EMERSON LETTER

I'm sure it is no surprise to you when I report that state government is facing economic challenges we've not experienced since the Great Depression.

In the 10 years from 2001 through this year, Michigan will have lost one million jobs, much of that job loss due to the profound changes that have reverberated throughout the auto industry. Three out of four automotive jobs in our state are gone. This stark reality has affected our budget in ways unimaginable just a few years ago. Today, we are operating state government on revenues that are at a 45-year low when adjusted for inflation.

Since 2003, we have had to address billion dollar deficits, many times with your help. State employees have contributed some $650 million to resolving our budget problems, which has gone a long way in helping us resolve the challenges we have faced over time. Despite your sacrifice, we are once again facing a billion dollar plus deficit.

In less than two weeks, the fiscal year 2011 executive budget recommendation will be presented for the coming year, and that budget will recommend a number of solutions to resolve the state's structural deficit. Those recommendations will include a public employee retirement program to cut costs by offering both positive and negative incentives to approximately 7,000 state employees and 39,000 public school employees eligible for retirement.

The budget recommendation will require legislative approval in time for employees to submit a retirement application between April 15 and May 15, 2010. Here are some of the details about the plan that will be formally unveiled in the budget recommendation.

State Employees Retirement System

State employees who are members of the defined benefit (DB) plan will experience the following changes effective October 1, 2010:

* To ensure that the State Employees Retirement System (SERS) is fiscally sound, a 3 percent employee contribution will be reinstated.

* Earned service credit capped at 30 years. Employees continuing in

state service beyond 30 years will be moved to a defined contribution (DC) plan for any additional years of service accrued after September 30, 2010, excluding what is purchased by the employee.

* Elimination of state-subsidized retiree vision and dental coverage for state employees retiring after September 30, 2010. Retirees will be able to purchase this coverage for a monthly fee through the plan.

* Increased retirement multiplier of 1.6 percent for eligible employees who retire between July 1 and October 1, 2010. Details on eligibility will be included in the fiscal year 2011 executive budget recommendation.

* Phased retirement option for retiring employees age 60 or older. Phased-in retirement will be allowed for up to three years, enabling employees to collect their DB plan retirement with a workload of no more than 20 hours per week for a previously full-time employee. This option is available to the employees at management discretion.

Michigan Public School Employees Retirement System

Public school employees who are members of the Michigan Public School Employees Retirement System (MPSERS) will be subject to the following changes effective October 1, 2010.

* To ensure MPSERS is financially sound, employee contributions to the plan will increase by 3 percent for all employees except those in the MIP Plus program whose contribution was increased in 2008. MIP Plus members' contribution will increase by 0.9 percent.

* Elimination of subsidized retiree vision and dental coverage for school employees retiring with an effective date after October 1, 2010. Retirees will be able to purchase this coverage for a monthly fee through the plan.

* The retirement multiplier will be increased from 1.5 percent to 1.6 percent for employees who retire with an effective date between July 1 and September 1, 2010, which will be paid by the applicable school districts.

* A new, more cost-effective hybrid retirement plan for new employees hired on or after October 1, 2010, will be created. New employees will participate in both a base defined benefit plan and a defined contribution plan.

* Phased retirement option for retiring employees age 60 or older.

Phased-in retirement will be allowed for up to three years, enabling employees to collect their DB plan retirement with a workload of no more than 20 hours per week for a previously full-time employee. This option is available to the employees at the discretion of the school districts.

We know that this program will pose some very difficult choices for many state employees, who will be faced with a decision to retire sooner than they may have originally planned. We also know that for employees who are not eligible to retire, this plan will mean additional sacrifice.
It is that reality that made our choices to resolving the budget deficit all the more difficult.

This plan is part of a four-part reform plan for state government that can be found at www.michigan.gov/gov . When the executive budget is presented on February 11, additional information about the retirement incentive plan will be posted on the Office of Retirement Services Web site at www.michigan.gov/ors .

Sincerely,

Bob Emerson
Budget Director