

# HOUSE BILL No. 4481

March 21, 1989, Introduced by Rep. Keith and referred to the Committee on Appropriations.

A bill to amend sections 30, 31, 34, 41, and 42 of Act No. 300 of the Public Acts of 1980, entitled "The public school employees retirement act of 1979," sections 30, 41, and 42 as amended and section 34 as added by Act No. 91 of the Public Acts of 1985, being sections 38.1330, 38.1331, 38.1334, 38.1341, and 38.1342 of the Michigan Compiled Laws.

## THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1       Section 1. Sections 30, 31, 34, 41, and 42 of Act No. 300  
2 of the Public Acts of 1980, sections 30, 41, and 42 as amended  
3 and section 34 as added by Act No. 91 of the Public Acts of 1985,  
4 being sections 38.1330, 38.1331, 38.1334, 38.1341, and 38.1342 of  
5 the Michigan Compiled Laws, are amended to read as follows:

6       Sec. 30. The pension accumulation fund is created and shall  
7 be the fund into which ~~appropriations~~ CONTRIBUTIONS, except

1 ~~appropriations~~ CONTRIBUTIONS for health benefits, of the ~~state~~  
2 ~~and~~ reporting units are paid. From the pension accumulation  
3 fund shall be paid pensions to persons retired and refunds of  
4 contributions due to public school employees on the basis of pay-  
5 ments made for service performed before July 1, 1945. Further,  
6 from the pension accumulation fund shall be paid pensions, or  
7 benefits in lieu of pensions, payable to members retired after  
8 June 30, 1945, under this act. ~~If a specific expense appropria-~~  
9 ~~tion is not authorized, the~~ THE retirement board may transfer  
10 from this pension accumulation fund to the expense fund an amount  
11 sufficient to pay the expenses of the administration of the  
12 retirement system.

13       Sec. 31. The expense fund is created AND SHALL BE THE FUND  
14 INTO WHICH TRANSFERS FROM THE PENSION ACCUMULATION FUND ARE  
15 PAID. The expenses of the administration of the retirement  
16 system, exclusive of amounts payable as retirement allowances and  
17 other benefits provided in this act, shall be paid from the  
18 expense fund. ~~An amount necessary to defray and cover the~~  
19 ~~expenses of administering this act shall be appropriated~~  
20 ~~annually.~~

21       Sec. 34. The health benefits fund is created, and shall be  
22 the fund into which ~~appropriations~~ CONTRIBUTIONS of the ~~state~~  
23 REPORTING UNITS for health benefits are paid. Benefits payable  
24 pursuant to section 91 shall be paid from the health benefits  
25 fund.

26       Sec. 41. (1) The annual level percentage of payroll  
27 contribution rate to finance benefits being provided and to be

1 provided by the retirement system shall be determined by  
2 actuarial valuation pursuant to subsection (2) upon the basis of  
3 the risk assumptions ~~which~~ THAT the retirement board and the  
4 department adopt after consultation with the state treasurer and  
5 an actuary. An annual actuarial valuation shall be made of the  
6 retirement system in order to determine the actuarial condition  
7 of the retirement system and the required contribution to the  
8 retirement system. An annual actuarial gain-loss experience  
9 study of the retirement system shall be made in order to deter-  
10 mine the financial effect of variations of actual retirement  
11 system experience from projected experience.

12 (2) The contribution rate for benefits payable in the event  
13 of the death of a member before retirement or the disability of a  
14 member shall be computed using a terminal funding method of  
15 valuation. The contribution rate for other benefits, including  
16 health benefits, shall be computed using an individual projected  
17 benefit entry age normal cost method of valuation. The contribu-  
18 tion rate for service likely to be rendered in the current year,  
19 the normal cost contribution rate, shall be equal to the aggre-  
20 gate amount of individual projected benefit entry age normal  
21 costs divided by 1% of the aggregate amount of active members'  
22 valuation compensation. The contribution rate for unfunded serv-  
23 ice rendered before the valuation date, the unfunded actuarial  
24 accrued liability contribution rate, shall be the aggregate  
25 amount of unfunded actuarial accrued liabilities divided by 1% of  
26 the actuarial present value over a period not to exceed 50 years  
27 of projected valuation compensation, where unfunded actuarial

1 accrued liabilities are equal to the actuarial present value of  
2 benefits reduced by the actuarial present value of future normal  
3 cost contributions and the actuarial value of assets on the valu-  
4 ation date and the actuarial present value of benefits attribut-  
5 able to section 81a. The actuarial present value of benefits  
6 attributable to section 81a shall be amortized over a fixed,  
7 10-year period.

8 (3) The percentages determined in subsection (2) ~~reduced by~~  
9 ~~contributions projected to be made under section 42~~ and the  
10 amounts required for the reporting units' social security contri-  
11 butions for the members of the retirement system shall be  
12 ~~appropriated annually. The appropriation shall be paid from the~~  
13 ~~state school aid fund for the members of the retirement system~~  
14 ~~who are employees of a public school district or intermediate~~  
15 ~~school district and from the general fund of the state for the~~  
16 ~~other public school employees. The appropriations~~ PAID BY THE  
17 REPORTING UNITS AS PROVIDED IN THIS SECTION. THE CONTRIBUTIONS  
18 OF THE REPORTING UNITS, when made, shall be credited to the pen-  
19 sion accumulation fund.

20 (4) Before November 1 of each year the department shall cer-  
21 tify to the superintendent of public instruction and the director  
22 of the department the aggregate compensation estimated to be paid  
23 public school employees for the current state fiscal year.

24 (5) On the basis of the estimate under subsection (4) and  
25 the annual actuarial valuation, the superintendent of public  
26 instruction and the director of the department shall compute the

1 sum due and payable to the retirement system. ~~and shall certify~~  
2 ~~this amount to the state treasurer.~~

3 (6) The ~~state treasurer~~ REPORTING UNIT shall make payment  
4 of the amount certified to the superintendent of public instruc-  
5 tion and the director of the department in 12 equal monthly  
6 installments.

7 (7) Not later than 90 days after termination of each state  
8 fiscal year, the department shall certify to the superintendent  
9 of public instruction, ~~and~~ the director of the department, AND  
10 THE REPORTING UNITS the actual aggregate compensation paid to  
11 public school employees during the preceding state fiscal year.  
12 Upon receipt of that certification the superintendent of public  
13 instruction and the director of the department shall compute any  
14 adjustment required due to a difference between the estimated and  
15 the actual aggregate compensation. The difference, if any, shall  
16 be ~~submitted in the executive budget to the legislature for~~  
17 ~~appropriation~~ PAID BY THE REPORTING UNITS in the next succeeding  
18 state fiscal year.

19 (8) The superintendent of public instruction and the direc-  
20 tor of the department may require evidence of correctness and may  
21 conduct an audit of the aggregate compensation which the superin-  
22 tendent of public instruction or the director considers necessary  
23 to establish its correctness.

24 ~~(9) An amount sufficient to cover the administrative~~  
25 ~~expenses of the retirement system shall be appropriated. When~~  
26 ~~authorized, the amount shall be credited to the expense fund.~~

1       Sec. 42. (1) The employer of a public school employee shall  
2 contribute ~~5%~~ THE PERCENTAGE DETERMINED UNDER SECTION 41(2) of  
3 the aggregate annual compensation of all employees who are mem-  
4 bers under the noncontributory plan as provided by section 63 to  
5 the pension accumulation fund. The employer contribution of ~~5%~~  
6 THE PERCENTAGE DETERMINED UNDER SECTION 41(2) of aggregate member  
7 compensation under the noncontributory plan is the exclusive  
8 obligation of the reporting unit payable out of general budget  
9 resources of the reporting unit, including funds available under  
10 local millage and other local resources and from the state school  
11 aid allocation to the reporting unit. ~~, and shall not be a sep-~~  
12 ~~arate obligation by specific reimbursement or otherwise of the~~  
13 ~~state.~~

14       (2) As authorized by resolution or other enabling act of its  
15 governing body, the employer shall pick up all contributions of a  
16 member made pursuant to section 43a for all compensation paid on  
17 or after January 1, 1987 and reported to the retirement system.  
18 Although considered contributions of a member for certain pur-  
19 poses under this act, all contributions picked up shall be  
20 treated as paid by the employer in lieu of contributions by the  
21 employee. Contributions picked up as provided in this subsection  
22 shall be paid from the same source of funds which is used for  
23 paying compensation to the member. The employer may pick up  
24 these contributions by either a reduction to the member's cash  
25 salary, an offset against a future salary increase, or a combina-  
26 tion of a reduction in salary and offset against a future salary  
27 increase. This subsection shall not apply, and the employer

1 shall not deduct, offset, or remit contributions, until the  
2 department receives notification from the United States internal  
3 revenue service that contributions picked up shall not be  
4 included as gross income of the member until they are distributed  
5 or made available to the member, retirant, retirement allowance  
6 beneficiary, or refund beneficiary.

7       (3) The employer shall deduct from a member's compensation  
8 the contributions for social security provided in Act No. 205 of  
9 the Public Acts of 1951, as amended, being sections 38.851 to  
10 38.871 of the Michigan Compiled Laws. Contributions shall be  
11 made while the member remains a public school employee. Each  
12 reporting unit official shall deduct the social security contri-  
13 butions from the compensation of each member for each payroll  
14 period after the date the employee becomes a member. Social  
15 security contributions shall be made notwithstanding that the  
16 minimum compensation provided by law is changed. Each member  
17 shall be considered to have agreed to the contributions pre-  
18 scribed in this subsection.

19       (4) Each reporting unit official shall forward retirement  
20 contributions, including the member investment plan contribu-  
21 tions, to the retirement system monthly.

22       (5) Additional employer contributions required by statute  
23 for persons employed in higher education institutions, including  
24 community and junior colleges, covered under this act, and  
25 employees whose compensations are paid in whole or in part from  
26 federally funded programs, shall be forwarded to the retirement  
27 system quarterly.

1       (6) Social security employee contributions shall be  
2 forwarded to the social security contribution fund established  
3 under section 13 of Act No. 205 of the Public Acts of 1951,  
4 being section 38.863 of the Michigan Compiled Laws, as required  
5 by the state social security administrator as required by Act  
6 No. 205 of the Public Acts of 1951, as amended. A report for  
7 social security reporting purposes shall be filed with the social  
8 security contribution fund as required by the social security  
9 administrator.

10       (7) By January 11, April 11, July 11, and October 11 of each  
11 year, each reporting unit official shall file with the executive  
12 secretary of the retirement board a quarterly affidavit for the  
13 preceding 3 months. The affidavit shall certify to the aggregate  
14 wages, sources of the contribution, wages paid from federal  
15 funds, and contributions required by law. Not later than July 11  
16 of each year, a report shall be filed with the executive secre-  
17 tary of the retirement board, which shall list the persons  
18 employed, together with other information, including salary,  
19 service, and contributions, required for retirement reporting  
20 purposes.

21       (8) If a reporting unit fails to submit a report or contri-  
22 butions, or both, according to the schedule established by the  
23 retirement board and the federal social security administration,  
24 a penalty due and payable to the federal social security adminis-  
25 tration because of that failure shall be charged against and paid  
26 by the reporting unit by way of reimbursement to the retirement  
27 board. A late fee shall be assessed if a report or remittance of

1 contributions is late, together with interest for each day that  
2 the remittance of contributions is late. The retirement board  
3 periodically may establish the late fee, which shall not be less  
4 than \$25.00, and interest charges of not less than 6% per annum.

5       (9) Upon written notice from the retirement board, the  
6 superintendent of public instruction and the state treasurer  
7 shall withhold payment of state funds, in part or in whole, pay-  
8 able from the state school aid appropriation or higher education  
9 appropriations to a reporting unit ~~which~~ THAT fails to comply  
10 with this section.