Legislative Analysis

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EARLY OUT FOR CORRECTIONS EMPLOYEES

House Bill 5197
Sponsor: Rep. Gary McDowell
Committee: Labor

Complete to 8-25-09

A REVISED SUMMARY OF HOUSE BILL 5197 AS INTRODUCED 7-14-09

House Bill 5197 would amend the State Employees' Retirement Act to provide a new early retirement option for certain corrections employees between August 1, 2009 and November 30, 2009. This applies, generally speaking, to employees responsible for the care and supervision of prisoners (those in *covered positions*) whose combination of age and years of service are equal to or greater than 70.

Under the bill, those eligible corrections officers who elected to retire during that time would receive a retirement allowance calculated using a 2.0 percent multiplier for their years of credited service until age 62, then a reduced 1.75 percent multiplier thereafter.

Currently, workers in this category receive a retirement allowance calculated using a 2.0 percent multiplier for their years in a covered position until age 62 and then an allowance based on a multiplier of 1.50 percent thereafter. (The allowance for any years of service in a position other than a covered position is calculated at 1.50 percent.) This supplemental early retirement allowance applies to workers who are 51 years of age or older but less than 62 years of age; have 25 or more years of covered service; and whose last three years of credited service are covered service. These employees are known as *supplemental members*.

Under the act, a *supplemental member* of the State Employees' Retirement System is defined to mean a member who is employed in *a covered position*. The term *covered position*, generally speaking, refers to corrections officers responsible for the care and supervision of prisoners or similar employees. (See Background Information for the complete definition.)

The bill specifies that beginning August 1, 2009 and continuing through November 30, 2009, *a supplemental member* could retire with a supplemental early retirement allowance, if the supplemental member met *both* of the following conditions:

- He or she had a combination of age and years of service equal to or greater than 70.
- On or before November 30, 2009 or the effective date of retirement, whichever was earlier, the supplemental member filed a written request for retirement with the retirement board stating a date not later than November 30, 2009 on which he or she wished to retire.

The bill specifies that the state personnel director would determine all questions on eligibility for early retirement benefits.

A corrections officer eligible for early retirement under the bill would receive a retirement allowance equal to the member's number of years of service multiplied by 2.0 percent of his or her final average compensation until the member reached 62 years of age. At age 62 and continuing beyond, the retired corrections officer would receive a retirement allowance equal to the member's number of years of service multiplied by 1.75 percent of final average compensation. The retirement allowance would not be subject to the reduction based on age that usually applies to employees who take an early retirement.

The bill also provides that the director of a principal department could request that the effective date of retirement be extended to a date no later than December 31, 2009. To make that request, the director would have to submit a written request and the written concurrence of the worker seeking retirement to the Office of the State Employer and the State Budget Office on or before December 1, 2009, and those two offices could extend the effective date of retirement to the end of the calendar year.

MCL 38.46a

BACKGROUND INFORMATION:

Under the act, a "*supplemental member*" of the State Employees' Retirement System is defined to mean a member who is employed in a covered position. A "*covered position*" is defined to mean any of the following:

(1) On or after January 1, 1989, a position in the classified civil service with a classification of corrections officer; resident unit officer, corrections medical aide; corrections shift supervisor; corrections security specialist; deputy prison warden; or departmental administrator-prison warden.
(2) On or after January 1, 1989, a position that is assigned to a work station inside the security perimeter of a state correctional facility designated as "medium," "close'" or "maximum."
(3) On or after January 1, 1989, a position within a state correctional facility that requires the employee to be in direct contact with prisoners for more than 50 percent of the employee's work time performing supervisory or disciplinary duties including one or more of the following: (a) supervising prisoners in the performance of tasks; (b) supervising prisoners for the purpose of enforcing the facility's rules; (c) direct participation in the disciplinary process.
(4) On or after January 1, 1989, a position with the center for forensic psychiatry that is classified by civil service as forensics security aide IIB, forensics security aide IIIB, forensics security supervisor IVB, forensics security supervisor VB, forensics security supervisor VIB, or forensics supervisor VII.

(5) A position that was a covered position under this section before January 1, 1989, that is excluded by the previous listings, if and only as long as the person in the position on January 1, 1989, continues in the position after January 1, 1989.

FISCAL IMPACT:

The bill would increase significantly the unfunded actuarial accrued liability (UAAL) of the State Employees' Retirement System (SERS) by adding to both pension and retiree health care costs. The bill would increase costs in three ways: by allowing covered members to retire earlier, to receive a lifelong increased annual pension after age 62, and to receive the supplemental early retirement allowance without having a minimum of the last three years of credited service as covered service.

Currently there are approximately 1,600 covered employees who are eligible to retire under the existing criteria. According to the Office of Retirement Services (ORS), an additional 1,900 would become eligible under a combined age and service requirement of 70, and as many as 1,300 could purchase enough service credit to become eligible under the proposed requirements for a total of 4,800 possibly eligible covered employees. While the estimated costs below are based on 100% participation, if the participation rate were less, the costs would be prorated accordingly. In 2002, when state employees were offered a 1.75% multiplier over 60% of eligible employees participated in the early retirement.

According to ORS, if 100% of eligible employees participated, the bill would increase the present value of the SERS pension UAAL, currently at $2.4 billion, by between $550 million and $720 million or by 23.3% to 30.5%. The actual costs would be much greater because unless otherwise specified, the UAL is currently amortized over a period of 28 years, thus increasing the costs by paying the unfunded liabilities over time instead of up front in a lump sum. The ORS instead proposes amortizing the unfunded liabilities over five years in order to pay costs over the same period in which you would experience any savings. Actuarial estimates suggest this would cost between $130 million and $180 million each year, at a total cost of between $650 million and $900 million over five years.

Additionally, allowing covered employees to retire earlier increases retiree health costs which, unlike pension benefits, are paid for on an annual "pay-as-you-go" basis. In FY 2007-08, the cost of these benefits was $377.4 million. ORS estimates that the bill would increase these costs by approximately $70 million or 18.5% per year for three to four years.

A portion of the increased retirement costs may be offset with lower staffing costs at the Department of Corrections, but there is not enough information with which to determine the extent of possible savings. First, the department already assumes the entire savings of eliminating approximately 1,000 FTE positions through facility closures announced in June for the balance of FY 2008-09 and FY 2009-10, so any added costs associated with retirements up to this level would prevent the full realization of the expected savings. For retirements over and above this number, the costs would likely exceed any potential savings that may be achieved through short-term salary differentials and reduced retirement benefits for new employees.

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