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BILL ANALYSIS

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Senate Bill 689 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Michael D. Bishop
Committee: Appropriations

Date Completed: 9-19-07

CONTENT

The bill would amend the State Employees' Retirement Act to provide an early-out retirement option for State employees meeting certain criteria. The following provisions would apply:

- Eligible employees' age and years of service would have to equal 75 or more.
- Employees taking the early-out would receive an enhanced pension benefit.
- Employees would have to retire by December 31, 2007, unless an extension were approved.
- Accrued sick, annual, and other forms of leave would be paid in monthly installments over five years.

Current Law Provisions

Members of the State Employees' Retirement System's (SERS's) Defined Benefit plan are entitled to retire with full retirement benefits upon meeting the age and service requirements specified in law. Currently, those requirements are:

- Age 60 with 10 or more years of credited service (or five years in a position within the Executive branch exempt from Civil Service, or in the Legislature); or,
- Age 55 with at least 30 years of credited service; or
- Age 55 with at least 15 but less than 30 years of credited service. (The pensions for these retirees, however, are permanently reduced by 0.5% for each month a member is less than age 60.)

The amount of the pension payment under current law is calculated by multiplying 1.5% by the final average compensation (FAC) times the years of credited service. The FAC is determined by the three consecutive years of service that return the highest average wage.

Proposed Early-Out Provisions

The bill proposes an early-out retirement option for most members of SERS. To be eligible, a member would have to have been employed by the State (or be on layoff status) for the six-month period ending on the effective date of his or her retirement. Members who would be eligible for this early-out retirement plan are classified Civil Service employees, unclassified Civil Service employees, employees of the judicial and legislative branches who are not judges or legislators, employees of the Governor's office, and employees employed by the former Department of Mental Health who went on layoff status before January 1, 1997. Members who would not be eligible to use this early retirement option are those working as conservation officers, and those working in "covered positions" who qualify for a supplemental early retirement for covered employees as specified in law. ("Covered positions" generally include those personnel working within the confines of a secure correction facility, such as corrections officers, and are detailed in MCL 38.45.)

To qualify for an early retirement under this bill, an eligible member would have to have a combined age and length of credited service equal to at least 75 as of December 31, 2007, or on the effective date of retirement, whichever would be earlier, and been employed by the State for the previous six-month period. Members meeting these eligibility requirements would receive full retirement benefits the same as traditional retirees under current law, except that they would receive an enhanced pension benefit.

For members choosing to retire early under this proposal, the calculation of benefits would use a multiplier of 1.75%, rather than the 1.5% under current law. Therefore, the formula for calculating an early retiree's annual pension amount would be:

1.75% X Final Average Compensation X Years of Credited Service

To file for an early-out retirement, members would have to submit an application to the Retirement Board not later than October 31, 2007, stating a retirement date between November 1, 2007, and December 31, 2007. The application could be withdrawn on or before December 15, 2007.

Finally, members of SERS who transferred from the Defined Benefit plan to the Defined Contribution plan in 1997 and who met the 75 points (age plus years of service) requirement would be eligible to retire and receive a pension benefit of 0.25% times the FAC times years of credited service.

Extension of Retirement Date; Payments for Sick, Annual & Other Leave Time

Individuals eligible for the early-out retirement plan would be able to extend their retirement date up to 36 months (until December 31, 2010) from the original deadline set forth in the proposed legislation. Members could extend their retirement date provided that an extension was requested by their department director or designated by the Legislature or the Judiciary. Requests for extensions for Executive branch employees would have to be submitted to, and approved by, the Office of the State Employer and the State Budget Office by December 31, 2007; however, approval would be granted by legislative leaders for legislative employees, or the chief justice for judicial employees, as applicable. The retirement allowance for an employee with a retirement extension would not be increased as a result of the extension, and the employee could not begin to draw pension benefits until after the extended effective date of retirement.

The bill also would provide for the payment of accrued sick leave, accrued annual leave, and other forms of leave time. All forms of leave would be paid in monthly installments over a period of five years. (Current practice pays leave time in lump sums at retirement.) The bill specifies that payments for sick leave could not be used to purchase service credit.

Proposed MCL 38.19k

FISCAL IMPACT

According to the State's information database, approximately 11,911 employees not in covered positions will have a combination of age and years of service equal to at least 75 by December 31, 2007. Additional employees could purchase years of service and become eligible; in this group (age plus years of service between 70 and 75), the maximum number eligible with purchase of service credit is 3,143. Therefore, if 100% of the potentially eligible employees retired, they would total 15,054, representing 28% of a total State workforce of about 53,000.

During the last "early-out", approximately 65% of the eligible individuals retired early; if the same percentage were applied to the first group (those with at least 75 points), 7,742 employees would leave State government. Also, about 40% of those who could purchase service credit and become eligible did so and retired early during the last early-out. For the purposes of this fiscal analysis, it is assumed that the same 40% of those with points between 70 and 75 would purchase service credit and retire under the early-out provisions of this bill, equating to 1,257 employees. Combined, this fiscal analysis uses a total of 8,999 as the number of people retiring, but the number of people who actually would retire under the provisions of this bill is indeterminate.

The fiscal impact on the State depends primarily on how many retiring employees would be replaced, which is not specified in the bill. Table 1 illustrates an array of potential costs and savings assuming varying levels of participation and replacement ratios. If it is assumed that 65% of those eligible without purchasing service credit, plus 40% of those eligible with the purchase of service credit, retired under this bill, and were fully replaced (by a new hire at the minimum end of the salary scale for each position), then the State would see increased GF/GP costs estimated at $18.2 million for the first five years while leave time was paid out; beginning in the sixth year, savings of $4.2 million would accrue. If the same participation rates are assumed, but three out of every four workers who retired were replaced, annual savings for the first five years would be an estimated $51.9 million; replacing two out of four would generate $125.6 million, and at the other end of the spectrum, if one out of every four were replaced, annual savings could accrue up to $192.0 million. After five years, the payout of leave time would cease.

The figures listed above are on a full-year basis; the bill would provide for people to retire up until December 31, 2007, and also would allow up to a three-year extension. The savings listed assume that all who retired did so on October 1, 2007, generating full fiscal-year savings. To the extent that people did not retire until December 31, 2007, potential costs or savings would be reduced in the first year, by up to 25%. Also, to the extent that people applied and were approved for extensions, potential costs or savings would be reduced. In addition, this analysis assumes that people who retired and were replaced would be replaced by someone who would earn the minimum amount in the applicable salary range. To the extent that "bumping" would occur, any potential costs would increase and potential savings would decrease. On the flip side, when a person retires, the replacement is not immediately hired (due to time needed to post the position, hold interviews, and get approval to fill the position) and thus the time period during which no employee fills the position yields salary and benefit savings.

Finally, beginning in FY 2010-11, there would be an increase in pension liabilities for new retirees, which would be amortized over 30 years and would manifest in an increased pension retirement contribution rate that departments would have to pay. This rate increase would depend upon the number of people actually retiring, and could cost up to $77 million yearly for the next 30 years, spread out among the affected departments, if about 10,000 retired. In the 2002 early-out, the long-term pension liability was $68 million yearly, though savings were estimated at $58 million annually.

At this time, numbers eligible for a few select offices are not available due to security restrictions. Again, the number of eligible employees who would retire and the assumed replacement ratio would determine whether costs or savings would be achieved under this bill. Table 2 provides information on the number of people eligible for the early retirement provisions of this bill, broken out by department and whether they would be currently eligible, or would become eligible with the purchase of service credit.

As more information becomes available, this analysis will be updated to reflect the newest estimates.

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Table 1
Fiscal Impact of Senate Bill 689, Preliminary Estimate
(dollar amounts in millions)

Employees with 75 or More Points

Scenario a)	Number of Retirees	Gross Savings After Replacement b) 100%	75%	50%	25%	Lump Sum Pmts c)	GF/GP Lump Sum Pmts c)	Insurance Costs $11K/Emp.	First Year Maximum Net GFGP Savings After Replacement d) 100%	75%	50%	25%
100% participation	11,911	$186.9	$310.6	$434.4	$558.1	$45.0	$32.3	$131.0	($25.3)	$68.3	$161.8	$255.3
90% participation	10,720	$168.2	$279.6	$390.9	$502.3	$40.5	$29.1	$117.9	($22.7)	$61.4	$145.6	$229.8
80% participation	9,529	$149.5	$248.5	$347.5	$446.5	$36.0	$25.9	$104.8	($20.2)	$54.6	$129.4	$204.3
70% participation	8,338	$130.8	$217.4	$304.1	$390.7	$31.5	$22.6	$91.7	($17.7)	$47.8	$113.3	$178.7
65% participation	7,742	$121.5	$201.9	$282.3	$362.8	$29.2	$21.0	$85.2	($16.4)	$44.4	$105.2	$166.0
60% participation	7,147	$112.1	$186.4	$260.6	$334.9	$27.0	$19.4	$78.6	($15.2)	$41.0	$97.1	$153.2
50% participation	5,956	$93.4	$155.3	$217.2	$279.1	$22.5	$16.2	$65.5	($12.6)	$34.1	$80.9	$127.7

Employees with at least 70 but less than 75 Points
15,054

Scenario a)	Number of Retirees	Gross Savings After Replacement b) 100%	75%	50%	25%	Lump Sum Pmts c)	GF/GP Lump Sum Pmts c)	Insurance Costs $11K/Emp.	First Year Maximum Net GFGP Savings After Replacement d) 100%	75%	50%	25%
100% participation	3,143	$48.1	$80.3	$112.5	$144.7	$5.1	$3.5	$34.6	($4.4)	$18.8	$41.9	$65.1
90% participation	2,829	$43.3	$72.3	$101.2	$130.2	$4.6	$3.1	$31.1	($4.0)	$16.9	$37.7	$58.6
80% participation	2,514	$38.5	$64.2	$90.0	$115.7	$4.1	$2.8	$27.7	($3.5)	$15.0	$33.5	$52.1
70% participation	2,200	$33.7	$56.2	$78.7	$101.3	$3.6	$2.4	$24.2	($3.1)	$13.1	$29.4	$45.6
60% participation	1,886	$28.9	$48.2	$67.5	$86.8	$3.1	$2.1	$20.7	($2.6)	$11.3	$25.2	$39.1
50% participation	1,572	$24.1	$40.1	$56.2	$72.3	$2.5	$1.7	$17.3	($2.2)	$9.4	$21.0	$32.6
40% participation	1,257	$19.2	$36.5	$60.7	$71.1	$2.0	$1.4	$13.8	($1.8)	$7.5	$20.5	$26.0

Combined, assuming 40% participation for those with at least 70 but less than 75 points.

Scenario a)	Number of Retirees	Gross Savings After Replacement b) 100%	75%	50%	25%	Lump Sum Pmts c)	GF/GP Lump Sum Pmts c)	Insurance Costs $11K/Emp.	First Year Maximum Net GFGP Savings After Replacement d) 100%	75%	50%	25%
100% participation	13,168	$206.1	$347.2	$495.1	$629.2	$47.0	$33.7	$144.9	($27.0)	$75.8	$182.3	$281.4
90% participation	11,977	$187.4	$316.1	$451.7	$573.4	$42.5	$30.5	$131.7	($24.5)	$69.0	$166.1	$255.9
80% participation	10,786	$168.8	$285.0	$408.2	$517.6	$38.0	$27.3	$118.6	($22.0)	$62.1	$149.9	$230.3
70% participation	9,595	$150.1	$254.0	$364.8	$461.8	$33.5	$24.0	$105.5	($19.4)	$55.3	$133.7	$204.8
65% participation	8,999	$140.7	$238.4	$343.1	$433.9	$31.3	$22.4	$99.0	($18.2)	$51.9	$125.7	$192.0
60% participation	8,404	$131.4	$222.9	$321.4	$406.0	$29.0	$20.8	$92.4	($16.9)	$48.5	$117.6	$179.2
50% participation	7,213	$112.7	$191.8	$277.9	$350.2	$24.5	$17.6	$79.3	($14.4)	$41.6	$101.4	$153.7

a) Excludes potential retirees from the Executive Office of the Governor. All figures reflect full-year impacts.

b) Savings do not include factors such as lump sump payments, longevity payments or benefit costs. Savings reflect differences in the wage rates of current employees compared with replacement employees, assuming new employees entered at the minimum pay rate for the position. To the extent th other existing employees replaced retirees, the savings could be lower than indicated. "Gross" savings refers to savings across all fund sources.

c) Lump sum payments reflect the annual payout of annual leave, comp time and sick leave time. The total payouts are spread over 5 years, so this amount would be paid in each of the next 5 years.

d) Savings include subtractions for lump sump payments and insurance benefits paid on a cash basis at $11,000 per retiree, but exclude the effects of longevity payments or benefit costs. Savings reflect differences in the wage rates of current employees compared with replacement employees, assuming new employees entered at the minimum pay rate for the position. To the extent that other existing employees replaced retirees, the savings could be lower than indicated. "Gross" savings refers to savings across all fund sources.

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Table 2
Eligible Early Retirees Under SB 689, By Department

Department	Total Employees a)	Estimated Number Retiring b)	Share of Total	Replacements at 1:4 Ratio	Dept. Losses at 1:4 Ratio	Pct. of Dept. Not Replaced	Gen. Fund Savings (millions)
Agriculture	500	107	21.4%	27	80	16.1%	$3.9
Attorney General	495	121	24.4%	30	91	18.3%	$6.2
Auditor General	138	17	12.3%	4	13	9.2%	$0.9
Casino Gaming Board	96	14	14.6%	4	11	10.9%	($0.2)
Civil Rights	119	31	26.1%	8	23	19.5%	$1.2
Civil Service	193	61	31.6%	15	46	23.7%	$2.4
Community Health	4,132	1,041	25.2%	260	781	18.9%	$33.3
Corrections	16,215	626	3.9%	157	470	2.9%	$19.8
Education	367	92	25.1%	23	69	18.8%	$3.2
Environmental Quality	1,413	329	23.3%	82	247	17.5%	$6.8
Executive Office c)	NA	NA	NA	NA	NA	NA	NA
History Arts And Libraries	197	46	23.4%	12	35	17.5%	$1.6
Human Services	9,695	2,710	28.0%	678	2,033	21.0%	$78.8
Information Technology	1,706	381	22.3%	95	286	16.7%	($4.2)
Judiciary	478	73	15.3%	18	55	11.5%	$2.9
Labor & Economic Growth	3,927	992	25.3%	248	744	18.9%	$8.2
Legislature	909	87	9.6%	22	65	7.2%	$3.2
Lottery	158	33	20.9%	8	25	15.7%	($0.4)
Management & Budget	970	262	27.0%	66	197	20.3%	$4.7
Mi Strategic Fund Agency	175	53	30.3%	13	40	22.7%	($0.6)
Michigan State Police	2,642	173	6.5%	43	130	4.9%	$4.9
Military Affairs	911	173	19.0%	43	130	14.2%	$0.4
Natural Resources	1,670	291	17.4%	73	218	13.1%	$0.3
State	1,596	400	25.1%	100	300	18.8%	$11.0
Transportation	2,885	582	20.2%	146	437	15.1%	($6.4)
Treasury	1,273	304	23.9%	76	228	17.9%	$10.1
Total	52,860	8,999	17.0%	2,250	6,749	12.8%	$192.0

a) Employees shown include approximately 14,000 "covered positions", which would be exempt from the early retirement provisions in SB 689. For example, there are 11,707 "covered positions" in Corrections, 1,758 in the State Police, and 201 in Natural Resources.

b) Employees with at least 70 points would be eligible to purchase time in order to reach the 75 points required under the bill. Figure assumes 65% of those with 75 points or more retire, plus 40% of those eligible to purchase time.

c) Numbers not available.

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