



**House
Legislative
Analysis
Section**

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RETIREMENT; EXEMPT TREASURY BONUS PLAN

House Bill 5641 as introduced **RECEIVED**
First Analysis (6-14-88)

Sponsor: Rep. John M. Maynard
Committee: Appropriations

Mich. State Law Library

THE APPARENT PROBLEM:

The state treasurer has proposed, and the Civil Service Commission has approved, a plan to pay incentive bonuses to employees of the Bureau of Investments in the Department of Treasury, based on the performance of the employees in investing the state's pension funds. The plan is intended to reward performance and encourage longevity in a profession in which, reportedly, similar positions in the private sector can bring much greater financial rewards. Bonuses are to be payed out of retirement funds, as the salaries of these employees are at present. It has been proposed, however, that the bonuses earned under the plan should not be included as "final average compensation" in determining retirement benefits for these employees, who are covered under the State Employees Retirement System.

THE CONTENT OF THE BILL:

The bill would amend the State Employees Retirement Act to exclude from the definition of compensation (for purposes of calculating a member's retirement allowance) remuneration received under the Department of Treasury Incentive Bonus Plan.

MCL 38.1

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, if the bill were not passed, the state would incur additional costs. Specific cost information is not available; however, because only 46 employees are covered under the bonus plan, the costs are not expected to be significant. (6-1-88)

ARGUMENTS:

For:

One component of the formula used to determine retirement benefits for state employees is "final average compensation," which is an average of the highest three consecutive years of compensation during the time a person is employed by the state. From discussions between the Departments of Treasury and Civil Service during the development of the plan, it is apparent that the bonus plan is not intended to affect other benefits, including retirement benefits, for the employees included. However, the attorney general has advised that because the statute does not specifically exclude incentive bonuses from the definition of compensation, the bonuses would constitute compensation for purposes of calculating retirement benefits. Further, according to the attorney general, if the legislature wishes to amend the act to exclude such payments, it would be prudent to enact such legislation before the implementation of the incentive bonus program, scheduled for October 1, 1988 (subject to legislative approval).

POSITIONS:

The Bureau of Retirement Systems, Department of Management and Budget, supports the bill. (6-10-88)

The Department of Treasury supports the bill. (6-13-88)

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