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Honorable Chuck Moss, Chair
House Appropriations Committee
889 House Office Building
Lansing, MI

Dear Representative Moss and members of the House Appropriations Committee:

The Michigan State Employee Retirees Association, which represents over 55,000 current state employee retirees and the interests of future state employee retirees, thanks you for the opportunity to comment on HB 4701 and HB 4702. These bills propose radical changes to both the defined benefit and defined contribution retirement plans for state employees. Although we find a few aspects of the bills of benefit to the state, we generally oppose most of the larger proposals in the bills.

Strong retirement system attracts and retains the best and brightest - At the outset, we urge you to value the role of retirement benefits in attracting the best qualified applicants for state employment and retaining career-oriented, high-performing employees. Highly qualified, well-trained, and highly motivated state employees provide better and more effective services to the public for the taxpayer dollar invested in them. Any diminution of the state employee retirement system subtracts from the package of pay and benefits that attract and keep a dedicated state work force. Failure to provide effective oversight of the retirement system, failure to fully fund the retirement system, and shifting retirement costs to employees and/or retirees are potential pitfalls to avoid and not embrace.

Budget need not proven - We have just been through an income tax reform and budget process that supposedly eliminated the structural deficit of $1.4 billion dollars. We were told that over $200 million GF and $80 federal funds were allocated to reduce the unfunded liability for state retiree health care. This investment, we were told, would reduce the unfunded liability from $14 billion to $9 billion.

It is our view that this was an excellent measure that needs to be continued in future budgets. We do not see the immediate need in such a rushed fashion to wring out more money from employee paychecks in FY 2012 when that budget has already been balanced. There is no financial exigency that compels passage of HB 4701 and 4702 right now with an effective date of October 1, 2011. Further, a two-month window period for employees to make important financial decisions is not sufficient for them to consult financial advisors and family members affected by such a decision.

Bonding possibility – Although future budgets should address the unfunded accrued liability such as occurred in the FY2012 budget, we urge the Legislature to consider bonding all or a great portion

of the unfunded obligation for retiree health care benefits. Before looking to current employee paychecks to address the unfunded liability for pension and retiree health care, the Legislature ought to consider bonding. Oakland County has reportedly done this and their example ought to be considered.

Strengthening the retirement system - These bills do not strengthen the state employee retirement system, but instead offer a radical plan to undermine, reduce and weaken it. The message in the bills is that you want to make state employment undesirable, unattractive, and even punitive to discourage current employees from staying and chase away future applicants.

It is our view that the Legislature should seek to protect and promote the State of Michigan as a great place to invest, live, and work. That would include helping to make the State of Michigan a stellar employer, one that should be emulated by both the private and public sector. Instead of aiming for the lowest retirement benefit, we urge you to set your sights on having an excellent and top-rated, fully funded state employee retirement system including fully funded pensions and retiree health care.

Actuarial basis - Not shared in the House Fiscal Agency analysis is what the actuarial basis is for the proposed 4% contribution for the defined benefit active employees. May we get a copy of the actuarial study supporting the need for the 4% contribution?

Repeal of the 3% contribution - In 1974 state employees gave up a substantial raise in return for the state taking over the 4% contribution toward our pensions and retiree health care benefit costs. Public Act 185 of 2010 ended unilaterally that 36-year old agreement and instituted a 3% mandatory contribution for retiree health care. As you know, that contribution was challenged in a lawsuit and the trial court ordered a halt to it. The decision is on appeal at this time while the money accrues in an escrow account.

Michigan SERA commends the bill sponsor for including a repeal of the 3% contribution in HB 4701 (page 14 – 15) and return of those funds to those who contributed. We hope you will assure us that the funds collected will be returned to not only current employees who paid the 3% but those employees who paid the 3% and have subsequently left state employment. That would include the retirees subsequent to November 1, 2010 who took the incentive retirement program offered last year.

No Civil Service Commission approval – Like the 3% contribution in Public Act 185 of 2010, the greatest fault in the proposed 4% contribution plan is that it does not have the imprimatur of the Civil Service Commission as required by Article XI, Section 5 of the Michigan Constitution. As you know, reductions or increases in compensation must have the CSC's approval and then the Legislature may reject the proposal by a 2/3 vote. Michigan SERA would be pleased to receive a legal analysis as to why the proposed 4% contribution from employee paychecks would come to a different fate in a court challenge than the 3% contribution.

Promises to current defined contribution employees should be kept – It is our view that though there may be no legal impediment to changing future retiree health care benefits for current employees, it is ill-advised to do so. The reason is that your promises to current employees should be kept, else the public trust in and respect for the Legislature will be diminished considerably. The

1996 changes your predecessors made promised employees that if they stayed with state government for at least 10 years, they would have 30% vesting in their retiree health care with an additional 3% for each year thereafter until it totaled 90% vesting after 30 years. Current Defined Contribution employees, whether a one-year employee or a 14-year employee, relied on this promise and have made decisions about their careers and families based on this expectation. Changes to retirement systems are best done for future employees, not current ones.

New employee OPEB financing program - The bills propose a lump sum distribution upon retirement for Defined Contribution employees that we think may be totally inadequate to fund future retiree health care. Basically, these are token credits with no guarantee of funding. We would like to see the actuarial analysis underpinning the expectation that the amounts proposed would cover some or all of retiree health care insurance costs. This information is not included in the House Fiscal Agency analysis.

It is our view that if you want to initiate a health care retirement account system for new employees to supplement basic Medicare, or health care before Medicare eligibility, it should offer matching funds to incentivize new employees to participate in saving for their future retiree health care costs. It should also be portable and in a trust fund owned by the individual employee, not in some general trust fund subject to underfunding and raiding.

What prevents raiding – Past Legislatures have attempted to pre-fund retiree health care benefits and then raided the funds in the 80s and 90s. We hope you can point out where in the bills a lock box exists that would prevent future raids of the funds set aside with the proposed credits.

Elimination of overtime in final average compensation – This aspect of HB 4701 is egregious in those situations where employees are compelled to work overtime to cover for absent employees or unfilled positions. Rather than eliminating it in final average compensation some other solution should be discussed with the unions where there are overtime-eligible employees.

Summary - In summary, Michigan State Employee Retirees Association urges you to enact that part of HB 4701 repealing the 3% contribution and return of the funds to those who were required to contribute them.

As to the remainder of the bills, we do not think the proposals strengthen the state employee retirement system. There are unanswered questions about the need for the bills when we are on a course for funding through the usual budget process or could use bonding to accomplish the same goal of eliminating the unfunded accrued liability. Additionally, the proposal breaks promises to current state employees with long-term consequences for recruitment, retention, and the quality of the state workforce.

Sincerely,

/s/

Mary Pollock
Legislative Representative