in the health plan but must pay the entire premium. There are no post-retirement cost of living adjustments in pension benefits (except that retirees who were active members before September 8, 1961 have their benefits adjusted as active judges salaries change, but reportedly, this is a very small group, estimated at from 10 to 30 living retirees).

In recognition of the fact that the Judges Retirement Act does not provide for post-retirement benefit increases (or COLAs) for the great majority of retired judges, the legislature has, on two prior occasions, provided one-time supplements to boost the base retirement payments of those who have been retired the longest (and therefore are receiving the lowest benefits). Public Act 11 of 1993 made one-time increases for members of the former Probate Judges Retirement System, and Public Act 350 of 1996 made similar one-time increases for members of the former Judges Retirement System. Both acts applied to those who retired prior to 1980. At this time, legislation has been proposed to provide similar supplements for those who retired between 1980 and 1998.

THE CONTENT OF THE BILL:

The bill would amend the defined benefit provisions of the Judges Retirement Act to provide a supplemental increase in the retirement allowances of retirees (and beneficiaries of deceased retirees) who retired between January 1, 1980 and January 1, 1999. Supplements ranging from 0.5 percent to 8 percent would be added to the base retirement allowance of these retirees. The largest increase (8 percent) would go to those who retired during 1980, 1981, 1982, and

1983, and the smallest (0.5 percent) to those retiring in 1998. The supplement provided by the bill would have to be calculated and paid before October 1, 2001. However, the bill specifies that if a retiree died before June 1, 2001 (the bill's effective date), his or her retirement allowance would not be supplemented.

A retiree (or beneficiary of a retiree) who was a member of the former Judges Retirement System before September 8, 1961 would not be eligible to receive the supplement. (This group of retirees benefited from the "escalator" clause that was in effect between 1956 and 1961, which provided corresponding increases in retirees' pension benefits in response to increases in judicial salaries.)

MCL 38.2512

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the state's actuary has determined that the bill would create an unfunded liability of nearly \$4 million. If employer contributions were being paid, this liability would translate into an annual charge of 0.88 percent of payroll, amounting to \$350,000 to \$375,000 per year. However, because the retirement system is significantly overfunded (nearly 135 percent funded, or \$70.6 million overfunded), no employer contributions will be required in the near future, and the additional cost will be absorbed through the surplus. (10-24-01)

ARGUMENTS:

For:

Retirees under the Judges Retirement System do not receive automatic, annual pension cost of living increases. These increases can only be provided through legislation, and the legislature has from time to time enacted such legislation. The bill would again make a one-time adjustment in pensions for those who retired between 1980 and 1998; this group has never received a "bump up". According to information provided by the Michigan Retired Judges Association, nearly 24 percent of the retirees in the Judges Retirement System receive \$1,200 or less per month. Since pensions are based on salary amounts, those who retired in the early 1980s receive far less than those retiring in recent years, as salaries have increased markedly since that time. It has been pointed out that, even with the increases provided for in the bill, the benefits of those retirees who retired before 1995 will continue to be well behind the rate of inflation. (Additionally, several retired judges

testified that many retired judges do not receive health benefits, as that determination is made by local governments.) The bill would make a small step in reducing the disparity in pension benefits between older retirees and those who recently retired.

Against:

Given the state's budget situation, is it wise to enact legislation that promises to increase costs (even future costs)?

POSITIONS:

The Michigan Retired Judges Association supports the bill. (10-10-01)

The Michigan Judges Association supports the bill. (10-4-01)

A representative of the Department of Management and Budget testified that the department is neutral on the bill. (10-10-01)

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.