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BILL ANALYSIS

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House Bill 4605 (Substitute H-3 as passed by the House)
Sponsor: Representative Ruth Ann Jamnick
House Committee: Senior Health, Security and Retirement

CONTENT

The bill would amend the State Employees Retirement Act to provide an early-out retirement plan for State employees who meet certain qualifications and are employees of the Legislature, employees of the office of the Governor, or unclassified employees within the State Civil Service.

Current Law Provisions

Members of the State Employees Retirement System's (SERS's) defined benefit plan are entitled to retire with full retirement benefits upon meeting the age and service requirements. Currently, those requirements are:

- Age 60 with 10 or more years of credited service (or five years in certain circumstances).
- Age 55 with at least 30 years of credited service.
- Age 55 with at least 15 but less than 30 years of credited service. (The pensions for these early retirees, however, are permanently reduced by .5% for each month a member is less than age 60.)

A pension under current law is calculated by multiplying 1.5% by the final average compensation (FAC), times the years of credited service. The FAC is determined by the three consecutive years of service that return the highest average.

Proposed Early-Out Provisions

The bill proposes an early-out provision for certain members of SERS. To be eligible, a member would have to have been employed by the State or the Legislature (or be on layoff status) for the preceding six-month period ending on the effective date of his or her retirement. Members who would be eligible for this early-out retirement plan are employees of the Legislature, employees of the Office of the Governor, and unclassified Civil Service employees. Members who would be exempt from taking an early-out retirement under this proposal are those working in covered positions and conservation officers. (Covered employees are generally those working within the confines of a secure correctional facility.)

To qualify for an early-out retirement under the bill, a member would have to have a combined age and length of credited service that equaled at least 70 ("70 and out") as of December 31, 2002, or on the effective date of retirement, whichever would be earlier. There would be no minimum age requirement so long as the member met the 70 points. Members meeting these requirements would receive full retirement benefits the same as traditional retirees under current law, with one exception.

Members choosing to retire early under this proposal would receive an enhanced multiplier of 1.75%, rather than the 1.5% under current law as mentioned above. Thus, the retirement calculation for an employee taking an early retirement under this proposal would be:

1.75% times FAC times years of credited service

To file for an early-out retirement, members would have to submit an application to the Office of Retirement Services between December 1 and December 31, 2002, and state a retirement date between December 1, 2002, and February 1, 2003. Members filing an application also would be able to withdraw that application for any reason until January 15, 2003; after that date, the application would be irrevocable.

Finally, members of SERS who transferred from the defined benefit plan to the defined contribution plan and met the "70 and out" requirements also would be eligible for this early-out retirement plan. However, these members would receive a benefit based only on 0.25% of FAC times years of credited service.

Accrued Sick Leave Payments

The bill also would provide for the payment of accrued sick leave. Accumulated sick leave would be paid in monthly installments over a period of five years beginning on or after February 1, 2003. The bill specifies that sick leave payments received under this provision could not be used for the purchase of service credit. In addition, the bill specifies that payments for sick leave would not be considered pensions and would be taxable.

Covered Positions

Under current law, Department of Corrections employees working in certain specified positions requiring supervision or custody of prisoners are considered to be in "covered" positions for the purposes of the retirement system. Such employees may be eligible for earlier retirement and supplementary benefits, provided they meet certain criteria. House Bill 4506 (H-3) would make an exception to this requirement for a member who was employed in a "covered" position in a corrections facility and whose "covered" position was terminated due to the closure of the corrections facility between August 1, 1999, and August 1, 2000, resulting in the employee's transfer to a noncovered position. In such a case, the person would be considered to be in a "covered" position (and thus eligible for a supplemental retirement allowance) if the person either continued in a noncovered position until retirement or transferred to a covered position but whose last three years of credited service were a combination of covered and noncovered service due to the termination of the covered position by the closure of the corrections facility.

MCL 38.45 et al.

FISCAL IMPACT

Current estimates indicate that approximately 100 State employees would be eligible to retire under this early-out plan, with an average annual salary of \$68,600. If all 100 eligible employees took advantage of this option and retired early, the State would realize an annual saving in salaries of \$6.9 million. The exact amount of GF/GP saving is indeterminate and would depend on the amount of annual leave lump sum payments, accrued sick leave payments, and the new pension liabilities created by those taking the proposed early-out retirement.

The bill would have no fiscal impact on local units of government.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.