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## LEGISLATIVE RETIREMENT: TRANSFER TO DC PLAN

### Senate Bill 37 (Substitute H-3) First Analysis (7-1-98)

**Sponsor: Sen. Dianne Byrum**  
**House Committee: Public Retirement**  
**Senate Committee: Appropriations**

#### **THE APPARENT PROBLEM:**

Public Act 486 of 1996 created a defined contribution retirement program within the Legislative Retirement System. (It was part of a package of legislation that also affected state employees, judges, and public school employees.) The defined contribution system is mandatory for those entering the retirement system on or after March 31, 1997. In addition, pre-March 1997 members of the Legislative Retirement System (as well as those in the other retirement systems) had the option of transferring into the defined contribution system by May 31, 1998.

The Legislative Retirement System Act contains provisions that allow for the calculation of the actuarial present value (APV) of a person's retirement benefits under the defined benefit program, for the purpose of transferring a lump sum amount into the person's new defined contribution account. The calculation is based on the member's credited service and estimated final salary as of May 31, 1998, as well as on assumptions of 1) eight percent annual interest; 2) a 50 percent male/50 percent female gender neutral blend of mortality tables used to project retiree longevity; and 3) a benefit commencement age. The benefit commencement age is the lesser of either: a) age 55, or b) age 50, if the member has at least 20 years of credited service. It has been pointed out that the regular retirement provisions of the defined benefit program under the act allow a member to retire at age 50 with a combined age and length of service equal to or greater than 70. Reportedly, it was the intent of the 1996 legislation that added the defined contribution program that the provisions for voluntarily transferring into the new system be based on the same requirements as the underlying defined benefit system. Thus, legislation has been offered to make the APV calculation consistent with the defined benefit program benefit commencement age.

#### **THE CONTENT OF THE BILL:**

Senate Bill 37 would amend the Legislative Retirement System Act to alter the provisions governing the calculation of the actuarial present value of a member's retirement benefit for purposes of transferring into the defined contribution plan. Under the bill, the benefit commencement age portion of that calculation would be either age 55, or age 50 if the member's age and years of service totaled at least 70 years.

MCL 38.1062

#### **FISCAL IMPLICATIONS:**

Fiscal information is not available.

#### **ARGUMENTS:**

##### **For:**

The current language in the Legislative Retirement System Act governing the calculation of APV when a member voluntarily transfers into the defined contribution system is inconsistent with the benefit commencement age for regular retirement benefits under the traditional defined benefit program. Reportedly, this was a drafting oversight, and legislation has been offered to correct the situation.

#### **POSITIONS:**

There are no positions on the bill.

Analyst: D. Martens

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■ 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.

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