House Legislative Analysis Section

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INCREASE SOME COUNTY PENSIONS

House Bill 4777 as enrolled
Third Analysis (5-16-90)

Sponsor: Rep. Lynn Owen
Committee: Senior Citizens and Retirement

THE APPARENT PROBLEM:

Counties may provide retirement benefits for their retired employees either by entering into the state-administered Municipal Employees Retirement System, or by adopting a retirement program under the provisions of Public Act 156 of 1851, the act granting powers to county boards of commissioners. Under the current provisions of that act, county boards may also provide retirement benefits to members of collective bargaining units in excess of those outlined in the act if they have entered into a bargaining agreement that includes the expanded benefits. The board may also amend or adopt a retirement plan under the act to provide the expanded benefits to other employees. Under this latter provision, the retirement benefits of elected officials (prosecuting attorneys, sheriffs, and county clerks, for example) and other non-union employees could be increased to keep pace with those of employees covered under collective bargaining agreements. There is no provision in the act, however, that would provide for an increase in benefits where there is no collective bargaining agreement. Under the act, monthly pension amounts are based on an amount that is equal to two percent of the employee's average final compensation times the employee's total number of years of service; and total benefits may not exceed three-quarters of the employee's average final compensation. ("Average final compensation" is defined as the annual average of an employee's highest actual compensation received during either a period of five consecutive years of service during the employee's last ten years of service, or the employee's highest average monthly compensation received for a five year period that is specified in the employee's retirement plan). An increase in the two percent formula multiplier would allow counties to provide pension benefits that were competitive with those counties in which benefits had been increased to match those provided under collective bargaining agreements.

THE CONTENT OF THE BILL:

Currently, under Public Act 156 of 1851, a county board of commissioners may adopt and establish a plan to provide monthly pensions for employees as follows:

A. For an employee 60 years of age or older: the board may purchase or participate in the cost of an endowment policy or retirement annuity to provide monthly benefits in an amount not to exceed $150.00, or two percent of the employee's average monthly earnings for the five years immediately preceding retirement, multiplied by the employee's years of service, whichever is the lesser sum.

B. For an employee who has 25 years of service or who is 60 years of age or older and has been employed for not less than five years: monthly payments equal to two percent of the employee's highest average monthly compensation (or earnings received from the county or county road fund for five years of service), multiplied by the employee's total number of years of service. The pension amount may not exceed three-quarters of the employee's average final compensation.

Under the bill, boards of commissioners would have the option of increasing the two percent multiplier factor in plan B to no more than two and one-half percent. In addition, a county that increased its pension formula multiplier factor would be required to recalculate the pension or retirement benefits payable to current retirees on the date of the increase. The retiree would be eligible to receive the adjusted pension or benefit on the first day of the month following the increase.

After the effective date of the bill, retirees who were receiving benefits from a retirement plan established under the act, and who continued to work or became reemployed, would be subject to certain provisions. The payment of a pension or retirement benefit to a retiree who was reemployed by the county from which he or she retired would be suspended. The suspension would become effective on the first day of the calendar month following the sixtieth day after the retiree was employed by the county, and payment would resume — without change in amount or conditions — on the first day of the calendar month that followed termination of the employment. The retiree would not be considered a member of the plan during the subsequent period of employment. The payment of a pension or benefit to a retiree who was employed by a county other than the county from which he or she retired, however, would continue with no change in amount or conditions. The retiree's employment history with the first county could not be taken into consideration for the purposes of membership and potential benefit entitlement with the second county.

The bill would also make general technical amendments to the act.

MCL 46.12a

FISCAL IMPLICATIONS:

According to the Retirement Bureau in the Department of Management and Budget, the bill would have no fiscal implications for the state. (8-8-89)

ARGUMENTS:

For:

The bill would give county boards of commissioners the option of providing increased retirement benefits to their employees. Without the bill, county employees across the state are eligible for different levels of retirement benefits, depending upon whether they are represented by a bargaining unit, or — if represented — to which bargaining unit they belong.

For:

By prohibiting a county employee from concurrently receiving county retirement benefits and a salary from the same county, the bill would prevent "double-dipping" by a person who retired from, and then returned to, county employment.

Against:

Allowing county boards of commissioners to increase the multiplier factor used in the formula to compute retirement benefits would set a dangerous precedent because future union negotiations would then be based on this.

Since, under the bill, county employees could conceivably receive pensions in amounts equal to nearly twice those provided to state employees and to public school employees, (the multiplier factor used to compute benefits under those statutes is one and one-half percent), there is little doubt that the provisions of the bill would set the pace for state-wide increases in pensions.

Response: Under the formula provided by the act to compute benefits for county employees, annual pension amounts at present could conceivably range from $6,000 for a county employee who retires after 25 years of service with an average final compensation of $12,000, to $35,000 for an employee who retires after 25 years with an average final compensation of $70,000. In practice, however, those employees whose salary levels fall at the higher end of the wage scale are elected officials who often only spend a few years in their positions, and who make up the ten percent of county employees whose positions are not covered by union contracts. The bill would allow those with at least five years of employment the opportunity to make up in part for some of the pension benefits they lose through dedication to public service.

Against:

The bill could conceivably result in a significant cost to a county that chose to increase its pension formula multiplier factor, by requiring the county to apply the increase retroactively to members who have already retired. In order to avoid this cost, the increase should apply only prospectively, to members who retire after it becomes effective.

Against:

If the purpose of the bill is to allow an increase in the pension formula multiplier factor, then it should be amended to reflect that intent. Instead, the bill could conceivably be interpreted by a county as permission to decrease its multiplier factor. As introduced in the House, the bill would have established both a minimum and a maximum level for the multiplier; as written, the multiplier could be <u>any</u> number up to 2.5 percent.