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## RETIREMENT HEALTH CARE ADVANCE FUNDING

**House Bill 5723**  
**Sponsor: Rep. Terry Geiger**

**House Bill 5724**  
**Sponsor: Rep. Mark Jansen**

**Committee: House Appropriations**

**Senate Bill 1242**  
**Sponsor: Sen. Harry Gast**

**Committee: Senate Appropriations**

**Complete to 9-5-00**

### **A SUMMARY OF HOUSE BILLS 5723 AND 5724 AND SENATE BILL 1242 AS INTRODUCED 5-3-00**

The bills would create new health advance funding subaccounts in the retirement systems for public school employees, state employees, and state police troopers, to receive employer contributions that would otherwise be made for pension costs in years in which the pension systems are more than 100 percent funded. Funds deposited into the new subaccounts, and earnings on those assets, could not be spent until the actuarial accrued liability for health benefits was at least 100 percent funded. The bills would also specify that assets in each system's health benefits fund and in the new health advance funding subaccounts could not be treated as pension assets for any purpose. House Bill 5723 would amend the Public School Employees Retirement Act (MCL 38.1334 et al.). House Bill 5724 would amend the State Employees' Retirement Act (MCL 38.11 et al.). Senate Bill 1242 would amend the State Police Retirement Act (MCL 38.1614 and 38.1642).

In addition to the provisions cited above, House Bills 5723 and 5724 would make several other changes in the Public School Employees Retirement Act, and the State Employees' Retirement Act, respectively. Under both bills, requirements for an annual comparison and reconciliation of actual and budgeted amounts of needed employer contributions would not apply in years that funds were transferred into the new subaccounts that would be added under the bills.

Further, House Bill 5723 would provide for the elimination of the pension stabilization subaccount in the Public School Employees Retirement System after its entire balance has been transferred to the reserve for employer contributions. (Under current law, in years when investment income exceeds actuarial requirements, the excess is to be transferred into the stabilization account, and the law allows the director of the Department of Management and Budget to transfer part or all of this fund to the reserve for employer contributions in order to reduce or eliminate any unfunded accrued liability.)

House Bill 5724 would modify additional provisions of the State Employees' Retirement Act. Under current law, the department is required to annually calculate the amount saved as a result of the implementation of the new defined contribution retirement plan (adopted in 1996, and mandatory for all employees hired after March 1, 1997), and the amount must be included as part of the executive budget recommendation for the next fiscal year, for appropriation into the health insurance reserve fund. The bill would amend this provision to allow, rather than require, the department to deposit all or part of the cost savings into the health advance funding subaccount that would be created by the bill.

In addition, the bill would require the DMB to annually calculate any cost savings that have accrued to the state as a result of the 1996 changes in vesting requirements for retiree health coverage, and allocate that amount to the new advance funding subaccount. (Employees who are participants in the new defined contribution retirement plan are vested for health benefits after 10 years of service. The retirement system pays 30 percent of the health insurance premium for a retiree with 10 years of service, and that amount increases 3 percent with each year of service up to a maximum of 90 percent of the premium for a retiree with 30 years of service. By contrast, the defined benefit plan pays 95 percent of the cost of hospitalization and medical insurance premiums, and 90 percent of the premium for dental and vision coverage, for vested participants. Generally, employees are vested after 10 years of service.)

Analyst: D. Martens

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.