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BILL ANALYSIS



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Senate Bill 775 (as enrolled)
Sponsor: Senator Bev Hammerstrom
Senate Committee: Government Operations
House Committee: Government Operations

PUBLIC ACT 614 of 2006

Date Completed: 2-1-07

CONTENT

The bill amended the Michigan Legislative Retirement System Act to do the following:

- **Require the composition of the retirement system's board of trustees to be as indicated in the Act and the bylaws, beginning in 2012.**
- **Delete specific limitations on employer-financed benefits, and provide that those benefits may not exceed applicable limitations under the Internal Revenue Code.**
- **Provide for the payment to remaining eligible children of a survivor's retirement allowance that was paid to a formerly eligible child.**
- **Delete provisions allowing a former qualified participant or health benefit dependent to elect to have the retirement system pay a health insurance premium subsidy to another health insurance plan or a medical savings account.**

- Two retirants appointed by the Speaker of the House and two appointed by the Senate Majority Leader.
- One deferred vested member appointed by the Speaker of the House and one appointed by the Senate Majority Leader.
- One participant of Tier 2 (defined contribution) who was a former member of Tier 1 (defined benefit), appointed alternately by the Senate Majority Leader and the Speaker of the House.

Previously, the appointees in the last three categories could not serve as board members for a combined total of more than eight years. The bill deleted that provision.

Under the bill, a member of the board serving on December 31, 2010, must continue to serve as a member until December 31, 2011. Beginning January 1, 2012, the board must be composed of 11 members as indicated in the Act and in the bylaws. Except as otherwise provided, the 11 members must include at least four who are retirants, two who are deferred former qualified participants, and at least one current member of Tier 2. If there are not enough people who qualify and are willing to serve, members must be appointed as indicated in the bylaws.

The bill took effect on January 3, 2007.

Board of Trustees

The Act requires the retirement system's board of trustees to consist of the following 11 members:

- Two members of the House of Representatives appointed by the Speaker of the House.
- Two members of the Senate, appointed in the same manner as Senate standing committee members are appointed.

The bill deleted a requirement that a vacancy on the board be filled for the unexpired term in the same manner as original appointments are made. Under the bill, beginning January 1, 2012, a vacancy must be filled as provided in the bylaws.

Employer-Financed Benefits

Previously, employer-financed benefits provided by the retirement system could not exceed the lesser of \$90,000 or 100% of a member's average compensation for "high three years" as described in Section 415(b)(3) of the Internal Revenue Code (IRC) for retirement occurring at age 62 or older. This applied unless a higher limitation was produced by either an actuarial reduction required for a member who retired before age 62, or a cost-of-living adjustment made the Internal Revenue Commissioner. The bill deleted these provisions.

Under the bill, employer-financed benefits provided by the retirement system may not exceed the applicable limitations of Section 415 of the IRC, as adjusted by the Internal Revenue Commissioner to reflect cost-of-living increases. The retirement system must adjust the benefits subject to the limitation each calendar year to conform with the adjusted limitation. For purposes of Section 415(b) of the IRC, the applicable limitation applies to aggregated benefits received from all qualified pension plans for which the Office of Retirement Services coordinates administration of that limitation.

(Section 415 of the IRC provides for dollar limitations on benefits and contributions under qualified retirement plans. Section 415(b) pertains to the limitation for defined benefit plans.)

Survivor's Retirement Allowance

Under the Act, unless otherwise provided by a member of the system, the surviving spouse of a deceased member, deferred vested member, or retirant having the required service qualifications is entitled to a survivor's retirement allowance for life payable from the Survivor's Retirement Fund. If there is no surviving spouse but an eligible child exists, or if an eligible child survives a surviving spouse, the survivor's retirement allowance must be paid in equal parts to each eligible child until he or she becomes ineligible, and the allowance paid to any other child may not be diminished because an eligible child reached an ineligible age, married, or died.

The bill also provides that the portion of the survivor's retirement allowance that was paid to a formerly eligible child who

subsequently becomes ineligible must be paid in equal parts among the remaining eligible children, if any, until no eligible children remain to be paid.

Health Insurance Election

The Act allows a former qualified participant to elect health insurance benefits if he or she meets certain criteria. An eligible former qualified participant may elect health insurance coverage in a health benefit plan or plans authorized by Section 50b. The bill deleted a provision that also allowed an eligible former qualified participant to elect coverage in another plan as provided in the Act. (Section 50b requires the retirement system to purchase and pay the premium for hospitalization and medical insurance coverage and dental and vision coverage for a retirant, deferred vested member, and their spouses, eligible children, and survivors.)

The Act also allows an eligible former qualified participant to elect health insurance coverage for his or her health benefit dependents, if any. A surviving health benefit dependent of a deceased former qualified participant may elect health insurance coverage as prescribed in the Act. The bill refers to health insurance coverage to begin at the death of the deceased former qualified participant.

Previously, a former qualified participant or health benefit dependent who was eligible to elect health insurance coverage and who elected coverage under a different plan than that authorized under Section 50b, could elect to have an amount up to the amount of the system's share of the monthly health insurance premium subsidy paid by the system directly to the other health insurance plan or to a medical savings account. The bill deleted this provision.

(A former qualified participant is an individual who was a qualified participant and who terminates the employment upon which his or her participation is based for any reason. A qualified participant is an individual who is a participant of Tier 2 and either 1) first became a legislator on or after March 31, 1997, and before that date would have been eligible to be a member of Tier 1; or 2) elected to terminate membership in Tier 1 and participate in Tier 2 by May 31, 1998.)

MCL 38.1023b et al.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

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

Fiscal Analyst: Kirk Sanderson

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.