State Employee Retirement Bill

Public School Employee Bill

I am Mark Rapelje. I am 53 years old and an employee of the Executive Branch of the State of Michigan for 32 years. I need to make clear to this committee and the press that I'm using my vacation time to appear here today. I am testifying as a member of the public and not for any organization, any department of the State of Michigan, any union or any other type of organization. I have written this testimony on my own time and paid for the printing of this testimony with my own funds.

I do not qualify for retirement under this bill and I am not asking for it to be modified to allow me to retire. Although this bill will not allow me to retire, it will still affect my family and thousands of families of other State Employees. My testimony will bring to light the negative factors included in this bill and the fact that **all State Employees are not being treated equally.**

My first objection to this revised bill is the required 3% employee contribution to the State Employee Defined Benefit plan. Currently the only State Employees making employee contributions to their DB retirement plans are the Judges that are jointly employed by the State of Michigan and Michigan counties. It is true that in the early 1970's the executive branch employees paid 3% of their wages into the State of Michigan retirement system. In the early 1970's inflation was sky high (around 14%). A trade off was made. The State of Michigan employees would not receive their cost of living pay raise and <u>the State of Michigan would fully fund the retirement account.</u>

The State Employee 2009 CAFR page 21 of 105 "Retirement System As A Whole" includes the following statement. **"Management believes that the system remains financially sound and positioned to meet its ongoing benefit obligations due in part to a prudent investment program, cost controls, and strategic planning. "** Now the Governor claims there is a need to reinstate the 3% contribution due to the fund being insolvent. The professionals, (management of the fund, and the auditors of the fund) found otherwise. Even after the Governor made her claim public, the professionals have not changed their position on the soundness of the retirement fund. This may be the wrong group to ask this question, but I must, who should we trust more, the professionals or a politician?

As I stated in my prior testimony, the underlying cause of the retirement fund being underfunded (not insolvent) is simple; the State of Michigan did not make adequate deposits into the retirement account. This practice started with the prior administration and continued into the current administration. The decision makers for the State stopped using the standard accounting practice of using a 10 or 12 year average of the growth of the account's investments to project future growth. Instead they used accounting gimmicks to artificially skew the future projected growth of the investments. The decision makers used longer or shorter years of averages to include higher years of growth and/or to cut out the lower or negative years of growth of the investments. This did allow the State short term savings, but, the fact is, it simply passed the ever growing problem down the road. When the decision was made to use accounting gimmicks, the decision makers were well aware of the **financial gamble** they were making. The decision makers' gamble was based on the hope that the economy and stock market would recover quickly. That is the only way the financial gamble would pay off. Year after year the gamble did not pay off; instead the economy and stock markets went from bad to worse, then into a country wide recession. The decision makers (Governor, governor appointees, the legislators and the political bosses) created this situation and the only solution they can find is to put it on the backs of dedicated public employees......again!!

My testimony, through the use of the attached spreadsheet, will show that Judicial, Elected State Officers', and the Legislative retirement plans far exceed that of the State Employee retirement plan, in both required years of service and benefits! The current bill (SB 1226), under consideration of this committee, makes the differences even greater.

The spreadsheet data was pulled from Comprehensive Annual Financial Reports and information from the Office of Retirement Services web site. Specifically, I used the 2009 State Employee and Judicial Retirement CAFR and the 2008 Legislative CAFR. The 2009 Legislative CAFR has not been published. The State Employee and Judicial CAFRs are available at the State's ORS web site http://www.michigan.gov/ors . The Legislative CAFRs are not available online. I received a copy of it from the office of the Michigan Legislative Retirement System. The current version of the spreadsheet does not include the State Police, or Public School Teacher Retirement plans. I simply did not have time to review those two CAFRs to include them for this testimony.

As you review the spreadsheet and this testimony, please keep in mind that the Defined Benefit Plan Retirement covers only those who were hired or elected into State service prior to April 1, 1997. Those hired or elected after that date are included in the State's Defined Contribution plan. It deserves to be recognized that the current State's Defined Contribution plan treats all State Employees equally; there are no differences in benefits.

For the first time all State Employees are being treated equally. The equality will now end with the current proposed change to State Employee Executive Branch employee's health care benefits. Currently all DC health care benefit maximum State contribution is 90%. The proposed legislation drops the maximum to 80%. **The health care maximum of 80% needs to be taken out of Senate bill 1226.**

Where the spread sheet includes all of the facts in this written version, I will rank them as: Best, Middle and Worst.

Comparisons

Age and Years of Service to Qualify For Retirement Pay

Best:	Legislators	55 with 5 years of service
Middle:	Judicial & State Officers	55 with 18 years of service
Worst:	State Employee	55 with 30 years of service

Retirement Multiplier

Best:	Legislators	Members Starting On or Before January 1, 1995, 20% of the salary Years of Service 1 -5 Plus 4% Years of Service 6 – 17 Plus 1% of each additional year
Middle:	Judicial	More than 12 years of service - 50% of salary Plus 2.5% for Years of Service maximum 60% 66% when combined with a county retirement.
Worst:	State Employee	1.5 % of Final average compensation

Final Compensation

Best:	Legislators	Highest year of compensation, total gross pay.
Best:	Judicial & State Officers	Highest year of compensation, total gross pay.
Worst:	State Employee	Average of highest 3 years, gross pay minus sick leave pay out and annual leave above 240 hours.

Yearly Cost of Living Increase

Not Ranked:	State Officers	Information was not found in the CAFR
Best:	Legislators	Members starting on or before January 1, 1995, 4% compounded annually, Members starting after January 1, 1995, 4%, not compounded annually.
Middle:	State Employee	3% with a $300 maximum yearly increase. Retirees with a yearly benefit of less than $10,000, receive a 3% increase, which is less than $300. Members with a yearly benefit above $10,000 the $300 maximum.
Middle:	Judicial Before Sept. 1961	Benefits increase as active judges' salaries increase.
Worst:	Judicial Before Sept. 1961	No increase.

Current Employee Contribution

Best:	State Employee	After 1974 - no employee contribution
Middle:	Legislators	After 1998 - no employee contribution
Worst:	Judges	8% Supreme Court Justices, Court of Appeals Judges, and State Court Administrators
	Judges	3.5% to 7% dependent on type of Judgeship

Health Employee Contribution

Not Ranked:	Legislators	The complexity of the funding makes it impossible to determine the % paid by the State or member.
Best:	Supreme Court Judges, Court of Appeals Judges & State Officers	Over 65, 100% paid by the State Under 65, 95% paid by the State
Middle:	State Employee	90% paid by the State.
Worst:	Other Judges	100% paid by the **member**, most receive health Benefits from county plans.

Dental and Vision Employee Contribution

Not Ranked:	Legislators	The complexity of the funding makes it impossible to determine the % paid by the State or member.
Best:	State Employee	90% paid by the State.
Worst:	Judicial & State Officers	90% paid by the member.

Hearing Plan

Best:	Legislators	Is an offered benefit.
Worst:	Judicial & State Officers	Is NOT an offered benefit.
Worst:	State Employee	Is NOT an offered benefit.

Life Insurance Plan and Employee Contribution

Best:	Legislators Active Members	$150,000 policy, unknown % paid by the State.
	Deferred vested members	Varying amounts $5,000 to $150,000, in some instances the member pays annual premium.
	Retirees	Varying amounts $2,500 to $75,000, in some instances the retiree pays an annual premium.
Middle:	Supreme Court Judges, Court of Appeals Judges & State Officers Retirees	Retiree Benefit is limited to 25% of the prior active member's life insurance coverage.

		100% paid by the State.
Middle:	State Employee	Maximum of 1/2 of members last annual salary, 100% paid by the State.
Worst:	Other Judges	Benefit amount unknown 100% paid by the member

My 2nd objection is the Governor's stated goal of hiring two (2) employees for every 3 that retire. Doing so will only lower the ability of State Employees to provide services to the tax payers and wasting more money on subcontracted services that are not saving the State of Michigan any money. In my prior testimony I provide a list of examples where the State is wasting money. Once again, I ask you to investigate the true savings of the contracts.

My last point is projected costs saving numbers are based upon unrealistic projections of the number of employees that will retire. During testimony by Michigan's budget office and the Office of Retirement Services to the House of Representatives (Oversight and Investigations Committee) the numbers of 65% to 85% were given. In the state government offices the conversation of who qualifies and who will actually retire is ongoing. From these conversations the actual number of employees that will retire will be well below 50% and could be as low as 25%. The fact the increased 1/10 of a percent per year multiplier has been removed, puts my estimate of 25% in danger of being a high estimate. The reasons given for not being able to afford to retire remain the same as in my prior testimony.

- The high unemployment levels will make it very difficult for someone of my age to find even a part time job to replace my lost income. (difference between current pay check and a retirement paycheck)
- I still have kids in college. With the high cost of classes, books and boarding if I were to retire, it would put my children and my financial situation at great risk.
- My plan has been to move someplace warm (to be near my grand children/parents) when I retire. With the current housing market I have very little equity in my home. I would not be able to afford to buy a home in my new location. I have to continue to work until the housing market turns around.
- The stock market crash has depleted my retirement savings, even if it were to return to the levels before the crash, I would still need to continue to work until it recovers to the point where it would have been if the stock market had continued to rise. I was counting on those future (no past) gains to increase my retirement savings.
- I am providing financial support to my family (children, parents, extended family members).

The combination of all of these factors is simply making it impossible for an employee to make this major life changing decision in such a short amount of time. Therefore, the time line for making this decision needs to be expanded. **I suggest that the date of retirement be pushed back until January 1, 2011.**

The above reasons are also applicable to those of us that do not qualify for retirement under this bill. Many of us, including myself know that our projected date for retirement needs to be pushed out for many additional years.

The bottom line is this proposed retirement bill will not bring in the projected cost saving that the State of Michigan truly needs.

- **The retirement incentive multiplier must be increased!!**
- The 3% employee contribution for State Employees is unfair and will require employees getting close to retirement to continue to work many more years. In the long run that will cost the State because the State will not benefit from the cost saving that comes with new hires.
- If it is decided that you must re-implement the State Employee 3% employee contribution, you must **permanently increase the multiplier for State Employees that do not yet qualify for retirement.** Doing so, will allow employees to retire several years earlier, which will allow the State to save money by hiring new employees at the lower pay rate with less costly benefits.
- Prior to January 1, 1999 the Legislators paid an employee contribution to their retirement plans. The citizens of the State of Michigan demand that you lead by example. **If you determine that you must reinstate the State Employees' employee contribution, then you must also reinstate the Legislators' employee contribution.**
- **The health care maximum of 80% needs to be taken out of Senate bill 1226.**
- Do not close your mind on other possible ways to encourage State Employees to retire.
- **Consider raising the retirement multiplier to a higher level, then lowering the retirement benefit when the retiree qualifies for Social Security.**
- **Consider including part of the employee's sick leave pay out into the final average compensation.** Doing so would reward employees that show up to work even when they are not feeling their best.

I am prepared to answer any questions that you may have.

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