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Senate Bill 775 (as introduced 9-22-05)
Sponsor: Senator Bev Hammerstrom
Committee: Government Operations

Date Completed: 11-28-06

CONTENT

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

- **Delete provisions specifying the composition of the retirement system's board of trustees, and require the board to be composed as indicated in the bylaws.**
- **Delete specific limitations on employer-financed benefits, and provide that those benefits could not exceed applicable limitations under the Internal Revenue Code.**
- **Provide for the payment to remaining eligible children of a survivor's retirement allowance that had been 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.**

Board of Trustees

Currently, the retirement system's board of trustees must 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.
- 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.

The bill would delete these requirements, as well as provisions concerning eligibility for board membership and members' terms. Under the bill, a member of the board serving on December 31, 2006, would continue to serve as a member until December 31, 2007. Beginning January 1, 2008, the board would have to be composed as indicated in the bylaws.

The Act requires a vacancy on the board to be filled for the unexpired term in the same manner as original appointments are made. Under the bill, beginning January 1, 2008, a vacancy would have to be filled as provided in the bylaws.

Currently, at least six concurring votes are necessary for any action by the board at a meeting. Under the bill, concurring votes of a majority of board members would be necessary.

Employer-Financed Benefits

Under the Act, employer-financed benefits provided by the retirement system may 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 applies unless a higher limitation is produced by either an actuarial reduction required for a member who retires before age 62, or a cost-of-living adjustment made the Internal Revenue Commissioner. The bill would delete these provisions.

Under the bill, employer-financed benefits provided by the retirement system could 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 would have to 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 would apply to aggregated benefits received from all qualified pension plans for which the Office of Retirement Services coordinated 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 became ineligible would have to be paid in equal parts among the remaining eligible children, if any, until no eligible children remained 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 or in another plan as provided in the Act. The bill would delete reference to another plan. (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 would refer to health insurance coverage to begin at the death of the deceased former qualified participant.

Currently, a former qualified participant or health benefit dependent who is eligible to elect health insurance coverage and who elects coverage under a different plan than that authorized under Section 50b, may 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 would delete 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 would 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.