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BILL ANALYSIS

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Senate Bill 879 (Substitute S-3 as reported)
Sponsor: Senator George A. McManus, Jr.
Committee: Appropriations

CONTENT

The bill would amend the State Employees' Retirement Act to eliminate permanently the prefunding of dental and vision benefits and to provide permanently for differences between the estimated and actual aggregate compensation and the estimated and aggregate contribution rate to be reconciled over five years. In addition, the bill would change the amortization period of unfunded accrued liabilities from 50 years to 40 years or less.

Under the bill, beginning with the 1995-96 State fiscal year, the contribution rate for dental and vision benefits would have to be computed using a cash disbursement method.

The Act generally provides that the difference, if any, between actual State contributions received and compensations paid must be submitted in the executive budget for appropriation in the next fiscal year. These differences, known as reconciliation, are smoothed over a five-year period. Current law states that this provision expired on September 30, 1995. This bill would remove that sunset date and make five-year smoothing a permanent provision.

MCL 38.38

FISCAL IMPACT

The savings in State appropriations that would result from using a cash disbursement method of paying for dental/vision benefits for the State employee retirees would be an estimated $2.3 million GF/GP in FY 1995-96 and an estimated $2.6 million GF/GP in FY 1996-97.

The cost savings for the State Employees Retirement System due to the five-year smoothing of reconciliation costs cannot be determined at this time. The reconciliation costs to be paid in fiscal years 1995-96 and 1996-97 for fiscal years 1993-94 and 1994-95, respectively, are already authorized to be smoothed over five years. Because these years were already authorized to be smoothed over five years, the State's actuary did not determine what the contribution rates would have been if the smoothing provision had not been in place. Thus, the savings associated with the five-year smoothing provision are already incorporated into the contribution rates for both FY 1995-96 and FY 1996-97.

The change in the amortization period from 50 to 40 years would result in a cost to the State of $3.3 million GF/GP in FY 1996-97.

Date Completed: 3-25-96 Fiscal Analyst: J. Carrasco