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**Bill/Sponsor**                      **HOUSE BILL 4318 As Introduced**, Rep. Paul Condino

**House Committee**              Senior Health, Security and Retirement

**Analysis**                              **Summary**

This bill amends the State Employees Retirement System Act to provide another early retirement window for employees of the 36<sup>th</sup> District Court (Detroit) and 3<sup>rd</sup> Circuit Court (Wayne County) if they qualified for the early retirement program offered in PA 743 of 2002 and did not file for retirement at that time. The new window period would be as follows: an employee will have 30 days after the effective date of this bill's enactment to file for retirement and then would have to retire within 60 days of enactment. The member could withdraw a retirement application but only within 15 days of enactment otherwise it is irrevocable.

**Fiscal Impact**

According to the human resource specialists for the 36<sup>th</sup> District Court and 3<sup>rd</sup> Circuit Court, there are 25 and 81 employees respectively eligible to file for an early retirement under this bill. These courts were directly funded by the state from the early 1980's to the late 1990's. As such the employees became, and continue to be, members of the State Employees Retirement System (SERS) even though the state no longer directly funds either court.

The table below provides first year estimated fiscal impacts of the bill on the state, city, and county. For purposes of this analysis, it is assumed that two-thirds of those eligible will retire. The state will incur additional costs for both pension and health insurance. However the health insurance cost is somewhat mitigated by the fact that these people would have this cost under a normal retirement. It is just being provided to them earlier than anticipated. The pension cost won't be recognized until FY 2005 due the 2 year lag in actuarial evaluations. Net savings for the courts will, of course, vary depending on replacement policies (see footnotes).

The FY 2002 actuarial evaluation has not yet been completed. Even so, it is anticipated that the SERS will remain overfunded. Given that, it appears that the additional costs associated with this bill will be absorbed by the surplus and not result in an increase to the payroll contribution percentage.

	36 <sup>th</sup> District Court (Detroit)	3 <sup>rd</sup> Circuit Court (Wayne County)	State
Number Eligible	25	81	--
Participation Rate--2/3rds	17	54	--
Salary/Fringe Benefit	(\$1,032,800)	(\$4,002,600)	--
Savings			
Replacement Costs	\$0 <sup>1</sup>	\$3,202,100 <sup>2</sup>	--
Leave Payouts <sup>3</sup>	\$156,200	\$376,300	--
Pension Costs <sup>4</sup>	--	--	\$0
Retiree Health Insurance <sup>5</sup>	--	--	\$550,000
Administration <sup>6</sup>	--	--	\$10,000
Total First Year Costs/ (Savings)	(\$876,600)	(\$424,200)	\$560,000

1) Court has indicated none will be replaced (at least immediately).

2) Court has indicated all will be replaced.

3) Sick leave payouts over 60 months; annual leave as lump sum.

4) If passed this fiscal year, cost will be a fiscal year 2005 issue due to actuarial evaluation lag.

5) Based on system wide averages.

6) One-time costs to help process retirements.

### **Background**

As reported in the September 30, 2002 SERS Annual Report there are 43,064 active and 39,666 retired members in the system. Also, this is a closed system, all new state employees now are in the Defined Contribution, Tier II system. This became effective April 1, 1997. Of the total FY 2002 expenditures of \$782.5 million for benefits, \$279 million was spent for retiree health, vision and dental insurance costs.

### **Analyst(s)**

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COMMITTEE ANALYSIS - 6/5/03

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