



Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

Senate Bill 1017 (as enrolled)  
Sponsor: Senator Ron Jelinek  
Senate Committee: Education  
House Committee: Education

**PUBLIC ACT 617 of 2006**

Date Completed: 1-23-07

**RATIONALE**

Under the Public School Employees Retirement Act, a retirant may elect to receive either a straight retirement benefit, with no payments to be made after his or her death, or a reduced payment each month, with all or a portion of that payment to continue to be paid to a designated beneficiary after the retirant's death. Once a retirant selects a payment option or 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. If a retirant whose spouse has died decides to remarry, he or she is unable to name his or her new spouse as a beneficiary. Similarly, if an individual decides to marry or remarry after retiring, there is no opportunity to include his or her new spouse as a beneficiary. It was suggested that the Act should permit retirants to change their retirement payment options in these situations.

Also, the Act permits a member of the retirement system who leaves service to care for a child and then returns as a member of the retirement system to purchase service credit for the time spent out of service under certain circumstances. Some believe that these provisions should be updated to reflect contemporary language and current practice.

**CONTENT**

**The bill amends the Public School Employees Retirement Act to do the following:**

- **Permit a retirant whose spouse is deceased and who later remarries, or a retirant who marries after being retired, to select his or her current spouse as a retirement allowance beneficiary, under certain conditions.**
- **Specify that after the retirant's death, a beneficiary under these provisions is not eligible for health benefits under the Act, unless the beneficiary pays the full cost of the coverage.**
- **Allow public school employees and others to purchase service credit for time spent out of service for parental leave, rather than for maternity, paternity, or child rearing.**
- **Extend those provisions to a member of the State employees' retirement system who leaves service as a State employee for parental leave and later becomes a member of the Public School Employees Retirement System (PSERS).**

The bill will take effect on January 1, 2009.

Retirement Allowance Payment Options

The Act permits a retiring member of PSERS to elect to be paid his or her retirement benefits according to one of four options:

- A straight retirement allowance for life, with no additional payment to be made upon his or her death.
- A reduced retirement allowance for life with the provision that upon his or her

death, payment will be continued through the lifetime of a designated beneficiary.

- A reduced retirement allowance for life with the provision that upon his or her death, payment of half the reduced allowance will be continued through the lifetime of a designated beneficiary.
- A reduced retirement allowance for life with the provision that upon his or her death, payment of 75% of that allowance will be continued throughout the lifetime of a designated beneficiary.

All of the payments options must be actuarially equivalent (that is, they must be calculated so that, on average, the total benefit received is the same regardless of which option the retirant chooses).

The retirant must select one of these options in writing and file the selection with the retirement board at least 15 days before the retirement allowance's effective date. As a rule, if a retirant selects a beneficiary to receive payments after his or her death and the beneficiary predeceases the retirant, the retirement benefit reverts to a straight retirement allowance payable during the remainder of the retirant's life. The bill creates an exception to this provision, as described below.

#### Deceased Spouse

Under the bill, a retirant who selects a retirement allowance beneficiary may change the selected beneficiary if all of the following apply:

- The first beneficiary is a spouse.
- The first beneficiary predeceases the retirant after the retirement allowance effective date.
- The retirant marries another spouse after the retirement allowance effective date.
- The retirant files a written request with the retirement system to name his or her current spouse as a beneficiary not earlier than 180 days and not later than one year after the marriage of the retirant and the current spouse.

If a retirant's first beneficiary predeceases him or her after the retirement allowance effective date but before the bill takes effect, the retirant has 180 days after the bill's effective date to file a written request with the retirement system.

#### Unmarried Retirant

Under the bill, a retirant who was not married on his or her retirement allowance effective date and who did not select one of the payment options specified above is permitted to designate a retirement allowance beneficiary and select an optional form of benefit payment that includes payments to that beneficiary after the retirant's death, if all of the following apply:

- The retirant marries after his or her retirement allowance effective date.
- The beneficiary is the retirant's spouse.
- The beneficiary is designated as the beneficiary for only that portion of the retirant's retirement allowance that is not subject to an eligible domestic relations order assigning a previous spouse a reduced benefit.
- The retirant files a written request with the retirement system to select an optional form of benefit payment, and to designate his or her current spouse as a beneficiary not earlier than 180 days and not later than one year after the retirant's marriage.

If a retirant marries after the retirement allowance effective date but before the bill takes effect, the retirant will have 180 days after the bill's effective date to file a written request with the retirement system.

#### Retirement Allowance Amount

If an individual selects a beneficiary under the bill, his or her retirement allowance may not be greater than the actuarial equivalent of the retirement allowance that he or she otherwise would be entitled to under a straight retirement benefit with no additional payments to be made upon his or her death. A selection of a beneficiary under the bill will become effective on the first day of the month after the written request is filed with the retirement system.

If the retirant dies within 12 months after the effective date of a selection of a beneficiary under the bill, the retirement allowance for the surviving spouse will terminate 12 months after the retirant's death.

## Health Benefit

The Act requires the retirement system to pay the entire monthly premium for certain health benefits for a retirant or retirement allowance beneficiary who elects coverage in the system's health plan. The system also must pay up to 90% of the maximum payable for health coverage under that requirement, for each health insurance dependent of a retirant receiving the health benefits.

The bill provides that upon the death of a retirant, an individual who becomes a beneficiary under the provisions of the bill is not a health insurance dependent and is not entitled to health insurance benefits, although the surviving spouse may elect to receive insurance coverage if the spouse is responsible for payment for the elected coverage, and it is paid in a manner prescribed by the retirement system.

## Parental Leave

Under the Act, a public school employee or a person performing out-of-system public education service who leaves that service for purposes of maternity or paternity or child rearing, and who returns to service as a public school employee or subsequently becomes a member of PSERS, respectively, may request to purchase service credit for up to five years during which he or she was separated from service, if he or she pays the actuarial cost of that credit to the retirement system. To qualify to purchase credit, the individual must not have held intervening employment of more than 20 hours a week for each week for which service credit is requested. The member is required to certify to the PSERS board the purpose for which he or she took leave and was separated from service.

Under the bill, these provisions apply to parental leave, rather than leave for maternity, paternity or child rearing. In addition, a member of the State Employees Retirement System who left or leaves service as a State employee for parental leave and subsequently becomes a member of PSERS may purchase service credit under the same terms.

The bill requires a person requesting to purchase service credit to submit an application as prescribed by the retirement

system, in which the member must certify the time period claimed for parental leave and the purpose of the leave. If the leave was taken to care for the member's child by birth or adoption, then the member also must submit a certified copy of a birth certificate or adoption document from the appropriate court. Parental leave is creditable until the child reaches the age of 18 or is married, whichever occurs first.

Under the bill, "parental leave" means the presence of the member in the active participation or supervision in the day-to-day, ongoing care or maintenance of his or her child by birth or adoption, for which the member reduced or eliminated the number of hours worked for the State, in out-of-system public education service, or for the reporting unit in a normal work time period. Alternatively, parental leave means a member's pregnancy that occurred while she was a member (whether brought to full term or not), child birth, and recuperation, for which the member reduced or eliminated the number of hours worked for the State, in out-of-system public education service, or for the reporting unit in a normal work time period.

MCL 38.1375 et al.

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

Public school employees who are considering retirement face difficult choices in selecting the best retirement allowance payment option. A retirant must seek to maximize his or her monthly payment while taking care of loved ones, who may outlive him or her. Despite careful planning, unexpected events such as the death of a spouse can cause a spouse to rethink his or her payment options. The bill gives retirants the ability to adapt to changing circumstances, and to select the option that makes the most sense for the retirant and his or her family, while preventing any additional costs that might strain the retirement system.

If a retirant chooses to alter his or her retirement allowance under the bill, the payment will be recalculated based on the ages of the retirant and his or her

beneficiary, and must be actuarially equivalent to the payment that the retirant otherwise would have received. This will ensure that there is no additional cost to the retirement system, maintaining its long-term stability and protecting the benefits of all participants.

In addition, the bill includes provisions to discourage abuse of the retirement system. For example, an individual who is expecting to die soon could marry for the purpose of passing his or her benefits on to another person. This type of action, since it cannot be predicted actuarially and effectively would extend the period of time that the retirement system would have to pay benefits for that retirement, would place an additional strain on the system. To prevent individuals from taking advantage of the provisions in this way, the bill allows a surviving spouse to receive a retirement allowance for only 12 months after the retirant's death, if the retirant dies within a year of naming a new beneficiary.

Also, a beneficiary named under the bill will not be eligible for health benefits from the retirement system after the retirant's death. The rising cost of health care has had a significant impact on the retirement system, and this provision will prevent an extension of health care benefits to those who are not covered currently. The bill does 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 must be borne by the beneficiary, avoiding any additional health costs for the retirement system.

**Response:** There may be a large number of individuals who will want to take advantage of the bill's provisions, or might have questions about the changes. Such a surge of activity will require additional resources, but the bill makes no provision for additional funding for the Office of Retirement Services, which oversees the retirement system.

### **Supporting Argument**

The bill updates provisions that allow members of the retirement system to buy service for time spent on parental leave. The changes simply reflect current language and practice, replacing "leave for maternity, paternity, and child rearing" with "parental leave", the term used by the Office of Retirement Services for the past several

years. In addition, the bill permits an individual who leaves the State Employees Retirement System for parental leave and then enters the Public School Employees Retirement System to buy service time in that retirement system. That change also codifies current practice, according to the Office of Retirement Services.

Legislative Analyst: Curtis Walker

### **FISCAL IMPACT**

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

Fiscal Analyst: Joe Carrasco

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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.