House Legislative Analysis Section
House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

COUNTY RETIREMENT SYSTEMS: USE INTEREST FOR HEALTH CARE

House Bill 6428 (Substitute H-1)
First Analysis (12-3-02)

Sponsor: Rep. Joseph Rivet
Committee: Senior Health, Security and Retirement

THE APPARENT PROBLEM:

Public Act 28 of 1966 allows the board of trustees of a retirement system covering city, village, or township police and firefighters or municipal employees to use up to half of the interest earned on any reserve fund (consisting of employer contributions) of the system to contract for medical, hospital, or nursing care for retirees. The act specifies that the amount of interest used for this purpose is to be included as interest and other earnings on money of the retirement system in the computation of the local unit's liability for regular interest. It further specifies that the "supplemental benefits" (for health care) are not to be considered an increase in the rate of retirement benefits, but that they can be paid on a year to year basis and do not create a liability for their continuance.

The act applies to cities, villages, and townships, but does not mention counties. At least one county, Bay County, would like to finance health care benefits for county retirees by the method allowed in Public Act 28 of 1966. Legislation has been proposed to extend the act's provisions to counties.

THE CONTENT OF THE BILL:

House Bill 6428 would amend Public Act 28 of 1966 to extend the provisions allowing the use of interest income on retirement reserve funds to pay for supplemental health benefits, so that they would also apply to counties.

MCL 38.571 and 38.572

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill has no fiscal implications for the state. There would be an indeterminate impact on local units of government. (11-18-02)

ARGUMENTS:

For:

Public Act 28 of 1966 allows city, village, and township retirement systems to use excess interest income to pay for supplemental health care benefits, but the act doesn't explicitly allow counties to do so. Bay County has requested that the act be amended to include counties. According to the county executive, Bay County's employee retirement system is overfunded; in fact, it is funded at 140 percent of what is actuarially required to pay retirement benefits. However, health care benefits for retirees are paid from county general funds, and the county faces rapidly escalating health care costs and a budget shortfall of up to $1.3 million. The county has established a fund to prefund future health care benefits, but that will not address short-term needs. The county would like to use excess interest earnings from its retirement fund to help pay health care costs for retirees, which is a legitimate way to pay these costs and has been authorized by the legislature for other municipalities since 1966. It is quite possible that other counties would benefit from having this option available, as well.

POSITIONS:

Bay County supports the bill. (11-14-02)

The Michigan Association of Counties supports the bill. (11-18-02)

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.