

# Legislative Analysis



## EARLY-OUT RETIREMENT OPTIONS FOR JUVENILE JUSTICE EMPLOYEES

Mitchell Bean, Director  
Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

**House Bill 5944 as amended**

**Sponsor: Rep. Shanelle Jackson**

**Committee: Labor**

**First Analysis (6-27-08)**

**BRIEF SUMMARY:** The bill would amend the State Employees' Retirement Act to provide "early-out" retirement options for employees of the Bureau of Juvenile Justice (BJJ) within the Department of Human Services who are laid off or displaced during a specified time period. As amended in Committee, the "early-out" options would apply to employees who were employed as of October 1, 2007 but who were or are laid off or displaced on or after that date and on or before September 30, 2009. BJJ employees who are younger than age 62 but whose age and years of service total 70 would be able to retire with a full pension without reductions based on age if they are younger than 62; employees whose age and years of service total 75 could retire with an enhanced pension.

**FISCAL IMPACT:** The bill would create an unfunded liability to the retirement system, depending on how many people take the early out. An actuarial evaluation is required to determine this.

### **THE APPARENT PROBLEM:**

Two actions taken in the last year's Department of Human Services (DHS) budget directly affected employees of the Bureau of Juvenile Justice (BJJ). First, funding was eliminated for a wing of the W.J. Maxey Boys Training School near Whitmore Lake which was licensed to fill up to 80 medium-security beds for juvenile offenders, in accordance with a plan to transfer the young men housed in this wing to private sector residential facilities. (The Maxey Boys Training School attempts to rehabilitate and train young males, 12 to 20 years of age, who are placed at the school by a court following conviction of a felony.) The closure of the medium-security wing reduced Maxey's appropriated staffing level by 131 full-time equivalent positions. Second, funding was eliminated for 10 central staff positions in the Bureau of Juvenile Justice. The staffing reductions reportedly took place in April, 2008. Because the DHS budget contained funding for additional positions in other areas, some of the BJJ employees that would otherwise have been laid-off were able to transfer to other positions.

Legislation has been proposed to provide early-out incentives for individuals employed by the Bureau of Juvenile Justice on October 1, 2007 who meet specified age and years of service criteria and who were laid off or displaced during the specified time period. Some supporters of the legislation say, however, that eligibility for the incentives needs to be broadened to achieve the bill's goal. As written, only laid off or displaced workers are eligible for the early retirement options, while the employees who remain on the job

(who may be closer to retirement age and more likely to qualify for the retirement options) would not be eligible.

### ***THE CONTENT OF THE BILL:***

The bill would provide two "early-out" retirement options for employees of the Bureau of Juvenile Justice (BJJ) in the Department of Human Services (DHS) who were employed on October 1, 2007 but who were laid-off or displaced on or after that date but before or on September 30, 2009. The term "displaced" would refer to "an active employee who must move from his or her assignment location because of a staffing imbalance resulting from layoffs, a reduction in force, a closure, or any combination thereof."

Rule of 70 /1.5% multiplier option. A member of the retirement system who was employed by the Bureau of Juvenile Justice on October 1, 2007 and who was or is laid off or displaced on or after October 1, 2007, and on or before September 30, 2009, could retire if the member's age and length of service is equal to or greater than 70 years on the date the member is laid off or displaced. The retirement allowance would not be subject to the reduction based on age that usually applies to employees who take an early retirement. The retirement allowance would be computed based on the member's number of years of credited service multiplied by 1.5 percent of his or her final average compensation.

Rule of 75/1.75% multiplier option. A member of the retirement system who was employed by the Bureau of Juvenile Justice on October 1, 2007 and who was or is laid off or displaced on or after October 1, 2007, and on or before September 30, 2009 could retire if the member's age and length of service is equal to or greater than 75 years on the date the member is laid off or displaced. The retirement allowance would not be subject to the reduction based on age that usually applies to employees who take an early retirement. The retirement allowance would be computed based on the member's number of years of credited service multiplied by 1.75 percent of his or her final average compensation.

In either case, the member could retire upon written application to the Retirement Board, stating a date he or she desires to retire, which could be not less than 30 days or more than 90 days after the execution and filing of the application.

(Note: Generally speaking, state employees, including BJJ employees, hired on or after March 31, 1997 are not covered by a defined benefit pension plan but are covered instead by a Section 401k defined contribution plan. This bill would only apply to employees covered under the defined benefit pension plan.)

MCL 38.19

### ***ARGUMENTS:***

#### ***For:***

The bill would allow additional employees of the Bureau of Juvenile Justice who are close to retirement eligibility to qualify for retirement without early retirement penalties,

thereby reducing the workforce and minimizing the need for layoffs or other displacements. There have been "early out" programs for state employee groups in the past, to help eliminate or reduce the need for layoffs.

Working with young offenders is physically and mentally challenging work and thus some of the older and more senior workers might welcome the opportunity to retire earlier.

***Against:***

Early-out retirement programs generally result in unfunded liabilities to the retirement system, a "brain drain" of experienced employees, and a burden on remaining employees. The bill would set an expensive precedent should additional facilities need to be fully or partially closed.

For the bill to work, eligibility for the incentives needs to be broadened. Currently, under the bill, only employees who have been laid-off or displaced are eligible. Those with the most seniority remained on the job and were not displaced would not be eligible. Those are the employees who would most likely be able to take advantage of the incentives. As written, few employees will qualify for the incentives.

The bill is too late to help many of the Maxey employees. If they already retired in the face of the staff reductions with less than a full pension, there is nothing in the bill that would allow that pension to be bumped upward. As the staff reductions at Maxey have already taken place, the bill is not well timed.

***POSITIONS:***

Michigan AFSCME Council 25 testified in support of the bill and AFSCME Local 1327 indicated support of the bill. (6-10-08)

The Michigan AFL-CIO indicated its support of the bill. (6-10-08)

The Michigan State Employees Association (MSEA) testified in support of the bill but would support amendments broadening eligibility. (6-10-08)

The International Union, UAW and UAW Local 6000 testified in support of the bill. (6-10-08)

The Department of Management and Budget testified in opposition to the bill. (6-10-08)

Legislative Analysts: Chris Couch  
Shannan Kane  
Fiscal Analysts: Al Valenzio  
Robert Schneider

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