



SENATE BILL No. 173

January 31, 1995, Introduced by Senator SHUGARS and referred to the Committee on Financial Services.

A bill to amend the title and sections 5 and 41 of Act No. 300 of the Public Acts of 1980, entitled "The public school employees retirement act of 1979," sections 5 and 41 as amended by Act No. 272 of the Public Acts of 1994, being sections 38.1305 and 38.1341 of the Michigan Compiled Laws; and to add section 109.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Section 1. The title and sections 5 and 41 of Act No. 300
2 of the Public Acts of 1980, sections 5 and 41 as amended by Act
3 No. 272 of the Public Acts of 1994, being sections 38.1305 and
4 38.1341 of the Michigan Compiled Laws, are amended and
5 section 109 is added to read as follows:

TITLE

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An act to provide a retirement system for ~~the~~ CERTAIN public school employees of this state; to create certain funds for this retirement system; to provide for the creation of a retirement board within the department of management and budget; to prescribe the powers and duties of the retirement board; to prescribe the powers and duties of the department of management and budget; to prescribe penalties AND PROVIDE REMEDIES; and to repeal certain acts and parts of acts.

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

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

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

(c) A person employed by a reporting unit ~~while enrolled as a full-time student in~~ WHOSE ENROLLMENT OR STATUS AS A STUDENT IS A PREREQUISITE FOR EMPLOYMENT BY that same reporting unit.

(d) A person who ~~elects~~ ELECTED to participate in the optional retirement program under the optional retirement act of 1967, FORMER Act No. 156 of the Public Acts of 1967. ~~, as amended, being sections 38.381 to 38.388 of the Michigan Compiled Laws.~~

1 (E) A PERSON EMPLOYED BY A UNIVERSITY, COMMUNITY COLLEGE, OR
2 JUNIOR COLLEGE.

3 (F) ~~(e)~~ A retirant of this retirement system.

4 (G) ~~(f)~~ A person, not regularly employed by a reporting
5 unit, who is employed ~~by a reporting unit~~ through ~~a~~

6 PARTICIPATION IN 1 OR MORE OF THE FOLLOWING PROGRAMS:

7 (i) A summer youth employment program established pursuant
8 to the Michigan youth corps act, Act No. 69 of the Public Acts of
9 1983, being sections 409.221 to 409.229 of the Michigan Compiled
10 Laws.

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

14 ~~(h) After September 30, 1983, a person, not regularly~~
15 ~~employed by a reporting unit, who is employed by a reporting unit~~
16 ~~through participation in a~~

17 (ii) A program established pursuant to the job training
18 partnership act, Public Law 97-300, 96 Stat. 1322.

19 ~~(i) A person, not regularly employed by a reporting unit,~~
20 ~~who is employed by a reporting unit through participation in a~~

21 (iii) A program established pursuant to the Michigan oppor-
22 tunity and skills training program, first established under sec-
23 tions 12 to 23 of Act No. 259 of the Public Acts of 1983.

24 ~~(j) A person, not regularly employed by a reporting unit,~~
25 ~~who is employed by a reporting unit through participation in a~~

1 (iv) A program established pursuant to the Michigan
2 community service corps program, first established under sections
3 25 to 35 of Act No. 259 of the Public Acts of 1983.

4 ~~(k) A person, not regularly employed by a reporting unit,~~
5 ~~who is employed by a reporting unit through participation in a~~

6 (v) A program established pursuant to the older American
7 community service employment program under the older American
8 community service employment act, title V of the older Americans
9 act of 1965, Public Law 89-73, 42 U.S.C. 3056 to 3056i.

10 (H) A PERSON, NOT REGULARLY EMPLOYED BY A REPORTING UNIT,
11 WHO IS EMPLOYED TO ADMINISTER A PROGRAM DESCRIBED IN SUBDIVISION
12 (G).

13 (I) A PERSON WHO IS NOT A PUBLIC SCHOOL EMPLOYEE AT ANY TIME
14 DURING THE PERIOD BEGINNING ON JULY 1, 1994 AND ENDING DECEMBER
15 31, 1995 AND WHO BECOMES A PUBLIC SCHOOL EMPLOYEE ON OR AFTER
16 JANUARY 1, 1996, UNLESS THE PERSON IS A DEFERRED MEMBER.

17 (J) A PERSON WHO IS A PUBLIC SCHOOL EMPLOYEE AT ANY TIME
18 DURING THE PERIOD BEGINNING ON JULY 1, 1994 AND ENDING ON
19 DECEMBER 31, 1995 AND WHO ELECTS TO TERMINATE MEMBERSHIP IN THE
20 MANNER PROVIDED IN SECTION 109.

21 (2) "Membership service" means service performed after June
22 30, 1945.

23 (3) "Noncontributory plan" means the plan which began
24 between July 1, 1974 and July 1, 1977, in which the reporting
25 unit elected to discontinue withholding contributions from
26 employees' compensation.

1 (4) "Noncontributory service" means credited service
2 rendered under the noncontributory plan.

3 (5) "Nonteacher" means a person employed by a reporting unit
4 who is not a teacher as defined in section 8(4).

5 Sec. 41. (1) The annual level percentage of payroll contri-
6 bution rate to finance benefits being provided and to be provided
7 by the retirement system shall be determined by actuarial valua-
8 tion pursuant to subsection (2) upon the basis of the risk
9 assumptions that the retirement board and the department adopt
10 after consultation with the state treasurer and an actuary. An
11 annual actuarial valuation shall be made of the retirement system
12 in order to determine the actuarial condition of the retirement
13 system and the required contribution to the retirement system.
14 An annual actuarial gain-loss experience study of the retirement
15 system shall be made in order to determine the financial effect
16 of variations of actual retirement system experience from
17 projected experience.

18 (2) The contribution rate for benefits payable in the event
19 of the death of a member before retirement or the disability of a
20 member shall be computed using a terminal funding method of
21 valuation. Except as otherwise provided in this subsection, the
22 contribution rate for other benefits, including health benefits,
23 shall be computed using an individual projected benefit entry age
24 normal cost method of valuation. For the 1994-95 state fiscal
25 year, the contribution rate for health benefits shall be computed
26 using a cash disbursement method. The contribution rate for
27 service likely to be rendered in the current year, the normal

1 cost contribution rate, shall be equal to the aggregate amount of
2 individual projected benefit entry age normal costs divided by 1%
3 of the aggregate amount of active members' valuation
4 compensation. BEGINNING WITH THE 1995-96 STATE FISCAL YEAR, THE
5 NORMAL COST CONTRIBUTION RATE SHALL BE EQUAL TO THE EMPLOYER CON-
6 TRIBUTION RATE TO THE MICHIGAN PUBLIC EMPLOYEE DEFINED CONTRIBU-
7 TION PLAN CREATED BY THE MICHIGAN PUBLIC EMPLOYEE DEFINED CONTRI-
8 BUTION PLAN ACT. THE UNFUNDED ACTUARIAL ACCRUED LIABILITY SHALL
9 BE EQUAL TO THE ACTUARIAL PRESENT VALUE OF BENEFITS REDUCED BY
10 THE ACTUARIAL PRESENT VALUE OF FUTURE NORMAL COST CONTRIBUTIONS
11 AND THE ACTUARIAL VALUE OF ASSETS ON THE VALUATION DATE. The con-
12 tribution rate for unfunded service rendered before the valuation
13 date, the unfunded actuarial accrued liability contribution rate,
14 shall be ~~the aggregate amount of~~ EQUAL TO THE unfunded actuar-
15 ial accrued ~~liabilities~~ LIABILITY divided by 1% of the actuar-
16 ial present value, over a period not to exceed 50 years of
17 projected ACTIVE MEMBER valuation compensation. ~~, where unfunded~~
18 ~~actuarial accrued liabilities are equal to the actuarial present~~
19 ~~value of benefits, reduced by the actuarial present value of~~
20 ~~future normal cost contributions and the actuarial value of~~
21 ~~assets on the valuation date.~~ BEGINNING WITH THE 1995-96 STATE
22 FISCAL YEAR, THE 50-YEAR PERIOD SHALL BE A FIXED PERIOD BEGINNING
23 OCTOBER 1, 1995 AND ENDING SEPTEMBER 30, 2045, AND THE PRESENT
24 VALUE OF PROJECTED ACTIVE MEMBER COMPENSATION SHALL INCLUDE THE
25 PROJECTED COMPENSATION OF PERSONS EXCLUDED FROM MEMBERSHIP IN THE
26 RETIREMENT SYSTEM PURSUANT TO SECTION 5(1)(I) AND (J).

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

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

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

13 (6) Not later than 90 days after termination of each state
14 fiscal year, the executive secretary of the retirement board
15 shall certify to the director of the department and each report-
16 ing unit the actual aggregate compensation paid to public school
17 employees during the preceding state fiscal year. Upon receipt
18 of that certification, the director of the department shall com-
19 pute any adjustment required to the amount due to a difference
20 between the estimated and the actual aggregate compensation and
21 the estimated and the actual actuarial employer contribution
22 rate. The difference, if any, shall be paid as provided in sub-
23 section (9).

24 (7) The director of the department may require evidence of
25 correctness and may conduct an audit of the aggregate compensa-
26 tion that the director of the department considers necessary to
27 establish its correctness.

1 (8) A reporting unit shall forward employee and employer
2 social security contributions and reports as required by the fed-
3 eral old-age, survivors, disability, and hospital insurance pro-
4 visions of title II of the social security act, chapter 531, 49
5 Stat. 620, 42 U.S.C. 401 to 405, 406 to 418, 420 to 423, 424a to
6 426-1, and 427 to 433.

7 (9) For an employer of an employee of a local public school
8 district or an intermediate school district, for differences
9 occurring in fiscal years beginning on or after October 1, 1994,
10 a minimum of 20% of the difference between the estimated and the
11 actual aggregate compensation and the estimated and the actual
12 actuarial employer contribution rate described in subsection
13 (6), if any, shall be paid by that employer in the next succeed-
14 ing state fiscal year and a minimum of 25% of the remaining dif-
15 ference shall be paid by that employer in each of the following 4
16 state fiscal years, or until 100% of the remaining difference is
17 submitted, whichever first occurs. For an employer of other
18 public school employees, for differences occurring in fiscal
19 years beginning on or after October 1, 1991, a minimum of 20% of
20 the difference between the estimated and the actual aggregate
21 compensation and the estimated and the actual actuarial employer
22 contribution rate described in subsection (6), if any, shall be
23 paid by that employer in the next succeeding state fiscal year
24 and a minimum of 25% of the remaining difference shall be paid by
25 that employer in each of the following 4 state fiscal years, or
26 until 100% of the remaining difference is submitted, whichever
27 first occurs. In addition, interest shall be included for each

1 year that a portion of the remaining difference is carried
2 forward. The interest rate shall equal the actuarially assumed
3 rate of investment return for the state fiscal year in which pay-
4 ment is made. This subsection does not apply to differences
5 occurring in fiscal years beginning after September 30, 1996.

6 SEC. 109. (1) THE RETIREMENT SYSTEM SHALL PROVIDE AN OPPOR-
7 TUNITY FOR EACH MEMBER WHO WAS A MEMBER AT ANY TIME DURING THE
8 PERIOD BEGINNING JULY 1, 1994 AND ENDING DECEMBER 31, 1995 TO
9 MAKE AN ELECTION AS PROVIDED IN THIS SUBSECTION. THE RETIREMENT
10 SYSTEM SHALL OFFER 1 OPPORTUNITY FOR A MEMBER TO MAKE THE ELEC-
11 TION PROVIDED IN THIS SUBSECTION AND ONCE MADE, THE ELECTION IS
12 IRREVOCABLE BY THE MEMBER. THE MEMBER SHALL MAKE THE ELECTION
13 PROVIDED IN THIS SUBSECTION IN WRITING. OTHERWISE, THE METHOD OF
14 ELECTION SHALL BE DETERMINED BY THE RETIREMENT BOARD AND THE
15 DEPARTMENT. THE RETIREMENT SYSTEM SHALL BEGIN ACCEPTING WRITTEN
16 ELECTIONS FROM MEMBERS ON AND AFTER THE EFFECTIVE DATE OF THIS
17 SECTION. THE RETIREMENT SYSTEM SHALL NOT ACCEPT WRITTEN ELEC-
18 TIONS FROM MEMBERS AFTER NOVEMBER 1, 1996. IF THE MEMBER IS MAR-
19 RIED AT THE TIME OF THE ELECTION, THE ELECTION IS NOT EFFECTIVE
20 UNLESS THE ELECTION IS SIGNED BY THE MEMBER'S SPOUSE, EXCEPT THAT
21 THIS REQUIREMENT MAY BE WAIVED BY THE RETIREMENT BOARD AND THE
22 DEPARTMENT IF THE SIGNATURE OF THE MEMBER'S SPOUSE CANNOT BE
23 OBTAINED BECAUSE OF EXTENUATING CIRCUMSTANCES. A MEMBER WHO
24 MAKES A WRITTEN ELECTION UNDER THIS SUBSECTION SHALL ELECT TO DO
25 ALL OF THE FOLLOWING:

26 (A) CEASE TO BE A MEMBER OF THIS RETIREMENT SYSTEM EFFECTIVE
27 12 MIDNIGHT DECEMBER 31, 1996.

1 (B) EXCEPT AS OTHERWISE PROVIDED IN THIS SUBDIVISION, BECOME
2 A PARTICIPANT IN THE MICHIGAN PUBLIC EMPLOYEE DEFINED CONTRIBU-
3 TION PLAN CREATED BY THE MICHIGAN PUBLIC EMPLOYEE DEFINED CONTRI-
4 BUTION PLAN ACT EFFECTIVE 12:01 A.M. ON JANUARY 1, 1997. IF THE
5 PERSON IS AN EMPLOYEE OF A COMMUNITY COLLEGE OR A UNIVERSITY,
6 BECOME A PARTICIPANT OF ANY OTHER EMPLOYER SPONSORED QUALIFIED
7 DEFINED CONTRIBUTION PLAN EFFECTIVE 12:01 A.M. ON JANUARY 1,
8 1997.

9 (C) EXCEPT AS PROVIDED IN SUBSECTION (2), WAIVE ALL OF HIS
10 OR HER RIGHTS TO A PENSION, AN ANNUITY, A RETIREMENT ALLOWANCE,
11 AN INSURANCE BENEFIT, OR ANY OTHER BENEFIT UNDER THIS ACT EFFEC-
12 TIVE 12 MIDNIGHT DECEMBER 31, 1996.

13 (2) THE RETIREMENT SYSTEM SHALL TRANSFER TO THE MICHIGAN
14 PUBLIC EMPLOYEE DEFINED CONTRIBUTION PLAN, OR FOR A PERSON WHO IS
15 AN EMPLOYEE OF A COMMUNITY COLLEGE OR UNIVERSITY, TO THE EMPLOYER
16 SPONSORED QUALIFIED DEFINED CONTRIBUTION PLAN, FOR EACH MEMBER
17 WHO ELECTS TO TERMINATE MEMBERSHIP IN THIS RETIREMENT SYSTEM
18 UNDER SUBSECTION (1) A LUMP SUM AMOUNT FROM THE RETIREMENT SYSTEM
19 EQUAL TO THE SUM OF THE FOLLOWING:

20 (A) THE MEMBER'S ACCUMULATED CONTRIBUTIONS, IF ANY, AS OF
21 12 MIDNIGHT DECEMBER 31, 1996 FROM THE RESERVE FOR EMPLOYEE CON-
22 TRIBUTIONS AND THE RESERVE FOR MEMBER INVESTMENT PLAN.

23 (B) THE EXCESS, IF ANY, OF THE ACTUARIAL PRESENT VALUE OF
24 THE MEMBER'S ACCRUED RETIREMENT ALLOWANCE, OVER THE AMOUNT SPECI-
25 FIED IN SUBDIVISION (A), FROM THE RESERVE FOR EMPLOYER
26 CONTRIBUTIONS. FOR PURPOSES OF THIS SUBDIVISION, THE MEMBER'S
27 ACCRUED RETIREMENT ALLOWANCE IS EQUAL TO THE RETIREMENT ALLOWANCE

1 COMPUTED BASED UPON THE MEMBER'S ESTIMATED CREDITED SERVICE AND
2 ESTIMATED FINAL AVERAGE COMPENSATION AS OF 12 MIDNIGHT DECEMBER
3 31, 1996. THE ACTUARIAL PRESENT VALUE SHALL BE COMPUTED AS OF
4 12 MIDNIGHT DECEMBER 31, 1996 AND SHALL BE BASED UPON ALL OF THE
5 FOLLOWING:

6 (i) EIGHT PERCENT EFFECTIVE ANNUAL INTEREST, COMPOUNDED
7 ANNUALLY.

8 (ii) A 50% MALE AND 50% FEMALE GENDER NEUTRAL BLEND OF THE
9 MORTALITY TABLES USED TO PROJECT RETIRANT LONGEVITY IN THE
10 SEPTEMBER 30, 1995 ANNUAL ACTUARIAL VALUATION REPORT.

11 (iii) A BENEFIT COMMENCEMENT AGE, BASED UPON THE MEMBER'S
12 ESTIMATED CREDITED SERVICE AS OF 12 MIDNIGHT DECEMBER 31, 1996.
13 THE BENEFIT COMMENCEMENT AGE SHALL BE THE YOUNGEST OF THE FOLLOW-
14 ING, BUT SHALL NOT BE YOUNGER THAN THE MEMBER'S AGE AS OF
15 12 MIDNIGHT DECEMBER 31, 1996:

16 (A) AGE 60.

17 (B) AGE 55, IF THE MEMBER'S ESTIMATED CREDITED SERVICE
18 EQUALS OR EXCEEDS 30 YEARS.

19 (C) THE MEMBER'S AGE AS OF 12 MIDNIGHT DECEMBER 31, 1996, IF
20 THE MEMBER'S ESTIMATED CREDITED SERVICE EQUALS OR EXCEEDS 30
21 YEARS AND THE MEMBER CONTRIBUTES TO THE MEMBER INVESTMENT PLAN.

22 (3) FOR PURPOSES OF SUBSECTION (2), THE MEMBER'S ESTIMATED
23 CREDITED SERVICE AND ESTIMATED FINAL AVERAGE COMPENSATION SHALL
24 BE ESTIMATED BASED UPON METHODS ADOPTED BY THE RETIREMENT BOARD
25 AND THE DEPARTMENT. FOR EACH MEMBER WHO ELECTS TO TERMINATE MEM-
26 BERSHIP IN THE RETIREMENT SYSTEM UNDER SUBSECTION (1), THE
27 RETIREMENT SYSTEM SHALL RECOMPUTE THE AMOUNT TRANSFERRED UNDER

1 SUBSECTION (2) NOT LATER THAN DECEMBER 31, 1997 BASED UPON THE
2 MEMBER'S ACTUAL CREDITED SERVICE AND ACTUAL FINAL AVERAGE COMPEN-
3 SATION AS OF 12 MIDNIGHT DECEMBER 31, 1996. THE RETIREMENT
4 SYSTEM SHALL TRANSFER FROM THE EMPLOYER'S ACCUMULATION FUND TO
5 THE MICHIGAN PUBLIC EMPLOYEE DEFINED CONTRIBUTION PLAN, OR FOR A
6 PERSON WHO IS AN EMPLOYEE OF A COMMUNITY COLLEGE OR UNIVERSITY,
7 TO THE EMPLOYER SPONSORED QUALIFIED DEFINED CONTRIBUTION PLAN,
8 THE EXCESS, IF ANY, OF THE RECOMPUTED AMOUNT OVER THE PREVIOUSLY
9 TRANSFERRED AMOUNT TOGETHER WITH INTEREST FROM 12 MIDNIGHT
10 DECEMBER 31, 1996 TO THE DATE OF THE TRANSFER UNDER THIS SUBSEC-
11 TION, BASED UPON 8% EFFECTIVE ANNUAL INTEREST, COMPOUNDED
12 ANNUALLY.

13 (4) A COLLECTIVE BARGAINING AGREEMENT UNDER ACT NO. 336 OF
14 THE PUBLIC ACTS OF 1947, BEING SECTIONS 423.201 TO 423.217 OF THE
15 MICHIGAN COMPILED LAWS, SHALL NOT PROVIDE FOR ALTERATION, AMEND-
16 MENT, MODIFICATION, REPEAL, OR ANY OTHER CHANGE IN THE 1995
17 AMENDMENTS REGARDING A DEFINED CONTRIBUTION PLAN TO THIS ACT.

18 Section 2. This amendatory act shall not take effect unless
19 Senate Bill No. 169
20 of the 88th Legislature is enacted into law.