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 (S-8 as reported by the Committee of the Whole)*(as passed by the Senate)*
Sponsor: Senator Mark C. Jansen
Committee: Appropriations

CONTENT

Senate Bill 1226 (S-8) would enact amendments to the State Employees' Retirement System (SERS), including:

-- Increased employee contributions.
-- 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-8), beginning October 1, 2010, 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). The bill specifies that the required contributions would have to be used to fund benefits for service credit earned after October 1, 2010, and could not be used to fund unfunded liability for accrued benefits earned by members before October 1, 2010. In addition, if an employee did not make the required contributions or if the payments made by an employee were subsequently refunded (e.g., by a court order), then the employee would not earn service credit during the period of time contributions were made.

Health Care for Retirees
The legislation would change retiree health care (including vision and dental) cost sharing to mirror the State health plan that will take effect for employees hired on or after April 1, 2010. For vested DB members in the system (those hired before March 31, 1997, who did not switch to DC), 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 the SERS Act, but at their own cost.

Other Changes
The bill would appropriate $500,000 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 38.20d et al.

FISCAL IMPACT

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. In terms of General Fund, General Purpose savings, the estimate would be $13.7 million in FY 2010-11, and $118.1 million over 10 years.

Date Completed: 4-14-10 Fiscal Analyst: Kathryn Summers

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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.