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BILL ANALYSIS

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House Bill 6270 (Substitute H-1 as passed by the House)  
House Bill 6271 (as passed by the House)  
Sponsor: Representative Richard LeBlanc  
House Committee: Military and Veterans Affairs and Homeland Security  
Senate Committee: Senior Citizens and Veterans Affairs

Date Completed: 11-9-10

### **CONTENT**

House Bill 6270 (H-1) would amend the Michigan Military Act to place Adjutant Generals and Assistant Adjutant Generals into the State's defined contribution retirement plan, for anyone hired into these positions on or after January 1, 2011. Under current law, these personnel are provided retirement pay equal to the retirement pay that an officer of like grade and total longevity would receive as indicated under Federal regulations and upon retirement. However, retirement pay is not dependent upon how long the person serves as Adjutant General or Assistant Adjutant General. The State cost for such retirement pay is net of any Federal pension payments.

House Bill 6271 would amend the State Employees' Retirement Act to add the Adjutant General and Assistant Adjutant General to the list of employees qualified to participate in the State's Defined Contribution 401k plan.

The bills are tie-barred.

MCL 32.706 (H.B. 6270)  
38.55 (H.B. 6271)

### **FISCAL IMPACT**

The fiscal year (FY) 2010-11 State Department of Military and Veterans' Affairs (DMVA) budget includes \$1.5 million to make pension payments to the 21 existing and expected Adjutant General and Assistant Adjutant General retirees, and their surviving spouses. Because pension payments are based on related Federal military retirements, these retirees earn between 75% and 110% of their total compensation depending on their total length of service. Unlike other Federal eligibility rules under which a military retiree typically begins earning a pension at age 60, the Michigan Military Act provides State Special Duty (SSD) retirement immediately after the Adjutant General or Assistant Adjutant General leaves service, no matter how old he or she may be and regardless of how many years he or she was in the position of Adjutant General or Assistant Adjutant General.

The five most recent Adjutant General or Assistant General retirees earn annual pensions ranging from approximately \$78,000 to \$133,000, with years of SSD service ranging from 1.5 to just over 13. In addition, the plan provides annual pension increases tied to the Federal pension cost of living increases, which have ranged in the last 10 years from a low of 0.0% in 2010 to a high of 5.8% in 2009.

The fiscal impact of this legislation would be to eliminate the vast majority of the \$1.5 million annual State cost over the next 30 to 40 years as the system is closed out. The only remaining cost to the State would be the value of the 401k contributions made for these employees. The State's current defined contribution (DC) system contributes 4% of an employee's salary to his or her 401k, and additionally matches the employee's first 3% contributions. Therefore, the maximum State cost for a DC employee is 7% of salary. At an average salary of \$140,000 for the affected individuals, the maximum State yearly DC contribution would be \$9,800 per person. Usually, there are five SSD employees; therefore, total annual costs under the 401k system would be estimated at \$50,000.

The bill would result in additional savings by moving these SSD personnel into the State's graded health care system, which pays 30% of the health care premium at 10 years of service, with 3% more earned per year, up to a cap of 80% State coverage. This would reduce costs for the DMVA by eliminating the immediate and 100% employer-paid retiree health care that is currently provided for these five SSD positions.

The bill would have no impact on local units of government.

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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.