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BILL ANALYSIS

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House Bill 4792 (as passed by the House)
Sponsor: Representative Chuck Moss
House Committee: Government Operations

CONTENT

In 1997, the Legislative Retirement System (LRS), along with the State Employees' Retirement System and the Judicial Retirement System, changed from a defined benefit (pension) plan to a defined contribution (DC), or 401k, plan. The Michigan Legislative Retirement System Act requires an estimate of the cost savings from converting the LRS to a DC plan to be included annually in the executive budget, with the intent that these savings be appropriated to prefund retired legislators' health care.

The Act also prohibits the expenditure of any of the amounts appropriated for prefunding legislator retiree health care before the system achieves 100% prefunded status. In other words, the LRS is prohibited from spending any of the money in the legislator retiree health prefunding account until that account is 100% funded. The bill would delete this prohibition. As a result, any amounts appropriated to date for prefunding legislator retiree health care, along with investment earnings on those appropriations, could be used for current health care costs, or saved for prefunding purposes, as needed.

As background, in the late 1990s, appropriations were made to begin the prefunding of legislator retiree health, totaling roughly $4.5 million. Over time, with investment earnings, that $4.5 million grew to around $15.0 million, as of the end of fiscal year (FY) 2009-10. However, that $15.0 million in the health insurance reserve account does not represent 100% funded status. Therefore, under current law, it cannot be spent.

In the current fiscal year, FY 2010-11, a combination of a large number of new legislator retirees and a 30% rate increase has led to a situation in which the roughly $4.2 million annual appropriation for retired legislator health care costs will be insufficient. The LRS estimates that an additional $1.0 million in costs will be incurred for FY 2010-11. If enacted, the bill would allow the LRS to use a portion of the $15.0 million reserve to cover this increase in current-year costs.

The LRS has made changes to reduce benefit costs for the upcoming fiscal year (FY 2011-12), with the goal of returning to a level approximating the $4.2 million appropriation for "normal" yearly retiree health care costs. If this holds true, then the LRS will not need to use any of the remaining health insurance reserve account balance for ongoing costs.

MCL 38.1063

FISCAL IMPACT

The bill would allow the LRS to meet additional current-year costs by tapping into a roughly $15.0 million health insurance reserve account, which was established to begin the prefunding of retiree health care, but which has not seen any appropriations since the late

1990s. This would eliminate any pressure on the State's General Fund or other State funding sources from meeting the roughly $1.0 million in additional legislator retiree health care costs for FY 2010-11.

Date Completed: 6-29-11 Fiscal Analyst: Kathryn Summers

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.