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BILL ANALYSIS

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House Bill 5093 (Substitute H-2 as passed by the Senate)
Sponsor: Representative Paul Condino
House Committee: Senior Health, Security and Retirement
Senate Committee: Local, Urban and State Affairs

Date Completed: 5-9-04

RATIONALE

State employees who are forced to retire before the age of 60 due to on-the-job injuries currently have their benefits from the State Employees Retirement System (SERS) capped at $6,000 annually, whereas the benefits for employees forced to retire due to non-job-related disabilities are calculated by a different formula that often results in significantly higher annual payments. Reportedly, some former State employees forced into early retirement due to injuries suffered on the job receive annual benefits amounting to only a few thousand dollars. Additionally, the annual benefits for survivors of State employees who are killed while on the job are capped at $2,400 annually, an amount that has not been increased since 1955.

Some people believe that the way duty disability benefits are calculated should be updated to better provide for those State employees no longer able to work due to injuries suffered while on the job, and that they should at least receive the same benefits as those paid to employees forced to retire due to non-work-related injuries.

In an unrelated matter, various changes to the State Employees' Retirement Act, regarding the purchase of service credit for leave taken for maternity, paternity, or child-rearing purposes, have been suggested.

CONTENT

The bill would amend the State Employees' Retirement Act to provide for the calculation of duty disability benefits using the formula that is currently used for calculating non-duty disability; formulate duty death benefits based on years of credited service; and specify a $6,000 minimum annual payment for duty death or disability benefits. The bill also would establish new application and documentation requirements for purchasing parental leave service credit. In addition, the bill would establish application and medical examination requirements for the payment of a supplemental benefit to a totally incapacitated participant in the defined contribution plan.

Duty Disability

Under the bill, the calculation of benefits for members of the State Employees Retirement System who retire due to disabilities at less than 60 years of age would be calculated in the same manner as provided for non-duty disability retirants in Section 20(1) of the Act (final average compensation x 1.5% x years of credited service). The amount payable to the disability retirant could not be less than $6,000 per year, but the benefits could not be more than an amount that, when added to worker's compensation benefits, exceeded the disability retirant's final compensation. The benefit would not be payable before the first day of the month after the later of: 1) 12 months before the date the application for a disability retirement allowance was filed with the retirement system; or 2) the date the member's name last appeared on the State payroll with pay.

Upon reaching 60 years old, the disability retirant would receive a retirement allowance calculated under Section 20. For the purpose of that calculation, the retirant would be given membership service credit for the period during which he or she was receiving the disability retirement allowance provided for in the bill. If the computation resulted in a retirement allowance that would be less than the disability retirement allowance provided for under the bill, the retirant would receive an allowance equal to that amount. Upon reaching age 60, the retirant could elect an option under Section 31(1) of the Act (which provides that a retirant may receive the actuarial equivalent of the regular retirement allowance to be paid throughout the lives of the retirant and an additional named beneficiary).

If the disability retirant were to die before reaching the age of 60, the retirement allowance payable to the beneficiary designated by the retirant would have to be calculated as provided in Section 20(1). For the purpose of calculating the retirement allowance payable to the designated beneficiary, the deceased retirant would have to be given membership service credit for the period he or she was receiving the disability retirement allowance.

Duty Death Benefits

Except as otherwise provided in the bill, if a member were to die as the result of a personal injury or disease arising out of and in the course of his or her employment with the State and the Retirement Board found the death to have been the sole and exclusive result of employment with the State, the surviving spouse would receive a retirement allowance calculated as if the deceased member had retired effective the day before the date of death, selected option A under Section 31(1) of the Act, and nominated his or her spouse as the retirement allowance beneficiary. (Section 31(1) states, "Option A. Upon the retirant's death, his or her reduced retirement allowance shall be continued throughout the life of and paid to the retirement allowance beneficiary whom the member nominated by written designation executed and filed with the retirement board before the effective date of his or her retirement.")

The retirement allowance would be based on the deceased member's years of credited service. If the deceased member did not have the minimum number of years (10) to vest in the retirement system, the amount necessary to reach the minimum would be granted to the member. The minimum allowance payable to a surviving spouse would be $6,000 per year, except that it could not exceed an amount that, when added to the statutory worker's disability compensation benefits payable to the surviving spouse, equaled the deceased member's final compensation. Currently, the Act states that the benefit payable to a surviving spouse is equal to one-third of the deceased member's final compensation, subject to a $2,400 annual cap.

Parental Leave Service Credit

Under the Act, a member of the State Employees Retirement System may purchase service credit for maternity, paternity, or child-rearing leave from service with the State. The bill would extend this to a member taking leave from service with a reporting unit of the Public School Employees Retirement System. The bill also would refer to "parental leave", rather than maternity, paternity, or child-rearing.

The bill would require a member requesting the purchase of service credit to submit an application certifying the time period claimed for parental leave and the purpose of that leave. If the leave claimed were to care for the member's child, he or she also would have to provide a copy of the child's birth certificate or an adoption document. Parental leave could be credited until the child married or turned 18, whichever came first.

The bill would define "parental leave" as either of the following, for which a member reduced or eliminated the number of hours worked for the State or the reporting unit in a normal work time period:

-- The presence of the member in the active participation or supervision in the day-to-day, ongoing care or maintenance of his or her child by birth or adoption.
-- The member's pregnancy, whether brought to full term or not, childbirth, and recuperation.

MCL 38.17g 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

The bill would correct a long-standing anomaly in the Act under which employees who are forced to retire before the age of 60 due to a duty disability often receive lower benefit payments than those paid to members who retire due to non-work-related disabilities. Reportedly, some duty-disability State retirees receive only a few thousand dollars a year in benefits and have not seen a benefit increase since they retired, in some cases, decades ago. The bill would provide current duty-disability retirees with a minimum annual payment of $6,000 and guarantee that future employees retiring with disabilities would receive at least that much. The $6,000 minimum is significant for future duty-disability retirees because the system for calculating their benefits (final average compensation x 1.5% x years of credited service) could result in their receiving minimal benefits if they were newly employed by the State at the time of their duty disability.

The bill also would ensure that the annual payments made to the surviving spouses of employees who died as the result of their State employment better reflected the current cost of living. The present benefit limit of $2,400 annually was set nearly 50 years ago and should be raised to reflect the inflation that has taken place since.

Additionally, the bill would make changes to the Act regarding "parental leave" that were suggested by the Office of Retirement Services. By tightening up the application and documentation requirements, the bill would prevent abuse in this area.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would have no fiscal impact on local government. There would be a minimal fiscal impact on State government due to the changes proposed in this bill. Based on information obtained from the Office of Retirement Services and the September 30, 2003, valuation of the Michigan State Employees Retirement System (MSERS), there are currently 470 members receiving a duty disability benefit averaging about $5,600 annually. The average age for these retirees is 51; the average years of service is 11.75; and the retirees' average final average compensation (FAC) is $30,723. The proposed changes would yield an average calculated benefit of $5,415 annually; however, the bill proposes to make the minimum benefit $6,000 annually. Thus, the typical duty-disability retirant would receive an average increase of $400 to his or her current benefit, totaling $188,000 annually for all duty-disability retirants. However, the exact cost is indeterminate. This additional cost of $188,000 would have a minimal impact on the MSERS and could easily be absorbed by the system's assets.

There would be no measurable impact on the contribution rate due to the proposed changes in duty-death benefits. There are currently 19 duty-death retirant survivors receiving benefits averaging $2,075 annually. The average age at death is 41; the average years of service is 9.48; and average FAC is $10,152. The proposed changes would yield an average calculated benefit of $1,522 annually. Again, the bill proposes to make the minimum benefit $6,000 annually; thus, the average duty-disability survivor would receive an average increase of $3,925 to his or her current benefit, totaling $74,575 annually. This amount also could easily be absorbed by the system's assets; thus, there would be no increase in the contribution rate and no State cost for this proposed change.

Fiscal Analyst: Joe Carrasco