



**House
Legislative
Analysis
Section**

Manufacturer's Bank Building, 12th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

AMEND RECIPROCAL RETIREMENT ACT

House Bill 5098 as introduced
First Analysis (10-23-89)

RECEIVED

NOV 16 1989

Sponsor: Rep: Mary C. Brown
Committee: Senior Citizens and Retirement

Mich. State Law Library

THE APPARENT PROBLEM:

The purpose of the Reciprocal Retirement Act is to allow individuals who work for two or more governmental units during their careers to "tack on" credited service from one governmental unit to another in order to meet the vesting requirements of the unit they wish to retire from. The act enables a person with periods of fairly continuous service in several public retirement systems to receive credit for retirement benefits from each system, provided that at least one of the systems is a reciprocal unit. Although service credit cannot be transferred from one system to another, years vested in one system can be applied to the total service of a person in the retirement system from which he or she retires in order to make up the minimum needed for vestment in that system. Under the act, an employee who has at least thirty months of credited service with one of the state's participating public employee retirement systems, and who leaves employment under that system and within five years takes employment with another local governmental unit, may receive a retirement allowance from the preceding system, provided that any contributions withdrawn are repaid with interest, and that the employee's total service with both units meets the preceding unit's minimum requirements for age and service retirement. The employee could also retire from a succeeding retirement system, in which case he or she could use previously acquired service in order to meet the service requirements for retirement required by that unit. Under the latter situation, however, the employee would have to work for the succeeding unit for at least five years. It has been suggested that this latter requirement presents an inequity in the law, as shown by these hypothetical examples:

I. Employee Brown worked for City A for three years, left City A (leaving her accumulated deposits in its retirement system), and immediately was employed by County B, where she worked for ten years. Both City A and County B have vesting requirements of ten years. Brown is now 62 and would like to retire. She meets the county's age and vesting requirements for retirement, and is entitled to a county pension, based on her ten years of service there. Brown could, however, draw pension benefits from both entities if they have elected to come under the provisions of the Reciprocal Retirement Act, since she has worked for City A for three years, she could add seven years of service from County B to meet the city's ten-year vesting requirement.

II. Employee Smith also has thirteen years' employment in the public sector. Smith, however, has worked for City A for nine years and for County B for four years. Although he, too, could add one year's service from County B to meet the city's ten-year vesting requirement, he does not have five years of employment with the county, and cannot, therefore, "tack on" years of service from the city to meet the county's vesting requirement. Moreover, since the county retirement system provides free health insurance benefits, it would be much more beneficial for Smith if he could retire from that system.

THE CONTENT OF THE BILL:

Currently, under the Reciprocal Retirement Act, public employees who transfer their employment between one unit of government and another must acquire five years or more of credited service before they may use any previously acquired service in order to meet the service requirements for retirement. The bill would reduce this requirement to 30 months.

MCL 38.1105

FISCAL IMPLICATIONS:

According to the Retirement Bureau in the Department of Management and Budget the bill would have a small fiscal impact which is impossible to predict at this time. (10-19-89)

ARGUMENTS:

For:

Nationally, there is a movement underway in the private sector to make retirement pensions portable and to provide shorter vesting programs. Public sector retirement systems have not kept up with the private sector in this area. In recognition of the mobility of today's work force, it makes sense to require that a public employee work two and one-half years instead of five years in a succeeding governmental unit.

For:

The bill would rectify an arbitrary and unfair requirement imposed by the act: that a public employee need only work thirty months for one employer, while he or she must be employed by another for five years. The result of this inequity is that, of employees who accumulate the same number of years of public employment, some will receive more in retirement allowances than others, depending on how their employment is proportioned between different employers.

POSITIONS:

The Retirement Bureau in the Department of Management and Budget has no position on the bill. (10-19-89)

The State Employees Retirement Association has no position on the bill. (10-19-89)

The Michigan Municipal League has no position on the bill. (10-20-89)

The Michigan State AFL-CIO has no position on the bill. (10-20-89)

H.B. 5098 (10-23-89)