



**House  
Legislative  
Analysis  
Section**

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**STATE POLICE RETIREMENT**

**House Bill 4739 (Substitute H-1)  
First Analysis (2-13-96)**

**Sponsor: Rep. Tom Alley  
Committee: Appropriations**

***THE APPARENT PROBLEM:***

In 1989, the Michigan State Police Troopers Association gained, in collective bargaining, a two percent annual post-retirement adjustment (a cost-of-living increase or COLA) for all state police troopers and sergeants who retired after October 1, 1990. Shortly after that, the State Police Retirement Act was amended by Public Act 130 of 1992 to ratify the COLA for the troopers and extend it to command officers who retired after September 30, 1991. This now leaves only one group of state police retirees -- those who retired before 1990 (or 1992, in the case of command officers) -- without a COLA. This strikes many as unfair.

The problem is compounded by the changes that recent years have seen in terms of salary increases and computation of final average salary. The effect is that state police officers who retired some time ago have pensions that are substantially less than what they would have if they were to be retiring today. Although the State Police Retirement Act provides for a minimum benefit of \$500 per month (\$6,000 per year), this is perceived by many to be inadequate.

It has been proposed that the situation of longstanding state police retirees be improved by adjusting the annual minimum benefit to allow at least some retirees to obtain higher benefits, and by extending COLA provisions to all state police retirees.

***THE CONTENT OF THE BILL:***

The bill would amend the State Police Retirement Act (which establishes the retirement system for uniformed state police personnel) to do the following:

**\*\* Effective April 1, 1996, state police retirants would be guaranteed a minimum retirement allowance of \$36 times the number of months of service, but not less than \$6,000 (which is the current minimum) or more than \$10,800 annually. The increased retirement allowance would be the basis upon which future adjustments to the retirement allowance, including the bill's proposed COLA, would be calculated.**

**\*\* Beginning October 1, 1996, the retirement allowance of a retirant or beneficiary would be increased by two percent of the retirement allowance that would otherwise apply. The increase would be applied each October 1, beginning with the later of October 1, 1996, or the first October 1 that was at least 12 months after the retirement allowance effective date. As with the currently-provided COLA for recent retirees, the annual increase could not exceed \$500.**

MCL 38.1640 and 38.1640a

***BACKGROUND INFORMATION:***

The bill is nearly identical to a bill which passed the House during the 1993-94 legislative session (House Bill 5368) but died in the Senate Appropriations Committee. Also, Senate Bill 198, which is currently before the full Senate, is similar to this bill but would also provide for a one-time increase in state police retirement benefits for persons who retired prior to October 1, 1986.

***FISCAL IMPLICATIONS:***

The House Fiscal Agency estimates the bill would present actuarially-adjusted annual costs of approximately \$1.4 million. (2-8-96)

***ARGUMENTS:***

***For:***

The bill would offer reasonable benefit adjustments to state police retirees. For people who have risked their lives for years to protect Michigan citizens, \$6,000 seems a paltry minimum benefit, particularly considering that trooper employment was not eligible for Social Security benefits. The bill proposes to replace this flat minimum benefit with a sliding scale providing for a minimum benefit of \$6,000 to \$10,800, depending on the number of months of service. This not only would provide needed pension money for

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retirees, it also would compensate those with the longest service the most. In addition, the bill would extend to pre-1990 retirees a modest cost-of-living increase that has already been extended to troopers and command officers retiring after that time, thus improving fairness within the system, and countering the loss of investment income that retirees experienced with declining interest rates in the eighties.

***Against:***

The accrued unfunded liability of the state police retirement system is about \$140 million, and this bill would add an annual cost of about \$1.4 million to the system. While some may believe that the costs could be absorbed through adjustments in actuarial adjustments, the greater likelihood is that the cost will have to be borne by system members, by the general fund, or by some combination thereof. Although it has become customary for benefit increases for one segment of a retirement system to be followed by increases for other segments, it is an expensive custom that should be reexamined. Each benefit increase should be justified on its own merits. Further, it is somewhat misleading to view the existing \$6,000 minimum benefit as inherently unfair: relatively few retirement systems even offer a minimum benefit, and the \$6,000 provided by existing law is within a couple of thousand of the average retirement benefit paid by state-funded systems. Moreover, it would be faulty to assume that the \$6,000 represents the sole source of income for uniformed retirees; a retiree with a low pension has relatively few years of service, suggesting that other employment, with other retirement benefits, filled the gaps in the person's pre-retirement years.

***Against:***

The bill provides that the minimum retirement allowance paid to retirees would be adjusted upward in the middle of the current fiscal year (on April 1, 1996) and, thus, would require a supplemental for the 1995-96 fiscal year to pay for the approximately \$220,000 needed to cover this cost to the state budget. Traditionally, supplementals are made to cover unanticipated higher costs due to some unforeseen situation (for instance, a supplemental for the school aid budget due to an unexpected revision in pupil counts late in the fiscal year). Keeping the April 1, 1996, effective date would establish a bad precedent of allowing supplementals to be requested for nonemergency budgetary purposes. Also, it should be noted that the governor's proposed 1996-97 fiscal year budget includes a \$2 million increase to the Department of State Police's budget specifically for the retirement adjustment proposed in the bill. The bill should be amended to provide for the same effective date for increasing the minimum retirement allowance as the

effective date specified for the two percent COLA (October 1, 1996).

***Against:***

A technical change is needed to correct a problem that could arise depending on when the bill took effect (assuming it was enacted). If, for instance, the current version of the bill were given immediate effect and enacted prior to April 1 of this year, there would be a brief period during which there was no authority to provide a minimum benefit. Presumably, the income of existing retirees would not be reduced, because the state constitution prohibits accrued financial benefits of state retirement systems from being diminished or impaired. However, the gap in providing for a minimum benefit could adversely affect new retirees whose pensions might fall below the \$6,000 threshold. The problem could easily be resolved either by adding an effective date for the bill corresponding to the date the minimum retirement allowance increase was to take effect, or by specifying that the current floor would apply until the day before the new amount was to take effect.

***POSITIONS:***

The Michigan State Police Command Officers Association supports the bill. (2-8-96)

The Michigan State Police Troopers Association supports the bill. (2-8-96)

The Department of Management and Budget would support the bill if it were amended to provide for the upward adjustment in the minimum retirement allowance to begin on October 1, rather than April 1, of 1996. (2-9-96)

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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.