

SERS; TRANSFER OF RETIREMENT CONTRIBUTIONS

**Senate Bill 578 (Substitute H-1)
First Analysis (10-29-97)**

**Sponsor: Sen. Walter H. North
Senate Committee: Appropriations
House Committee: Public Retirement**

THE APPARENT PROBLEM:

Wurtsmith Air Force Base, located in Oscoda, was closed in June, 1993. As part of a joint federal, state, and local effort to ease the transition for the surrounding community, the Wurtsmith Base Conversion Authority was created by executive order in 1991, and was dissolved in the same manner in 1994. As part of an agreement between the state and the federal government, 67 people were hired as non-permanent civil service employees of the base conversion authority through the former Department of Commerce. The federal government provided funds to the state for the cost of these employees, including funds that paid for employer contributions into the State Employees Retirement System on their behalf. It has been pointed out that this was an inappropriate arrangement for these employees, as they were intended to be employed by the state entity for a period of three to five years, and in order to receive a benefit from the State Employees Retirement System (under the defined benefit provisions then in effect), a person must have at least 10 years of service credit. Legislation has been proposed to transfer the pension assets attributable to these employees out of the SERS and into a pension fund maintained by the successor agency, the Wurtsmith Development Commission, which was formed by the local governments in the region.

retirement system of the successor agency the amounts of the contributions made on behalf

THE CONTENT OF THE BILL:

The bill would amend the State Employees Retirement System Act to allow for the transfer of the retirement contributions made on behalf of the former employees of the Wurtsmith Base Conversion Authority. The bill would require the successor agency to the base conversion authority to provide to the retirement system, by November 21, 1997, a list of the names and dates of employment of those former employees of the dissolved authority on whose behalf retirement contributions were made, and who had notified the successor agency that they wished to have the contribution transferred. The retirement system would have to transfer, by December 19, 1997, to the

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of the former employees, and interest earned on those amounts. The bill provides that a person who chose to have his or her retirement contributions transferred in this manner would forfeit all service credit in the SERS for the period that he or she was employed by the base conversion authority. Further, if a person subsequently became a state employee, this service credit could not be restored. The provisions of the bill would be repealed January 1, 1998.

MCL 38.43

FISCAL IMPLICATIONS:

According to the Senate Fiscal Agency, the bill would have no fiscal impact. The funds to be transferred from the SERS under the bill are estimated to be about \$355,000; this consists of funds that were paid into the system by the federal government and interest earnings on those funds. The bill would have no effect on the assets of the retirement system nor on the contribution rate charged to other state agencies. (9-23-97)

ARGUMENTS:

For:

The bill would simply correct what has been described as an oversight in dealing with pension funds paid by the federal government on behalf of the employees of the former Wurtsmith Base Conversion Authority. These 67 people were never considered to be regular state employees; the life expectancy of the authority was expected to be three to five years. Thus, the State Employees Retirement System, with its (then) ten-year vesting requirements, is not the proper custodian for these employees' pension funds. Retirement experts have stated that the bill is in response to an extremely unusual situation and is not likely to set a precedent for future withdrawals from the retirement system. Further, the bill has no fiscal effect, as the money involved was paid by the federal government on behalf of the employees. In fairness to these workers, the funds should be transferred

to the retirement system maintained by the successor agency, for their benefit upon retirement.

POSITIONS:

The Wurtsmith Development Commission supports the bill. (10-23-97)

The Bureau of Retirement Systems in the Department of Management and Budget is neutral on the bill. (10-24-97)

Analyst: D. Martens

■ 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.