



House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

SERS: NOTIFICATION OF ELIGIBILITY

House Bill 5013 with committee amendments First Analysis (10-4-00)

Sponsor: Rep. A.T. Frank
**Committee: Senior Health, Security and
Retirement**

THE APPARENT PROBLEM:

According to the annual financial report for the State Employees Retirement System for the fiscal year ending September 30, 1999, about 7,300 people are deferred vested members of the retirement system, meaning that they have earned a retirement benefit upon reaching age 60, but are no longer working for the state. (Generally, under the defined benefit program of the State Employees Retirement System, a member of the retirement system becomes eligible to receive a retirement benefit after ten years of service and upon reaching age 60. There are also provisions for retirement at age 55 under certain circumstances.)

Currently, there is no mechanism for notifying these individuals when they are approaching the time that they would become eligible to begin collecting their retirement benefits. In at least one case, a former state worker was unaware of his eligibility and lost out on two years worth – about \$9,000 – of benefit payments. (Further, there is no provision for paying benefits retroactively in such a case.) Legislation has been proposed to require the retirement system to notify people of their retirement eligibility.

THE CONTENT OF THE BILL:

The bill would amend the State Employees Retirement Act to require the retirement board to notify each member of the retirement system, at his or her last known address, at least 60 days before the member became eligible for retirement, or upon termination of the member's state employment. Notification would also have to be given regarding eligibility for any early retirement program that may be enacted.

MCL 38.18a

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill would result in additional administrative costs for the Department of Management and Budget. No estimate is available at this time. (10-4-00)

ARGUMENTS:

For:

Although many state employees become "vested" in the retirement system after ten years of service, not all of them stay in state service for their entire career. Thus, many who have left state service are still eligible to begin collecting retirement benefits at age 60. If they are unaware of this eligibility because they are working elsewhere, they may lose out on valuable retirement benefits that they have earned. It seems reasonable that the retirement system be required to provide a simple notification that would allow people in this situation to apply for their benefits at the earliest time they become eligible to receive them. As amended in committee, the ORS could satisfy the bill's requirement by providing a notice at the time of separation from state service, or could send the notice to the member's last known address. This does not seem to be an onerous requirement.

Response:

Though the intent of the bill appears to be to assist those who have left state employment, the bill would require notification of "members" of the system; this term is generally understood to refer to active state employees rather than to those who have separated from state service, who are "deferred members" under the statute.

Against:

According to representatives of the Office of Retirement Services in the Department of Management and Budget, the ORS is currently in the process of upgrading its computer system and putting into place a system of providing all active members of the retirement system with annual statements of account, which would provide members with information on service credit earned, and other information pertinent to each member's status within the system. The department would prefer to continue with this plan rather than to have to implement a new notification as required by the bill. The ORS also points out that it has recently implemented a toll-free number and other services to provide prompt customer service. Any member or deferred member can obtain the status of their retirement account upon request. However, to require the system to notify each member upon their eligibility to collect benefits would be costly in staff time and resources – a cost estimated to be at least \$100,000. This would simply delay the implementation of the new system that ORS officials believe to better meet the needs of their customers.

Response:

It has been noted that the ORS has been in the process of upgrading its services for many years, and many people are impatient with the slowness of that process.

POSITIONS:

The Department of Management and Budget opposes the bill. (10-4-00)

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.