Legislative Analysis

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STATE EMPLOYEES' RETIREMENT REVISIONS

Senate Bill 1226 (S-8)
Sponsor: Sen. Mark Jansen
House Committee: Oversight and Investigations
Senate Committee: Appropriations

Complete to 4-20-10

A SUMMARY OF SENATE BILL 1226 AS PASSED BY THE SENATE 4-14-10

The bill would amend the State Employees' Retirement Act (MCL 38.20d et al.) to make the following changes to State employees' retirement benefits:

<u>Increase Employee Contributions.</u> Beginning October 1, 2010, the bill would require State employees who are in the Tier 1 plan, otherwise known as the defined benefit pension plan, to contribute an amount equal to 3% of their compensation to the Employees' Savings Fund. Currently there is no required employee contribution.

The contributions would be considered a pre-tax payment and would be deducted from an employee's cash salary. The bill provides that the contributions shall be used to fund benefits for service credit earned after October 1, 2010, and may not be used to pay for any unfunded accrued liability associated with benefits earned prior to October 1, 2010.

In addition, the bill provides that employees would accrue service credit for each year in which they make an employee contribution, but requires that any service credit earned in that same period be forfeited by the employee if the payments are not made or if those payments are refunded to the employee, as for example, if a court orders that the contributions be returned to the employees.

<u>Modify Retiree Health Care Benefits.</u> Currently, employees in the Tier 2 defined contribution plan vest in retiree health care benefits including hospitalization, medical, dental, and vision insurance after 10 years of employment. The State pays a portion of the premium for retiree health insurance benefits for Tier 2 retirees in an amount equal to 3% times the number of years of service up to 30 years, not to exceed 90%.

For employees hired prior to April 1, 2010, the bill would revise the State portion to equal the lesser of the amount described above or the portion of health insurance premiums paid for by the State for Tier 1 members under Section 20d, which caps the State premium share for Tier 1 retirees at the same share paid for by the State for classified civil service employees. The State currently pays 90% for classified civil service employees, so the bill would not decrease the State's premium share for Tier 2 retirees directly but would tie it to future changes in the State's premium share for Tier 1 retirees and active civil service employees, who were hired prior to April 1, 2010.

In addition, the bill would cap the State's health insurance premium share for Tier 2 retirees who were originally hired after April 1, 2010 to the lesser of the premium share provided to Tier 1 retirees under Section 20d or to the share provided to active civil service employees hired after April 1, 2010. For most civil service employee positions, the State's premium share was recently negotiated to a maximum of 80%.

The bill would also eliminate the current option that allows retirees to elect health insurance coverage other than what is provided by the Civil Service Commission in Section 20d and requires that the retirement system pay an amount equal to the amount of the State's share of the monthly premium directly to the other health insurance plan or medical savings account. After January 1, 2011, the bill would allow only a retiree or dependent who had previously elected alternative coverage to continue doing so at his or her own cost.

<u>Provide Supplemental Appropriation for the Office of Retirement Services.</u> The bill would provide $500,000 for FY 2009-10 for the Office of Retirement Services, which is in the Department of Technology, Management, and Budget, for administering the changes required under the bill. The appropriation would be designated a work project and the funds could be carried forward for use in FY 2010-11.

FISCAL IMPACT:

Requiring an employee contribution of 3% for State employees would allow for a reduction in the employer contribution paid by the State. According to the State Budget Office and the Office of Retirement Services, a 3% employee contribution would generate $ 35.4 million Gross ($13.7 million GF/GP) in savings in FY 2010-11. Over 10 years, they estimate the cumulative savings would reach $304.5 million Gross ($118.1 million GF/GP). The annual savings would decline over time as the proportion of State employees remaining in the defined benefit plan diminishes.

The fiscal impact of reducing the State's premium share in the Tier 2 defined contribution plan for future employees to the maximum share provided to civil service employees is indeterminate. Savings will not be achieved for a minimum of 10 years before employees hired after April 1, 2010 are vested in any health insurance benefit, and it will be many years before this change applies to a significant proportion of State retirees. The savings will depend on future health care costs and on the portion of premium paid by the State for civil service employees in the future.

Finally, the bill would appropriate $500,000 for FY 2009-10 for the Office of Retirement Services for implementation costs.

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