

Legislative Analysis



STATE POLICE DROP PROGRAM

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4952

Sponsor: Rep. Richard LeBlanc

Committee: Labor

Complete to 5-28-09

A SUMMARY OF HOUSE BILL 4952 AS INTRODUCED 5-14-09

The bill would amend the State Police Retirement Act to temporarily allow participants in the deferred retirement option plan (DROP) to receive full benefits from the program after four years rather than after six years of participation.

Generally speaking, the bill aims at providing a temporary incentive for participants in the DROP program to leave the program two years early. The bill would apply only for 31 days after its effective date.

The deferred retirement option plan (DROP) is a supplemental benefit program available to members of the State Police Retirement System who are eligible to retire (having 25 years or more of credited service) but who agree instead to defer retirement and continue working and receiving active employee wages. This program was instituted by Public Act 83 of 2004. It benefits the State Police budget because the department does not make retirement system contributions for these employees, who do not receive any further service credit while working under the program. The department pays only the salary and insurance costs of participants. In essence, DROP participants' future retirement allowances are frozen at the amount computed when they enter the program.

However, while a State Police employee is participating in DROP, an amount equal to the monthly retirement pension is credited to a special account (the employee's DROP account). The total amount credited to a participant's account that a participant can take with them when they leave employment is based on the length of participation in the program, which is limited to six years. When the employee leaves, the DROP participation period ends and normal monthly pension payments begin. The accumulated DROP funds are then available to the retired employee. DROP accounts earn three percent interest each year, prorated for any fraction of a year, as long as there is money in the account.

The DROP account contributions are calculated as follows:

DROP PERIOD	% OF PENSION
Less than 1 year	30%
1 year but less than 2 years	50%
2 years but less than 3 years	60%

3 years but less than 4 years	70%
4 years but less than 5 years	80%
5 years but less than 6 years	90%
6 years	100%

Under **House Bill 4952**, a DROP participant who has remained in the DROP for at least four years will be credited with 100 percent of the contributions that were made to the DROP account. As noted earlier, this provision remains in place only for 31 days after taking effect.

FISCAL IMPACT:

The Michigan State Police believes that no more than 25% of the employees eligible for the DROP program would actually elect to leave employment under the terms of the bill due to the current economic conditions, choosing instead to remain in stable employment. There are 108 employees who would be eligible to leave employment under this bill. If 25% of them did leave, MSP would save an estimated \$337,900 for FY2009 and \$2.4 million for FY2010.

If 50% of those eligible elected to leave employment, MSP would save \$675,700 for FY2009 and \$4.8 million for FY2010. If 100% of the eligible employees elected to leave employment, MSP would save \$1.35 million for FY2009 and \$9.6 million for FY2010. However, as stated above, the MSP does not anticipate participation under the bill to exceed 25% of those eligible.

The bill would not have a significant fiscal impact on the Michigan State Police Retirement System. Because the Office of Retirement Services (ORS) will continue to make pension payments to DROP participants whether still in the program or after retirement, eliminating the penalty for leaving prior to the full 6 years would be cost neutral. There potentially would be a minimal cost increase if absent the bill, a significant number of participants had planned to leave prior to serving all 6 years and would have received just 80% of their pension allocations. However, according to ORS, experience suggests that very few participants would have left prior to serving the full DROP period.

Legislative Analyst: Chris Couch
Fiscal Analyst: Bethany Wicksall
Jan Wisniewski

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