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BILL ANALYSIS

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Senate Bills 868 and 869 (as introduced 11-1-07)
Sponsor: Senator Wayne Kuipers
Committee: Government Operations and Reform

Date Completed: 11-6-07

CONTENT

Senate Bills 868 and 869 would amend the Michigan Legislative Retirement System Act and the Judges Retirement Act, respectively, to establish graded health insurance premiums for certain officials elected on or after January 1, 2008.

Under both bills, the State would pay 30% of the premium for a retiree who had completed four years of service, and an additional 6% for each completed year through 14 years of service. The portion of the premium paid by the State could not exceed 90%.

The bills are described below in further detail.

Senate Bill 868

Health Insurance Coverage

Under Section 50b of the Michigan Legislative Retirement System Act, for a retirant or a survivor or beneficiary of a deceased retirant, or for a deferred vested member who first became a member on or before January 1, 1995, the retirement system must purchase and pay the premium for hospitalization and medical insurance coverage and dental and vision coverage for the retirant, deferred vested member, and their spouses, eligible children, and survivors. Except as otherwise provided, the system must provide insurance coverage at a level that is equal to or greater than the level of coverage in effect on December 1, 1992. The retirement board may increase the amounts each enrollee must pay for co-pays or deductibles.

("Retirant" means a person receiving an annual retirement allowance from the retirement system. "Deferred vested member" means a member who left the Legislature having satisfied certain requirements but without having attained age 55.)

Since March 31, 1997, the retirement system also has had to pay health insurance premiums in the manner prescribed in Section 79 (described below). The bill would add that, beginning January 1, 2008, the system would have to pay health insurance premiums in the manner prescribed in Section 79 or 79a (which the bill would add), whichever was applicable.

Benefit Election/Vesting: Current Members

Under Section 79, a former qualified participant may elect health insurance benefits in the prescribed manner if he or she is vested in health benefits under the Act. ("Former qualified

participant" means an individual who was a qualified participant and who terminates the employment upon which his or her participation is based for any reason.)

A qualified participant is vested in the health insurance coverage if he or she meets one of the following requirements:

- He or she has completed six years of service as a qualified participant and was not a member, deferred vested member, or former nonvested member of Tier 1 (defined benefit plan).
- He or she was a member, deferred vested member, or former nonvested member of Tier 1 who made an election to participate in Tier 2 (defined contribution plan), and who has met the service requirements he or she would have been required to meet in order to vest in health benefits under Section 50b.
- He or she was not a member, deferred vested member, or former nonvested member of Tier 1; was first elected to fill a vacancy in the House of Representatives for a period less than the full term but more than half of the term of office; and has completed five years of service as a qualified participant.

Under the bill, these requirements would apply to a qualified participant who was first elected to the Legislature or to the position of Lieutenant Governor before January 1, 2008.

("Qualified participant" means an individual who is a participant of Tier 2 and who is one of the following:

- A person who first becomes a legislator or Lieutenant Governor on or after March 31, 1997, and who before that date would have been eligible to be a member of Tier 1.
- A person who elects to terminate membership in Tier 1 and participate in Tier 2 as prescribed in the Act.)

Additionally, under Section 79, a former qualified participant must meet one of the following requirements to elect health insurance benefits in the prescribed manner:

- He or she meets or exceeds the benefit commencement age used in the Act's actuarial present value calculation and the service requirements that would have applied to that former participant under Tier 1 for receiving health insurance coverage under Section 50b, if that former participant was a member of Tier 1.
- He or she is at least 55 years old.

Under the bill, these provisions would apply to a former qualified participant who was first elected to the Legislature or to the position of Lieutenant Governor before January 1, 2008.

Vesting/Premium Payment: New Electees

Under proposed Section 79a, a former qualified participant who was first elected to the Legislature or to the position of Lieutenant Governor on or after January 1, 2008, would be vested in the health insurance coverage if he or she had completed four years of service as a qualified participant.

For a former qualified participant eligible to elect health insurance coverage under this section and for his or her health benefit dependents, the State would have to pay a portion of the health insurance premium calculated as described below on a cash disbursement method.

An individual who had at least four but less than 14 years of service and who elected coverage under this section would have to pay to the retirement system the remaining portion of the premium not paid by the State. The portion paid by the State would be 30% if the qualified participant had completed four years of service. If he or she had completed more than four but less than 14 years as a qualified participant, the portion paid by the

State would increase 6% for each year of service completed through 14 years and could not exceed 90% of the payments for health insurance.

Senate Bill 869

Health Insurance Coverage

Under Section 715 of the Judges Retirement Act, a qualified participant is vested in the health insurance coverage provided in Section 719 of the Act if he or she meets one of the following requirements:

- He or she has completed four years of service as a qualified participant and was not a member, deferred vested member, or former nonvested member of Tier 1 (defined benefit plan).
- He or she was a member, deferred vested member, or former nonvested member of Tier 1 who made an election to participate in Tier 2 (defined contribution plan), and who has met the service requirements he or she would have been required to meet in order to vest in health benefits under Section 509.

(Under that section, the retirement system must pay the premium for hospital and medical-surgical and sick care benefits for a retirant who, as a member, served after January 1, 1983, as a justice of the Supreme Court, judge of the Court of Appeals, or a State official, or for his or her retirement allowance beneficiary who elects coverage in the State group health insurance plan, to the same extent as is provided for retirants and retirement allowance beneficiaries of the State Employees' Retirement System.)

Under the bill, these provisions would apply to a qualified participant who was first eligible to become a qualified participant on or before December 31, 2007. A person who first became eligible to become a qualified participant after that date would be vested in the health insurance coverage provided in Section 719 if he or she had completed four years of service and was not a member, deferred vested member, or former nonvested member of Tier 1.

Benefit Election; Premium Payment

Under Section 719, a former qualified participant may elect health insurance benefits as prescribed if he or she meets both of the following requirements:

- He or she is vested in health benefits.
- He or she meets or exceeds the benefit commencement age used in the actuarial present value calculation under the Act and the service requirements that would have applied to him or her under Tier 1 for receiving health insurance coverage under Section 509, if he or she were a member of Tier 1.

Under the bill, for a former qualified participant who was eligible to collect health insurance coverage and who became eligible to become a qualified participant on or after January 1, 2008, and was vested in those benefits as described in the bill, the State would have to pay a portion of the health insurance premium calculated as described below on a cash disbursement method.

An individual who elected health insurance coverage under these provisions would have to pay to the retirement system the remaining portion of the premium not paid by the State. The portion of the premium paid by the State would be 30% of the payments for health insurance coverage if the former qualified participant had completed four years of service. If the former qualified participant had completed more than four but less than 14 years of service, the portion paid by the State would increase 6% for each completed year of service through 14 and could not exceed 90% of the payments.

FISCAL IMPACT

Senate Bill 868

The bill would not result in any immediate savings to the State. The changes in retiree health care benefits would apply only to members of the Legislature elected to office on or after January 1, 2008. The newly elected members would vest in health insurance coverage after completion of four years of service, and at that point, the State would pay 30% of the cost of the health care premium, with the legislator paying the remainder. Current law provides for vesting after six years of service, with the State paying for 90% of the retiree health care premium cost, and the retiree can draw benefits beginning at age 55. (Note: Although the introduced version of this bill does not include an age requirement, this analysis is predicated upon adoption of an age requirement of at least 55 years before health care benefits could be drawn.)

Each year of service completed after four and up to 14 (the maximum number of years allowed to be served in the Legislature) would increase the State coverage of the health care premium by 6%, with a maximum of 90% State payment after 14 years of elected service. Thus, to the extent that legislators would serve less than 14 years of service and generate less than 90% State coverage of health care premiums, there would be savings to the State. However, there could be some minimal additional costs for those legislators who would vest and retire with 30% coverage at four years of service, since current law does not provide any health care coverage until six years of service.

During fiscal year 2005-06, the Legislative Retirement System paid \$4.45 million for health care benefits to 341 retired legislators and their spouses. The total annual cost of providing health insurance for retired legislators is approximately \$13,037 per retiree. During FY 2005-06, the retired members of the Legislature paid total premiums toward the health care costs of \$182,190, or approximately 4.0% of the total cost.

Senate Bill 869

The bill would not result in any immediate savings to the State. The changes in retiree health care benefits would apply only to judges elected or appointed to office on or after January 1, 2008. The newly elected members would vest in health insurance coverage after completion of four years of service, and at that point, the State would pay 30% of the cost of the health care premium, with the judge paying the remainder. Current law provides for vesting after six years of service, with the State paying for 90% of the retiree health care premium cost. In both current law and under this bill, the retiree can draw benefits according to the age limit set in statute.

Each year of service completed after four and up to 14 would increase the State coverage of the health care premium by 6%, with a maximum of 90% State payment after 14 years of elected or appointed service. Thus, to the extent that judges would serve less than 14 years of service and generate less than 90% State coverage of health care premiums, there would be savings to the State. However, there could be some minimal additional costs for those judges who would vest and retire with 30% coverage at four years of service, since current law does not provide any health care coverage until six years of service.

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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.