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

BILL ANALYSIS

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

Senate Bills 165 and 167 (Substitute S-1 as passed by the Senate)
Senate Bill 166 (Substitute S-5 as passed by the Senate)
Sponsor: Senator John Cherry (S.B. 165)
Senator Kristen McDonald Rivet (S.B. 166)
Senator Sue Shink (S.B. 167)
Committee: Labor

Date Completed: 11-13-24

CONTENT

The bills would amend the State Police Retirement Act (Senate Bills 165 and 167) and the State Employees' Retirement Act (Senate Bill 166) to allow certain employees currently in the defined contribution (DC) plan (typically referred to as a 401k or 401k-type plan) to terminate membership in that plan and instead become members of the State Police Retirement System (SPRS) hybrid pension plan that was established in 2012. Employees who chose to do this could purchase anywhere from zero years of service to the number of their State Employees' Retirement System (SERS) years of service for credit in SPRS.

The bills further would place the same types of new employees hired after September 30, 2024, directly into the SPRS hybrid pension plan.

The individuals covered by these bills would include the following:

-- Covered positions, which include corrections officers, resident unit officers, corrections medical aides, corrections shift supervisors, corrections security inspectors, corrections security representatives, deputy prison wardens, and departmental administrator-prison wardens.
-- Certain positions (delineated by those hired on or after January 1, 1989) with the Center for Forensic Psychiatry.
-- Corrections resident representatives, corrections transportation officers, and special alternative incarceration officers.
-- Conservation officers.
-- State Police motor carrier troopers or State Police properties securities officers.
-- Corrections medical officers.
-- Corrections medical unit officers.
-- Assistant deputy wardens.
-- State deputy wardens.
-- Senior executive wardens.
-- Forensic security assistants.

The bills are tie-barred.

MCL 38.1603 & 38.1604 (S.B. 165); 38.55 et al. (S.B. 166)
Proposed MCL 38.1624c et al. (S.B. 167)

BRIEF RATIONALE

According to testimony, as of May 2023, about 17% of corrections officer positions statewide were vacant, which has resulted in a workplace climate where 16-hour workdays due to mandatory overtime are not uncommon. Reportedly, this climate has partially led to corrections officers facing mental health, substance abuse, and family issues. Corrections officers need a solution that retains current talent and attracts new applicants into the corrections industry, and so it has been suggested that corrections officers be allowed to join the SPRS retirement system.

BACKGROUND

After March 31, 1997, the traditional defined benefit (DB) pension plan for most State employees was closed and new hires instead became part of a DC plan. A DC plan is typically a 401k or 401k-type plan. The SERS DC plan provides an automatic deposit into an employee's 401k (or similar account) equal to 4% of that person's salary; the State also matches up to an additional 3% of pay, for a maximum total State cost equal to 7% of salary for the DC plan (retirement savings only, not inclusive of retiree health care or other retirement benefits).

Employees newly hired after March 31, 1997, in one of the categories listed above, currently are part of the SERS DC plan. The bills would allow these employees to terminate being part of the DC plan and instead become members of the SPRS hybrid pension plan that was established in 2012, with the ability to purchase years of service in SPRS based on length of employment in SERS. The SPRS hybrid pension plan (called Pension Plus) was established in 2012 for new troopers hired on or after June 10, 2012. It has a DB and a DC component, but the DB piece is somewhat less generous than the plan that was in place before 2012, and the DC component is much smaller than the standalone DC plan in SERS.

The bills would require the Office of Retirement Services (ORS) to provide a choice for current eligible employees (those identified above) to terminate membership in the SERS DC plan and switch to the SPRS Pension Plus plan. Employees who chose this could purchase years of service credit in SPRS on which to base the pension component of the Pension Plus plan. Employees would have to pay to SPRS an amount equal to the actuarial value of the number of years of service the employee chose to purchase. (At least a portion of an employee's SERS DC savings could be used to purchase years of service in SPRS.) An employee also could choose to terminate service in SERS but buy no years of service in SPRS, thereby essentially being treated as a new employee enrolled in the SPRS Pension Plus plan while retaining DC savings earned while a member of SERS.

The ORS would have to accept written elections beginning on January 1, 2024, and ending on June 1, 2024, and employees who chose to become members of SPRS would do so on June 1, 2025. An employee who did not choose to become part of SPRS would remain in the SERS DC plan.

Legislative Analyst: Alex Krabill

FISCAL IMPACT

According to the Michigan Department of Corrections (whose employees would represent the largest group affected by the bills), roughly $456.0 million in payroll is in covered positions in the DC system (about 7,300 people). The bills would include more than covered positions for Corrections, but this is a good proxy for all payroll other than that for conservation officers or the two categories of Michigan State Police (MSP) employees who could be affected by the bills. The Department of Natural Resources has an estimated $16.0 million in payroll for conservation officers, and MSP has estimated $15.0 million in payroll for motor carrier transport and capital properties security. Therefore, the maximum total payroll that could be affected by decisions made by eligible employees is $487.0 million. (Author’s note:

subsequent to the original publication of this analysis, the State's actuary estimated that eligible payroll is roughly $404.0 million.)

Under the bills, eligible positions would have the choice to enroll in the SPRS pension system (but remain in their existing healthcare coverage). If they wanted years of service already worked to be reflected in an SPRS pension, those employees would have to "buy" into the system and purchase their years of service at an actuarially equivalent cost. Presumably, then, the actual conversion should not affect the unfunded liabilities of SPRS on the front end. (However, people in SPRS would become eligible for death and disability provisions immediately and those costs would be unfunded.)

Other unfunded liabilities could accrue in the future if actual conditions failed to meet actuarial assumptions (e.g., if the stock market returned less than the assumed rate in any given year, or people lived longer than the mortality tables assumed), but future liabilities are not known, assumed, or calculated in this analysis. Instead, the analysis focuses on a comparison of the normal cost. The normal cost is the cost paid per year on each person's salary. In the SERS DC plan, the normal cost is the maximum State cost (7.56%) applied to salary; in the State Police hybrid plan, the pension normal rate is expected to be 11.14% applied to salary, plus 1% (the State's DC match in the Pension Plus plan), for a total of 12.14%.

The difference (12.14% compared to 7.56%) is 4.58% additional normal cost for the SPRS Pension Plus plan. Multiplying the 4.58% difference by $404.0 million in payroll would mean an additional yearly normal pension cost of about $18.5 million.

While the bills would not change retiree healthcare benefits, there are some questions as to how retiree healthcare benefits (for the employees who convert and who currently have defined benefit healthcare in SERS) would be treated. If employees with retiree healthcare coverage in SERS converted to SPRS, and if those benefits in SERS were frozen (and any new healthcare benefits were in the form of a personal healthcare savings fund), there may be little fiscal impact to the system. There are additional, similar questions on how death and disability benefits would be treated.

Fiscal Analyst: Kathryn Summers