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## LEGISLATIVE RETIREMENT; LIFE INSURANCE PROVISIONS

**House Bill 5534 as introduced  
First Analysis (2-11-98)**

**Sponsor: Rep. Kim Rhead  
Committee: Public Retirement**

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

The Legislative Retirement System Act was substantially amended in 1994 (Public Act 359 of 1994), generally to adjust benefits and contribution levels so as to restrain the growth in retirement costs that would occur with the imposition of term limits. In addition to these changes, language was added to the act to add a new payment option for the payment of the life insurance portion of the retirement plan. Specifically, the 1994 legislation allows for a member or deferred vested member of the retirement system to elect, at the time of retirement, to receive either a life insurance policy or to have the actuarial present value of the life insurance benefits used to purchase an additional monthly life annuity. The retirement board has been advised by legal counsel that such a benefit may not be tax exempt; it is recommended that the provision be eliminated so as to prevent tax problems for life insurance beneficiaries.

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

The bill would amend the Legislative Retirement System Act to delete a provision allowing a member or deferred vested member to elect, at the time of retirement, to have the actuarial present value of a life insurance benefits used to purchase a monthly life annuity.

MCL 38.1050a

### ***FISCAL IMPLICATIONS:***

According to the House Fiscal Agency, the bill is actuarially neutral. (2-6-98)

### ***ARGUMENTS:***

#### ***For:***

Legal counsel to the Legislative Retirement System Board has recommended an amendment to remove the provision in question, as it may cause that portion of benefits to be taxable to recipients. Reportedly, the option has not been selected by any retiring members since it was put in place.

### ***POSITIONS:***

The Legislative Retirement System Board supports the bill. (2-6-98)

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Analyst: D. Martens

■ 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.

