Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 165 (Substitute S-1 as reported)
Senate Bill 166 (Substitute S-2 as reported)
Senate Bill 167 (Substitute S-1 as reported)
Sponsor: Senator John Cherry (S.B. 165)
Senator Kristen McDonald Rivet (S.B. 166)
Senator Sue Shink (S.B. 167)
Committee: Labor

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 bills are tie-barred.

MCL 38.1603 & 38.1604 (S.B. 165)
MCL 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 will retain current talent and attract new applicants into the corrections industry, and so it has been suggested that corrections officers be allowed to join the SPRS retirement system.

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.

Date Completed: 1-23-24 Fiscal Analyst: Kathryn Summers