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Honorable Mark Jansen, Chair
Senate Appropriations Sub-committee on Retirement
Farnum Building
Lansing, MI

Dear Senator Jansen and members of the Senate Appropriations Sub-committee on Retirement:

The Michigan State Employee Retirees Association, which advocates for 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 (H-6) and HB 4702. Although we appreciate the improvements in H-6 over the original bill, 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 and its employees and retirees, we generally oppose aspects of the HB 4701 that diminish the state's contribution toward retiree pensions and health care.

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. Apparently the implementing legislation behind this budget item has not yet been enacted. We recommend that the Subcommittee take care of this immediately.

It is our view that gradually taking a bite of the unfunded liability each budget year is an excellent plan 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. In fact, we understand that there are surplus revenues that could be used to address the issues raised in this legislation.

There is no financial exigency that compels passage of HB 4701 and 4702 right now with an effective date of January 1, 2012. Further, a short 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 we were promised 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 and Macomb County have reportedly done this and their example ought to be considered.

Strengthening the retirement system - These bills do not strengthen the attractiveness of the state employee retirement system, but instead offer a radical plan to reduce and weaken it. The message in the bills is that you want to make state employment less desirable and less attractive to discourage current employees from staying and future applicants from applying.

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.

Some history – As you know, current defined benefit employees invest in their pension with each pay period of work rather than making a financial contribution. This is because in 1974 the state and its employees came to an agreement not to give employees a raise in return for the state picking up the employee's share of the financial contribution to the pension fund and retiree health care benefits. It would be an abrogation of that agreement to now impose a 4% contribution from the DB employees unless they agree to forego future DB participation for a much less attractive defined contribution retirement plan. The defined contribution retirement plan is basically a lottery system, placing all the risk on employees who have little expertise in investing.

Repeal of the 3% contribution - Michigan SERA commends the bill sponsors for including a repeal of the 3% contribution in HB 4701 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.

As you know, the 3% contribution mandated by Public Act 185 of 2010 was challenged in a lawsuit and the trial court and court of appeals ordered a halt to it and return of the money with interest. The decision is on appeal at this time while the money accrues in an escrow account. Additionally, the Michigan Civil Service Commission has ordered the 3% contribution to cease and DTMB has apparently refused to obey its order, saying it awaits the court's decision. This refusal might be arguably rational for any moneys collected before the MCSC order, but we would like to see the

legislature intervene right now to stop all collections subsequent to the MCSC order and return of that money to its rightful owners.

No Civil Service Commission approval – Like the 3% contribution in Public Act 185 of 2010, the greatest fault in the proposed contributions from employees 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 contributions from employee paychecks would come to a different fate in a court challenge than the 3% contribution.

New employee OPEB financing program – H-6 is a huge improvement over the original bill and took into account our suggestion that employees be incentivized to invest in their retiree health care. Thank you for being responsive to that suggestion.

We have not seen any analysis of the projected costs of health care compared to the potential that the 2% match would produce to know if this will be adequate to fund pre-Medicare insurance or a Medigap insurance policy for retirees after they turn 65. We would like to see a projection of medical costs and what the 2% match system would produce for an employee of various ages and tenure with the state.

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 think H-6 is much improved from the original bill, but there are still concerns with the coercion implicit in the DB proposal and the adequacy of the proposal for new employees. Bonding should be explored for making a dent in the unfunded accrued liability rather than reaching into the wallets of employees. 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