



Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 5652 (as passed by the House)
House Bill 5653 (Substitute H-1 as passed by the House)
Sponsor: Representatives John Reilly (H.B. 5652)
Representative Eric Leutheuser (H.B. 5653)
House Committee: Financial Liability Reform
Senate Committee: Finance

Date Completed: 5-21-18

CONTENT

House Bill 5652 and 5653 (H-1) would amend the Judges Retirement Act and the State Employees' Retirement Act, respectively, to align two assumptions used in the calculation of survivor benefit payments with current (and future) experience. A survivor benefit option (which provides reduced pension payments to both the retiree while living and to a designated survivor after the death of the retiree) is designed to be actuarially cost-neutral compared to the cost of a nonreduced pension provided to a retiree who does not choose a survivor benefit option. The calculation of the survivor benefit payments is predicated on various actuarial assumptions.

Under current law, when calculating the options for survivor benefit payments, the actuary is required to assume an 8% interest rate and also use the 1983 group annuity and mortality table. However, these do not reflect current conditions. The bills would replace those assumptions with an interest rate determined by the Director of the Department of Technology, Management, and Budget along with the retirement boards in consultation with the actuary, and using the mortality tables adopted by the Department and the retirement boards. (The same changes were made to the Michigan Public School Employees' Retirement System in the Public School Employees' Retirement Act by Public Act 92 of 2017.)

The potential effect of these changes on the calculation of survivor benefit payments is indeterminate. A lower interest rate likely would lead to a higher reduction from the retiree's pension and therefore a lower calculated survivor pension payment; however, longer mortality assumptions generally would lessen the reduction to the survivor benefit payments (i.e., result in a higher survivor benefit payment than a shorter mortality assumption would produce).

MCL 38.2604 (H.B. 5652)
MCL 38.49 (H.B. 5653)

FISCAL IMPACT

The bills would have no fiscal impact on local government. Both bills would affect State retirement systems; the bills should improve the fiscal stability of the retirement systems themselves, by aligning statute with current experience and future actuarial assumptions. The bills also would return to optimal retirement system calculations where providing a nonreduced pension to a retiree who did not choose a survivor benefit, or providing a reduced pension to a retiree with a survivor benefit, is actuarially cost-neutral.

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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.