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FISCAL ANALYSIS

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HOUSE BILL 5732 AS INTRODUCED

Sponsor: Rep. Paul N. DeWeese

House Committee: Senior Health, Security and Retirement

COMMITTEE ANALYSIS - 2/25/02

Analyst(s): Al Valenzio

SUMMARY

PURPOSE:

Amends the State Employees' Retirement Act (SERS) with the following major provisions:

- Changes the \$35 per meeting per diem for retired state employee SERS board members to one set annually by the legislature.
- Sets time limit for applying for a duty or non-duty disability retirement from no limit currently to one year from separation or on appeal to the SERS board, two years.
- Creates the Health Advanced Funding Subaccount (HAFS). This account could receive deposits from surplus system funds and any savings derived from the defined contribution plan (both pension and now health).
- Establishes a one-time 80-and-out early retirement window for most classified Executive branch employees, unclassified employees, and employees of the Judicial and Legislative branches. To be eligible, a member must attain a total of 80 years combining age and service credit during the July 1 and November 1, 2002 window. A member must file for retirement between April 1 and April 30 and then has until May 15, 2002 to withdraw the application. Only active employees and those on layoff status are eligible. Those members at least age 60 with 10 or more years of service may also retire during the window. The actual retirement date may be extended for up to 15 months under certain circumstances. Corrections officers, conservation officers, and the Michigan State Police are not eligible for this benefit.
- The bill also provides a one-time incentive to retire by increasing the multiplier used to determine the annual pension benefit from the current 1.5% of Final Average Compensation to 1.75%. This represents an increase of 16.7% to the pension benefit.

STATE FISCAL IMPACT:

The early retirement program will result in significant savings to the state as long as the targeted positions remain vacant. Though not part of the bill, the Administration has indicated that the plan is to replace only one out of every four employees who retire under this window.

A computer analysis indicates that 8,738 classified and unclassified Executive branch employees will be eligible for retirement under this bill. It is assumed that 60%, or 5,243, will participate. This is a reasonable assumption, given the incentive included. The table below summarizes cost and savings data for the plan over four years.

Early Retirement Program - HB 5732 Executive Recommendation Fiscal Agency Calculations (in 000's)				
	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Salary/Fringe Benefit Savings	\$359,523.0	\$366,713.5	\$374,047.7	\$381,528.7
Retirement Extensions @ 5%	(17,965.9)	(4,491.5)	0.0	0.0
Replacement costs @ 1 for 4	(89,880.7)	(92,127.8)	(94,431.0)	(96,791.7)
Replacements @ 10% Less	8,988.1	8,763.4	8,544.3	8,330.7
Pension Liability Estimate	(4,000.0)	(3,940.0)	(3,880.9)	(3,822.7)
Health Insurance Costs	(60,506.3)	(66,556.9)	(73,212.6)	(80,533.9)
Annual Leave/DH Costs	(31,821.7)	(1,673.8)	0.0	0.0
Sick Leave Costs	(12,218.1)	(12,860.7)	(12,860.7)	(12,860.7)
Administration	(750.0)	(250.0)	0.0	0.0
Gross Savings/(Costs)	\$151,368.4	\$193,576.1	\$198,206.8	\$195,850.3
GF/GP (Estimated at 40%)	\$60,547.4	\$77,430.4	\$79,282.7	\$78,340.1

NOTE: Legislative and Judicial employees are not included here. Annual Leave, Deferred Hours and Sick Leave costs are not 'true' early out cost items, but rather cash flow issues. The state will incur these costs at some future date for these employees regardless of this bill.

Savings from the defined contribution plan for pension benefits have been appropriated to a SERS health insurance reserve subaccount since FY 1998-99 pursuant to PA 487 of 1996. This account totals about \$1.2 million currently. An appropriation of \$154,100 for FY 2001-02 was eliminated under Executive Order 2001-9. The FY 2002-03 Executive budget recommendation does not contain an appropriation. It is presumed these monies will be moved to the HAFS.

Under this bill, the savings from the defined contribution plan for pension benefits and now health benefits will be calculated by the state's actuary and incorporated into the payroll contribution rate. There will not be an appropriation as a single line item. It is unknown what this rate will be.

A new Governmental Accounting Standards Board (GASB) provision requires public retirement systems to 'determine and disclose' the accumulated liability of health benefits. The most recent annual report of SERS is dated September 30, 2000. It reports that if the state were to be pre-funding health care costs the unfunded accrued liability is **\$6.6 billion**. That same report also showed that SERS is \$863 million over-funded.

LOCAL FISCAL IMPACT:

None.