



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 1171 (as introduced 6-6-12)
Sponsor: Senator John Pappageorge
Committee: Appropriations

Date Completed: 6-7-12

CONTENT

Senate Bill 1171 would add Section 41a to the Municipal Employees Retirement Act to allow a municipality to do the following, with a majority vote of its governing body:

- **Revoke the municipality's election to be governed by the provisions of the retirement system; or,**
- **Change the benefit program and member contribution programs that apply to employees of the participating municipality.**

Prior to 1996, the Municipal Employees' Retirement System (MERS) operated under State government, and the Municipal Employees Retirement Act specified the benefits, plans, eligibility, and all other facets of MERS. However, MERS became an independent nonprofit public organization under Public Act (PA) 220 of 1996, which repealed most of the statutory provisions, and required the retirement system provisions (when MERS became independent) to "not differ materially from the defined benefit provisions" that were in effect before the date the System became independent. One of the statutory provisions that was repealed by PA 220 of 1996, but that was subsequently continued by MERS, required a vote of the electorate for a municipality to revoke its election to be part of MERS.

Under the bill, a municipality, with a majority vote of the governing body, could revoke its election, or change the benefit program, for all members in a plan, or for any division, subset, or collective bargaining unit of the municipality. Changes to the benefit program could include curtailing or eliminating a member's accrual of future benefits or setting eligibility criteria for an employee to participate in the defined benefit provision of the retirement system.

The bill further specifies that if a municipality took one of the actions described above, the municipality would be required to select an actuary to prepare an actuarial analysis, which would include an analysis of the contribution requirements associated with a revocation of participation or change in coverage. The actuary would be allowed to use one or more actuarial methods or alternative amortization periods, subject to Section 20m of the Public Employee Retirement System Investment Act, as long as those methods or periods were generally accepted within the actuarial profession. The cost of the actuarial analysis would be paid from plan assets.

The bill would require a municipality that revoked or changed its retirement system as allowed with a majority vote of its governing body to be responsible for funding its contribution

requirements as determined by the actuarial analysis and Section 24 of Article IX of the State Constitution. Finally, the bill provides that the retirement system could not require a municipality revoking or changing its plan as allowed under the bill to participate in another retirement plan administered by the retirement system as a condition for taking an action to revoke or change the municipality's retirement plan or benefits.

MCL 38.1356 et al.

FISCAL IMPACT

The fiscal impact of the bill is indeterminate. The bill would allow a municipality to more easily revoke or change its retirement plan or benefits, because the municipality would need a majority vote of its governing body rather than a majority vote in a public election. However, any subsequent or resulting actions taken by the municipality would determine the ultimate fiscal impact to the municipality. Requiring the cost of the actuarial analysis to be paid from the plan's assets would reduce any potential costs to the municipality that otherwise would accrue from the procedural aspect of examining potential changes, if the municipality were required to pay for the analysis instead of using the assets of the retirement system.

Fiscal Analyst: Kathryn Summers

S1112\s1171sa.

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.