

## **Background Information on Joint-and-Survivor Annuities**

A joint-and-survivor annuity is an annuity form which provides coverage to another individual, in addition to the retired or disabled employee. The other individual is often a spouse, but it could also be another adult or a child, unless specifically restricted under the laws or bylaws governing a particular plan. The intent is to provide continuing income to the other individual for life, following the death of the primary annuitant.

In recent decades, it has become increasingly common for families to have more than one wage earner. Currently, in a majority of cases both partners in a marriage or other committed relationship are employed. Given this situation, the couple seems more able to save toward retirement by accumulating assets other than the plan retirement annuity, and both individuals may have earned a pension due to their own employment. The couple may not want or need surviving spouse coverage. This possibility is reflected in most of our more modern Minnesota public pension plans. Automatic coverage is not provided and joint-and-survivor surviving spouse coverage, if desired, can be elected. The election is left to the employee. If joint-and-survivor coverage is appropriate for a given retiree, he or she can elect that coverage.

Some of the older plans, however, did have automatic surviving spouse coverage following the death of the primary annuitant. This may reflect a family norm that is less relevant today than it was decades ago. To the best of Commission staff's knowledge, all Minnesota public plans which provide automatic surviving spouse coverage are closed to new members. This automatic coverage was a common feature in police and paid fire local relief association plans, all of which were closed to new members in 1980. The old Legislator's Retirement Plan and Elected State Officers Retirement Plan, which were closed to new members in 1997, have automatic surviving spouse coverage, equal to 50% of the benefit received by the primary annuitant prior to death.

Except for the exceptions noted later, the total value of a joint-and-survivor annuity (or any other optional annuity form) has the same total expected value as an annuity covering only the life of the retired or disabled employee. For most Minnesota public pension plans, the total value of the retirement benefit is a function of the individual's salary near retirement and total years of service, but not marital status. The retirement and disability benefits offered through the public pension plan are employee benefits, serving to attract, retain, and out-transition the employee at the end of his or her productive working life. Currently, that employee is the decision maker who decides whether to share some of the pension's value with a spouse, other adult, or child, following the death of the primary annuitant.

In general, when a joint-and-survivor annuity is selected, the monthly benefit received by the primary annuitant must be reduced, in order to provide some continuing coverage to the survivor. Otherwise, the total value received would be higher than that received by a comparable single individual, or a comparable married individual who decides not to take a joint-and-survivor annuity. The amount of the reduction is a function of the ages of the annuitant and designated beneficiary. If the retiree is male and the joint-and-survivor annuity provides coverage to a wife who is much younger than the primary annuitant, the amount of the monthly reduction can be quite large, due to the likelihood that the female will outlive the male by many years.

The amount of the reduction also depends upon the extent of the continuing coverage. When plans permit joint-and-survivor annuities, several joint-and-survivor options typically are offered. Under a 100% joint-and-survivor option, following the death of the primary annuitant the designated beneficiary receives the same monthly benefit as before the death occurred. Because of the level of this continuing coverage, a 100% joint-and-survivor annuity requires a larger monthly reduction than options offering lesser continuing coverage. With a 50% joint-and-survivor option, the designated beneficiary would receive a monthly benefit which is half that previously received. Fifty percent, 75%, and 100% joint-and-survivor annuities are the most common joint-and-survivor offerings, but others also exist. For instance, in 2000 the Legislature passed a provision (Laws 2000, Ch. 461, Art. 9, Sec. 4) providing a one-time election of actuarial equivalent 15 or 25% joint-and-survivor coverage for Public Employees Police and Fire Retirement Plan (PERA-P&F) former consolidation account members who were restricted to local plan benefits, to supplement the automatic survivor coverage provided by those plans.

There is a provision in many of the larger Minnesota state retirement plans (Public Employee Retirement Association (PERA), Teachers Retirement Association (TRA), the first class city teacher plans, and most Minnesota State Retirement System (MSRS) plans) which slightly modifies the general actuarial equivalence requirement, due to a bounceback. In 1989, bounceback provisions were added to many joint-and-survivor annuity laws. Under this modification, if the individual to receive the second half of the joint-and-survivor annuity predeceases the primary annuitant, the monthly benefit is restored ("bounces back") to the monthly benefit level that would have been received if the individual had selected a single-life annuity. In the statewide plans, this bounceback feature is provided without any further reduction in the monthly benefits computed when the retirement or disability benefit commences. Therefore, it is a subsidized feature. It raises the overall cost of the pension system and results in a subsidy paid by the employer and all employees who are single, or who are married but who do not elect a joint-and-survivor annuity.

In 1997, laws were enacted which extended joint-and-survivor annuity forms, both those with a bounceback and those without, to the Minneapolis Police Relief Association plan and to the Minneapolis Fire Relief Association plan. The language in the 1997 laws for these two relief associations, however, required full actuarial equivalence, whether or not the bounceback is elected.