

EARLY RETIREMENT FOR MENTAL HOSPITAL WORKERS

**House Bill 5038 (Substitute H-1)
First Analysis (9-23-97)**

**Sponsor: Rep. Eileen DeHart
Committee: Public Retirement**

THE APPARENT PROBLEM:

Generally, under the defined benefit provisions of the State Employees Retirement Act, a member of the retirement system may retire at age 60 with 10 years of service, or at age 55 with 30 years of service, with a full retirement benefit. Additionally, a person who is 55 with at least 15 years of service may retire, but the retirement benefit is reduced by .5 percent for each month that the person is under age 60. From time to time, the legislature has enacted "early out" provisions that have allowed, for limited periods of time, members to retire with full benefits with less than these established levels of age and length of service credit. Several of these early retirement programs have been offered to state employees generally, with the goal of reducing the state payroll, and other times the option has been offered to certain employees whose employment was terminated due to the closure of state mental health facilities, or due to privatization of the Accident Fund, the Michigan Biologic Products Institute, and the liquor distribution system.

A matter of dispute for some time, and most recently as an issue in debate over the 1997-98 Department of Community Health Budget, is the proposed closure of several more mental health facilities: the Clinton Valley Center, a center for people with developmental disabilities located in Pontiac; the Detroit Psychiatric Institute, a children's program; and Pheasant Ridge, a children's program at the Kalamazoo Psychiatric Hospital. In his executive budget recommendations, the governor had proposed closing those facilities, though funding for them was restored in the House-passed version of the budget, and remained in the conference report that was enrolled. The governor used the line-item veto to settle the matter. The hospitals are scheduled to close October 4, 1997, and layoff notices have been issued to employees that will be effective September 30. (And, though reportedly on Friday, September 19, a Wayne County Circuit Court judge issued a permanent injunction against the closure of the three hospitals, there is still no funding authorized to operate the facilities beyond September 30, and so, presumably, the employees still face layoff as of that

date.) Legislation has been introduced to offer an early retirement incentive to

employees of these facilities whose combined age and service amount to 70 years.

THE CONTENT OF THE BILL:

House Bill 5038 would amend the State Employees Retirement Act to provide an early retirement option for employees of hospitals or facilities owned or operated by the Department of Community Health (mental health facilities) that were scheduled to close during the period beginning on the effective date of the bill and ending on October 4, 1997. Under the bill, a member with 10 years of credited service who worked at an affected mental health facility could retire with full benefits if his or her combined age and years of service equaled at least 70 years. To be eligible, the member would have to be employed by the facility for the six-month period ending on the effective date of the bill, or would have to be on lay-off status or have been restored to active service during that period. Members would have to file an application with the retirement board at least 30 days prior to the date they wished to retire. A person retiring under the provisions of the bill would have his or her accumulated sick leave paid in 60 monthly installments, rather than in a lump sum.

MCL 38.19g

FISCAL IMPLICATIONS:

According to the Department of Community Health, there are 15 employees at the Detroit Psychiatric Institute who would qualify for early retirement under the bill, and 52 at Clinton Valley Center. No employees at Pheasant Ridge would be affected by the bill. (9-18-97)

According to the Office of Retirement Systems in the Department of Management and Budget, it is estimated that 67 employees would be eligible to retire under the provisions of the bill, and that of those, 48 would be eligible to retire under another provision of the act that provides an ongoing early-out option for certain employees of closing mental health facilities. The

increase in actuarial liabilities attributed to the bill is estimated to range from \$2 to \$2.5 million. This represents total cost to the retirement system, and would be spread against the entire state payroll. As a percentage of payroll cost, the amount is estimated to be minimal. (9-23-97)

ARGUMENTS:

For:

The bill would provide an early retirement option for workers who will be affected by the closure of Clinton Valley Center, the Detroit Psychiatric Institute, and Pheasant Ridge Center. The bill's "70-and-out" provisions are consistent with what has been offered to employees in similar situations, whether those affected by hospital closures or privatization of functions formerly performed by state government. Providing the early-out option is a relatively inexpensive way to ease the transition for these employees, many of whom are near to retirement age and have worked long years in state employment. Several Clinton Valley Center employees have testified that due to recent changes in civil service rules, opportunities for transferring to other state employment or "bumping" have been severely limited.

Against:

Representatives of the Office of Retirement Systems in the Department of Management and Budget have pointed out that the State Employees Retirement Act already contains an ongoing early retirement provision for employees of mental health facilities that are closed. This provision dates from the mid-1980s, and allow members to retire at any age with at least 25 years of service at the facility slated for closure; at age 51 with 25 years of service, with at least the last 5 years at the facility slated for closure; and at age 56 with 10 years of service, with the last 5 years at the facility slated for closure. In addition, employees working at mental health facilities that are closed are eligible for five-year "vesting" (rather than the 10 years of service generally required), and thus are able to receive a deferred retirement benefit upon reaching age 60 even if they don't qualify for the early-out provisions. This bill would provide an even more generous early out option, by waiving the age requirement. It is argued that it is unequitable to provide an additional, more favorable early-out option to a group of employees who are already covered by a general provision in the statute.

Response:

The legislature has provided similar 70-and-out provisions, with no age requirement, several times in the past. Many of the employees that would be eligible under the bill would not be eligible under the existing statutory provisions for closing mental health facilities.

POSITIONS:

The Retirement Coordinating Council (representing

active and retired state and public school employees) presented testimony in support of the bill. (9-23-97)

A representative of the Office of Retirement Systems in the Department of Management and Budget testified in opposition to the bill. (9-23-97)

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.