

# Legislative Analysis



## RETIREMENT SYSTEM ANNUITY OPTIONS

Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

**House Bill 4274 (H-1) as referred to second committee**  
**Sponsor: Rep. Steve Marino**

Analysis available at  
<http://www.legislature.mi.gov>

**House Bill 4275 (H-1) as referred to second committee**  
**Sponsor: Rep. Thomas A. Albert**

**1st Committee: Financial Services**  
**2nd Committee: Appropriations**  
**Complete to 6-14-19**

### SUMMARY:

House Bills 4274 and 4275 would respectively amend the Public School Employees Retirement Act and the State Employees' Retirement Act to provide annuity options for employees and retirees in the defined contribution (DC, 401(k)-style) retirement plans provided through either the State Employees Retirement System (SERS) or the Michigan Public School Employees' Retirement System (MPSERS).

House Bill 4274 would revise the requirements related to annuity options that were added to the Public School Employees Retirement Act by 2017 PA 92. The bill would require that the annuity options allow DC participants to purchase an annuity while they are employed. The options would have to allow a DC participant, while employed, the ability to purchase a fixed rate annuity and the ability to purchase a variable annuity with an available guaranteed lifetime income option.

House Bill 4275 would require SERS to offer DC participants access to at least one fixed annuity option and at least one variable annuity option, in addition to currently offered investment options. The options would have to allow a DC participant, while employed, the ability to purchase a fixed rate annuity and the ability to purchase a variable rate annuity with an available guaranteed lifetime income option.

#### Selection of Annuity Providers

Each bill would require the State of Michigan Investment Board<sup>1</sup> to select two or more annuity providers through a competitive proposal process and to contract with two or more annuity providers to provide the annuity options. The board would have to select and contract with an annuity provider that meets all of the following:

- The provider and its subsidiaries and affiliates have the appropriate financial strength and stability. To determine this, the board would have to obtain written representation from the provider of all of the following:
  - That the provider is an insurer authorized under the Insurance Code to transact insurance in this state.
  - That all of the following apply to the provider for each of the immediately preceding seven years:
    - The provider operates under a certificate of authority from the insurance commissioner of its home state that has not been revoked or suspended.

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<sup>1</sup> See [https://www.michigan.gov/documents/snyder/EO\\_2018-10\\_634497\\_7.pdf](https://www.michigan.gov/documents/snyder/EO_2018-10_634497_7.pdf)

- The provider has a current certificate of authority from its home state insurance commissioner.
- The provider has filed audited financial statements in accordance with its home state laws under applicable statutory accounting principles.
- The provider maintains statutorily required reserves in each state where it operates.
- The provider is not operating under an order of supervision, rehabilitation, or liquidation.
- The provider undergoes a financial examination every 5 years as required by the insurance commissioner and under the law in its home state.
- The provider will notify the retirement system of any change in circumstances regarding the above requirements.
- The provider has a rating of no less than “B+” from at least one ***national ratings service*** (Moody’s Investors Service, Standard and Poor’s Ratings Group, Fitch Investors Service, Duff & Phelps Credit Rating Corporation, or any other nationally recognized statistical rating organization as determined by the state treasurer).
- The provider is able to provide contracted rights and benefits to a DC participant.
- The costs, including fees and commissions, of the annuity options in relation to the benefits and product features are reasonable.
- The administrative services provided under the annuity option are appropriate, which would have to include at least periodic reports to the board about the number of annuitants, the types of annuities provided, and any other information the board requires.
- The provider is experienced in paying lifetime retirement income through annuities offered to public employee DC retirement plans.
- The provider offers annuity options that meet all of the following conditions:
  - The annuity options are suitable for DC participants, whether employed, retired, or beneficiaries.
  - The contract terms and income benefits are clearly stated and based on reasonable assumptions.
  - The annuity options offer a range of lifetime income options.
  - For a variable annuity, the annuity offers a fixed account option along with its variable account options.
- The provider is able to offer objective and participant-specific education and tools that help participants understand appropriate use as a long-term retirement savings vehicle.

The bills would require the Office of Retirement Services (ORS) in the Department of Technology, Management, and Budget to verify the information in the required provider report and publish the report on its website.

The board could select and contract with only one annuity provider if, after the competitive process, the board determined that selecting more than one provider would not be in the interest of the participants or that only one provider met the conditions described above. In this case, the board would have to notify the Speaker of the House of Representatives, the Minority Leader of the House of Representatives, the Senate Majority Leader, and the Senate Minority Leader within 30 days after selecting and contracting with an annuity provider as to the reasons for selecting only one provider.

### Appropriation

Each bill appropriates \$100,000 to ORS for the 2018-19 fiscal year for administration of the changes it proposes. Each bill specifies that the appropriation is a work project appropriation and that any unencumbered or unallotted funds would be carried forward into the following fiscal year. The work project would be accomplished through a plan utilizing interagency agreements, employees and contracts, and its estimated completion date would be September 30, 2020.

Each bill would take effect 120 days after being enacted. The bills are tie-barred to each other, meaning that neither bill could take effect unless both were enacted.

MCL 38.1427 (HB 4274)

MCL 38.58 (HB 4275)

### **FISCAL IMPACT:**

The bills would create additional administrative and oversight responsibilities for the Department of Treasury and ORS, which independently would likely be absorbed within current staffing levels, but along with other added responsibilities could require additional staff. To accommodate any additional administrative costs, the bills include a General Fund appropriation totaling \$200,000 (\$100,000 appropriated in each bill) for ORS. The appropriations would be considered work project appropriations and carried forward into FY 2019-20. The work project appropriations would have an estimated completion date of September 30, 2020.

The bills would have no fiscal impact on the retirement systems themselves.

### **POSITIONS:**

Representatives of the following organizations testified in support of the bills:

- Life Insurance Association of Michigan (5-8-19, and indicated support 6-12-19)
- Michigan Corrections Organization (5-8-19)

The following entities indicated support for the bills:

- Retirement Security Initiative (6-12-19)
- Michigan Public Employees – SEIU (5-8-19)

Representatives of the following entities testified in opposition to the bills:

- Department of Treasury (4-17-19)
- American Federation of State, County, and Municipal Employees – Council 25 (6-12-19)

The following entities indicated opposition to the bills:

- American Federation of Teachers – Michigan (6-12-19)
- Coalition for Secure Retirement (6-12-19)

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Fiscal Analyst: Benjamin Gielczyk

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.