Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1226 (Substitute S-3)
Sponsor: Senator Mark C. Jansen
Committee: Appropriations

Date Completed: 3-24-10

CONTENT

Senate Bill 1226 (S-3) would enact numerous amendments to the State Employees' Retirement System (SERS), including:

-- Increased employee contributions.

-- Capped years of service in defined benefit plan/transfer to new defined contribution plan after 30 years.

-- Elimination of dental and vision coverage for members retiring after October 1, 2010.

-- Phased retirement option for members retiring after June 30, 2010.

-- Increased retiree health care cost sharing for employees hired after April 1, 2010.

Increased Employee Contributions

Currently, employees hired before March 31, 1997, who did not elect to change from the Defined Benefit (DB) system to the Defined Contribution (DC) system, are not required to make contributions to fund the pension plan; contributions are paid entirely by the State. Under Senate Bill 1226 (S-3), beginning October 1, 2010, and ending on the date a DB employee accrued 30 years of earned service credit, the employee would have to contribute 3% of salary to the Employees' Savings Fund. The State would be allowed to reduce the cash salary of an employee to fund these required contributions, which would be treated as pre-tax payments by the Internal Revenue Service (IRS). This section would not apply to employees whose effective date of retirement was extended under the bonus incentive provision proposed by the bill.

Capping Years of Earned Service at 30

Defined benefit employees first reaching 30 years of earned service credit on or after October 1, 2010, would be prohibited from accumulating more than 30 years of earned service credit toward the calculation of their pension allowance. This would not include purchased service credit, which could be counted toward the pension calculation. After working 30 years, an employee would become a member of the Defined Contribution, or Tier 2, plan for additional years. The bill would require the retirement system to determine the method and time frame for participation in Tier 2. This section would not apply to employees whose effective date of retirement was extended under the proposed bonus incentive provision.

When a DB employee reached 30 years, the earned service would be capped at 30 (or, for people with more than 30 on the bill's effective date, the number of years earned at that time), and the employee would be moved into a DC plan for any additional years worked. The State would contribute 4% of the employee's salary to the employee's Tier 2 account, and would match up to 3% of the employee's contribution to the Tier 2 account. Therefore, the State could be required to pay a maximum of 7% of salary for this person for as long as the employee worked the additional years past 30 and remained an active employee, if the employee contributed 3% of salary. The employee would have to affirmatively elect not to contribute or to contribute less than 3% of salary for that lesser amount to be effective. The employee would be allowed to contribute more than 3% of salary, but the State would not match more than 3%, after the initial 4% State contribution to the Tier 2 (DC) account. An employee described here would be immediately vested in both his or her own contributions to the DC account, and also in any State contributions to the account.

Elimination of Vision and Dental Coverage

Currently, retirees under SERS have to pay a percentage of the monthly premium for dental, vision, and hearing benefits equal to what active workers pay, and the retirement system pays the remaining cost. At this time, the portion of the monthly premium that State employees and retirees pay is 10%. This bill would eliminate all dental, vision, and hearing benefits for anyone retiring after October 1, 2010. Therefore, SERS members retiring after October 1, 2010, would pay 100% of the cost of vision, dental, and hearing benefits. Employees who retire on or before October 1, 2010, still would receive these benefits, with the State paying the proportion of the premium equal to what the State pays for workers hired before April 1, 2010 (who are not part of the new State health plan). Any employee retiring after October 1, 2010, could participate in the dental or vision coverage offered by the retirement system, but at his or her own cost.

Phased Retirement Option

Members retiring on or after July 1, 2010, who are at least age 60 would be allowed to work up to one-half time and draw a pension at the same time. (Current law prohibits the drawing of a pension and employment by the State.) To be eligible, the retiree would have to have worked at least half a year in each of the five years before retirement, leave service on or after July 1, 2010, be at least 60 years old, and meet the requirements to earn a retirement allowance. After retirement, the allowable work schedule could be no more than 50% of the previous hours worked, and would have to commence no later than two weeks following retirement. The appointing authority and the State Budget Director would determine if, and the extent to which, a postretirement option position would be made available to a retiring member. Each position would be for a period not to exceed one year, but could be renewed annually for up to three years total, at the discretion of the appointing authority and State Budget Director. Additional service credit would not be earned during this postretirement period.

Health Care for Retirees

The legislation would change retiree health care cost sharing to mirror the State health plan that will take effect for employees hired on or after April 1, 2010. For DB members in the system, the bill would require the State to continue to pay the share of retiree health premiums that the State pays for active employees. For DC members currently in the system, the bill would require the State to continue to pay an amount equal to 3% times years of service, capped at the lesser of 90% or the share that the State pays for active employees. However, for DC employees hired after April 1, 2010, the State share of their retiree health care would be capped at the lesser of 3% times years of service, or the State portion of health care for active employees hired after April 1 (which would mean a cap of 80% State coverage, and a 20% retiree cost at this time). Beginning January 1, 2011, retirees could choose a different plan than the one authorized under MCL 38.20d, but at their own cost.

Other Changes
The bill would appropriate $1.6 million to the Office of Retirement Services for administration of the changes outlined in this legislation. The appropriation would be a work project, with an estimated completion date of September 30, 2011.

MCL 38.20 et al.

FISCAL IMPACT

LONG-TERM REFORMS

SERS Proposals for Existing Employees

- **Increase Employee Contribution to Pension.** An analysis of the legislation by the State Budget Office (SBO) indicates that increasing employee contributions would provide State savings of $35.4 million Gross in FY 2010-11. After 10 years, this proposal is estimated by the SBO to save $304.5 million Gross. The Senate Fiscal Agency (SFA) analysis uses the figures estimated by the SBO for this portion of the proposal.

- **Cap Years of Service in Pension System at 30/Transfer to DC Plan Thereafter.** The SBO analysis indicates this would provide State savings of $2.2 million in FY 2010-11. After 10 years, this proposal is estimated by the SBO to save $14.8 million. The SFA analysis uses the figures estimated by the SBO for this portion of the proposal.

- **Eliminate Retiree Dental/Vision Savings.** The SBO analysis indicates this would provide State savings of $0.5 million in FY 2010-11. After 10 years, this proposal is estimated by the SBO to save $49.6 million. The SFA analysis uses the figures estimated by the SBO for this portion of the proposal.

The SBO estimates that the long-term reforms would produce 10-year savings that total $368.9 million Gross, $143.1 million GF/GP. The SFA analysis would concur with these estimates produced by the Budget Office in conjunction with the State's actuary.

The following table illustrates the components of the analysis.

Fiscal Analyst: Kathryn Summers

State Employee Pension Reforms: 10-Year Savings Estimates of S.B. 1226 (S-3)
(in millions)

	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	Cumulative Savings (costs) TOTAL
Eliminate retiree dental/vision	$0.5	$1.5	$2.5	$3.4	$4.4	$5.4	$6.4	$7.4	$8.3	$9.8	$49.6
Increase employee contribution rate	35.4	40.2	37.4	35.5	32.7	29.9	27.1	25.2	22.4	18.7	304.5
Cap DB enrollment at 30 yrs	2.2	2.0	1.8	1.6	1.5	1.3	1.1	1.1	1.1	1.1	14.8
Gross Savings	$38.1	$43.7	$41.7	$40.5	$38.6	$36.6	$34.6	$33.7	$31.8	$29.6	**$368.9**
GF/GP Savings	$14.8	$17.0	$16.2	$15.7	$15.0	$14.2	$13.4	$13.1	$12.3	$11.5	**$143.1**