Introduced Bills for State Employee Retirement Revisions

Summary of House Bill 4701 and House Bill 4702 (as introduced)

The bills would amend the State Employees' Retirement Act and the Public Employee Retirement Health Care Funding Act to make the following changes to State Employees' Retirement System (SERS) benefits beginning October 1, 2011:

- Eliminate the 3% employee contribution for retiree health care required of all employees since 2010 and refund contributions to employees.

- Allow employees in the SERS defined benefit (DB) pension plan to choose between remaining in the plan and contributing 4% of their compensation toward future service and compensation in the plan, or freezing their pension benefit and earning their future service under the SERS defined contribution (DC) 401(k) plan.

- Revamp retiree health insurance provisions for employees in the DC plan hired after March 31, 1997, (excluding former DC employees who have already retired and are currently receiving the health insurance benefit).

- Provide DC plan employees (other than those excluded above) a lump sum into a health reimbursement account upon retirement from the State in lieu of retiree health insurance.
    - For employees with more than 4 years of service, the amount would be actuarially calculated using amount of service accrued as of September 30, 2011.
    - For those with fewer than 4 years of service or new employees, the amount would be $2,000.

- Establish health reimbursement accounts for employees within the irrevocable health care trusts established in 2010 to receive and hold employer contributions for the reimbursement of medical expenses and/or insurance plan premiums in retirement.

- Exclude overtime pay earned October 1, 2011 or later from the definition of compensation, thereby excluding overtime pay from an employee's pension calculation and compensation for the purposes of calculating employee contributions into the pension plan.

- Allow the State Budget Director to waive the requirement that retirees suspend their pension if they are directly or indirectly reemployed by the State if the arrangement is cost effective for the State.

- The bills are tie-barred to each other so that neither could go into effect unless the other is also enacted into law.

HB 4701 (complete bill as introduced):
http://www.legislature.mi.gov/(S(ai0u5bqovcuzlemequjahgq0))/mileg.aspx?page=getObject&objectName=2011-HB-4701

HB 4702 (complete bill as introduced)
http://www.legislature.mi.gov/(S(ai0u5bqovcuzlemequjahgq0))/mileg.aspx?page=getObject&objectName=2011-HB-4702

The introduced bills place a focus on solving the problem of controlling the state's long-term liabilities to make sure we create a structure that is sustainable for the future.

If the bills were to pass and be signed as they were introduced, the net effect would be:

- The mandatory 3% employee health care contribution will be refunded to employees – with interest – by October 1, 2011.

- Employees will be empowered to spend or invest their 3% contribution as they see fit, including the option of increasing contributions to their 401K or 457 plans.

- Defined Benefit plan members would decide which retirement plan is best for them going forward.

- Eligible Defined Contribution employees will receive an amount credited to a health reimbursement account (HRA) upon retirement that can be used for medical expenses.

- The State's health care obligations are defined from this point forward, helping to ensure that commitments to employees and retirees can be met.

- Projected first-year savings of $50 million ($25 million General Fund) will be credited towards the $145 million in General Fund employee concessions included in the Fiscal Year 2012 budget.

- In conjunction with the long-term liability payments made in the Fiscal Year 2012 budget, these changes will produce an accounting reduction of the State's retiree health liabilities by approximately $5.6 billion.