

Legislative Analysis



ALLOW CERTAIN LAW ENFORCEMENT OFFICERS TO JOIN MICHIGAN STATE POLICE RETIREMENT SYSTEM

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Senate Bill 165 (S-1) as passed by the Senate
Sponsor: Sen. John Cherry

Analysis available at
<http://www.legislature.mi.gov>

Senate Bill 166 (S-5) as passed by the Senate
Sponsor: Sen. Kristen McDonald Rivet

Senate Bill 167 (S-1) as passed by the Senate
Sponsor: Sen. Sue Shink

House Committee: Labor
Senate Committee: Labor
Complete to 12-12-24

SUMMARY:

Senate Bills 165, 166, and 167 would amend the State Police Retirement Act and the State Employees' Retirement Act to allow certain individuals in law enforcement-related positions to join the Michigan State Police (MSP) retirement system. The bills are tie-barred together, meaning none of them can take effect unless all three are enacted.

Senate Bill 165 would amend 1986 PA 182, the State Police Retirement Act, to allow corrections officers, conservation officers, and other law enforcement officers to participate in the Michigan State Police retirement plan.

Currently, a *member* of the plan is defined under the act as an employee of the Department of State Police who has subscribed to the constitutional oath of office. Senate Bill 165 would expand this definition to include the following individuals:

- An individual employed in an *eligible position*, a conservation officer,¹ a Michigan State Police motor carrier, or a Michigan State Police properties securities officer who voluntarily terminates their participation in the State Employees' Retirement System (in accordance with the procedures described in SB 166).
- An individual employed in an eligible position, a conservation officer, a state police motor carrier, or a Michigan State Police properties securities officer who is employed and entered on the payroll after September 30, 2024.

Eligible position would mean, as defined by Senate Bill 166, a civil service position with a classification of any of the following:

- Corrections officer.
- Resident unit officer.
- Corrections medical aide.
- Corrections medical officer.
- Corrections medical unit officer.
- Corrections shift supervisor.
- Corrections security inspector.

¹ "Conservation officer" would mean that term as defined in the State Employees' Retirement Act, which is an employee of the Department of Natural Resources, or a predecessor or successor agency, who has sworn to the oath of office and is designated as a peace officer under the Natural Resources and Environmental Protection Act (NREPA) or under 1986 PA 109, an act pertaining to conservation officers.

- Corrections security representative.
- Deputy prison warden.
- Assistant deputy warden.
- State deputy warden.
- Senior executive warden.
- Departmental administrator-prison warden.
- Corrections resident representative.
- Corrections transportation officer.
- Special alternative incarcerations officer.
- Forensic security assistant.
- Certain forensics security positions with the Center for Forensic Psychiatry.²

A member listed above would be treated as an individual who first became a member after June 9, 2012, and thus a member of the MSP hybrid retirement plan (Pension Plus). (See **Background**, below.)

The bill would also make complementary changes to other definitions in the act to reflect the addition of the positions described above.

MCL 38.1603 and 38.1604

Senate Bill 166 would amend the State Employees' Retirement Act to allow certain individuals who are *qualified participants* in the State Employees' Retirement System (SERS) to elect to join the Michigan State Police retirement plan.

Under the State Employees' Retirement Act, a *qualified participant* is an individual who is a participant of the SERS 401(k), or defined contribution (DC), plan and who meets one of the following requirements:

- Is first employed and entered on the payroll on or after March 31, 1997, and who would have been an eligible member of a SERS pension, or defined benefit (DB), plan before March 31, 1997.
- Elects to terminate membership in the DB plan and elects to participate in the DC plan in accordance with the State Employees' Retirement Act.³
- Is an adjutant general or an assistant adjutant general under the Michigan Military Act who was first employed in that position on or after January 1, 2011.
- Was a SERS member who did not elect to remain in the DB plan and make the required 4% contributions after March 31, 2012.⁴
- Was a member who elected to remain in the DB plan and make the required 4% contributions after March 31, 2012, designated that the contributions be made only until their attainment date, and has attained 30 years of credited service or terminated employment and has since been reemployed by the state.

² These positions would be a forensics security aide IIB or IIIB; a forensics security supervisor IVB, VB, or VIB; or a forensics supervisor VII.

³ These individuals would not be eligible to join the MSP retirement plan.

⁴ These individuals would not be eligible to join the MSP retirement plan.

- Was a former employee who is vested in the DB pension plan and returns to state employment on or after January 1, 2012.
- Was a former employee who is not vested in the DB plan and who returns to state employment between January 1, 2012, and January 1, 2014. (Former nonvested employees who return to employment on or after January 1, 2014, are treated as having been first employed as of the date of their reemployment and are in the DC plan.)
- A former employee in the Michigan Public School Employees Retirement System (MPSERS) who begins employment on or after January 1, 2012.

Under the bill, between January 2, 2025, and 5:00 p.m. on June 6, 2025, SERS would generally have to provide an opportunity for an individual who is a qualified participant employed in an eligible position, a *conservation officer qualified participant*, or a *state police qualified participant* as of October 1, 2024, to make a written election to terminate their status as a qualified participant in the SERS 401(k) plan and join the Michigan State Police retirement system. An individual who does not elect to join the MSP retirement system would continue to be a qualified participant in SERS.

Conservation officer qualified participant would mean a qualified participant who is a conservation officer that is not eligible for a pension under section 48 of the act.⁵

State police qualified participant would mean a qualified participant who is a state police motor carrier or MSP properties securities officer.

An election would be irrevocable, and an individual who files the written election would become a member of the MSP retirement system on June 8, 2025. The Department of Technology, Management, and Budget (DTMB) would have to determine the method by which an individual would make a written election, in consultation with the retirement board.

If the individual is married at the time of the election, the election generally would not be effective unless signed by the individual's spouse. (The retirement board could waive this requirement if the spouse's signature cannot be obtained due to extenuating circumstances.)

Elections would be subject to the Eligible Domestic Relations Order Act.

An eligible individual who elects to join the Michigan State Police retirement system could transfer part or all of their defined contributions to purchase service credit under the State Police Retirement Act (as would be provided for by SB 167). When applicable, employer contributions could also be transferred, subject to the State Employees' Retirement Act vesting schedule.⁶

The bill would specify that a *qualified participant* would *not* include:

- An individual employed in an eligible position, a state police motor carrier, or an MSP properties securities officer who is first employed and entered on the payroll before October 1, 2024, and who elects to terminate being a qualified participant.

⁵ Generally, conservation officers qualify for a pension under section 48 if they have at least 25 years of service, at least 23 of those years have been as a conservation officer (or 20 years of service as a conservation officer if they were hired before April 1, 1991), and the last two years have been as a conservation officer.

⁶ Employer contributions are vested at 50% after completion of two years of service, 75% after three years, and 100% after four years.

- A conservation officer first employed and entered onto the payroll before October 1, 2024, who elects to terminate being a qualified participant and is not eligible for a pension under section 48.
- An individual employed in an eligible position, a conservation officer ineligible for a pension under section 48, a state police motor carrier, or an MSP properties securities officer who is first employed and entered on the payroll on or after October 1, 2024.
- A former qualified participant who is reemployed in an eligible position or as a conservation officer, state police motor carrier, or MSP properties securities officer on or after October 1, 2024.

MCL 38.55 et seq.

Senate Bill 167 would add four sections to the State Police Retirement Act to allow eligible individuals to purchase service credit for service under the State Employees' Retirement Act.

The Michigan State Police retirement system would generally credit service accrued under the State Employees' Retirement Act to an individual in an eligible position, a conservation officer, a state police motor carrier, or an MSP properties securities officer who terminated their participation in SERS if the individual pays to the MSP retirement system an amount that is equal to the actuarial value of the service (as determined by the system's actuary). Service under the State Employees' Retirement Act would not be creditable toward retirement if the member is receiving or will receive a retirement allowance for the same service from another system.

Eligible individuals would be allowed, but not required, to purchase any or all credit they have accrued under the State Employees' Retirement Act. To transfer the credit, they would have to initiate the purchase by 5:00 p.m. on May 30, 2025, and complete payment within four years.

A member could purchase service through tax-deferred payments or additional payments in a form and manner determined by the MSP retirement system. The retirement system would also have to establish a method to implement the payments.

For the purposes of vesting, a member would be credited service rendered under the State Employees' Retirement Act if they purchased service.

For individuals who are eligible to transfer to the MSP retirement system in accordance with the bills' provisions, the State Police Retirement Act would control over any conflicting provisions in a collective bargaining agreement.

Proposed MCL 38.1624c et seq.

BACKGROUND:

The MSP Pension Plus plan is a hybrid plan with both pension (Tier 1) and defined contribution (or 401(k)-style, Tier 2) components that:⁷

- Is funded by member contributions of 4% of their compensation.

⁷ For more information on the Pension Plus plan, see: <https://www.michigan.gov/mspjobs/-/media/Project/Websites/mspjobs/Benefits/Pension-Plus-Retirement-Plan.pdf?rev=55b15f5c12d0430f84e456a7aa2dc181>.

- Bases final average compensation (FAC) used to calculate a pension benefit on the last five years of service.
- Sets a member's annual pension as the product of their FAC multiplied by their years of service and by the benefit multiplier. (The pension benefit multiplier is 2% for each year of service up to 25 years, then declines by 0.4% for each year after 25 until reaching 0% at 30 years.)
- Sets the minimum age requirement for retirement at 55 with 25 years of service and at 60 with 10 years of service.
- Provides an employer matching contribution of up to 3% of the member's compensation into a member's Tier 2 account plus a one-time lump sum payment upon termination of employment equal to either \$1,000 or \$2,000 depending on age/service.
- Provides a 50% matching employer contribution capped at 1% of the member's compensation into their Tier 2 account.

FISCAL IMPACT:

The bills would increase payroll pension costs for eligible employees noted in the legislative analysis above due to the higher pension normal cost rates charged under the SPRS Pension Plus plan versus the existing defined contribution plan for these employees. The magnitude of the initial cost increase would depend on the number of employees that converted to the Pension Plus plan, the replacement rate of employees under the old system with new employees in the Pension Plus system, and calculated contribution rates. Initially, the conversion should not affect the unfunded liabilities of SPRS. Unfunded liabilities could accrue in the future if actual experience failed to meet actuarial assumptions on factors like stock market returns and mortality rates.

Based on estimates provided by the state's actuary, approximately \$403.8 million in payroll would be eligible to convert to the Pension Plus plan. Not accounting for timing issues or short-term and one-time costs, fully converting all eligible payroll would result in an annual cost increase to the state of between \$20.0 million and \$37.8 million based on FY 2025 contribution rates. The application of the health care normal cost rate for those employees that convert is the biggest source of uncertainty in this estimate, which includes death and disability provisions.

While no estimate can be provided related to new employees because the number of new employees and the projected payroll is not known, it is expected that the contribution rate for a new employee under the Pension Plus plan would be between an estimated 2.2 and 6.6 percentage points higher depending on the health care normal cost contribution rate.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.