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BILL



ANALYSIS

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Senate Bill 1142 (Substitute S-4)
Sponsor: Senator Phil Pavlov
Committee: Appropriations

Date Completed: 9-19-12

CONTENT

The bill would amend the Public Employee Retirement System Investment Act to provide that a public employer may automatically enroll employees in a defined contribution retirement plan. Specifically, the bill would do the following:

- Authorize a public employer to deduct from the compensation of an employee an amount for a contribution to an individual account maintained under the Internal Revenue Code for each employee's benefit.
- Require the public employer to give written notice to a participating employee of the contribution before the initial deduction is made. Require the public employer to include in the notice a description of the benefit the contribution provides and the right of the participating employer to cancel the contribution by instruction to the employer. However, this requirement does not apply to a public employer for plans established under Section 1 of Public Act 306 of 1976.
- Authorize a public employer to provide for automatic enrollment of an employee in a retirement plan, and provide that an employer would not be liable for the actual decisions made by the public employer with regard to the default investment of contributions made for an employee if the following conditions were met:
 - o The plan allows participating employees at least quarterly opportunities to select investments between investment alternatives available under the plan for employee contributions.
 - o The participating employee was notified of the investment decisions that would be made in the absence of employee direction.
 - o The participating employee was given a description of all the investment alternatives available to change investments.
 - o The participating employee was notified at least annually of the actual default investments made by the public employer on the employee's behalf and the right of the participating employee to cancel his or her continued participation in the plan.

For the purposes of the proposed section, the bill would define "public employer" as the State or an agency of the State, a city, county, village, township, school district, or intermediate school district, or an institution of higher education.

Proposed MCL 38.1139b

FISCAL IMPACT

To the extent that the bill resulted in additional public employees participating in defined contribution retirement plans, or contributing more under an auto-enrollment plan compared to a voluntary enrollment plan, the bill would increase costs to public employers that match employee contributions to retirement funds. Enactment of automatic enrollment with opt-out provisions has significantly increased employee participation in some other states. In Michigan, automatic enrollment for the Michigan Public School Employees' Retirement System was authorized in 2010 and for defined contribution members of the State Employees' Retirement System (SERS) in 2012. The Office of Retirement Services reports that participation by defined contribution members of SERS has increased from 70% to 78% over a short time period. The State does not currently have the authority to provide for automatic enrollment for defined contribution plan members of the Judges Retirement System. Currently, 350 (86.4%) of the 405 judges that are eligible are receiving the full State match. Statewide data regarding participation rates for all of the retirement systems that would be affected by the bill is not available.

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