

Legislative Analysis



JRS AND SERS ACTUARIAL EQUIVALENT RETIREMENT ALLOWANCES

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

House Bill 5652 as enacted as PA 335 of 2018
Sponsor: Rep. John Reilly

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

House Bill 5653 as enacted as PA 336 of 2018
Sponsor: Rep. Eric Leutheuser

Committee: Financial Liability Reform
Complete to 3-7-18

SUMMARY:

House Bills 5652 and 5653 would amend the Judges Retirement Act and the State Employees' Retirement Act, respectively, to align the actuarial assumptions used to calculate certain optional benefits in both the Judicial Retirement System (JRS) and the State Employees' Retirement System (SERS) with those currently used by the actuary. The bills are described in more detail below.

Currently, in both JRS and SERS, rather than taking a regular retirement allowance until his or her death, a member may choose an actuarially equivalent benefit paid as follows:

- A reduced retirement allowance which continues in full to a member's retirement beneficiary after the member's death.
- A reduced retirement allowance which continues at half (or an additional 3/4 option in SERS) to a member's retirement beneficiary after the member's death.

Additionally, in SERS, a member may choose an increased benefit until age 65, approximately equal to what the reduced allowance plus social security payment will be after age 65, with a reduced benefit after age 65.

The optional benefits are calculated to be actuarially equivalent so that both the net benefit to the member and the net cost to the retirement system are equal to the regular retirement allowance. For both systems, the statutes require that the actuarially equivalent benefit is calculated using an 8% assumed interest rate with the 1983 group annuity and mortality table.

The bills would revise the assumptions used to calculate the actuarial equivalent to an interest rate determined by the Director of the Department of Technology, Management, and Budget (DTMB) and the retirement system board in consultation with the actuary using mortality tables adopted by DTMB. Over time the interest rate assumption and mortality tables have changed, and this would allow the system to ensure the optional benefits are actuarially neutral both now and in the future if assumptions continue to change.

MCLs 38.2604 and 38.49

BACKGROUND:

Identical changes were made to the actuarial equivalent benefit options under the Michigan Public School Employees Retirement System (MPERS) as part of a larger MPERS reform bill in 2017 (PA 92 of 2017)¹.

FISCAL IMPACT:

The bills would have an indeterminate fiscal impact for the applicable state retirement systems and no fiscal impact for local units of government.

Over time as experience has changed, the actuarial assumptions and mortality tables have changed, creating a mismatch between the optional actuarial equivalent benefit and the assumed benefits under a regular retirement allowance. The bills would allow the retirement systems the flexibility to maintain an actuarially neutral benefit as those assumptions continue to change.

The Office of Retirement Services does not yet have an actuarial analysis of the fiscal impact for the retirement systems. Generally speaking, recognizing a reduced interest rate assumption would save the system as members are most likely being undercharged for a true actuarially equivalent benefit, but recognizing updated mortality tables may cost the system, as members may be paying more than necessary for a true actuarially equivalent benefit. However, both the net effect and the magnitude of the change are unknown in the absence of an actuarial analysis.

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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.

¹ <http://legislature.mi.gov/doc.aspx?2017-SB-0401>