# HOUSE SUBSTITUTE FOR

#### SENATE BILL NO. 719

A bill to amend 1980 PA 300, entitled "The public school employees retirement act of 1979," by amending sections 4, 8, 25, 26, 34, 41, and 91 (MCL 38.1304, 38.1308, 38.1325, 38.1326, 38.1334, 38.1341, and 38.1391), sections 4, 8, 25, 26, 34, and 91 as amended by 1996 PA 488 and section 41 as amended by 1996 PA 278; and to repeal acts and parts of acts.

#### THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

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

6 (2) "Contributory service" means credited service other than7 noncontributory service.

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

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4 (4) "Department" means the department of management and5 budget.

6 (5) "DESIGNATED DATE" MEANS JANUARY 1, 1998.

7 (6) (5) "Direct rollover" means a payment by the retire8 ment system to the eligible retirement plan specified by the
9 distributee.

10 (7) (6) "Distributee" includes a member or deferred 11 member. Distributee also includes the member's or deferred 12 member's surviving spouse or the member's or deferred member's 13 spouse or former spouse under an eligible domestic relations 14 order, with regard to the interest of the spouse or former 15 spouse.

16 (8) -(7) Except as otherwise provided in this subsection,
17 "eligible retirement plan" means an individual retirement account
18 described in section 408(a) of the internal revenue code, an
19 individual retirement annuity described in section 408(b) of the
20 internal revenue code, an annuity plan described in section
21 403(a) of the internal revenue code, or a qualified trust
22 described in section 401(a) of the internal revenue code, that
23 accepts the distributee's eligible rollover distribution.
24 However, in the case of an eligible rollover distribution to a
25 surviving spouse, an eligible retirement plan means an individual
26 retirement account or an individual retirement annuity described
27 above.

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(9) (8) "Eligible rollover distribution" means a
 distribution of all or any portion of the balance to the credit
 of the distributee. Eligible rollover distribution does not
 include any of the following:

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5 (a) A distribution made for the life or life expectancy of
6 the distribute or the joint lives or joint life expectancies of
7 the distribute and the distributee's designated beneficiary.

8 (b) A distribution for a specified period of 10 years or9 more.

10 (c) A distribution to the extent that the distribution is 11 required under section 401(a)(9) of the internal revenue code. 12 (d) The portion of any distribution that is not includable 13 in federal gross income, determined without regard to the exclu-14 sion for net unrealized appreciation with respect to employer 15 securities.

16 (10) (9) "Employee organization professional services
17 leave" or "professional services leave" means a leave of absence
18 that is renewed annually by the reporting unit so that a member
19 may accept a position with a public school employee organization
20 to which he or she belongs and which represents employees of a
21 reporting unit in employment matters. The member shall be
22 included in membership of the retirement system during a profes23 sional services leave if all of the conditions of section 71(5)
24 and (6) are satisfied.

(11) (10) "Employee organization professional services
released time" or "professional services released time" means a
portion of the school fiscal year during which a member is

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1 released by the reporting unit from his or her regularly assigned 2 duties to engage in employment matters for a public school 3 employee organization to which he or she belongs. The member's 4 compensation received or service rendered, or both, as applica-5 ble, by a member while on professional services released time 6 shall be reportable to the retirement system if all of the condi-7 tions of section 71(5) and (6) are satisfied.

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8 (12) (11) "Final average compensation" means the aggregate 9 amount of a member's compensation earned within the averaging 10 period in which the aggregate amount of compensation was highest 11 divided by the member's number of years, including any fraction 12 of a year, of credited service during the averaging period. The 13 averaging period shall be 36 consecutive calendar months if the 14 member contributes to the member investment plan; otherwise, the 15 averaging period shall be 60 consecutive calendar months. If the 16 member has less than 1 year of credited service in the averaging 17 period, the number of consecutive calendar months in the averag-18 ing period shall be increased to the lowest number of consecutive 19 calendar months that contains 1 year of credited service.

20 (13) (12) "Health benefits" means hospital,
21 medical-surgical, and sick care benefits and dental, vision, and
22 hearing benefits for retirants, retirement allowance beneficia23 ries, and health insurance dependents provided pursuant to
24 section 91.

25 (13) "Implementation date" means July 1, 1997, if full
26 actuarial funding of the pension benefits, as certified by the
27 retirement board, occurs. If full actuarial funding of the

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1 pension benefits does not occur before July 1, 1997,

2 implementation date means the date established by the retirement 3 board, which date shall be on or before January 1, 1998, if full 4 actuarial funding of the pension benefits occurs before that 5 date. If full actuarial funding of the pension benefits does not 6 occur before January 1, 1998, the Tier 2 retirement plan shall 7 not be implemented. The retirement board shall certify when full 8 actuarial funding of the pension benefits occurs, and the deter-9 mination shall be based upon the actuarial methods and assump-10 tions in effect for the September 30, 1996 actuarial valuation. 11 (14) "Internal revenue code" means the United States inter-

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12 nal revenue code of 1986.

13 (15) "Member investment plan" means the program of member14 contributions described in section 43a.

15 Sec. 8. (1) "Service" means personal service performed as a16 public school employee or creditable under this act.

17 (2) "Simple interest" means interest at 1 or more rates per18 annum determined by the retirement board.

19 (3) "State of Michigan service" means service performed as a
20 state employee in the classified or unclassified service under
21 the state employees' retirement act, Act No. 240 of the Public
22 Acts of 1943, being sections 38.1 to 38.69 of the Michigan
23 Compiled Laws 1943 PA 240, MCL 38.1 TO 38.69.

(4) "Teacher" means a person employed by a reporting unit
who is engaged in teaching, who is engaged in administering and
supervising teaching, or who is under a teacher's contract with a
reporting unit.

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(5) "Tier 1" means the retirement plan available to a
 member under this act who was first employed by a reporting unit
 before the implementation date and who does not elect to become a
 qualified participant of Tier 2 or to an individual who was first
 employed by a reporting unit on or after the implementation date
 and who elects to become a member of Tier 1.

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7 (6) "Tier 2" means the retirement plan established pursuant 8 to section 403(b) of the internal revenue code that is available 9 to qualified participants under sections 109 to 112 and article 10 7.

(5) (7) "Transitional public employment program" means participation in public service employment programs in the areas of environmental quality, health care, education, public safety, crime prevention and control, prison rehabilitation, transportation, recreation, maintenance of parks, streets, and other public facilities, solid waste removal, pollution control, housing and reighborhood improvements, rural development, conservation, beautification, veterans' outreach, and other fields of human betterment and community improvement as part of a program of comprehensive manpower services authorized, undertaken, and financed under the comprehensive employment and training act of 1973, former Public Law 93-203, 87 Stat. 839.

Sec. 25. (1) The board shall have only the rights, authori24 ty, and discretion in the proper discharge of its duties provided
25 in this act and former Act No. 136 of the Public Acts of 1945
26 1945 PA 136.

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(2) Except as otherwise provided in this section, the THE
 retirement board may promulgate rules pursuant to the
 administrative procedures act of 1969, Act No. 306 of the Public
 Acts of 1969, being sections 24.201 to 24.328 of the Michigan
 Compiled Laws 1969 PA 306, MCL 24.201 TO 24.328, for the imple mentation and administration of this act. The retirement board
 shall not promulgate rules for the establishment, implementation,
 administration, operation, investment, or distribution of a Tier
 2 retirement plan.

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10 Sec. 26. (1) This section does not apply to Tier 2. (2) 11 The state treasurer shall be treasurer of the retirement system 12 and shall have investment authority, including the custodianship 13 of the funds of the retirement system, and shall have fiduciary 14 responsibility with regard to the investment of funds of the 15 retirement system.

16 (2) (3) The state treasurer shall deposit the funds of the 17 retirement system in the same manner and subject to the law gov-18 erning the deposit of state funds by the treasurer. Income 19 earned by the retirement system's funds shall be credited to the 20 respective reserves under this act that earned the income.

Sec. 34. The reserve for health benefits is the account to which payments of reporting units —, subscriber co-payments, and payments by the retirement system under section 136 – for health benefits are credited. Benefits payable pursuant to <u>sections</u> SECTION 91 <u>and 136</u> shall be paid from the reserve for health benefits.

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1 Sec. 41. (1) The annual level percentage of payroll 2 contribution rate to finance benefits being provided and to be 3 provided by the retirement system shall be determined by actuar-4 ial valuation pursuant to subsection (2) upon the basis of the 5 risk assumptions that the retirement board and the department 6 adopt after consultation with the state treasurer and an 7 actuary. An annual actuarial valuation shall be made of the 8 retirement system in order to determine the actuarial condition 9 of the retirement system and the required contribution to the 10 retirement system. An annual actuarial gain-loss experience 11 study of the retirement system shall be made in order to deter-12 mine the financial effect of variations of actual retirement 13 system experience from projected experience.

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

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1 contribution rate for unfunded service rendered before the 2 valuation date, the unfunded actuarial accrued liability contri-3 bution rate, shall be the aggregate amount of unfunded actuarial 4 accrued liabilities divided by 1% of the actuarial present value 5 over a period not to exceed 50 years of projected valuation com-6 pensation, where unfunded actuarial accrued liabilities are equal 7 to the actuarial present value of benefits, reduced by the actu-8 arial present value of future normal cost contributions and the 9 actuarial value of assets on the valuation date.

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10 (3) Before November 1 of each year, the executive secretary 11 of the retirement board shall certify to the director of the 12 department the aggregate compensation estimated to be paid public 13 school employees for the current state fiscal year.

14 (4) On the basis of the estimate under subsection (3), the 15 annual actuarial valuation, and any adjustment required under 16 subsection (6), the director of the department shall compute the 17 sum due and payable to the retirement system and shall certify 18 this amount to the reporting units.

19 (5) The reporting units shall make payment of the amount20 certified under subsection (4) to the director of the department21 in 12 equal monthly installments.

(6) Not later than 90 days after termination of each state fiscal year, the executive secretary of the retirement board shall certify to the director of the department and each reporting unit the actual aggregate compensation paid to public school employees during the preceding state fiscal year. Upon receipt of that certification, the director of the department shall

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compute any adjustment required to the amount due to a difference
 between the estimated and the actual aggregate compensation and
 the estimated and the actual actuarial employer contribution
 rate. The difference, if any, shall be paid as provided in sub section (9).

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6 (7) The director of the department may require evidence of
7 correctness and may conduct an audit of the aggregate compensa8 tion that the director of the department considers necessary to
9 establish its correctness.

10 (8) A reporting unit shall forward employee and employer 11 social security contributions and reports as required by the fed-12 eral old-age, survivors, disability, and hospital insurance pro-13 visions of title II of the social security act, chapter 531, 49 14 Stat. 620, 42 U.S.C. 401 to 405, 406 to 418, 420 to 423, 424a to 15 426-1, and 427 to 433.

(9) For an employer of an employee of a local public school district or an intermediate school district, for differences a occurring in fiscal years beginning on or after October 1, 1993, a minimum of 20% of the difference between the estimated and the actual aggregate compensation and the estimated and the actual actuarial employer contribution rate described in subsection (6), if any, shall be paid by that employer in the next succeeding state fiscal year and a minimum of 25% of the remaining difference shall be paid by that employer in each of the following 4 state fiscal years, or until 100% of the remaining difference is submitted, whichever first occurs. For an employer of other public school employees, for differences occurring in fiscal

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1 years beginning on or after October 1, 1991, a minimum of 20% of 2 the difference between the estimated and the actual aggregate 3 compensation and the estimated and the actual actuarial employer 4 contribution rate described in subsection (6), if any, shall be 5 paid by that employer in the next succeeding state fiscal year 6 and a minimum of 25% of the remaining difference shall be paid by 7 that employer in each of the following 4 state fiscal years, or 8 until 100% of the remaining difference is submitted, whichever 9 first occurs. In addition, interest shall be included for each 10 year that a portion of the remaining difference is carried 11 forward. The interest rate shall equal the actuarially assumed 12 rate of investment return for the state fiscal year in which pay-13 ment is made.

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14 (10) BEGINNING ON THE DESIGNATED DATE, FOR PURPOSES OF
15 DETERMINING UNFUNDED ACTUARIAL ACCRUED LIABILITIES, THE ACTUARY
16 USED BY THE RETIREMENT BOARD SHALL ASSUME A RATE OF RETURN ON
17 INVESTMENTS OF 8.25% PER ANNUM, AS OF THE DESIGNATED DATE.
18 HOWEVER, FOR THE PURPOSES OF THIS SUBSECTION, THE ACTUARY USED BY
19 THE RETIREMENT BOARD SHALL ASSUME A RATE OF RETURN ON INVESTMENTS
20 ON THE DATES AS FOLLOWS:

21 (A) BEGINNING ON OCTOBER 1, 1999, 8.20%.

22 (B) BEGINNING ON OCTOBER 1, 2000, 8.15%.

23 (C) BEGINNING ON OCTOBER 1, 2001, 8.10%.

**24** (D) BEGINNING ON OCTOBER 1, 2002, 8.05%.

25 (E) BEGINNING ON OCTOBER 1, 2003 AND THEREAFTER, 8.00%.

26 Sec. 91. (1) The retirement system shall pay the entire27 monthly premium or membership or subscription fee for hospital,

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medical-surgical, and sick care benefits for the benefit of a
 retirant or retirement allowance beneficiary who elects coverage
 in the plan authorized by the retirement board and the
 department. This subsection does not apply to a member who
 first becomes a member on or after the implementation date.

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6 (2) The retirement system may pay up to the maximum of the 7 amount payable under subsection (1) toward the monthly premium 8 for hospital, medical-surgical, and sick care benefits for the 9 benefit of a retirant or retirement allowance beneficiary 10 enrolled in a group health insurance or prepaid service plan not 11 authorized by the retirement board and the department, if 12 enrolled before June 1, 1975, for whom the retirement system on 13 July 18, 1983 was making a payment towards his or her monthly 14 premium.

15 (3) A retirant or retirement allowance beneficiary receiving 16 hospital, medical-surgical, and sick care benefits coverage under 17 subsection (1) or (2), until eligible for medicare, shall have an 18 amount equal to the cost chargeable to a medicare recipient for 19 part B of medicare deducted from his or her retirement 20 allowance.

(4) The retirement system shall pay 90% of the monthly premium or membership or subscription fee for dental, vision, and hearing benefits for the benefit of a retirant or retirement allowance beneficiary who elects coverage in the plan authorized by the retirement board and the department. Payments shall begin under this subsection upon approval by the retirement board and the department of plan coverage and a plan provider. This

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1 subsection does not apply to a member who first becomes a member
2 on or after the implementation date.

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(5) The retirement system shall pay up to 90% of the maximum 3 4 of the amount payable under subsection (1) toward the monthly 5 premium or membership or subscription fee for hospital, **6** medical-surgical, and sick care benefits coverage described in 7 subsections (1) and (2) for each health insurance dependent of a 8 retirant receiving benefits under subsection (1) or (2). Payment 9 shall not exceed 90% of the actual monthly premium or membership 10 or subscription fee. The retirement system shall pay 90% of the 11 monthly premium or membership or subscription fee for dental, 12 vision, and hearing benefits described in subsection (4) for the 13 benefit of each health insurance dependent of a retirant receiv-14 ing benefits under subsection (4). Payment for health benefits 15 coverage for a health insurance dependent of a retirant shall not 16 be made after the retirant's death, unless the retirant desig-17 nated a retirement allowance beneficiary as provided in 18 section 85 and the dependent was covered or eligible for coverage 19 as a health insurance dependent of the retirant on the retirant's 20 date of death. Payment for health benefits coverage shall not be 21 made for a health insurance dependent after the later of the 22 retirant's death or the retirement allowance beneficiary's 23 death. Payment under this subsection and subsection (6) shall 24 begin October 1, 1985 for health insurance dependents who on 25 July 10, 1985 are covered by the hospital, medical-surgical, and 26 sick care benefits plan authorized by the retirement board and 27 the department. Payment under this subsection and subsection (6)

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(6) The payment described in subsection (5) - or (8) shall 3 4 also be made for each health insurance dependent of a deceased 5 member or deceased duty disability retirant if a retirement 6 allowance is being paid to a retirement allowance beneficiary 7 because of the death of the member or duty disability retirant as 8 provided in section 43c(c), 89, OR 90. -, or 135a. Payment for 9 health benefits coverage for a health insurance dependent shall 10 not be made after the retirement allowance beneficiary's death. 11 (7) The payments provided by this section shall not be made 12 on behalf of a retiring section 82 deferred member or health 13 insurance dependent of a deferred member having less than 21 full 14 years of attained credited service or the retiring deferred 15 member's retirement allowance beneficiary, and shall not be made 16 on behalf of a retirement allowance beneficiary of a deferred 17 member who dies before retiring. The retirement system shall 18 pay, on behalf of a retiring section 82 deferred member or health 19 insurance dependent of a deferred member or a retirement allow-20 ance beneficiary of a deceased deferred member, either of whose 21 allowance is based upon not less than 21 years of attained cred-22 ited service, 10% of the payments provided by this section, 23 increased by 10% for each attained full year of credited service 24 beyond 21 years, not to exceed 100%. This subsection applies to 25 any member who first becomes a member before the implementation 26 date and who attains deferred status under section 82 after 27 October 31, 1980.

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(8) For a member or deferred member who first becomes a 1 2 member on or after the implementation date, the retirement system 3 shall pay the entire monthly premium or membership or subscrip-4 tion fee for the hospital, medical-surgical, and sick care bene-5 fits plan, the dental plan, vision plan, or hearing plan, or any 6 combination of the plans for the benefit of the retirant and his 7 or her health insurance beneficiaries, or for the benefit of the 8 retirant's or deceased member's retirement allowance beneficiary 9 if the retirant or deceased member has 30 years or more of serv-10 ice credit or 30 years or more of employment with a reporting 11 unit or units under this act. If a retirant or deceased member 12 described in this subsection has 10 or more but less than 30 13 years of service credit or years of reporting unit employment 14 under this act, the retirement system shall pay a portion of the 15 monthly premium or membership or subscription fee for the plans 16 or combination of plans equal to the product of 3% and the 17 retirant's or deceased member's years of service. Additionally, 18 if a retirant or deceased member described in this subsection has 19 less than 30 years of service credit and is less than 60 years of 20 age, the retirement system shall reduce the amount payable under 21 this subsection by the formula used to reduce a retirement allow-22 ance under section 84(2).

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23 (9) The retirement system shall not pay the premiums or sub-24 scription fees under subsection (8) until the retirant or retire-25 ment allowance beneficiary requests enrollment in the plans or 26 combination of plans in writing in the manner prescribed by the 27 retirement system. Subsection (8) does not apply to a member who

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1 receives a disability retirement allowance under section 86, 87, 2 or 135a or to a deceased member's retirement allowance benefi-3 ciary under section 90.

4 (8) (10) Any retirant or retirement allowance beneficiary
5 excluded from payments under this section may participate in the
6 hospital, medical-surgical, and sick care benefits plan, the
7 dental plan, vision plan, or hearing plan, or any combination of
8 the plans described in this section in the manner prescribed by
9 the retirement system at his or her own cost.

10 (9) (11) The hospital, medical-surgical, and sick care
11 benefits plan, dental plan, vision plan, and hearing plan that
12 covers retirants, retirement allowance beneficiaries, and health
13 insurance dependents pursuant to this section shall contain a
14 coordination of benefits provision that provides all of the
15 following:

16 (a) If the person covered under the hospital, 17 medical-surgical, and sick care benefits plan is also eligible 18 for medicare or medicaid, or both, then the benefits under medi-19 care or medicaid, or both, shall be determined before the bene-20 fits of the hospital, medical-surgical, and sick care benefits 21 plan provided pursuant to this section.

(b) If the person covered under any of the plans provided by
this section is also covered under another plan that contains a
coordination of benefits provision, the benefits shall be coordinated as provided by the coordination of benefits act, Act
No. 64 of the Public Acts of 1984, being sections 550.251 to

Senate Bill No. 719 17 **1** 550.255 of the Michigan Compiled Laws 1984 PA 64, MCL 550.251 TO **2** 550.255.

3 (c) If the person covered under any of the plans provided by
4 this section is also covered under another plan that does not
5 contain a coordination of benefits provision, the benefits under
6 the other plan shall be determined before the benefits of the
7 plan provided pursuant to this section.

8 (10) -(12) For purposes of this section:

9 (a) "Health insurance dependent" means any of the10 following:

(i) The spouse of the retirant or the surviving spouse to whom the retirant or deceased member was married at the time of the retirant's or deceased member's death.

14 (*ii*) An unmarried child, by birth or adoption, of the retir15 ant or deceased member, until December 31 of the calendar year in
16 which the child becomes 19 years of age.

17 (*iii*) An unmarried child, by birth or adoption, of the 18 retirant or deceased member, until December 31 of the calendar 19 year in which the child becomes 25 years of age, who is enrolled 20 as a full-time student, and who is or was at the time of the 21 retirant's or deceased member's death a dependent of the retirant 22 or deceased member as defined in section 152 of the internal rev-23 enue code.

(*iv*) An unmarried child, by birth or adoption, of the retirant or deceased member who is incapable of self-sustaining
employment because of mental or physical handicap, and who is or
was at the time of the retirant's or deceased member's death a

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1 dependent of the retirant or deceased member as defined in **2** section 152 of the internal revenue code.

(v) The parents of the retirant or deceased member, or the 3 4 parents of his or her spouse, who are residing in the household 5 of the retirant or retirement allowance beneficiary.

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(b) "Medicaid" means benefits under the federal medicaid 6 7 program established under title XIX of the social security act, 8 chapter 531, 49 Stat. 620, 42 U.S.C. 1396 to 1396f, and 1396g-1 **9** to 1396r-6, AND 1396r-8 TO 1396v.

10 (c) "Medicare" means benefits under the federal medicare 11 program established under title XVIII of the social security act, 12 chapter 531, 49 Stat. 620, 42 U.S.C. 1395 to 1395b, 1395b-2, 13 1395b-6 TO 1395b-7, 1395c to 1395i, 1395i-2 to -1395i-4- 1395i-5, **14** 1395j to 1395t, 1395u to 1395w, 1395w-2 ---- TO 1395w-4, 1395w-21 **15** TO 1395w-28, 1395x to 1395yy, and 1395bbb to -1395ccc- 1395ggg. 16 Enacting section 1. Section 41b, sections 109 to 112, and 17 article 7 of the public school employees retirement act of 1979, 18 1980 PA 300, MCL 38.1341b, 38.1409 to 38.1412, and 38.1451 to **19** 38.1467, are repealed.

Enacting section 2. This amendatory act does not take 20 21 effect unless all of the following bills of the 89th Legislature 22 are enacted into law:

23 (a) Senate Bill No. 178.

(b) House Bill No. 5083. 24

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