



House
Legislative
Analysis
Section

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SERS: ALLOW CHANGE IN BENEFIT OPTION

House Bill 4963 as enrolled
Second Analysis (6-26-90)

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

THE APPARENT PROBLEM:

Under the State Employees' Retirement Act, a member may elect to receive either a regular retirement allowance, payable throughout the retiree's life, or to receive the actuarial equivalent of his or her regular retirement allowance, in a reduced amount, payable throughout the lives of the retiree and his or her beneficiary. If the member elects to receive the reduced allowance, he or she has two options: Option A, under which the beneficiary will receive 100 percent of the reduced retirement allowance after the retiree's death; and Option B, the under which the beneficiary will receive 50 percent after the retiree's death. (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 spouse of at least one retirement system member either was 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 make technical changes, and to permit a nonduty disability retiree who has elected to receive a regular retirement allowance to change that election to a reduced retirement allowance. Under the bill, a nonduty disability retiree who retired before November 12, 1985, could — until July 1, 1991 — change the election to receive a disability retirement allowance computed as a regular retirement allowance and elect instead to begin receiving the actuarial equivalent, provided that he or she had 25 or more years of credited service on the allowance effective date. The retiree would begin receiving the allowance effective the first day of the month following the month in which the election was made.

MCL 38.18 et al.

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 1,000 nonduty disability retirees in 1985 had regular retirement plans that ended with their deaths; it is not known how many of the 1,000 were married at that time. 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):

	Annual Benefits		Approximate
	Retiree	Beneficiary	Total Payout
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 x 5)	\$ 56,250
Payout after choosing Option A in next 21 years (\$8,663 x 21)	<u>181,923</u>
Total Payout over 26 years	\$238,173
Total Regular Payout over 20 years	<u>225,000</u>
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

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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 annual 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. (6-25-90)

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.

Response: It is unlikely that many retirees would be affected by the bill, since only "nonduty disability retirants," would be eligible to change their election. In addition, according to the Retirement Bureau in the Department of Management and Budget, the majority of all retirement system members who retired before 1985 were women whose husbands had their own retirement plans.