



**House
Legislative
Analysis
Section**

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MERS: TEMPORARY BENEFIT PROGRAMS

House Bill 5684

Sponsor: Rep. Roland G. Niederstadt
Committee: Senior Citizens & Retirement

300 20 100

Complete to 5-1-90

**A SUMMARY OF HOUSE BILL 5684 AS
INTRODUCED 4-25-90**

The bill would amend the Municipal Employees Retirement Act to permit a participating municipality, by resolution, or a participating court, by administrative order, to adopt for a temporary period any of the following benefit programs, or any legitimate combination of them: benefit programs E-2; FAC-3; F50; F55; B-1; B-2; B-3; B-4; C; C-1; C-2; and RS50%. The resolution or administrative order would have to contain all of the following, as applicable:

- The benefit program or combination of benefit program adopted.
- The beginning and ending dates of the temporary period selected, which would be for not less than 60 nor more than 180 days.
- The classification of members covered by the benefit program or combination of benefit programs.
- If benefit program F50 or F55 were adopted, the required period of credited service applicable to the program.

A member or former vested member who was in the classification of members covered under the benefit programs, and who retired during the temporary period, would receive a retirement allowance according to the benefit program or combination of programs adopted for the temporary period. A participating municipality or court could not adopt a temporary period for the same classification of members on more than two occasions in any period of five consecutive calendar years.

The bill would create two new benefit programs, B-4 and RS50%. The amount of a retirement allowance under benefit program B-4 would be 2.5 percent of the vested former member's final average compensation, multiplied by the member's credited service, and could not exceed 80 percent of the member's final average compensation, or the amount of retirement allowance the member would have been entitled to if he or she had continued to be covered by the benefit program in effect immediately before coverage by benefit program B-4, whichever was greater. The above provision would be subject to existing provisions under the act that permit a participating court or municipality to elect to change its benefit and member contribution programs.

Should a participating municipality or court adopt benefit program RS50%, a surviving spouse of a deceased retirant (defined in the bill as a person who was married to the deceased retirant at time of death, and who had been married to the deceased retirant during the period beginning one year before his or her retirement allowance effective date, and ending on the retirement allowance effective date) would be paid an allowance for life, provided that the deceased retirant's retirement allowance effective date was on or after the effective date of the change in coverage, and that all payments of the deceased

retirant's allowance were made according to Form of Payment SL, as prescribed under the act. The allowance would be equal to 50 percent of the retirement allowance payable to the deceased retirant at the time of his or her death.

The bill would specify that its language was intended to meet federal requirements for qualified governmental pension plans, and that the trust was an exempt organization under the Internal Revenue Code. Under the bill, employer-financed benefits provided by the retirement system could not exceed one of the following:

- a) \$50,000, or an amount, as adjusted according to Internal Revenue Code regulation for increases in cost of living, for a retirant who was a full-time employee of the police or fire department and who had 15 or more years of credited service as a police officer, fire fighter, or public safety officer at retirement.
- b) \$10,000 per year for all other retirants.

The above limitation would apply unless application of the following resulted in a higher limitation:

- a) One of the following amounts, as applicable to the member:
 - 1) \$90,000 if a member retired at age 62 or older, or the adjusted amount provided under the above Internal Revenue Code regulations.
 - 2) The actuarially reduced amount of the limitation prescribed in 1), if a member retired at or after age 55, but before age 62. The retirement system would be required to use an interest rate of five percent per year, compounded annually, to calculate the actuarial reduction; however, the limitation could not be actuarially reduced below \$75,000.
- b) 100 percent of the member's final three-year highest average earnings.

The bill would require that the assets of the retirement system be held and invested for the sole purpose of meeting the legitimate obligations of the system, and that the retirement system return post-tax member contributions to the members upon retirement, according to Internal Revenue Service rules and regulations. Should a participating municipality or court discontinue participation in the retirement system, or if the system were discontinued, the interest of the members would be nonforfeitable, in the extent funded. The bill would also require that the retirement system be administered in compliance with the applicable Internal Revenue Code.

Currently, the act permits a person to purchase service credit for employment with another governmental unit, provided that the member has been credited with at least 60 consecutive months of service subsequent to the break.

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Service credit for employment with another governmental unit for a reason other than a break in service of more than 60 consecutive months may also be purchased, under certain provisions. House Bill 5684 would require that — in order to provide uniformity among all members — a provision granting reinstatement of credited service for a break in membership be established in writing by a participating municipality, and the member would be required to make repayment to the retirement system within one year after the earliest date that the member qualified for this provision. Credited service for a reason other than a break in service would have to be purchased within five years after the date the member reacquired membership in the retirement system. The bill would also delete the requirement under the act that excludes a mayor, village president, or member of a participating municipality's governing body from membership in the retirement system unless ten or more other municipal employees are members, and unless the individual is covered under the Social Security Act.

MCL 38.1502b et al.