

Legislative Analysis



PSERS RETIREMENT BENEFICIARY

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Senate Bill 1017 as passed by the Senate

Sponsor: Sen. Ron Jelinek

House Committee: Education

Senate Committee: Education

First Analysis (12-5-06)

BRIEF SUMMARY: The bill would amend the Public School Employees Retirement Act to permit a "retirant" (i.e., a person who retires and is due retirement payments) to select a new spouse as a retirement allowance beneficiary if a previous spouse dies or if the retirant was not married at the time of retirement.

FISCAL IMPACT: The bill would have no fiscal impact on the state or local units.

THE APPARENT PROBLEM:

Under the Public School Employees Retirement Act, a retirant—that is, one who is already retired or will retire and is due a retirement benefit—may choose either a full ("straight") retirement benefit with no payments to be made after death, or specify a reduced monthly benefit so that all or a portion of the payment will continue to be paid to a designated beneficiary after the retirant's death.

Once a retirant selects a payment option and 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. For example, if a retirant whose spouse has died decides to remarry, he or she cannot name the 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.

Legislation has been introduced to permit retirants to change their retirement payment options in certain situations.

In addition, and as encouraged by the federal Family Leave Act, new parents sometimes leave the teaching workforce to nurture their young children. When they do so, they lose credit for years of service under the school employees' retirement system. Consequently, the Public School Retirement System allows its members to purchase up to five years of service credit for missed time because of parental leave, paying into the system an amount calculated to ensure an actuarially sound transaction. However, the law does not allow the purchase of service for those who have performed out-of-system service—perhaps teaching in another state or working in the state civil service before teaching in Michigan. Consequently, legislation also is proposed to allow all members of the system to purchase the service lost due to parental leave.

THE CONTENT OF THE BILL:

The bill would amend the Public School Employees Retirement Act to permit a "retirant" (i.e., a person who retires and is due retirement payments) to select a new spouse as a retirement allowance beneficiary if a previous spouse dies or if the retirant was not married at the time of retirement.

Currently, as a rule, if a retirant selects a beneficiary and the beneficiary dies before the retirant, the retirement benefit reverts ("pops up") to a straight retirement allowance payable during the remainder of the retirant's life. Senate Bill 1017 would create an exception to this provision for a retirant whose spouse dies and who later remarries and for a retirant who was not married on his or her retirement date and marries after that date.

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

Upon the retirant's death, 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 selected as a beneficiary could elect to receive insurance coverage if the surviving spouse is responsible for payment for the elected coverage, and the payment is made in a manner prescribed by the retirement system.

The bill also would allow individuals performing out-of-system public education service and members of the State Employees' Retirement System (as well as members of the Public School Employees Retirement System, as is currently provided) to purchase up to five years of service credit in the retirement system for time missed because of maternity, paternity, or child rearing. The bill would replace the term "maternity, paternity or child rearing" with "parental leave."

The bill would take effect on January 1, 2009.

MCL 38.1385 & 38.1391

HOUSE COMMITTEE ACTION:

The House Education Committee reported the Senate-passed version of the bill without amendments.

ARGUMENTS:

For:

A public school employee wishing to retire must select a pension payment option, choosing either to maximize his or her monthly payment, or selecting a reduced monthly payment in order to provide a partial payment to loved ones who may outlive the retirant. If the retirant selects a reduced payment and the beneficiary—customarily a spouse—dies, the retirant's monthly pension payment then "pops up" to its maximum level.

Further, under the current law, the retirant cannot select a new beneficiary if he or she marries again (or perhaps, marries the first time after retiring).

The bill would give retirants the ability to adapt to changing circumstances and name a new spousal beneficiary, while preventing 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 new beneficiary would not be eligible for health care coverage under the retirement system after the retirant's death. However, 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.

For:

The legislation is necessary to ensure that all teachers, regardless of the state where they begin teaching, be allowed to purchase up to five years of service credit in order to regain the time they lose due to parental leave.

New parents sometimes leave the teaching workforce temporarily to nurture their young children. When they do so, they lose credit for years of service under the school employees' retirement system. Consequently, the Public School Retirement System allows its members to purchase up to five years of service credit for missed time due to parental leave. To do so, each member must pay a premium for each year of service—calculated in an actuarially sound manner.

However, the law currently does not allow the purchase of parental leave service for those who have performed their service outside the system—perhaps teaching in another state or working in the state civil service before teaching in Michigan. This bill would allow *all* members of the system to purchase the service lost due to parental leave.

Against:

The Office of Retirement Services in the Department of Management and Budget has noted that 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.

Response:

As amended on the Senate floor, the bill specifies that the retirement allowance beneficiary is only designated for that portion of the retirement allowance that is not subject to an eligible domestic relations order assigning a previous spouse a reduced benefit.

Against:

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.

Response:

As amended on the Senate floor, the bill specifies that if a retirant dies within a year of naming his new spouse as a beneficiary, then the retirement allowance of the surviving spouse must terminate 12 months after the death of the retirant.

POSITIONS:

The Department of Management and Budget-Office of Retirement supports the bill. (11-29-06)

The Michigan Association of Retired School Personnel supports the bill. (11-29-06)

The Retirement Coordinating Council supports the bill. (11-29-06)

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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.