	STATE EMPLOYEES	PUBLIC SCHOOL EMPLOYEES
1	Eliminate state subsidy for **retiree dental/vision** if retirement occurs after October 1, 2010. Employees will still be able to buy into plan at own cost. Savings: $500,000 (FY 11) $50M (10 yrs)	Eliminate subsidy for **retiree dental/vision** if retirement occurs on or after October 1, 2010. Employees will still be able to buy into plan at own cost. Savings: $1M (FY 11) $206M (10 yrs)
2	Re-instate 3% **employee salary contribution** for SERS plan members effective October 1, 2010 Savings: $35M (FY 11) $305M (10 yrs)	Increase **employee salary contribution** to PSERS for plan members effective July 1, 2010: Basic members: contribute 3% MIP Fixed: increase by 3% MIP Graded: top tier increase by 3% MIP Plus: top tier increase by .9% for total increase of 3% *(top tier already increased by 2.1% per 2007 PA 111)* Savings: $207M (FY 11) $2.4B (10 yrs)
3	SERS plan **enrollment capped after 30 years** and employees transferred to defined contribution plan for any additional years of service accrued subsequent to October 1, 2010. The cap does not apply to service credit purchased by the employee. Employees currently exceeding 30 years of service credit would retain all service credits accrued prior to this date. Savings: $2M (FY 11) $15M (10 yrs)	PSERS plan **enrollment capped after 30 years** and employees transferred to defined contribution plan for any additional years of service accrued subsequent to October 1, 2010. The cap does not apply to service credit purchased by the employee. Employees currently exceeding 30 years of service credit would retain all credits accrued prior to this date. Savings: $41M (FY 11) $479M (10 yrs)
4	N/A	Implement **hybrid DB/DC plan** for new employees hired on or after July 1, 2010. Employer normal cost of the defined benefit plan reduced from 4.21% to 1.8%. A new defined contribution component would provide a 50% match of employee contributions up to an employer cost of 1% of pay. DB plan multiplier at 1.5% of 9 year final average compensation times years of service. Savings: $4M (FY 11) $411M (10 years)
5	Implement a **phased retirement option** (age 60 and older; not to exceed 3 years; renewed annually at management discretion) whereby the employee can draw SERS pension, but must reduce hours worked by 50% (maximum 1040 hours). Optional at the agency level. Employee eligibility determined at management discretion.	Implement a **phased retirement option** (age 60 and older; not to exceed 3 years; renewed annually at management discretion) whereby the employee can draw PSERS pension, but must reduce hours worked by 50%. Optional at the school district level. Employee eligibility determined at management discretion.
6	**Retirement incentive** with multiplier increased from 1.5% to **1.6%** for those eligible for a full retirement under current rules who leave between July 1, 2010 and September 30, 2010 and agree to defer terminal leave (excluding BLT) obligations over 5 years starting in FY 11. Only available to employees occupying positions subject to the new State Health Plan PPO/HMO for new hires after April 1, 2010. Costs amortized over 5 years.	**Retirement incentive** with multiplier increased from 1.5% to **1.6%** for those eligible under current rules who leave between July 1, 2010 and September 1, 2010. Costs amortized over 5 years.

OFFICE OF THE STATE BUDGET
February 11, 2010

State Employee Pension Reforms and Retirement Incentive

Background

The State Employee Retirement System (SERS) has over 27,000 plan members, comprised of active employees hired prior to March 31, 1997 who have elected to remain in the defined benefit plan. Based on a preliminary valuation, SERS has an unfunded liability of $3.1 billion at the end of fiscal year 2009. The impact of this unfunded liability, combined with the closed nature of the system, is continuing to exert budgetary pressure in the form of increased contributions required to be paid into the pension plan.

In addition, nearly 7,900 SERS plan members are currently eligible to retire. These employees are the longest serving, and typically the highest earning in the state workforce. The retirement of these employees allows for the hiring of less costly replacements, both in terms of salary and the recently negotiated health benefit package for new employees set to take effect April 1, 2010.

Proposal

In order to constrain long-term pension obligations and reduce state employee costs, the following SERS reforms are recommended:

- Eliminate the state subsidy for **retiree dental/vision coverage** for employees retiring after October 1, 2010. Future retirees will still be able to buy coverage in the state plan, but at their own cost.

- Require a **3% employee salary contribution** for active SERS plan members effective October 1, 2010. This reform re-instates a 3% member contribution in effect prior to 1974, and requires contributions similar to those in the other state-administered pension plans for legislative members, judges and public school employees.

- **Cap SERS plan service credit after 30 years;** employees would be transferred to the defined contribution plan for any additional years of service accrued subsequent to September 30, 2010. This cap does not apply to service credit purchased by the employee. Employees currently exceeding 30 years of service would retain all service time accrued prior to this date, and would be vested immediately upon transfer in the defined contribution plan. The final average compensation calculation for the defined benefit plan for transferred employees' would continue to be factored on the highest consecutive three years of compensation at the date of separation from state employment.

- Establish a **phased retirement option** whereby an employee can draw their SERS pension, but must reduce hours worked by at least 50% (1,040 hours maximum). The option would be offered at the discretion of the employer, and available to employees age 60 and older. The option is for one year, but can be renewed annually for up to a total of three years.

- Provide a **limited retirement incentive** with the multiplier increased from 1.5% to 1.6% for employees eligible for a full retirement (age 60 with at least 10 years of service, or age 55 with 30 years of service) who retire between July 1, 2010 and October 1, 2010. Eligible employees in "covered" positions may choose between the 1.6% multiplier and the supplemental benefit to which they would otherwise be entitled. Terminal leave obligations (excluding banked leave time) for employees retiring under this incentive program would be paid over 60 months beginning in fiscal year 2011. The deferral of annual leave payouts will not impact the final average compensation calculation. This retirement incentive is also only available to employees occupying positions subject to the new State Health Plan PPO/HMO. This new employee health benefit plan takes effect for new hires on or after April 1, 2010.

Due to the above reforms, it is assumed that approximately 6,300 eligible employees will elect to retire, resulting in career opportunities for over 4,300 new employees to enter the state workforce. Overall, the state workforce will be permanently reduced by nearly 2,000 employees due to a limitation on the number of replacement hires.

Assuming expedited legislative action, the retirement application window would be April 15, 2010 through May 15, 2010. Applicants would have the ability to rescind applications from May 16, 2010 through May 31, 2010. The new retirees would enter the pension system on the first of each month following separation, beginning with July 1, 2010 and continuing through October 1, 2010. Replacement hiring would begin immediately in fiscal year 2010, with the phased-in hiring of replacements continuing to occur throughout fiscal year 2011. A limited number of extensions would be allowed until April 1, 2011, for critical positions in which a transition period is necessary.

Additional information on the SERS pension reforms and retirement incentive is available on the Office of Retirement Services website at www.michigan.gov/ors.

Fiscal Impact

The net savings of these anticipated 6,300 retirees in fiscal year 2011 is estimated to be $264.8 million gross / $102.7 million general fund. The savings estimate assumes 85% of eligible employees will elect to retire. The assumed retiree replacement rate is 1:2 (direct care/client staff replaced at a rate of 1:1), lending to an equated replacement rate of 2:3. The estimate provides for the amortization of pension costs over five years, and assumes salary and benefit savings from less costly replacement employees. The cumulative net savings of the proposed reforms over ten years is $1.97 billion gross / $764 million general fund.

OFFICE OF THE STATE BUDGET
February 11, 2010

Michigan Public School Employees' Retirement Reform

Background

The Michigan Public School Employees' Retirement System (MPSERS) has over 454,500 members – 171,900 current retirees and beneficiaries, and 282,600 active employees. The MPSERS contribution rate will increase by nearly 2.5% for fiscal year 2011, which will cost local school districts an estimated $255 million in additional retirement obligations. This rate is expected to continue to increase over the next five years due to recent declines in membership and significant investment losses in 2008 and 2009.

The MPSERS offers a range of retirement plans, requiring varying levels of employee contributions. Approximately 39,000 plan members are currently eligible to retire. While several MPSERS reforms were enacted in 2008, many of the provisions were prospective only, and did not affect the traditional, more costly plans of which many of the eligible retirees are members. These employees generally earn higher salaries, and some are in pension plans that require no employee contributions.

Proposal

In order to ensure the financial sustainability of the MPSERS, several reform initiatives are being proposed:

- Eliminate the subsidy for **retiree dental/vision coverage** for employees retiring after October 1, 2010. Future retirees will still be able to buy coverage in the public school retirees' plan, but at their own cost.

- **Increase employee contributions by 3%** for all employees except for those whose contributions were increased by 2.1% in 2008. These members' contributions will increase by 0.9%. These increases will take effect on July 1, 2010.

- **Cap PSERS plan service credit after 30 years;** employees would be transferred to the defined contribution plan for any additional years of service accrued subsequent to September 30, 2010. This cap does not apply to service credit purchased by the employee. Employees currently exceeding 30 years of service would retain all service time accrued prior to this date, and would be vested immediately upon transfer into the defined benefit plan.

- Implement a **new more cost-effective hybrid plan for employees** hired on or after July 1, 2010. New employees will participate in both a defined benefit plan and a defined contribution plan. This plan will lower employer cost by approximately 1.41% for each new hire, while providing greater stability in the contribution rates going forward.

- Establish a **phased retirement option** whereby an employee can draw his or her public school pension, and reduce hours worked by at least 50% (1,040 hours maximum). This initiative would be available to employees age 60 and older; however, employee eligibility would be at the discretion of the school district. The option is for one year, but can be renewed annually for up to a total of three years.

- Provide a **limited retirement incentive** with the multiplier increased from 1.5% to 1.6% for public school employees eligible for a full retirement under current rules who retire between July 1, 2010 and September 1, 2010. All costs would be amortized over 5 years.

Due to these reforms, it is assumed that nearly 29,000 eligible public school employees will elect to retire, resulting in career opportunities for new teachers to enter the state workforce.

Assuming expedited legislative action, the retirement application window would be April 15, 2010 through May 15, 2010. Applicants would have the ability to rescind applications from May 16, 2010 through May 31, 2010. The new retirees would enter the pension system on the first of each month following their separation, beginning with July 1, 2010 and continuing through September 1, 2010.

Additional information on the public school pension reforms and retirement incentive is available on the Office of Retirement Services' website at www.michigan.gov/ors.

Fiscal Impact

The net savings to be realized by local school districts for these anticipated 29,000 retirees in fiscal year 2011 is estimated to be $701 million. The savings estimate assumes 75% of eligible employees will elect to retire. The assumed retiree replacement rate is 1:1.1 (or 90%). The estimate assumes pension costs are amortized over five years, and salary savings from less costly replacement employees. The cumulative net savings of the proposed reforms over ten years is nearly $6.4 billion.