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House Bill 5093 (Substitute H-2 as passed by the House)  
Sponsor: Representative Paul Condino  
House Committee: Senior Health, Security and Retirement  
Senate Committee: Local, Urban and State Affairs

Date Completed: 4-29-04

## **CONTENT**

**The bill would amend the State Employees' Retirement Act to provide for the calculation of duty disability benefits using the same formula that is currently used for calculating non-duty disability; 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; and revise provisions for the payment of a supplemental benefit to a totally incapacitated participant in the defined contribution plan.**

### Duty Disability

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 in Section 20(1) of the Act (final average compensation x 1.5% x years of service credit). The amount payable to the disability retirant 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. The benefit would not be payable before the first day of the month after the later of: 1) 12 months before the date the application for a disability retirement allowance was filed with the retirement system; or 2) the date the member's name last appeared on the State payroll with pay.

Upon reaching 60 years old, the disability retirant would receive a retirement allowance calculated under Section 20. For the purpose of calculating that retirant's allowance, he or she would be given membership service credit for the period during which the retirant was receiving the disability retirement allowance provided for in the bill. If the computation resulted in a retirement allowance that would be less than the disability retirement allowance provided for under the bill, the retirant would receive an allowance equal to that amount. Upon reaching age 60, the retirant could elect an option under Section 31(1) of the Act (which provides that a retirement may receive the actuarial equivalent of the regular retirement allowance to be paid throughout the lives of the retirant and an additional named beneficiary).

If the disability retirant were to die before reaching the age of 60, the retirement allowance payable to the beneficiary designated by the disability retirant would have to be calculated as provided in Section 20(1). For the purpose of calculating the retirement allowance payable to the designated beneficiary, the deceased retirant would have to be given

membership service credit for the period he or she was receiving the disability retirement allowance.

### Duty Death Benefits

Except as otherwise provided in the bill, if a member were to die 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 the death to have been the sole and exclusive result of employment with the State, the surviving spouse would receive a retirement allowance calculated as if the deceased member had retired effective the day before the date of death, selected option A under Section 31(1) of the Act, and nominated his or her spouse as the retirement allowance beneficiary. (Section 31(a) states, "Option A. Upon the retirant's death, his or her reduced retirement allowance shall be continued throughout the life of and paid to the retirement allowance beneficiary whom the member nominated by written designation executed and filed with the retirement board before the effective date of his or her retirement."

The retirement allowance would be based on the deceased member's years of credited service. If the deceased member did not have the minimum number of years (10) to vest in the retirement system, the amount necessary to reach the minimum would be granted to the member. The minimum allowance payable to a surviving spouse would be \$6,000 per year, except that it could not exceed an amount that, when added to the statutory worker's disability compensation benefits payable to the surviving spouse, equaled the deceased member's final compensation. Currently, the Act states that the benefit payable to a surviving spouse is equal to one-third of the deceased member's final compensation, subject to a \$2,400 annual cap.

### Parental Leave Service Credit

Under the Act, a member of the State Employees Retirement System may purchase service credit for maternity, paternity, or child-rearing leave from service with the State. The bill would extend this to a member taking leave from service with a reporting unit of the Public School Employees Retirement System. The bill also would refer to "parental leave", rather than maternity, paternity, or child-rearing.

The bill would require a member requesting the purchase of service credit to submit an application certifying the time period claimed for parental leave and the purpose of that 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. Parental leave could be credited until the child married or turned 18, whichever came first.

The bill would define "parental leave" as either of the following, for which a member reduced or eliminated the number of hours worked for the State or the reporting unit in a normal work time period:

- The presence of the member in the active participation or supervision in the day-to-day, ongoing care or maintenance of his or her child by birth or adoption.
- The member's pregnancy, whether brought to full term or not, childbirth, and recuperation.

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 average duty-disability retiree would receive an increase of an average \$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.

Fiscal Analyst: Joe Carrasco

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