

Legislative Analysis



MODIFY FINAL AVERAGE COMPENSATION FOR STATE POLICE RETIREMENT BENEFITS

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House Bill 5241 (Substitute H-1)
Sponsor: Rep. Richard LeBlanc
Committee: Labor

(Enrolled Version)

First Analysis (10-20-09)

BRIEF SUMMARY: Beginning May 1, 2009, the bill would add in the value of "temporary lay-off hours," in the calculation of "final average compensation" for the purpose of determining retirement benefits under the State Police Retirement Act.

FISCAL IMPACT: According to the Office of Retirement Services, the bill would have a negligible impact on the Michigan State Police Retirement System.

THE APPARENT PROBLEM:

In order to save money during Michigan economic crisis, state employees have been required to take temporary layoff hours--customarily called furloughs.

Although state workers whose hours are cut experience a reduction in their wages, generally their pensions remain unaffected. That is because the vast majority of civil servants have negotiated contracts that add the value of their temporary layoff hours into the calculation of their "final average compensation" for the purpose of determining their retirement benefits.

Most of Michigan's state police have negotiated contracts that include temporary layoff hours in their pension calculation. However, 240 state police command officers (those at a rank of lieutenant or higher) are not covered by the negotiated contract. (The command officers are called non-exclusively represented employees.)

Generally speaking, under the State Police Retirement System, the retirement benefit is calculated by multiplying "final average compensation" (FAC) by 60 percent. "Final average compensation" is the average annual salary of the last two years of service. (This is for an individual who qualifies for full retirement by virtue of 25 years of service.)

The Office of Retirement Services in the Department of Management and Budget estimates that the command officers' individual pensions would be reduced \$340-350 each year, because the value of their temporary layoff hours is not included in the calculation of the "final average compensation."

Legislation has been introduced to include the value of temporary layoff hours in a state police command officer's final average compensation, used to calculate the officer's final retirement benefit.

THE CONTENT OF THE BILL:

House Bill 5241 (H-1) would amend the State Police Retirement Act to add in the value of temporary layoff hours, in the calculation of "final average compensation" for the purpose of determining retirement benefits. This would apply beginning May 1, 2009.

("Temporary layoff hours" refers to hours attributable to the layoff of a member if the layoff did not exceed one month and had a fixed, pre-determined, and announced recall date.)

MCL 38.1603

ARGUMENTS:

For:

According to the Department of Management and Budget Office of Retirement Services, the command officers in the Department of State Police—that is, 240 people without a bargaining contract—do not have their mandatory layoff hours included in their final average compensation when their pension benefits are calculated. As a result, the command officers' pensions are lower by an estimated \$340-\$350 each year. In order to treat all state police officers fairly, this bill would require that "temporary lay-off hours"—customarily called furloughs—be included in final average compensation, when a command officer's pension is calculated.

POSITIONS:

The Department of Management and Budget Office of Retirement Services supports the bill. (10-14-09)

The Michigan State Police Command Officers Association supports the bill. (10-14-09)

The AFL-CIO supports the bill. (10-14-09)

The International Union - UAW supports the bill. (10-14-09)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.