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COLA FOR POLICE & FIRE RETIREES

House Bill 4106 as introduced
First Analysis (3-12-87) Floor Copy

Sponsor: Rep. Thomas L. Hickner
Committee: Senior Citizens & Retirement

THE APPARENT PROBLEM:

Local governments may organize pension plans for police and firefighters under Public Act 345 of 1937. Unlike laws regulating other public pension plans, P.A. 345 does not authorize local governments to provide post- retirement adjustments in retirement allowances. Thus, police and firefighter retirees whose pensions are authorized under the act, many of whom retired before the high inflation of the 1970s, have had no cost-of-living increases during their retirement. Some people believe that local governments should have the option of granting post-retirement adjustments for their police and firefighter retirees. Further, some believe that local governments should be able to pay the administrative expenses of a police and firefighter retirement system from the excess investment earnings of the system.

THE CONTENT OF THE BILL:

The bill would amend Public Act 345 of 1937 to allow a participating municipality, upon approval of the legislative body or the electorate, to provide post-retirement adjustments to the allowances of retired police and firefighters. The municipality could choose from three options for providing these adjustments.

Under the first option, retirees could receive a one-time adjustment, computed by multiplying an adjustment factor (up to two percent) by the number of years a person had been retired or the number of years since the last increase, whichever was shorter. The local government would determine the adjustment factor.

A second option would be an annual post-retirement adjustment. A retiree's base pension amount would be increased annually by a percentage determined by the local government, up to 2.5 percent. However, the maximum cumulative adjustment would be limited to 75 percent of the cumulative percentage increase in the consumer price index since the person retired.

Third, a local government could provide a lump-sum payment from its general fund or the excess interest income of the retirement system. The amount and method of distribution would be determined by the local government.

A local government could choose either of the first two options, but not both. The third could be selected in addition to either of the first two.

The bill would allow the governing body of a participating local government to pay the administrative expenses of the retirement system from the investment income of the system, or as a direct appropriation. The retirement board would have to submit its expenses to the governing body periodically. If the use of investment income to pay administrative expenses caused an actuarial insufficiency, the local government would be required to make up the insufficiency (MCL 38.559).

FISCAL IMPLICATIONS:

According to the Department of Management and Budget, the bill would have no fiscal implications to the state. Local governments that adopted cost-of- living increases would bear the cost of those increases (3-11-87).

According to the House Fiscal Agency, the bill would have no fiscal implications to the state. Local units of government would incur costs if they chose to pursue one of the options listed, but those costs would have to be determined by an actuary and estimates are not available at this time (3-11-87).

BACKGROUND INFORMATION:

A similar bill, House Bill 5426, passed the House in 1986.

ARGUMENTS:

For:

The bill would allow local governments to adopt much needed cost-of-living adjustments for police and firefighter retirees. Many retirees subsist on pensions based on final salary levels that existed in the 1960s or 1970s, before the inflationary spiral that has more than doubled the consumer price index since 1975. Those local governments that decided to make post-retirement adjustments would have a choice among three options, with varying costs to their local retirement systems. This would allow maximum flexibility for local governments to meet the demands of their police and firefighter retirees within the constraints of their own budgets.

For:

The bill would allow a local government to pay the administrative expenses of its police and firefighter retirement system from the excess interest earnings of the system. These expenses include clerical, legal, actuarial, or medical expenses incurred in the normal operation of a retirement program. However, the bill would protect the fiscal integrity of the retirement systems by requiring the local government to make up any actuarial shortfall caused by paying administrative expenses from investment income.

POSITIONS:

The Department of Management and Budget supports the bill (3-11-87).

The Fraternal Order of Police supports the bill (3-11-87).