Legislative Analysis

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

MODIFY SALARY & RETIREMENT REQUIREMENTS FOR ADJUTANT GENERALS

House Bills 6270 & 6271
Sponsor: Rep. Richard LeBlanc
Committee: Military and Veterans Affairs and Homeland Security

Complete to 8-23-10

A SUMMARY OF HOUSE BILLS 6270 AND 6271 AS INTRODUCED 6-17-10

House Bill 6270 would amend the Michigan Military Act (MCL 32.702 and 32.706) to provide that the adjutant general and the assistant adjutants general who begin employment on or after January 1, 2011, would receive retirement benefits as qualified participants under the State Employees Retirement Act. Those benefits would start on the date of retirement or honorable relief from duty. As is now the case, retirement under this section would require not less than 20 years of active service with the National Guard and or state defense force.

The bill would eliminate the requirement that retirement pay be based on comparable federal pay. More specifically, the law now requires that the adjutant general and assistant adjutants general receive retirement pay equal to the retirement pay that an officer of like grade and total longevity receives as indicated in appropriate federal regulations. The current law also specifies that any retirement pay received from the federal government for military service be deducted when computing the amount received from the state. The deduction starts on the first day of the month the officer becomes eligible for federal retirement. Once established, the amount of the deduction cannot be changed; however, it cannot deprive a retired officer from receiving a total of state and federal pay equal to that authorized to officers of like grade and total longevity who are retired from the active federal armed forces. House Bill 6270 would eliminate these provisions.

The bill would also specify that beginning January 1, 2011, the salary of the adjutant general would be the salary that is appropriated by the Legislature. Currently under the law, the adjutant general receives pay and allowances equal to those of an active army or air force officer of like grade and service.

House Bill 6271 would amend Section 55 of the State Employees Retirement Act (MCL 38.55) to modify the definition of "qualified participant." Under the bill, the term "qualified participant" would be expanded to include an individual who is an adjutant general or an assistant adjutant general under the Military Act, and who is first employed as an adjutant general or assistant adjutant general on or after January 1, 2011.

The bills are tie-barred to each other so that neither could go into effect unless both are enacted into law.

FISCAL IMPACT:

The bills would have no fiscal impact on local units of government but would provide long-term savings for the state by reducing military retirement costs for the Department of Military and Veterans Affairs (DMVA).

Currently the FY 2009-10 DMVA budget includes almost $1.2 million to fund retirement benefits for all 18 State Special Duty (SSD) retirees or their surviving spouses. That cost is expected to increase to $1.5 million for FY 2010-11 with 3 additional retirees. SSD retirement refers to that which is provided for under Section 306 of the Michigan Military Act for the Adjutant General and Assistant Adjutant Generals.

Because SSD retirement is based on related federal military retirements, these retirees earn between 75% and 110% of their total compensation depending on their total length of service. Unlike other federal eligibility rules under which a military retiree typically begins to earn a pension at age 60, the Michigan Military Act provides SSD retirement immediately after the Adjutant General or Assistant Adjutant General leaves service, no matter how old he or she may be and no matter how many years he or she was in the position of Adjutant General or Assistant Adjutant General. The five most recent SSD retirees thus earn annual pensions ranging from approximately $78,000 to $133,000 with years of SSD service ranging from 1.5 years to just over 13 years. In addition, the plan provides annual pension increases tied to the federal pension cost of living increases which have ranged in the last 10 years from a low of 0.0% in 2010 to a high of 5.8% in 2009. Once the retiree turns 60, any pension he or she earns from the federal government is an offset which reduces the state benefit.

By deleting the provision that bases the SSD retirement on federal military pension calculations and moving these positions, beginning with those employees hired after January 1, 2011, into the State Employees' Tier 2 defined contribution system, or 401(k) plan, the bills would create significant savings over time for the DMVA. The Department will continue to pay the pensions of existing SSD retirees; thus, it will take as many as 30 to 40 years before those costs are completely paid for, but the bills would create future savings by avoiding significant cost increases associated with each new retiree. Currently all other state employees hired after March 31, 1997, (except Michigan State Police Troopers) are in the state's defined contribution system, under which the state contributes 4% of an employee's salary into a 401(k) account and will match up to an additional 3% of an employee's own contribution.

In addition, the bill would create savings by moving retiree health care for these positions into the State Employees' Retirement System graded premium plan, under which employees do not vest with retiree health benefits until they have a minimum of 10 years of service. After 10 years, state employees are eligible for an employer-paid retiree health care premium share equal to 3% per year of service up to a maximum of 90%. This would reduce costs for DMVA by eliminating the immediate and 100% employer-paid retiree health care that is currently provided for these 5 positions.

Legislative Analyst: E. Best
Fiscal Analysts: Jan Wisniewski
Bethany Wicksall

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.