Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

MI RETIREMENT PLAN

House Bill 4135
Sponsor: Rep. Steve Bieda
Committee: New Economy and Quality of Life

Complete to 3-21-07

A SUMMARY OF HOUSE BILL 4135 AS INTRODUCED 1-25-07

House Bill 4135 would create a new act to be known as the MI Retirement Program Act, a retirement program for Michigan businesses and their employees.

The retirement program would be administered during its start-up by the Department of Management and Budget, but would be transferred to a private or non profit entity within five years after the effective date of the legislation creating it. The bill specifies the state would have no obligation to guarantee the benefits of the participants in the program.

Under the bill, the Department of Management and Budget and budget director would establish retirement plans under the Internal Revenue Code that would be available to eligible participants. Employers could then contribute to a participant's (or employee's) account, an amount equal to a percent of compensation, or a dollar amount. A participant could periodically elect to contribute to the account, up to a set percentage of compensation, or a dollar amount. And, the participant's employer could make an additional contribution to the participant's account.

The director of the Department of Management and Budget would administer the plan and be its sole fiduciary, and could appoint an advisory board for assistance. The director would be required to determine the provisions and procedures of the retirement plan, conforming to the Internal Revenue Code. Further, the director would have exclusive authority and responsibility to employ or contract with personnel for services determined necessary to administer the plan (including but not limited to managerial, professional, legal, clerical, technical, administrative personnel or services, and personnel or services to assist with the transition of responsibility to a private or nonprofit entity).

Under the bill, each participant would be required to direct the investment of the individual accumulated employer and employee contributions and earnings to one or more investment choices within available categories of investments that would be provided by the DMB director in consultation with the State Treasurer. The administrative expenses of any plan would be paid by the participants.

The bill specifies that a participant would be immediately 100 percent vested in his or her contributions made to the account. However, a participant would vest in the employer contributions according to the schedule stated in the plan document. A participant could nominate one or more individuals as a designated beneficiary by filing a notice, as required in the plan document. Upon the death of a participant, the account balance would belong to the designated beneficiary, or to the legal representatives, or if there were none, to the deceased participant's estate, as stated in the plan document. If neither the beneficiary nor the estate could be located, then the account balance would be escheated to the Department of Treasury. A participant could elect one or a combination of several of the methods of distribution of the account balance, as stated in the plan document.

The bill specifies that the act would not create nor should it be construed to create, any obligation upon the state or any agency or instrumentality of the state to make any guarantee for the benefit of an account owner or designated beneficiary. All documents used in connection with a contribution to an account would have to clearly indicate the account was not insured by the state, and that the money deposited, and the investment return earned on it, would not be guaranteed by the state.

The bill also specifies that it is the intent of the legislature that the Department of Management and Budget recover administrative costs that are appropriated for the plan's start-up, by charging an administrative fee to participants. Further, it is the intent that the department will reimburse the general fund for the cost of the start-up from the proceeds of the administrative fee.

The state intends that any plan administered under this legislation be a qualified pension plan created in trust under Section 401 of the Internal Revenue Code, and that the trust be an exempt organization under Section 501 of the Internal Revenue Code. All plans administered would be required to contain a provision that the employer, the participant, and all designated beneficiaries agree and understand that the state is acting as a plan administrator, and no liability shall accrue to the state, to any employer, participant, or designated beneficiary because of any action taken in the administration of any plan.

FISCAL IMPACT:

The Department of Management and Budget anticipates start-up costs to be approximately $550,000. Start-up costs include: legal work to develop a plan and receive IRS and other federal government approval; to develop and distribute educational and communication materials; to develop administrative policies and procedures; to establish record-keeping services; and to develop payment methods for contributions.

Given that the bill authorizes the DMB to charge participants an administrative fee as a means of recovering their administrative costs, and requires the Department to reimburse the General Fund for start-up costs, there would be no fiscal impact to the state.

Legislative Analyst: J. Hunault
Fiscal Analyst: Robin Risko

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.