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BILL ANALYSIS



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Senate Bill 517 (as enrolled)  
Sponsor: Senator Bev Hammerstrom  
Senate Committee: Local, Urban and State Affairs  
House Committee: Local Government and Urban Policy

**PUBLIC ACT 490 of 2004**

Date Completed: 1-19-05

**RATIONALE**

More than 600 of Michigan's municipalities have joined the Municipal Employees Retirement System (MERS), which is less expensive than running their own retirement systems would be. Only those entities defined as a "municipality" in the Municipal Employees Retirement Act, however, may join the system, and the definition does not include municipalities that extend beyond Michigan's borders or the State's universities. The State's colleges and universities also do not have the option of joining the Michigan Public Schools Employee Retirement System because their employees have not been allowed to join since 1996. Some people believe that with the region's ongoing economic difficulties, local governments that are located in Michigan and adjacent states or cross into Ontario, as well as State colleges and universities, should be allowed to join MERS, in order to save them the cost of running and funding their own retirement systems.

**valuation and report of the actuarial soundness of each participating court, in addition to each participating municipality.**

- **Allows the electronic distribution of the retirement board's annual report, and requires a copy to be distributed to the Senate and the House, rather than each member.**

Definition of "Municipality"

Under the Act, "municipality" means a county, county road commission, city, village, township, or a combination of those units; a lawful public corporation or instrumentality established by one or more counties, cities, villages, townships, or a combination of those units; or a public corporation or instrumentality charged by law with the performance of a governmental function and whose jurisdiction is coextensive with one or more counties, cities, villages, and/or townships.

Under the bill, "municipality" also means one or more of the following:

**CONTENT**

**The bill amended the Municipal Employees Retirement Act to expand the definition of "municipality" (and thereby expand the entities that may join the Municipal Employees' Retirement System). The bill also does the following:**

- **Indicates that certain provisions do not limit the retirement board's power to establish ancillary benefits, health and welfare benefits, and postemployment benefit programs.**
- **Requires the retirement board to arrange for an annual actuarial**

- A political subdivision located in Michigan or in Michigan and another adjacent U.S. state, including but not limited to the entities described above.
- A political subdivision located in this State and a metropolitan government borough, or other political subdivision of the Province of Ontario, an agency of the United States, or a similar entity of adjacent states of the United States and Ontario.

- A State university, community college, or junior college whose employees are not public school employees who are members under the Public School Employees Retirement Act.

In addition, under the bill, "municipality" includes any municipal corporation as defined in Public Act 35 of 1951 (which governs intergovernmental contracts between municipal corporations) or other governmental entity eligible to join the retirement system and participate in any program under the Municipal Employees Retirement Act, as determined by the retirement board.

### Retirement Board

The Act created a retirement board to administer the Act. Since the board certified the results of an election in 1996, MERS has been a public corporation and does not operate within the State's executive branch. Since the certification date, the retirement board has been required to determine all of the provisions of MERS affecting benefit eligibility, benefit programs, contribution amounts, and the election of municipalities, judicial circuit courts, judicial district courts, and judicial probate courts to be governed by the retirement system. The retirement system provisions may not differ materially from the defined benefit provisions that were in effect before the certification date.

The Act states that these provisions do not limit the board's authority to establish additional programs, including defined benefit and defined contribution programs. Under the bill, these provisions also do not limit the board's authority to establish ancillary benefits, health and welfare benefits, and other postemployment benefit programs.

### Annual Actuarial Valuation

The Act requires the retirement board to arrange for an annual actuarial valuation and report of the actuarial soundness of each participating municipality, to be prepared by an independent actuary based upon data compiled and supplied by retirement system employees. Under the bill, the board also must arrange for an annual actuarial valuation and report of the actuarial soundness of each participating court.

### Annual Report

The Act requires the retirement board to prepare an annual report for each fiscal year in compliance with generally accepted accounting principles. The board must furnish a copy of the annual report to the Governor, each participating municipality, and each participating court. Previously, the board also had to give a copy to each member of the Legislature. Under the bill, the board must furnish a copy to the Governor and furnish a copy in print or electronic format to each house of the Legislature, each participating municipality, and each participating court.

### Other Provisions

The bill does the following:

- Repeals the retirement board's authority to promulgate rules pursuant to the Administrative Procedures Act.
- Deletes the requirement that the board member who is a retiree of the system be elected by the delegates to an annual meeting of MERS and, instead, requires that the retiree be appointed by the board.
- Refers to the "chief executive officer" of the retirement board, rather than the board's "executive director".

MCL 38.1502a et al.

### **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

#### **Supporting Argument**

Many local governments and the State's colleges and universities are currently funding their own employee retirement systems because they are not eligible to join MERS. Due to the economies of scale that result from numerous municipalities' pooling their resources, MERS members see a greater return on their investments than they would under individual programs. Only those government entities that are listed in the Act's definition of "municipality" may join the System, however. Under the bill, Act's definition of "municipality" is expanded to allow State universities and colleges, State governmental units that cross into Ontario, Canada, and those political

subdivisions located in Michigan and an adjacent state to join MERS.

Before 1996, State college and university employees were permitted to join the Michigan Public Schools Employee Retirement System (MPSERS), but an amendment to the Public Schools Employees Retirement Act excluded them from the Act's definition of "public school employee" if they were hired after January 1 of that year. State colleges and universities have run their own retirement systems for those employees hired since that date. The bill eliminates the need for those institutions to run their own retirement systems by allowing their employees to join MERS.

### **Supporting Argument**

By expanding MERS membership, the bill eliminates some of the disparity in employee retirement benefits that currently exists among employees of some Michigan governmental units, especially between the employees of colleges and universities and those employees performing similar jobs in adjoining municipalities. For example, university police officers perform many of the same duties as officers working in adjacent municipalities, but may receive fewer retirement benefits because the university is unable to fund a retirement system comparable to MERS.

Legislative Analyst: J.P. Finet

### **FISCAL IMPACT**

The bill will have no fiscal impact on the State.

There may be a potential positive effect on the retirement system's assets. Because more entities may become members, the system will have more individuals among whom to spread the costs. This might eventually result in lower contribution rates and lower costs for the system overall. The amount is indeterminate and dependent on the number of new members who will be allowed to join the retirement system.

Fiscal Analyst: Joe Carrasco

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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.