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BILL ANALYSIS

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House Bill 5093 (Substitute H-2 as reported without amendment)
Sponsor: Representative Paul Condino
House Committee: Senior Health, Security and Retirement
Senate Committee: Local, Urban and State Affairs

CONTENT

The bill would amend the State Employees' Retirement Act to do the following:

- Provide for the calculation of duty disability benefits using the same formula that is currently used for calculating non-duty disability benefits.
- Formulate duty death benefits based on years of credited service.
- Specify a \$6,000 minimum annual payment for duty death or disability benefits.
- Establish new application and documentation requirements for purchasing parental leave service credit.
- Revise provisions for the payment of a supplemental benefit to a totally incapacitated participant in the defined contribution plan.

Under the bill, the calculation of benefits for members of the State Employees Retirement System who retire due to disabilities at less than 60 years of age, would be calculated in the same manner as provided for non-duty disability retirants (final average compensation x 1.5% x years of service credit). The amount payable could not be less than \$6,000 per year, but the benefits could not be more than an amount that, when added to worker's compensation benefits, exceeded the disability retirant's final compensation.

Except as otherwise provided in the bill, if a member died as the result of a personal injury or disease arising out of and in the course of his or her employment with the State and the Retirement Board found that the death was the sole and exclusive result of State employment, the surviving spouse would receive a retirement allowance calculated as if the deceased member had retired effective the day before the date of death, had selected an option providing for benefits to the retirant and a designated beneficiary, and had nominated his or her spouse as the retirement allowance beneficiary.

The bill would require a member requesting the purchase of service credit for parental leave to submit an application certifying the time period claimed and the purpose of the leave. If the leave claimed were to care for the member's child, he or she also would have to provide a copy of the child's birth certificate or an adoption document. Under the bill, those taking parental leave from service with a reporting unit of the Public School Employees Retirement System also could purchase service credit for the leave.

MCL 38.17g et al.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would have no fiscal impact on local government. There would be a minimal fiscal impact on State government due to the changes proposed in this bill. Based on information obtained from the Office of Retirement Services and the September 30, 2003, valuation of the Michigan State Employees Retirement System (MSERS), there are currently 470

members receiving a duty disability benefit averaging about \$5,600 annually. The average age for these retirees is 51; the average years of service is 11.75; and the retirees' average final average compensation (FAC) is \$30,723. The proposed changes would yield an average calculated benefit of \$5,415 annually; however, the bill proposes to make the minimum benefit \$6,000 annually. Thus, the typical duty-disability retiree would receive an average increase of \$400 to his or her current benefit, totaling \$188,000 annually for all duty-disability retirees. However, the exact cost is indeterminate. This additional cost of \$188,000 would have a minimal impact on the MSERS and could easily be absorbed by the system's assets.

There would be no measurable impact on the contribution rate due to the proposed changes in duty-death benefits. There are currently 19 duty-death retiree survivors receiving benefits averaging \$2,075 annually. The average age at death is 41; the average years of service is 9.48; and average FAC is \$10,152. The proposed changes would yield an average calculated benefit of \$1,522 annually. Again, the bill proposes to make the minimum benefit \$6,000 annually; thus, the average duty-disability survivor would receive an average increase of \$3,925 to his or her current benefit, totaling \$74,575 annually. This amount also could easily be absorbed by the system's assets; thus, there would be no increase in the contribution rate and no State cost for this proposed change.

Date Completed: 4-30-04

Fiscal Analyst: Joe Carrasco