



**House  
Legislative  
Analysis  
Section**

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**COLA FOR POLICE & FIRE RETIREES**

**RECEIVED**

House Bill 4106 as enrolled  
Second Analysis (10-21-87)

**NOV 17 1987**

Sponsor: Rep. Thomas L. Hickner Mich. State Law Library  
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 permitted 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 to adopt, from time to time, benefit programs which provide post-retirement adjustments increasing retirement benefits. The programs could provide for one-time percentage increases in benefits, annual or periodic percentage increases in benefits, lump-sum postretirement distributions, or any other method the municipality considered appropriate.

The bill would also make matters related to the act's retirement system that were applicable to current employees represented by a collective bargaining agent mandatory subjects of bargaining under the Public Employment Relations Act.

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 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. (10-21-87)

***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.

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