



**House
Legislative
Analysis
Section**

Washington Square Building, Suite 1025
Lansing, Michigan 48909
Phone: 517/373-6466

SERS: ALLOW CHANGE IN BENEFIT OPTION

House Bill 4963 with committee amendments
First Analysis (7-28-89)

RECEIVED

Sponsor: Rep. David C. Hollister
Committee: Senior Citizens and Retirement

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THE APPARENT PROBLEM:

Under the State Employees' Retirement Act, a member may elect to receive either a regular retirement allowance, payable throughout the retirant's life, or to receive the actuarial equivalent at the time of his or her regular retirement allowance, in a reduced amount, payable throughout the lives of the retirant and his or her beneficiary. If the member elects to receive the reduced allowance, he or she has two options, A or B, to choose from: under Option A, the member's beneficiary would receive 100 percent of the reduced retirement allowance; under Option B, the member's beneficiary would receive 50 percent. (A beneficiary may be either a spouse, brother, sister, parent, child, or grandchild). The election of an option cannot be changed on or after the effective date of the retirement allowance.

Public Act 151 of 1985 acknowledged the rights of a spouse by specifying that a member should not be able to choose a retirement allowance option that excludes his or her spouse without the consent of the spouse. The act specified that a member who was married at the time of retirement could not elect to receive a regular retirement allowance unless the election were signed by the member's spouse. It has come to light, however, that — prior to this requirement, which took effect November 12, 1985 — the spouses of some retirement system members either were never informed of the member's election to receive a regular retirement allowance, or did not realize that this decision would mean that the allowance would end on the member's death. As a result, some unfortunate beneficiaries have had to face the unpleasant news that they are not entitled to any benefits from a member's retirement plan. The situation is particularly unfortunate where the beneficiary involved is the member's spouse who has no other retirement benefits to fall back on.

THE CONTENT OF THE BILL:

House Bill 4963 would amend the State Employees Retirement Act to allow a retirant whose retirement allowance effective date was before November 12, 1985, to until January 1, 1991, change the election to receive a regular retirement allowance and to elect instead to begin receiving the actuarial equivalent in a reduced amount, payable throughout the life of a retirant and his or her surviving spouse, in accordance with the provisions of option A or B. Under the bill, "surviving spouse" would be defined as the person to whom the retirant was married on the effective date of his or her retirement allowance and on the effective date of the retirement allowance change.

MCL 38.31

FISCAL IMPLICATIONS:

According to the Retirement Bureau in the Department of Management and Budget, although the fiscal implications of the bill are not expected to be high, it is impossible to

predict the cost at this time. It is known that some 9,000 individuals in 1985 had regular retirement plans that ended with their deaths; it is not known how many of the 9,000 were married at that time. It is estimated, however, that most of the retirees were women whose husbands had their own retirement plans, and that only 2,600 of the 9,000 were men. The following chart gives an example of the costs involved in a situation where an employee retires with 25 years of service and a final average compensation of \$30,000. (The employee is 65 years of age, the beneficiary is 63, and Unisex life expectancy tables are used):

	<u>Retiree</u>	<u>Beneficiary</u>	<u>Approximate Total Payout</u>
Regular	\$11,250	\$ -0-	\$225,000
Option A (100% Survivor)	8,663	8,663	225,200
Option B (50% Survivor)	9,788	4,894	225,100

If the above retiree changed from a regular allowance to an Option A allowance after having received a regular retirement allowance for five years, then the following overpayment would occur:

Received in 5 years ($\$11,250 \times 5$)	\$ 56,250
Pay out after choosing Option A in next 21 years ($\$8,663 \times 21$)	181,923
Total Pay out over 26 years	\$238,173
Total Regular Pay out over 20 years	225,000
Overpayment	\$ 13,173

If the beneficiary's payment were held harmless and only the retiree's allowance was reduced to adjust for the overpayment, then in this example the retiree would receive \$7,785 per year instead of \$8,663. If both the retiree's and the beneficiary's payment were adjusted, then in this example they would both receive \$8,037. The longer the member had been retired, the greater the adjustment would be. Also, the greater the age difference between the retiree and the beneficiary, the greater the reduction from a regular allowance to a reduced allowance.

An alternative method that the Retirement Bureau could use in determining benefits when an employee elected to change would be to apply option reduction factors for the ages at which the change was made. In the above case, at ages 70 and 68, the result would be annual allowances of \$8,198. The total payout would be \$228,400, which would result in an overpayment of \$3,400.

Another cost consideration that would be taken into account is health insurance. At current rates, the state subsidy, if a spouse were added, would range from \$2,097 per year if both were under 65, to \$1,216 per year if both were over 65. The cost of state-subsidized health benefits for a surviving beneficiary is \$1,841 for a person under 65, and \$1,215 for a person over 65. (7-26-89)

OVER

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ARGUMENTS:

For:

Applied in cooperation with the act's requirement for spousal consent if a member elects to receive a regular retirement allowance, the bill is another step in the process of recognizing the rights of a spouse when a retiree selects a retirement allowance option. This is especially important for the non-employed spouse (usually the wife) who has assumed the traditional role of a full-time homemaker and support person for the employed spouse. The retirement allowance of one partner should be considered as joint marital property and decisions regarding it should be shared with the spouse.

Against:

The act specifically states that the election of an option may not be changed on or after the effective date of the retirement allowance. By allowing this one deviation from the intent of the statute, however justifiable, the bill would open the way for other exemptions to this requirement.

POSITIONS:

The State Employees Retirement Association supports the bill. (7-28-89)

The Retirement Bureau in the Department of Management and Budget has no position on the bill. (7-28-89)