

EARLY OUT FOR CORRECTIONS EMPLOYEES

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House Bill 5197 (Substitute H-1)

Sponsor: Rep. Gary McDowell

Committee: Labor

First Analysis (9-11-09)

BRIEF SUMMARY: The bill would provide a new early retirement option for certain corrections employees whose combination of age and years of service are equal to or greater than 70. Between August 1, 2009 and December 31, 2010, 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.)

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.

THE APPARENT PROBLEM:

On June 4, 2009 the Department of Corrections announced a new round of prison closures aimed at generating approximately \$118 million in savings that the Governor assumed in conjunction with Fiscal Year 2009-10 budget for Corrections. The House- and Senate-passed versions of House Bill 4437, the Fiscal Year 2009-Corrections budget bill, also included those savings.

Three prisons--Hiawatha Correctional Facility, Standish Correctional Facility, and Muskegon Correctional Facility--and the remaining five camps (Cusino, Kitwen, Ottawa, Lehman, and White Lake) were slated for closure.

Earlier closures—that is, those that have occurred over the past few years up through the closing of Scott Correctional Facility in May 2009—were accompanied by reductions in appropriations and FTE (full-time-equated) positions. However, because of the many positions available at other Michigan Department of Corrections facilities, there were very few resulting layoffs. In contrast, the most recent round of prison and camp closings is likely to result in a significant number of layoffs.

There are nearly 9,000 corrections officers who work in Michigan's prisons—most members of the Michigan Corrections Organization, an affiliate of the Service Employees International Union (SEIU). As a result of closing the eight correctional facilities (three prisons and five camps), the Department of Corrections has estimated that there might be about 1,047 positions eliminated, which could result in 500 layoffs, although the exact number is not yet clear. (For more information regarding recent prison and camp closures, please see [Background Information](#).)

An estimated 1,600 of Michigan's corrections officers are currently eligible for retirement. In order to preserve the jobs of younger corrections officers having less

seniority on the job, legislation has been introduced to provide an early retirement incentive for more corrections officers—an estimated 4,800 state prison workers, in all.

THE CONTENT OF THE BILL:

House Bill 5197 (H-1) would amend the State Employees' Retirement Act to provide a new early retirement option for certain corrections employees between August 1, 2009 and December 31, 2010. 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 December 31, 2010, 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 December 31, 2010 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.

MCL 38.46a

BACKGROUND INFORMATION:

Supplemental Members Defined

Under the State Employees' Retirement 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.

Prison and Camp Closures

Table 1 summarizes prison and camp closures over the past five years.

Table 1			
Prison and Camp Closures and Openings 2004-2009			
Status	Facility	Location	Date
closed	Western Wayne Correctional Facility	Plymouth	December 2004
closed	Camp Sauble	Freesoil	May 2005
closed	Camp Tuscola (reopened as reentry center)	Caro	June 2005

converted	Camp Koehler converted to Kinross housing unit	Kincheloe	June 2005
closed	Michigan Youth Correctional Facility (private)	Baldwin	October 2005
closed	Camp Manistique	Manistique	March 2007
closed	Camp Brighton	Brighton	April 2007
Reopened	Camp White Lake	White Lake	April 2007
Opened	Camp Valley	Ypsilanti	April 2007
closed	Southern Michigan Correctional Facility	Jackson	November 2007
closed	Egeler RGC Annex	Jackson	November 2007
closed	Riverside Correctional Facility	Ionia	November 2007
Reopened	Michigan Reformatory	Ionia	November 2007
closed	Camp Branch	Coldwater	February 2009
converted	Camp Valley converted to Huron Valley housing unit	Ypsilanti	February 2009
closed	Deerfield Correctional Facility	Ionia	March 2009
Opened	Woodland Center Correctional Facility (at Maxey)	Whitmore Lake	April 2009
closed	Scott Correctional Facility	Plymouth	May 2009
closed	Camp Cusino	Shingleton	June 2009
closed	Camp Kitwen	Painesdale	July 2009
closed	Camp Ottawa	Iron River	July 2009
closed	Hiawatha Correctional Facility	Kincheloe	August 2009
Closing	Standish Correctional Facility	Standish	October 2009 (estim.)
Closing	Camp Lehman	Grayling	?
Closing	Camp White Lake	White Lake	?
Closing	Muskegon Correctional Facility	Muskegon	?

ARGUMENTS:

For:

Proponents of this legislation argue that hundreds, perhaps thousands, of Michigan's corrections officers who work in the seven camps and five prisons slated to close during 2009 will lose their jobs. It is the elimination of those jobs, and the unemployment of those workers, that allows the state to cut \$120 million from the Department of Corrections budget during Fiscal Year 2009. Proponents of the bill include a spokesman for the Michigan Corrections Organization, and the thousands of corrections officers he represents, who points out that an early retirement incentive will save the jobs of younger workers, and ease into retirement those who bear the stresses and strain from many years work in the prison system. These are dangerous and stressful jobs. Proponents note that corrections officers were explicitly excluded when the state offered its older workers early retirement incentives in 1995 and 2002, during two earlier economic downturns. They argue "now we deserve a turn" to retire early with an enhanced pension.

Against:

Opponents of this legislation argue that the State of Michigan simply cannot afford the costs of a second early retirement incentive plan designed only for corrections workers. They note that corrections employees already enjoy an enhanced pension with a 2.0 percent multiplier until they reach 62 years of age—considerably higher than the 1.50 percent multiplier in effect for other state employees. And corrections workers already can retire earlier than most other state workers. Further, the House Fiscal Agency and the

Department of Management and Budget-Office of Retirement Services estimate costs for the program to be 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 care costs. The Office of Retirement Services estimates that the bill would increase these costs by approximately \$70 million for three to four years.

POSITIONS:

The Michigan Corrections Organization supports the bill. (8-19-09)

The Michigan Association of Governmental Employees supports the bill. (8-19-09)

The International Union, UAW supports the bill. (8-19-09)

The SEIU Michigan State Council supports the bill. (8-19-09)

The Michigan Department of Corrections is neutral on the bill. (8-19-09)

The Department of Management and Budget Office of Retirement Services opposes the bill. (8-19-09)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.