Legislative Analysis

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LEGISLATIVE RETIREMENT SYSTEM:
RETIREE HEALTH BENEFITS

House Bill 4087
Sponsor: Rep. Joel Johnson
Committee: Oversight, Reform, and Ethics

Complete to 6-13-11

A SUMMARY OF HOUSE BILL 4087 AS INTRODUCED 1-18-11

The bill would amend the Michigan Legislative Retirement System Act (MCL 38.1050b, 38.1075, and 38.1079) to modify retirement health insurance benefits for legislators and lieutenant governors who were first elected after November 1, 2010.

Now under the law, the Michigan Legislative Retirement System pays health insurance premiums for retired legislators and their dependents, as well as beneficiaries, under certain conditions. Currently, generally speaking, a legislator vests in the health insurance portion of retirement benefits after serving six years (the maximum allowable years of service in the House of Representatives under term limits). The retiree health insurance coverage becomes available when the individual reaches 55 years of age. The MLRS pays 90% of the cost.

House Bill 4087 specifies that legislators or lieutenant governors (called former qualified participants) first elected ***on or after November 1, 2010***, may elect health insurance benefits if they meet ***both*** of the following criteria: (1) the participant is vested in health benefits (this occurs if the participant has completed four years of service); and (2) the participant is 55 years of age or older. As now, participants could elect to provide coverage to dependents, and surviving dependents of deceased former participants could elect coverage at the death of the former participant.

Under the bill, the state would pay a portion of the health insurance premium on a cash disbursement method. The portion paid by the state would be 30% if the qualified participant has completed 10 years of service. The state-paid portion would then increase 3% for each year of service completed through 30 years. The payment could not exceed the lesser of (1) 90% of payments for health insurance, or (2) the portion of the health insurance coverage payable by the state for a member of the State Employees Retirement System who occupies a position in the classified civil service system or has classified civil service system status.

FISCAL IMPACT:

While the bill would have no significant, immediate fiscal impact on the State, it would create future indeterminate savings to the Michigan Legislative Retirement System (MLRS) by reducing the State share of health insurance premiums paid on behalf of former legislators and their dependents and reducing the number of legislators eligible for a benefit, beginning with legislators currently in their first term.

Currently retired legislators who have completed six years of service and reach age 55 are eligible for retiree health insurance, for which the MLRS pays 90% of the cost. Under the bill, retired legislators would not receive this benefit until after having served 10 years and reaching age 55, and MLRS would pay for just 3% of the premium cost for each year of completed service. This would equal between 30% and 42% of the premium for most legislators because term limits cap service at 14 years, except for members who begin under partial terms.

In FY 2009-10, the MLRS spent $5.3 million to provide health insurance benefits to 348 retired members and their dependents. Of that total, members contributed approximately 2.9% and the MLRS paid the remaining costs through current employer contributions and investment income. The bill would produce long-term savings by incrementally reducing the costs of retiree health care benefits for members of the Legislature as the number of applicable members, who contribute a larger share of their premiums, increases over time. If this bill were in place today, and the maximum MLRS share of retirement health insurance premiums were capped at 42%, the savings to the system would be at least $3.1 million. The MLRS would experience further savings under the bill to the extent that members do not serve at least 10 years and are not eligible for any employer paid premium share.

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