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Granholm seeks to retire 46,000 to address deficit

39,000 school employees, 7,000 state workers targeted

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Sharon Carter had it timed out perfectly.

In three years, the 62-year-old Alma resident, who works in the state Department of Information Technology, would retire and pay off the remainder of her house about the same time.

But she worries those plans could be dashed under a deficit-reduction proposal unveiled Friday by Gov. Jennifer Granholm. Her plan is to prod up to 7,000 state employees and 39,000 public school employees into early retirement to shave costs and help balance the state budget.

"I only have one income, and that is my own," said Carter, who has been a state employee for four decades. "You have to stretch what little money you have. I understand the whole situation the state is going through, and unfortunately there is no one answer to it."

Granholm unveiled her reform plan Friday at a meeting of Lansing Rotary Club at the Radisson Hotel - five days before she is scheduled to give her State of the State address. The plan encourages state employees with 30 years or more of service to retire by forcing them to contribute 3 percent of their salary toward retirement effective Oct. 1 - and eliminating their retirement vision and dental care if they refuse to step down. In exchange, eligible employees would earn a slightly higher pension.

"It's more stick than it is carrot," said Ray Holman, spokesman for United Auto Workers 6000, a union that represents 17,000 state administrative workers, social service caseworkers and other employees.

"We're open to talking to the governor about (other) early retirement proposals. This amounts to a 3 percent pay cut."

State has no choice

Granholm, however, said the state has no choice but to address the state's structural deficit, which has plagued the state for many years. The state is facing a \$1.6 billion deficit for the fiscal year that begins Oct. 1.

"Government can't be all things to all people. We have to focus on the things that matter most," she said. "That means a sleeker, smaller state government."

Other aspects of Granholm's reform plan include:

- Requiring all newly hired state employees to begin paying about 20 percent of their healthcare premium - about twice as much as current state employees pay.
- Forcing all current state employees who decide to work beyond 30 years into a 401(k) retirement plan, which is the only plan open for all new hires.

Employees with 30 years of service would keep their defined pension benefits, which pays a set amount each month in retirement, for their years of service up to that point. All employees in the state's defined benefit plan would pay 3 percent of their income toward the plan.

Granholt said these and other reform steps are designed to save up to \$450 million in the first year alone - far short of the projected \$1.6 billion shortfall for next year.

Still, such a step to restructure the work force and benefits was inevitable, said Jeffrey Padden, president of Public Policy Associates, a Lansing consulting firm.

"It would be fair to say that given the huge declines in revenue at the state and local level, some kind of change in the benefit structure, for both state employees and teachers, was likely to happen," Padden said. "(But) it's hard to imagine that one step is going to be sufficient."

But it's unclear how much cost savings the state will achieve, said Craig Thiel, director of state affairs for the Citizens Research Council of Michigan. After the last major round of early retirement packages offered in 2001, he said, the state ended up rehiring more employees than it anticipated, reducing the cost savings.

Some savings

Under the current proposal, state officials are expecting to replace, at lower wages and benefits, two of every three state employees who take early retirement.

"This (early retirement) surely can be looked at differently than the previous one. That one, you were providing an incentive to leave," Thiel said. "This one you're providing a disincentive not to retire... At the end of the day, there should be at least some short-term savings."

Scott Dianda, president of the Michigan State Employees Association, which represents 4,300 employees in nearly every state department, said the early retirement plan will be a tough sell to his members, as well as Granholt's proposal to force all into new hires into a different health plan.

Last month, the union clashed with state labor negotiators over the new health plan while discussing concessions, and the state later imposed five days of unpaid furlough on union members.

"My fear is that by switching to a 401(k) system, and with the fat cats still manipulating the Wall Street system, what's going to happen to retirement benefits in 30 years?" Dianda said.

Staff writer Kris Turner contributed to this report.
