

Legislative Analysis



MUNICIPAL EMPLOYEES RETIREMENT SYSTEM: EXPAND MEMBERSHIP

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Senate Bill 517 (Substitute S-3)

Sponsor: Sen. Bev Hammerstrom

House Committee: Local Government and Urban Policy

Senate Committee: Local, Urban, and State Affairs

First Analysis (12-7-04)

BRIEF SUMMARY: The bill would expand the definition of "municipality" in the Municipal Employees Retirement Act.

FISCAL IMPACT: The bill would have no fiscal impact on the state. There is a potential positive impact on the retirement system's assets. By allowing more entities to become members, the system would have more individuals among whom to spread the costs. This eventually could result in lower contribution rates and lower costs for the system overall. The amount is indeterminate and dependent on the number of new members who would be allowed to join the retirement system.

THE APPARENT PROBLEM:

The Municipal Employees Retirement System of Michigan (MERS) is a statewide public employee retirement plan which offers both defined benefit and defined contribution programs. MERS was created by the Michigan legislature in 1945 as a voluntary municipal retirees organization. Currently it serves 621 local units of government with a total membership of over 67,000 active employees, and retirees. The employees work in governments such as counties (65 groups), cities and villages (241 groups), townships (66 groups), county road commissions (56 groups), and a fifth category that includes hospitals, medical care facilities, libraries, community mental health boards, and transportation authorities (178 groups). In addition, there are 15 closed groups in MERS.

According to MERS, trust assets as of December 3, 2004, were \$4.5 billion. The organization notes, however, that local control is maintained for all participating municipalities, while funds are pooled for investment by professional managers.

Legislation has been introduced to expand the definition of "municipality," in order to allow more local units of government to participate in MERS.

THE CONTENT OF THE BILL:

The bill would amend the Municipal Employees Retirement Act to expand the definition of "municipality" (and thereby expand the entities that may join the Municipal Employees' Retirement System) to include the following.

-- A political subdivision located in Michigan or located in Michigan and an adjacent state, including but not limited to the entities currently identified in the definition or any combination of those entities. (The current definition embraces counties, county road commissions, cities, villages, townships; public corporations and instrumentalities established by those local units; and public corporations and instrumentalities charged by law with the performance of a governmental function and whose jurisdiction is coextensive with those cited local units.)

-- A metropolitan government borough, or other political subdivision of the Canadian Province of Ontario, an agency of the United States, or a similar entity of an adjacent U.S. state and Ontario.

-- A state university whose employees are not public school employees under the Public School Employees Retirement Act.

--Any municipal corporation or other governmental entity that is eligible to join the retirement system and participate in any program under the act, as determined by the retirement board.

The bill also would do the following:

-- Indicate that certain provisions would not limit the retirement board's power to establish ancillary benefits and post-employment benefit programs.

-- Require the retirement board to arrange for an annual actuarial valuation and report of the actuarial soundness of each participating court, in addition to each participating municipality.

-- Allow the electronic distribution of the retirement board's annual report, and require a copy to be distributed to the Senate and the House, rather than each member.

MCL 38.1502a et al.

HOUSE COMMITTEE ACTION:

The House Committee on Local Government and Urban Affairs adopted the Senate-passed version of Senate Bill 517(S-3) without amendments. Some information in this analysis was derived from the Senate Fiscal Agency's analysis dated 9-28-04.

ARGUMENTS:

For:

Today local units of government located in other states or provinces, as well as some state universities, community colleges, and junior colleges whose employees are not already members of the public school employees retirement system, face budgetary

pressure to operate more efficiently. Local units such as these could save money if they were able to participate in MERS' pooled programs.

POSITIONS:

The Municipal Employees Retirement System supports the bill. (12-7-04)

The Michigan Association of Public Employee Retirement Systems supports the bill. (12-7-04)

Legislative Analyst: J. Hunault

■ 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.