Legislative Analysis

RETIREMENT SYSTEM ANNUITY OPTIONS

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House Bill 5230 substitute (H-3)
Sponsor: Rep. Steve Marino

House Bill 5231 substitute (H-2)
Sponsor: Rep. Thomas A. Albert

Committee: Financial Liability Reform
Complete to 1-23-18

SUMMARY:

House Bills 5230 and 5231 would provide annuity options for employees and retirees who are in the defined contribution (DC, 401(k)-style) retirement plans provided through either the State Employees Retirement System (SERS) or the Michigan Public School Employees' Retirement System (MPSERS).

House Bill 5230 would amend the Public School Employees Retirement Act (MCL 38.1427) to expand the requirements related to annuity options that were added in Public Act 300 of 2017 and to require that the annuity option must allow DC participants to purchase an annuity while they are employed.

House Bill 5231 would amend the State Employees' Retirement Act (MCL 38.58) to provide that, in addition to the currently offered DC investment options, SERS must offer DC participants access to at least one fixed and one variable annuity option and must allow them to purchase an annuity while they are employed.

The bills would require each applicable retirement system to select an annuity provider through a competitive proposal process and to contract with an annuity provider. In choosing an annuity provider, the retirement systems would have to consider all of the following:

- The financial strength and stability of the provider and its subsidiaries and affiliates, including the following:
    - The provider is an authorized insurer under Section 108 of the Insurance Code (MCL 500.108).
    - All of the following apply to the provider for each of the immediately preceding 5 years:
        - The provider has a current certificate of authority from its home state insurance commissioner.
        - The provider has filed audited financial statements in accordance with its home state laws under applicable statutory accounting principles.
        - The provider maintains statutorily required reserves in each state where it operates.

        - The provider is not operating under an order of supervision, rehabilitation, or liquidation.
    - The provider undergoes a financial examination every 5 years as required by the insurance commissioner and under the law in its home state.
    - The provider will notify the retirement system of any change in circumstances regarding the above requirements.
- The ability of the provider to provide contracted rights and benefits to a DC participant.
- The reasonableness of annuity option costs, including fees and commissions, in relation to the benefits and product features.
- The administrative services provided under the annuity option, which at a minimum must include periodic reports to the retirement system about the number of annuitants, the types of annuities provided, and any other information requested by the retirement system.
- The provider's experience in paying lifetime retirement income through annuities offered to public employee DC retirement plans.
- Whether the provider offers annuity options that meet all of the following conditions:
    - The annuity options are suitable for DC participants, whether employed, retired, or beneficiaries.
    - The contract terms and income benefits are clearly stated and based on reasonable assumptions.
    - The annuity options offer a range of lifetime income options.
- The provider's ability to offer objective and participant-specific education and tools that help participants understand the appropriate use of annuities as a long-term retirement savings vehicle.

The bills would require the Office of Retirement Services to verify the information in the required provider report and publish the report on the ORS website.

House Bills 5230 and 5231 would take effect 120 days after they were enacted.

FISCAL IMPACT:

The bills would create additional administrative and oversight responsibilities for the Department of Treasury and the Department of Technology, Management, and Budget-Office of Retirement Services which independently would likely be absorbed within current staffing levels, but along with other added responsibilities could require additional staff. The bill would have no fiscal impact on the retirement systems themselves.

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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.