



**House
Legislative
Analysis
Section**

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SUGG'N. AWARDS FOR RETIREES

**House Bill 5411 (Substitute H-1)
First Analysis (2-20-96)**

**Sponsor: Rep. Clark Harder
Committee: Appropriations**

THE APPARENT PROBLEM:

Public Act 325 of 1978 established an awards program under which state employees may receive cash or a paid vacation for making suggestions that save at least \$10,000 in taxpayer money. Since its creation, the program has elicited approximately 22,600 suggestions, about 2,100 of which have been adopted and awarded. According to the Department of Civil Service, adopted suggestions have saved the state approximately \$272 million in a variety of ways. For instance, a suggestion within the Department of Social Services for revising the process whereby welfare fraud (relative to the issuing and use of food stamps) is monitored saved approximately \$14 million in the first year of implementation. Some people believe the program could be enhanced by allowing retired state employees the chance to offer such suggestions, especially as their experience working for the state gives them a good understanding of the ways that state agencies and departments operate. As a number of other states and some Fortune 500 companies reportedly give their retired employees the opportunity to participate in suggestion award programs, some feel retired state employees in Michigan should be eligible to do so, too.

THE CONTENT OF THE BILL:

Public Act 325 of 1978 established an awards program under which state employees may receive cash or a paid vacation for making suggestions that save at least \$10,000 in taxpayer money. The bill would amend the act to make retired state employees eligible to receive an award for a suggestion to save taxpayer money. In addition, the bill specifies that retired employees who received suggestion awards would be treated, for tax purposes, as self-employed persons (requiring that the tax consequences of the award be borne by the recipient). The retirement system from which the state employee was a retiree would not be held accountable for any award payment, which would be paid from appropriated funds for the award program as administered by the civil service department. Further, no adjustment or recalculation of a retiree's retirement benefits would be made as a result of a retired employee receiving a suggestion award payment.

Currently, the suggestions award board is the final reviewer of any award greater than \$100 (up to \$1,000 or 15 days paid vacation), while the suggestion administrator (a Department of Civil Service employee appointed by the department director) makes final review of awards for \$100 or less. Under the bill, awards over \$500 would be reviewed by the board and those of \$500 or less would be reviewed by the administrator. Further, the bill would specify that each state department's suggestion committee would have an uneven number of members, between three and 11. (Such committees now must have three members.)

MCL 38.1161 et al.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill could provide minimal savings to the state. By making retired employees eligible for the program, the potential exists that more suggestions would be made simply by increasing the pool of people eligible to make suggestions. However, the agency notes that the bill is not anticipated to significantly increase program participation. (2-5-96)

ARGUMENTS:

For:

Opening up the suggestion awards program to retired state employees makes sense since these former employees usually have spent a long time in state government, and could offer good tips on ways to save the state money. Furthermore, some of these individuals may have been uncomfortable making suggestions about possible money saving improvements while they were still working as state employees. Since 1978, state employees have offered about 22,600 suggestions in the program which have led to savings of approximately \$272 million. Also, by raising the amount at which awards would be decided by the suggestion awards board rather than the civil service department director from \$100 to \$500, more time could be devoted by the board to review those

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suggestions that offered the greatest potential for savings. And finally, the bill would permit state department suggestion committees to vary in size, anywhere between three and 11 members, as long as there were an odd number of members. This provision would allow a department that tends to receive a greater number of suggestions with more complicated proposals for saving money (such as the Department of Social Services) to organize a larger committee that could spend more time reviewing them than a three-member committee.

Against:

Requiring that awards given to retired employees be treated as self employed income places the income tax burden on the retiree. It should be noted that the self employed income would have to be declared and, depending upon the amount of the award, the retiree could be required to fill out and file federal self employed income tax forms, possibly considerably complicating a retiree's tax situation. Further, taxes on self employment income are generally higher than those applied to employee income (because employers usually pay one-half their employees' Social Security contribution, while self employed individuals must pay the entire amount). As a result, due to the tax differential and the added work of filing the additional tax forms, an award given to a retired person could end up being less valuable than an equal award given to a current state employee.

POSITIONS:

The State Employees Retirement Association supports the bill. (2-16-96)

■ 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.