Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 5881 (Substitute H-3 as reported without amendment)
Sponsor: Representative Joe Haveman
House Committee: Appropriations
Senate Committee: Appropriations

CONTENT

House Bill 5881 (H-3) would amend the State Employees' Retirement Act to add an exemption to the prohibition against concurrently drawing a pension from the State Employees' Retirement System (SERS) and drawing an active employee paycheck from the State. Under current law, two exemptions allow State retirees to concurrently draw a pension while working for the State as a rehired employee after retirement: 1) the retiree provides health care services under the jurisdiction of the Michigan Department of Corrections (MDOC), or 2) the retiree was a special assistant attorney general who possesses specialized expertise. The bill would add a third exemption for certain MDOC retirees.

Specifically, the bill would allow a retiree to return to work for MDOC and concurrently draw a SERS pension until September 30, 2013, if the retiree met the following conditions: 1) the retiree was hired to provide for the custody of individuals under the jurisdiction of MDOC; 2) the retiree's position was limited in term, no benefits were paid, and the pay was not more than 80% of the maximum hourly wage granted during fiscal year (FY) 2012-13 for the same position; 3) the retiree worked no more than 1,040 hours in a 12-month period of State employment; and 4) the retiree retired after a bona fide termination of employment.

MCL 38.68c

FISCAL IMPACT

The FY 2012-13 Department of Corrections budget assumes $10.0 million in savings at facilities around the State from the reemployment of retired corrections officers. If a change is not made to the State Employees' Retirement Act allowing this rehiring, then $10.0 million in other savings or spending reductions will have to be found in the MDOC budget, or the Department will have to ask for supplemental funding of $10.0 million, or some combination of these measures will have to be taken.

Savings to the MDOC could accrue if it were allowed to hire retirees, because the Department would not have to pay for health care benefits or applicable pension costs associated with hiring new employees as corrections officers. Instead, the retirement system would pay the cost of health care. Additionally, because retirees would be filling vacancies that otherwise would likely be covered by existing employees working overtime, the Department would be relieved of paying the time-and-a-half premium associated with overtime work.

The average hourly rate for a corrections officer is approximately $24, which means that for overtime shifts the average compensation increases to approximately $36 per hour. In addition to the wage, the Department must pay the associated retirement cost, which is a factor of 0.57, or a contribution of approximately $20. This brings the total cost of an employee working overtime to approximately $56 per hour. The cost of bringing back a retired officer under the conditions set forth in this bill would be approximately $18 per hour, including the costs of the employer share of FICA/Medicare payroll taxes. This means that each hour of overtime that instead could be temporarily covered by a retired officer would save the Department $38.

To reach the desired level of savings of $10.0 million, the Department would have to use 260,000 hours of retired officer labor, which is the equivalent of 250 retired officers working the 1,040-hour maximum allowed under the bill. If one anticipates that FY 2012-13 overtime hours worked otherwise will be similar to FY 2011-12 overtime hours worked, then 260,000 hours would represent a reduction of overtime hours by approximately 17%. One of the principal drivers of the need for overtime shifts is the nearly 400 vacant positions the Department has averaged over the most recent 10 months. The Department plans to train 440 new corrections officers in FY 2012-13, but training requirements mean that the new officers are unable to cover shifts until three to four months after they matriculate at the academy.

The overall savings from the bill would be contingent upon how successful the Department would be in finding the required number of retired officers who were interested in a temporary return to MDOC facilities. The Department originally estimated that it would be able to save $10.0 million over the course of a full fiscal year. With two to three months of the fiscal year having already elapsed, this leaves the Department with only nine months in which to achieve the savings. Because of this limited time frame, the Senate Fiscal Agency estimates that savings from the bill could range from $7.5 million to $10.0 million.

This bill could give actively working SERS employees an incentive to retire and seek the position of corrections officer since the bill would create a window of time in which a retiree could concurrently draw a pension and a paycheck as an active employee. When active employees have an incentive to leave active employment earlier than the actuarial assumptions, there are costs to the retirement system of paying out pensions earlier than assumed, which then generates additional unfunded accrued liabilities in the retirement plan. However, because the bill has been drafted narrowly (with the window expiring September 30, 2013, or after roughly nine months of employment if enacted by January 1, 2013, and with other limitations as described above), it is unlikely that the short period of time in which retirees could return to State employment as corrections officers and draw both a pension and an active employment paycheck would result in much additional fiscal burden to the retirement system itself.

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