

SENATE BILL NO. 719

September 25, 1997, Introduced by Senator HOFFMAN and referred to the Committee on Education.

A bill to amend 1980 PA 300, entitled "The public school employees retirement act of 1979," by amending the title and sections 4, 5, 34, 36, and 41 (MCL 38.1304, 38.1305, 38.1334, 38.1336, and 38.1341), the title and sections 4 and 34 as amended by 1996 PA 488, section 5 as amended by 1994 PA 272, section 36 as added by 1989 PA 194, and section 41 as amended by 1996 PA 278, and by adding section 113.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1

TITLE

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An act to provide a retirement system for the public school

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employees of this state; to create certain funds for this retire-

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ment system; to provide for the creation of a retirement board

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within the department of management and budget; to prescribe the

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powers and duties of the retirement board; to prescribe the

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powers and duties of certain state departments, agencies,

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1 officials, and employees; TO PROVIDE FOR APPROPRIATIONS; to
2 prescribe penalties and provide remedies; and to repeal acts and
3 parts of acts.

4 Sec. 4. (1) "Compound interest" means interest compounded
5 annually on July 1 on the contributions on account as of the pre-
6 vious July 1 and computed at the rate of investment return deter-
7 mined under section 104a(1) for the last completed state fiscal
8 year.

9 ~~(2)~~ "Contributory service" means credited service other
10 than noncontributory service.

11 (3) "Deferred member" means a member who has ceased to be a
12 public school employee and has satisfied the requirements of sec-
13 tion 82 for a deferred vested service retirement allowance.

14 (4) "Department" means the department of management and
15 budget.

16 (5) "DESIGNATED DATE" MEANS SEPTEMBER 30, 1997, PROVIDED
17 THAT THE FAIR MARKET VALUE OF THE ASSETS OF THE RETIREMENT SYSTEM
18 ON SEPTEMBER 30, 1997, AS DETERMINED BY THE STATE TREASURER,
19 EXCEEDS THE ACTUARIAL ACCRUED LIABILITY FOR PENSION BENEFITS, AS
20 DETERMINED BY THE ACTUARY USED BY THE RETIREMENT BOARD ON
21 SEPTEMBER 30, 1996, ASSUMING A RATE OF RETURN ON INVESTMENTS OF
22 8.3% PER ANNUM.

23 (6) ~~(5)~~ "Direct rollover" means a payment by the retire-
24 ment system to the eligible retirement plan specified by the
25 distributee.

26 (7) ~~(6)~~ "Distributee" includes a member or deferred
27 member. Distributee also includes the member's or deferred

1 member's surviving spouse or the member's or deferred member's
2 spouse or former spouse under an eligible domestic relations
3 order, with regard to the interest of the spouse or former
4 spouse.

5 (8) ~~-(7)-~~ Except as otherwise provided in this subsection,
6 "eligible retirement plan" means an individual retirement account
7 described in section 408(a) of the internal revenue code, an
8 individual retirement annuity described in section 408(b) of the
9 internal revenue code, an annuity plan described in section
10 403(a) of the internal revenue code, or a qualified trust
11 described in section 401(a) of the internal revenue code, that
12 accepts the distributee's eligible rollover distribution.
13 However, in the case of an eligible rollover distribution to a
14 surviving spouse, an eligible retirement plan means an individual
15 retirement account or an individual retirement annuity described
16 above.

17 (9) ~~-(8)-~~ "Eligible rollover distribution" means a distribu-
18 tion of all or any portion of the balance to the credit of the
19 distributee. Eligible rollover distribution does not include any
20 of the following:

21 (a) A distribution made for the life or life expectancy of
22 the distributee or the joint lives or joint life expectancies of
23 the distributee and the distributee's designated beneficiary.

24 (b) A distribution for a specified period of 10 years or
25 more.

26 (c) A distribution to the extent that the distribution is
27 required under section 401(a)(9) of the internal revenue code.

1 (d) The portion of any distribution that is not includable
2 in federal gross income, determined without regard to the exclu-
3 sion for net unrealized appreciation with respect to employer
4 securities.

5 (10) ~~(9)~~ "Employee organization professional services
6 leave" or "professional services leave" means a leave of absence
7 that is renewed annually by the reporting unit so that a member
8 may accept a position with a public school employee organization
9 to which he or she belongs and which represents employees of a
10 reporting unit in employment matters. The member shall be
11 included in membership of the retirement system during a profes-
12 sional services leave if all of the conditions of section 71(5)
13 and (6) are satisfied.

14 (11) ~~(10)~~ "Employee organization professional services
15 released time" or "professional services released time" means a
16 portion of the school fiscal year during which a member is
17 released by the reporting unit from his or her regularly assigned
18 duties to engage in employment matters for a public school
19 employee organization to which he or she belongs. The member's
20 compensation received or service rendered, or both, as applica-
21 ble, by a member while on professional services released time
22 shall be reportable to the retirement system if all of the condi-
23 tions of section 71(5) and (6) are satisfied.

24 (12) ~~(11)~~ "Final average compensation" means the aggregate
25 amount of a member's compensation earned within the averaging
26 period in which the aggregate amount of compensation was highest
27 divided by the member's number of years, including any fraction

1 of a year, of credited service during the averaging period. The
2 averaging period shall be 36 consecutive calendar months if the
3 member contributes to the member investment plan; otherwise, the
4 averaging period shall be 60 consecutive calendar months. If the
5 member has less than 1 year of credited service in the averaging
6 period, the number of consecutive calendar months in the averag-
7 ing period shall be increased to the lowest number of consecutive
8 calendar months that contains 1 year of credited service.

9 (13) ~~(12)~~ "Health benefits" means hospital,
10 medical-surgical, and sick care benefits and dental, vision, and
11 hearing benefits for retirants, retirement allowance beneficia-
12 ries, and health insurance dependents provided pursuant to
13 section 91.

14 (14) ~~(13)~~ "Implementation date" means ~~July 1, 1997, if~~
15 ~~full actuarial funding of the pension benefits, as certified by~~
16 ~~the retirement board, occurs. If full actuarial funding of the~~
17 ~~pension benefits does not occur before July 1, 1997, implementa-~~
18 ~~tion date means the date established by the retirement board,~~
19 ~~which date shall be on or before January 1, 1998, if full actuar-~~
20 ~~ial funding of the pension benefits occurs before that date. If~~
21 ~~full actuarial funding of the pension benefits does not occur~~
22 ~~before January 1, 1998, the Tier 2 retirement plan shall not be~~
23 ~~implemented. The retirement board shall certify when full actu-~~
24 ~~arial funding of the pension benefits occurs, and the determina-~~
25 ~~tion shall be based upon the actuarial methods and assumptions in~~
26 ~~effect for the September 30, 1996 actuarial valuation. THE FIRST~~

1 DAY OF THE CALENDAR MONTH THAT FIRST OCCURS AFTER THE EXPIRATION
2 OF 120 DAYS AFTER THE DESIGNATED DATE.

3 (15) ~~(14)~~ "Internal revenue code" means the United States
4 internal revenue code of 1986.

5 ~~(15) "Member investment plan" means the program of member~~
6 ~~contributions described in section 43a.~~

7 Sec. 5. (1) "Member" means a public school employee, except
8 that member does not include any of the following:

9 (a) A person enrolled in a neighborhood youth corps program
10 operated with funds from the federal office of economic opportu-
11 nity or a person enrolled in a comparable youth training program
12 designed to prevent high school dropouts and rehabilitate high
13 school dropouts operated by an intermediate school district.

14 (b) A person enrolled in a transitional public employment
15 program and employed by a reporting unit.

16 (c) A person employed by a reporting unit while enrolled as
17 a full-time student in that same reporting unit.

18 (d) A person who elects to participate in the optional
19 retirement program under the optional retirement act of 1967,
20 ~~Act No. 156 of the Public Acts of 1967, as amended, being sec-~~
21 ~~tions 38.381 to 38.388 of the Michigan Compiled Laws 1967 PA~~
22 156, MCL 38.381 TO 38.388.

23 (e) A retirant of this retirement system.

24 (f) A person, not regularly employed by a reporting unit,
25 who is employed by a reporting unit through a summer youth
26 employment program established pursuant to the Michigan youth
27 corps act, ~~Act No. 69 of the Public Acts of 1983, being sections~~

1 ~~409.221 to 409.229 of the Michigan Compiled Laws~~ 1983 PA 69, MCL
2 409.221 TO 409.229.

3 (g) A person, not regularly employed by a reporting unit,
4 who is employed by a reporting unit to administer a program
5 described in subdivision (f), (h), (i), (j), or (k).

6 (h) After September 30, 1983, a person, not regularly
7 employed by a reporting unit, who is employed by a reporting unit
8 through participation in a program established pursuant to the
9 job training partnership act, Public Law 97-300, 96 Stat. 1322.

10 (i) A person, not regularly employed by a reporting unit,
11 who is employed by a reporting unit through participation in a
12 program established pursuant to the Michigan opportunity and
13 skills training program, first established under sections 12 to
14 23 of ~~Act No. 259 of the Public Acts of 1983~~ 1983 PA 259.

15 (j) A person, not regularly employed by a reporting unit,
16 who is employed by a reporting unit through participation in a
17 program established pursuant to the Michigan community service
18 corps program, first established under sections 25 to 35 of ~~Act~~
19 ~~No. 259 of the Public Acts of 1983~~ 1983 PA 259.

20 (k) A person, not regularly employed by a reporting unit,
21 who is employed by a reporting unit through participation in a
22 program established pursuant to the older American community
23 service employment program under the older American community
24 service employment act, title V of the older Americans act of
25 1965, Public Law 89-73, 42 U.S.C. 3056 to 3056i.

26 (2) "MEMBER INVESTMENT PLAN" MEANS THE PROGRAM OF MEMBER
27 CONTRIBUTIONS DESCRIBED IN SECTION 43A.

1 (3) ~~-(2)-~~ "Membership service" means service performed after
2 June 30, 1945.

3 (4) ~~-(3)-~~ "Noncontributory plan" means the plan which began
4 between July 1, 1974 and July 1, 1977, in which the reporting
5 unit elected to discontinue withholding contributions from
6 employees' compensation.

7 (5) ~~-(4)-~~ "Noncontributory service" means credited service
8 rendered under the noncontributory plan.

9 (6) ~~-(5)-~~ "Nonteacher" means a person employed by a report-
10 ing unit who is not a teacher as defined in section ~~8(4)~~ 8.

11 Sec. 34. (1) The reserve for health benefits is the account
12 to which payments of reporting units, subscriber co-payments, and
13 payments by the retirement system under section 136 for health
14 benefits are credited. Benefits payable pursuant to sections 91
15 and 136 shall be paid from the reserve for health benefits.

16 (2) THE HEALTH BENEFITS STABILIZATION SUBACCOUNT IS THE
17 ACCOUNT TO WHICH THE AMOUNTS TRANSFERRED PURSUANT TO SECTION
18 36(2) TO THE RESERVE FOR HEALTH BENEFITS ARE CREDITED. EXCEPT AS
19 OTHERWISE PROVIDED IN THIS SUBSECTION, NO AMOUNTS SHALL BE TRANS-
20 FERRED FROM THE HEALTH BENEFITS STABILIZATION SUBACCOUNT TO PAY
21 BENEFITS PURSUANT TO SUBSECTION (1) OR TO ANY OTHER RESERVE. THE
22 DIRECTOR OF THE DEPARTMENT MAY TRANSFER FROM THE HEALTH BENEFITS
23 STABILIZATION SUBACCOUNT TO THE RESERVE FOR EMPLOYER CONTRIBU-
24 TIONS PART OR ALL OF THE AMOUNT NECESSARY TO REDUCE OR ELIMINATE
25 ANY UNFUNDED ACTUARIAL ACCRUED LIABILITY, AS DETERMINED UNDER
26 SECTIONS 41 AND 41A.

1 Sec. 36. (1) The reserve for undistributed investment
2 income is the account to which all income from the investment of
3 assets, all gifts and bequests received by the retirement system,
4 and all other money received ~~by~~ WITH RESPECT TO TIER 1 OF the
5 retirement system the disposition of which is not specifically
6 provided for is credited. ~~The~~ IN EACH FISCAL YEAR, THE retire-
7 ment board shall transfer from the reserve for undistributed
8 investment income all amounts necessary to credit the interest
9 required under this act to the reserve for employee contribu-
10 tions, the reserve for employer contributions, the reserve for
11 member investment plan, the reserve for retired benefit payments,
12 and the reserve for health benefits, ~~and~~ to fund the reserve
13 for administrative expenses, AND ANY SUPPLEMENTAL PAYMENTS
14 REQUIRED PURSUANT TO SECTION 104A.

15 (2) BEGINNING ON THE DESIGNATED DATE, IF THE ACTUARIAL VALU-
16 ATION PREPARED PURSUANT TO SECTIONS 41 AND 41A DEMONSTRATES THAT
17 AS OF THE BEGINNING OF A FISCAL YEAR THE SUM OF THE ACTUARIAL
18 VALUE OF ASSETS AND THE ACTUARIAL PRESENT VALUE OF FUTURE NORMAL
19 COST CONTRIBUTIONS EXCEEDS THE ACTUARIAL PRESENT VALUE OF BENE-
20 FITS, AN AMOUNT EQUAL TO THE EXCESS SHALL BE CREDITED TO THE
21 HEALTH BENEFITS STABILIZATION SUBACCOUNT PURSUANT TO SECTION
22 34(2) AND SHALL BE DEBITED AGAINST THE RESERVE FOR EMPLOYER
23 CONTRIBUTIONS.

24 Sec. 41. (1) The annual level percentage of payroll contri-
25 bution rate to finance benefits being provided and to be provided
26 by the retirement system shall be determined by actuarial
27 valuation pursuant to subsection (2) upon the basis of the risk

1 assumptions that the retirement board and the department adopt
2 after consultation with the state treasurer and an actuary. An
3 annual actuarial valuation shall be made of the retirement system
4 in order to determine the actuarial condition of the retirement
5 system and the required contribution to the retirement system.
6 An annual actuarial gain-loss experience study of the retirement
7 system shall be made in order to determine the financial effect
8 of variations of actual retirement system experience from
9 projected experience.

10 (2) The contribution rate for benefits payable in the event
11 of the death of a member before retirement or the disability of a
12 member shall be computed using a terminal funding method of
13 valuation. Except as otherwise provided in this subsection, the
14 contribution rate for other benefits shall be computed using an
15 individual projected benefit entry age normal cost method of
16 valuation. For the 1995-96 state fiscal year and for each subse-
17 quent fiscal year, the contribution rate for health benefits pro-
18 vided under section 91 shall be computed using a cash disburse-
19 ment method. The contribution rate for service likely to be
20 rendered in the current year, the normal cost contribution rate,
21 shall be equal to the aggregate amount of individual projected
22 benefit entry age normal costs divided by 1% of the aggregate
23 amount of active members' valuation compensation. The contribu-
24 tion rate for unfunded service rendered before the valuation
25 date, the unfunded actuarial accrued liability contribution rate,
26 shall be the aggregate amount of unfunded actuarial accrued
27 liabilities divided by 1% of the actuarial present value over a

1 period not to exceed 50 years of projected valuation
2 compensation, where unfunded actuarial accrued liabilities are
3 equal to the actuarial present value of benefits, reduced by the
4 actuarial present value of future normal cost contributions and
5 the actuarial value of assets on the valuation date.

6 (3) Before November 1 of each year, the executive secretary
7 of the retirement board shall certify to the director of the
8 department the aggregate compensation estimated to be paid public
9 school employees for the current state fiscal year.

10 (4) On the basis of the estimate under subsection (3), the
11 annual actuarial valuation, and any adjustment required under
12 subsection (6), the director of the department shall compute the
13 sum due and payable to the retirement system and shall certify
14 this amount to the reporting units.

15 (5) The reporting units shall make payment of the amount
16 certified under subsection (4) to the director of the department
17 in 12 equal monthly installments.

18 (6) Not later than 90 days after termination of each state
19 fiscal year, the executive secretary of the retirement board
20 shall certify to the director of the department and each report-
21 ing unit the actual aggregate compensation paid to public school
22 employees during the preceding state fiscal year. Upon receipt
23 of that certification, the director of the department shall com-
24 pute any adjustment required to the amount due to a difference
25 between the estimated and the actual aggregate compensation and
26 the estimated and the actual actuarial employer contribution

1 rate. The difference, if any, shall be paid as provided in
2 subsection (9).

3 (7) The director of the department may require evidence of
4 correctness and may conduct an audit of the aggregate compensa-
5 tion that the director of the department considers necessary to
6 establish its correctness.

7 (8) A reporting unit shall forward employee and employer
8 social security contributions and reports as required by the fed-
9 eral old-age, survivors, disability, and hospital insurance pro-
10 visions of title II of the social security act, chapter 531, 49
11 Stat. 620, 42 U.S.C. 401 to 405, 406 to 418, 420 to 423, 424a to
12 426-1, and 427 to 433.

13 (9) For an employer of an employee of a local public school
14 district or an intermediate school district, for differences
15 occurring in fiscal years beginning on or after October 1, 1993,
16 a minimum of 20% of the difference between the estimated and the
17 actual aggregate compensation and the estimated and the actual
18 actuarial employer contribution rate described in subsection
19 (6), if any, shall be paid by that employer in the next succeed-
20 ing state fiscal year and a minimum of 25% of the remaining dif-
21 ference shall be paid by that employer in each of the following 4
22 state fiscal years, or until 100% of the remaining difference is
23 submitted, whichever first occurs. For an employer of other
24 public school employees, for differences occurring in fiscal
25 years beginning on or after October 1, 1991, a minimum of 20% of
26 the difference between the estimated and the actual aggregate
27 compensation and the estimated and the actual actuarial employer

1 contribution rate described in subsection (6), if any, shall be
2 paid by that employer in the next succeeding state fiscal year
3 and a minimum of 25% of the remaining difference shall be paid by
4 that employer in each of the following 4 state fiscal years, or
5 until 100% of the remaining difference is submitted, whichever
6 first occurs. In addition, interest shall be included for each
7 year that a portion of the remaining difference is carried
8 forward. The interest rate shall equal the actuarially assumed
9 rate of investment return for the state fiscal year in which pay-
10 ment is made.

11 (10) BEGINNING ON THE DESIGNATED DATE, ALL ASSETS HELD BY
12 THE RETIREMENT SYSTEM SHALL BE REASSIGNED THEIR FAIR MARKET
13 VALUE, AS DETERMINED BY THE STATE TREASURER, AS OF THE DESIGNATED
14 DATE, AND IN CALCULATING ANY UNFUNDED ACTUARIAL ACCRUED LIABILI-
15 TIES, ANY MARKET GAINS OR LOSSES INCURRED BEFORE THE DESIGNATED
16 DATE SHALL NOT BE CONSIDERED BY THE RETIREMENT SYSTEM'S
17 ACTUARIES.

18 (11) BEGINNING ON THE DESIGNATED DATE, FOR PURPOSES OF
19 DETERMINING UNFUNDED ACTUARIAL ACCRUED LIABILITIES, THE ACTUARY
20 USED BY THE RETIREMENT BOARD SHALL ASSUME A RATE OF RETURN ON
21 INVESTMENTS OF 8.30% PER ANNUM, AS OF THE DESIGNATED DATE, WHICH
22 RATE MAY ONLY BE CHANGED WITH THE APPROVAL OF THE RETIREMENT
23 BOARD AND THE DIRECTOR OF THE DEPARTMENT.

24 (12) BEGINNING ON THE DESIGNATED DATE, FOR PURPOSES OF
25 DETERMINING UNFUNDED ACTUARIAL ACCRUED LIABILITIES, THE VALUE OF
26 ASSETS USED SHALL BE BASED ON A METHOD THAT SPREADS OVER A 5-YEAR
27 PERIOD THE DIFFERENCE BETWEEN ACTUAL AND EXPECTED RETURN

1 OCCURRING IN EACH YEAR AFTER THE DESIGNATED DATE AND SUCH
2 METHODOLOGY MAY ONLY BE CHANGED WITH THE APPROVAL OF THE RETIRE-
3 MENT BOARD AND THE DIRECTOR OF THE DEPARTMENT.

4 SEC. 113. THERE IS APPROPRIATED THE SUM OF \$2,000,000.00
5 FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1998 TO THE DEPARTMENT
6 FOR THE PURPOSE OF IMPLEMENTING TIER 2.