

# Legislative Analysis



## **PUBLIC EMPLOYEES: PURCHASE OF SERVICE CREDIT**

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**House Bills 4975 and 4976**

**Sponsor: Rep. Richard Ball**

**Committee: Oversight and Investigations**

**Complete to 9-24-07**

## **A SUMMARY OF HOUSE BILLS 4975 AND 4976 AS INTRODUCED 6-21-07**

The bills amend the acts governing the retirement systems of state employees and school employees (1) to prohibit public employees from purchasing service credit without at least 10 years of service; (2) to prohibit the crediting of purchased service years toward vesting of health insurance premium payments; and (3) to prohibit the public school retirement system from paying health benefits to an individual unless he or she had been employed and had received a minimum total of one-half of a year of service credit during the two school fiscal years or a minimum of one-tenth of a year of service credit during each of the five school fiscal years immediately preceding the effective date of the retirement allowance.

Currently under the law, state employees and public school employees may elect to purchase up to five years of service credit in their respective public retirement systems. The additional years of service increase the amount of their pensions upon retirement. Employees can purchase the extra years of service at any time during employment (although the purchase, with some exceptions, will not be credited until the purchaser has vested). The purchased years typically cannot be used to satisfy the minimum number of years of service credit required to receive a retirement allowance.

A more detailed description of each bill follows.

House Bill 4975 would amend the State Employees' Retirement Act (MCL 38.17m & 38.20d) to prohibit a member from purchasing service credit unless the member has performed at least 10 years of actual service.

Further, the bill specifies that purchased service credit could not be credited toward vesting of health insurance premium payments. Instead, the retirement system would be required first to determine whether the purchase of service credit allowed the member to retire earlier than the member would have been eligible to retire, and calculate the difference between the member's retirement date, and the eligible retirement effective date if the member had not purchased the service credit. Under the bill, the member would not be eligible for health care benefits until the effective date that the member would have been eligible to retire, if the member had not purchased the service credit.

As introduced, House Bill 4975 has an effective date of July 31, 2007.

House Bill 4976 would amend the Public School Employees Retirement Act (MCL 38.1369 et al) to prohibit, after August 1, 2007, a member from purchasing service credit unless the member had completed at least 10 years of reporting unit service. (This would apply on or

after July 1, 2008, for credit purchased for time out of service for purposes of maternity, paternity, or child rearing.)

The bill specifies that public school employees who elected to purchase service credit after August 1, 2007 would not be eligible for health care benefits until the effective date that the member would have been eligible to retire without the purchased of service credit. Retiree health care benefits would be determined as follows. The retirement system would be required first to determine whether the purchase of service credit allowed the member to retire earlier than the member would have been eligible to retire, and calculate the difference between the member's retirement date, and the eligible retirement effective date if the member had not purchased the service credit. The member then, as noted above, would not be eligible for health care benefits until the effective date that the member would have been eligible to retire without the purchased service credit.

Finally, the bill would prohibit the public school employees retirement system, with some exceptions, from paying health care benefits unless the member was employed and had received a minimum total of one-half of a year of service credit granted during the two school fiscal years immediately preceding the member's retirement allowance effective date, or unless the member had received a minimum of one-tenth of a year of service credit during each of the five school fiscal years immediately preceding the member's retirement allowance effective date.

#### **FISCAL IMPACT:**

HB 4975 would have little fiscal impact on the State. Because the State switched from a defined benefit to a defined contribution plan in 1997, employees hired since are not eligible for the DB plan, and service credit does not apply to them. Also, the Office of Retirement Services (ORS) estimates that the provision prohibiting purchased service credit from being credited toward vesting in retiree health benefits would provide only minimal savings as state employees have to be age 55 to retire and are guaranteed retiree health insurance benefits at age 60 with at least 10 years of service. The provision then only would apply to those retiring between age 55 and 60 who are retiring early with the use of purchased service credit.

HB 4976 would create significant savings to local school districts by reducing costs to maintain the Michigan Public School Employees Retirement System (MPERS). According to ORS, prohibiting the purchase of service credit until after 10 years would save at least \$5.7 million per year. They also report that the provision prohibiting purchased service credit from being credited toward vesting in retiree health benefits would save approximately \$45.4 million per year.

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