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BILL ANALYSIS

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Senate Bill 1021 (Substitute S-2 as reported by the Committee of the Whole)
Sponsor: Senator Cameron S. Brown
Committee: Appropriations

CONTENT

The bill would amend the State Police Retirement Act to allow the banked leave time and furlough hours for State Police employees to count as full credited service for the purpose of determining an employee's retirement benefit. The bill also would establish a deferred retirement option plan (DROP) in which a State Police officer with 25 or more years of credited service could defer his or her retirement for up to six years but continue to be an employee of the State Police.

"Banked leave time program" would mean the Part B annual leave hours within the annual and sick leave program for State employees approved by the IRS on September 5, 2003, in which a pay reduction or other concessions are applied to a member or qualified participant in exchange for additional Part B annual leave hours. (Part B annual leave is the banked leave time program.) "Furlough hours" would mean the unworked hours incurred in conjunction with that program.

Currently, payment for accrued annual leave at separation in excess of 240 hours is not included in the determination of final average compensation (FAC). The bill would extend this prohibition to the payment for banked leave time hours. However, beginning October 1, 2003, the computation of an employee's FAC could include the value of any unpaid furlough hours and the value of any unpaid hours exchanged for Part B annual leave hours calculated at the member's then-current hourly rate of pay.

The proposed DROP program would be developed within the existing defined benefit plan and administered by the Office of Retirement Services. An officer participating in the program would remain an active employee and would be eligible to receive any applicable wage changes and benefits, would be subject to Civil Service rules and regulations, and would be subject to removal in the same manner as if he or she had not elected to participate in the DROP program. ("Officer" would mean a nonexclusively represented member of the retirement system. Exclusively represented members could participate in the DROP program only if their collective bargaining agent agreed to the plan.)
Once a member became a DROP participant, a DROP account would have to be created for the deposit of the deferred retirement benefits. The account would have to be credited with a percentage of the participant's monthly retirement allowance as calculated as if he or she had retired on the day prior to becoming a DROP participant. The percentage would range from 30% if the officer remained in the DROP program for less than one year to 100% if the officer remained in the program for six years.

A DROP participant could not receive a monthly retirement benefit allowance until termination of his or her participation and commencement of retirement, and would have no claim to any funds in his or her DROP account until retirement. Upon termination of DROP program participation, the former participant could receive a lump-sum distribution, a partial lump-sum distribution, or a lump-sum direct rollover to another qualified plan; or the funds could be maintained in the account.

If a participant died before removing all funds from his or her DROP account, the remaining funds would have to be paid to the participant's designated beneficiary, or if no beneficiary were named, to his or her estate. If a participant became disabled, his or her participation in the DROP program would cease and the member would be retired.

MCL 38.1603 et al.

FISCAL IMPACT

The banked leave time program and furlough hours portion of the bill would have no fiscal impact on State or local resources. The banked leave time and the furlough days are days and work hours that would have been accumulated anyway, and thus are already accounted for in all actuarial assumptions.

For the DROP program, the bill could result in projected annual GF/GP savings for the Department of State Police of $3.3 million, depending on the extent to which eligible employees opted for the plan. The Department would be responsible for paying only for the salary costs of the those employees and not employee-related costs for insurance and retirement; that burden would be assumed by the State Police retirement system, which is fully funded to do so. This would result in annual savings of between 30% and 40% of the total cost of an employee, or an average of $42,800 per Command officer and $33,000 per Trooper and Sergeant. Currently, 125 employees (52 Command officers, 73 Troopers and Sergeants) would qualify for the program. In December 2004, another 60 employees would become eligible, but after that, another group of enlisted employees would not become eligible until 2007.

It is estimated that among the eligible 52 Command officers, nearly all would choose to sign up; however, it is not known how many of the 73 eligible Troopers and Sergeants would join the plan. Should 50 of the Command officers join, annual savings of $2,138,800 would result, and if 35 of the Troopers and Sergeants joined, the Department would see annual savings of $1,115,000, for total annual savings of $3,293,800.

Executive Order 2003-23 reduced GF/GP appropriations for Uniform Services by $1.3 million in anticipation of six months of savings from a DROP program being operative for Command officers by April 1, 2004, with 70 officers participating. If the bill were enacted in time to allow for those eligible and predicted to join the DROP program, to do so beginning April 1, 2004, a six-month saving of $1,646,900 GF/GP would result, an amount sufficient to meet the reduction assumptions set forth in the FY 2003-04 budget reduction agreement.

Date Completed: 3-9-04

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