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BILL ANALYSIS

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Senate Bill 1017 (Substitute S-1 as reported)
Sponsor: Senator Ron Jelinek
Committee: Education

Date Completed: 7-7-06

RATIONALE

Under the Public School Employees Retirement Act, a retirant may elect to receive either a straight retirement benefit, with no payments to be made after his or her death, or a reduced payment each month, with all or a portion of that payment to continue to be paid to a designated beneficiary after the retirant's death. Once a retirant selects a payment option or designates a beneficiary, he or she is not permitted to alter that selection, except under limited conditions. The Act makes no provision for a change in circumstances such as the unexpected death of a beneficiary or the marriage of a single retirant. If a retirant whose spouse has died decides to remarry, he or she currently is unable to name his or her new spouse as a beneficiary. Similarly, if an individual decides to marry after retiring, there is no opportunity to include his or her new spouse as a beneficiary. Some have suggested that the Act should permit retirants to change their retirement payment options in these situations.

CONTENT

The bill would amend the Public School Employees Retirement Act to permit a retirant whose spouse was deceased and who later remarried, or a retirant who first married after being retired, to select his or her current spouse as a retirement allowance beneficiary under certain conditions.

The bill would take effect on January 1, 2008.

Retirement Allowance Payment Options

The Act permits a retiring member of the Public School Employees Retirement System to elect to be paid his or her retirement benefits according to one of four options:

-- A straight retirement allowance for life, with no additional payment to be made upon his or her death.
-- A reduced retirement allowance for life with the provision that upon his or her death, payment will be continued through the lifetime of a designated beneficiary.
-- A reduced retirement allowance for life with the provision that upon his or her death, payment of half the reduced allowance will be continued through the lifetime of a designated beneficiary.
-- A reduced retirement allowance for life with the provision that upon his or her death, payment of 75% of that allowance will be continued throughout the lifetime of a designated beneficiary.

All of the payments options must be actuarially equivalent; that is, they must be calculated so that, on average, the total benefit received is the same regardless of which option the retirant chooses.

The retirant must select one of these options in writing and file the selection with the retirement board at least 15 days before the retirement allowance's effective date. As a rule, if a retirant selects a beneficiary to receive payments after his or her death and the beneficiary predeceases the retirant, the retirement benefit reverts to a straight retirement allowance payable during the remainder of the retirant's life. The bill would create an exception to this provision, as described below.

Deceased Spouse

Under the bill, a retirant who selected a retirement allowance beneficiary could change the selected beneficiary if all of the following applied:

-- The first beneficiary was a spouse.
-- The first beneficiary predeceased the retirant after the retirement allowance effective date.
-- The retirant married another spouse after the retirement allowance effective date.
-- The retirant filed a written request with the retirement system to name his or her current spouse as a beneficiary not earlier than 180 days and not later than one year after the marriage of the retirant and the current spouse.

If a retirant's first beneficiary predeceased him or her after the retirement allowance effective date but before the bill took effect, the retirant would have 180 days after the bill's effective date to file a written request with the retirement system.

Unmarried Retirant

Under the bill, a retirant who was not married on his or her retirement allowance effective date and who did not select one of the payment options specified above would be permitted to designate a retirement allowance beneficiary and select an optional form of benefit payment that included payments to that beneficiary after the retirant's death, if all of the following applied:

-- The retirant married after his or her retirement allowance effective date.
-- The beneficiary was the retirant's spouse.
-- No eligible domestic relations orders or domestic relations orders, naming a previous spouse as an alternate payee with survivor benefits, had been filed.
-- The retirant filed a written request with the retirement system to select the optional form of benefit payment, and to designate his or her current spouse as a beneficiary not earlier than 180 days and not later than one year after the retirant's marriage.

If a retirant married after the retirement allowance effective date but before the bill took effect, the retirant would have 180 days after the bill's effective date to file a written request with the retirement system.

Retirement Allowance Amount

If an individual selected a beneficiary under the bill, his or her retirement allowance could not be greater than the actuarial equivalent of the retirement allowance that he or she otherwise would be entitled to under a straight retirement benefit with no additional payments to be made upon his or her death.

Health Benefit

The Act requires the retirement system to pay the entire monthly premium for certain health benefits for a retirant or retirement allowance beneficiary who elects coverage in the system's health plan. The system also must pay up to 90% of the maximum payable for health coverage under that requirement, for each health insurance dependent of a retirant receiving the health benefits.

Under the bill, an individual who became a retirant allowance beneficiary as allowed by the bill would not be a health insurance dependent and would not be entitled to health insurance benefits, with the following exception: A surviving spouse who was selected as a beneficiary under the bill could elect to receive insurance coverage if the retirant were responsible for payment for the elected coverage, and it were paid in a manner prescribed by the retirement system.

The bill also would include in the definition of "health insurance dependent" the spouse of a retirant who became a retirant allowance beneficiary under the bill, until the retirant's death.

MCL 38.1385 & 38.1391

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Public school employees who are considering retirement face difficult choices in selecting the best retirement allowance payment option. A retirant must seek to maximize his or her monthly payment while taking care of loved ones, who may outlive the retirant. Despite careful planning, unexpected events such as the death of a spouse can create different circumstances; the retirant then might wish to choose another payment option. The bill would give retirants the ability to adapt to changing circumstances, and to select the option that would make the most sense for the retirant and his or her family, while preventing any additional costs that could strain the retirement system.

If a retirant chose to alter his or her retirement allowance under the bill, the payment would be recalculated based on the ages of the retirant and his or her beneficiary, and would have to be actuarially equivalent to the payment that the retirant otherwise would have received. This would ensure that there was no additional cost to the retirement system, maintaining its long-term stability and protecting the benefits of all participants.

In addition, the beneficiary would not be eligible for health benefits under the retirement system after the retirant's death. The rising cost of health care has placed a significant strain on the system, and this provision would prevent an expansion of health care benefits to those who are not covered currently. The bill would allow a beneficiary to buy into the health care plan and receive the lower premium as part of a group plan, but the entire cost would be borne by the retirant, avoiding any additional health costs for the retirement system.

Response: The bill indicates that the retirant would be responsible for health care costs, but that provision would take effect only after the retirant was deceased. Presumably, the beneficiary, rather than the retirant, would be responsible for the cost of the health care premium.

Several additional concerns have been raised by the Office of Retirement Services in the Department of Management and Budget. First, in the case of a retirant who had been previously married, if his or her former spouse were entitled to a portion of the retirement allowance under a divorce order, the bill should specify that the named beneficiary would be eligible to receive a benefit only from that portion of the allowance that was not subject to the order.

Also, the bill's provisions could be subject to potential abuse. It is possible that an individual who was expecting to die soon could marry for the purpose of passing his or her benefits on to another person. To prevent such abuse, the bill should specify that if a retiree were to die within 12 months of selecting a beneficiary under the bill, then the beneficiary would receive benefits for a limited amount of time only.

In addition, there could be a large number of individuals who would want to take advantage of the bill's provisions, or might have questions about the changes. Such a surge of activity would require additional resources, but the bill makes no provision for additional funding for the Department.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: Joe Carrasco

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