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**House Bill 4106** (Substitute S-1 as reported)  
**Sponsor:** Representative Thomas L. Hickner  
**House Committee:** Senior Citizens and Retirement  
**Senate Committee:** Judiciary  
**Date Completed:** 10-6-87

## RATIONALE

Under Public Act 345 of 1937, local governments can organize pension plans for police and firefighters. Unlike laws regulating other public pension plans, Public Act 345 does not authorize local governments to provide postretirement 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 the period of their retirement. Some people believe that municipalities should have the option of granting postretirement 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.

than would the House-passed version in determining the type of adjustment to be made. For example, the House-passed version specified certain ranges for adjustment amounts (up to a 2% adjustment factor for each year of retirement for a one-time adjustment; and an annual increase of up to 2.5%, with a maximum cumulative adjustment of 75% of the cumulative consumer price index, for periodic adjustments) while the Senate substitute would allow municipalities to determine adjustment amounts based on their own budget constraints.

In addition, the Senate substitute specifies that matters relating to retirement would be a mandatory subject of bargaining for current employees who were represented by a collective bargaining agent.

## CONTENT

House Bill 4106 (S-1) would amend Public Act 345 of 1937, which provides for a retirement system for municipal police and fire department personnel, to allow a municipality, by ordinance or other manner provided by law, to adopt from time to time benefit programs providing for postretirement 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 also would make matters related to the Act's retirement system that are applicable to current employees represented by a collective bargaining agent mandatory subjects of bargaining under the Public Employment Relations Act (MCL 423.201-423.216).

In addition, 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 et al.

## SENATE COMMITTEE ACTION

The Senate Judiciary committee adopted a substitute (S-1) to the bill that would give municipalities greater flexibility

## FISCAL IMPACT

This bill would have no fiscal impact on the State. There would be a potential indeterminate cost to those municipalities that adopted postretirement adjustments to police and fire pensions by a majority vote of the municipal legislative body or electors. The cost of any such adjustments would vary by the adjustment factors used, and the particular characteristics of the municipality's police and fire systems.

## ARGUMENTS

### Supporting Argument

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 postretirement adjustments would have a choice among a variety of adjustment options, with varying costs to their local retirement system. This approach would allow maximum flexibility for local governments to meet the demands of their police and firefighter retirees within the constraints of their own budget.

### Supporting Argument

The bill would allow local governmental units to pay the administrative expenses of police and firefighter retirement systems from the excess interest earnings of the systems. These expenses include clerical, legal, actuarial, or medical expenses incurred in the normal operation of a retirement program. The bill would protect the fiscal

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integrity of the retirement systems, however, by requiring the local government to make up any actuarial shortfall caused by paying administrative expenses from investment income.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.