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SFA**BILL ANALYSIS**

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Senate Bill 605 (Substitute S-1 as reported)
Sponsor: Senator William Van Regenmorter
Committee: Judiciary

Date Completed: 12-2-99

CONTENT

The bill would amend the Judges' Retirement Act of 1992 to incorporate a portion of the tentative settlement reached in Michigan Judges Association v Treasurer of the State of Michigan.

The Michigan Judges Retirement System Tier 1 members included (for officials first elected or appointed on or before March 30, 1997) judges in the judicial branch of State government, the Governor, Lieutenant Governor, Secretary of State, Attorney General, Legislative Auditor General, and State Court Administrator. Implementation of the defined contribution plan for certain members of the Judges' Retirement System has been delayed due to litigation, Internal Revenue Service rulings, and pending legislation.

Senate Bill 605 (S-1) would amend the Judges' Retirement Act to do the following:

- Appropriate \$1,250,000 to the Department of Management and Budget to implement the bill. (The funding source and fiscal year are not specified.)
- Repeal certain provisions if the settlement agreement in Michigan Judges Association v Treasurer State of Michigan is rendered null and void or otherwise terminated.
- Provide another window for Judges' Retirement System members (members on March 30, 1997) to elect to become a qualified participant in Tier 2. This opportunity would be available only to circuit, probate, and district court judges who have not previously filed to transfer to Tier 2. The date for determining the actuarial present value transferred to Tier 2 would remain June 30, 1998. The trial judges who made a previous election will have that election implemented.
- Allow certain members who terminated employment or retired prior to the new 60-day window to elect to become a qualified participant in Tier 2.
- Require members electing to become qualified participants in Tier 2 also to elect either to have 100% of their salary that is paid both directly and indirectly by the State considered the Tier 2 salary, or to have the compensation under Tier 1 on the day before the election considered the Tier 2 salary. The election would be irrevocable. Members who did not make an election regarding salary would be considered to have selected the salary under Tier 1. The amount of compensation not included for purposes of defined contribution remains eligible for participation in a local retirement plan. Members who selected 100% of State direct and indirect salary would be prohibited from participating in any other public sector retirement benefit plan for simultaneous service rendered to the same public sector employer.
- Allow qualified participants and the employer (State) to make additional contributions to a participant's Tier 2 account for a period that equaled the time in which a Tier 1 member was not able to make contributions to the Tier 2 plan due to the temporary restraining order.

- Allow trial court judges to convert the balance of the difference between the State base salary and the maximum statutory salary for the purpose of computing their retirement allowance. Members electing to convert the balance of salary would be required to pay estimated member contributions that would have been paid from July 1, 1999, through the conversion date and the actuarial cost of such benefit for all prior years as of June 30, 1998. The provision would allow the retirement system to accept an amount transferred by a member's local retirement system for payment (full or partial) under this provision. The section also would allow a member to pay balances due through payroll deductions over a period not to exceed 100 pay periods.
- Allow vested members or deferred vested former members to select Option A for their retirement benefits after completing eight years of credited service. Currently, members or deferred vested former members must wait until filing for retirement benefits before making that selection. (Option A allows a retirant to receive a permanently reduced benefit and for the retirant's beneficiary to continue to receive 100% of the retirant's reduced benefit for the remainder of the beneficiary's life. If Option A is not selected, the retirant receives only a straight life retirement benefit that ends upon his or her death.)
- Change the payment of benefits in the case of the death of the vested member or vested former member. Should a member with eight or more years of credited service elect Option A and then die while in office, proposed language would allow the member's beneficiary to receive the retirement allowance that he or she would have been entitled to receive under Option A had the member been retired on the date of his or her death. If a vested member or a vested former member died and had not elected Option A, the member's or vested former member's spouse (if any) would receive a retirement allowance as if the member or vested former member had elected Option A and selected his or her spouse as the retirement allowance beneficiary.
- Define employer as the State.
- Clarify the definition of compensation for probate court judges pursuant to the Revised Judicature Act.
- Change the composition of the Michigan Judges Retirement board by replacing the Deputy Legislative Auditor General with one judge appointed by the Governor, who would have to be a member of the retirement system.
- Create a separate Medical Benefit Account that would be funded by member contributions. The fund would provide postretirement medical benefits for eligible judges and their health benefit dependents and postdeath medical benefits for health benefit dependents who survived a deceased contributor.
- Create a Medical Benefit Administrative Account funded by a percentage of earnings on member contributions to the Medical Benefit Account to cover administrative costs of maintaining the Medical Benefit Account.
- Define salary as 100% of salary paid both directly and indirectly by the State for individuals first elected or appointed on or after March 31, 1997.

MCL 38.2101 et. al

FISCAL IMPACT

The fiscal impact of the bill would depend on the number of judges who would transfer from defined benefit (Tier 1) to defined contribution (Tier 2). Under the defined contribution plan, the employer (State) contributes up to 7% of a participant's salary to the qualified participant's Tier 2 account.

Judges first appointed or elected after March 30, 1997, are automatically enrolled in the defined contribution plan. The current Attorney General, Lieutenant Governor, and 43 judges were first elected or appointed after March 30, 1997. Members of the Judges Retirement System serving on March 30, 1997, had the option of transferring from the defined benefit plan (Tier 1) to the defined contribution plan (Tier 2). Two hundred twelve members of the Judges Retirement System (199 trial court judges, three Supreme Court Justices, eight Court of Appeals judges, and two other State officials) filed forms to transfer from the defined benefit plan to the defined contribution plan. Thirty-one of the trial court judges filed to transfer to the Tier 2 plan contingent upon legislation that would allow judges to choose 100% of salary for their Tier 2 salary or to have the compensation under Tier 1 on the day before election considered their Tier 2 salary.

An FY 1998-99 supplemental (1999 PA 69) included \$2,317,700 for the State's defined contribution costs for judges in Tier 2 and the FY 1999-2000 budget includes \$2,204,900. The appropriated funds are sufficient to cover the State's projected costs based on the number of judges elected or appointed after March 30, 1997,

and the number of judges who elected to transfer from the defined benefit plan to the defined contribution plan. One hundred percent of salary was used for this purpose of this estimate. The State's costs could change depending on the number of judges who would subsequently elect to transfer from Tier 1 to Tier 2, and the number of judges who select 100% of salary for Tier 2 purposes under the provisions in this bill.

The \$1,250,000 appropriation to the Department of Management and Budget would be used to implement defined contribution, the buy-in plan, and the new Medical Benefit Account.

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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.