

HOUSE BILL No. 4530

March 22, 2007, Introduced by Reps. Gonzales and Cushingberry and referred to the Committee on Appropriations.

A bill to amend 1980 PA 300, entitled
"The public school employees retirement act of 1979,"
by amending sections 4, 41, and 41a (MCL 38.1304, 38.1341, and
38.1341a), section 4 as amended by 2003 PA 17, section 41 as
amended by 2002 PA 94, and section 41a as amended by 1996 PA 488.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 4. (1) "Compound interest" means interest compounded
2 annually on July 1 on the contributions on account as of the
3 previous July 1 and computed at the rate of investment return
4 determined under section 104a(1) for the last completed state
5 fiscal year.

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

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

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

6 (5) "Designated date" means September 30, ~~1997~~—2006.

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

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

14 (8) Beginning January 1, 2002, except as otherwise provided in
15 this subsection, "eligible retirement plan" means an individual
16 retirement account described in section 408(a) of the internal
17 revenue code, an individual retirement annuity described in section
18 408(b) of the internal revenue code, an annuity plan described in
19 section 403(a) of the internal revenue code, or a qualified trust
20 described in section 401(a) of the internal revenue code, an
21 annuity contract described in section 403(b) of the internal
22 revenue code, or an eligible plan under section 457(b) of the
23 internal revenue code which is maintained by a state, political
24 subdivision of a state, or an agency or instrumentality of a state
25 or political subdivision of a state and which agrees to separately
26 account for amounts transferred into such eligible plan under
27 section 457(b) of the internal revenue code from this retirement

1 system, that accepts the distributee's eligible rollover
2 distribution. However, in the case of an eligible rollover
3 distribution to a surviving spouse, an eligible retirement plan
4 means an individual retirement account or an individual retirement
5 annuity described above.

6 (9) Beginning January 1, 2002, "eligible rollover
7 distribution" means a distribution of all or any portion of the
8 balance to the credit of the distributee. Eligible rollover
9 distribution does not include any of the following:

10 (a) A distribution made for the life or life expectancy of the
11 distributee or the joint lives or joint life expectancies of the
12 distributee and the distributee's designated beneficiary.

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

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

16 (d) The portion of any distribution that is not includable in
17 federal gross income, determined without regard to the exclusion
18 for net unrealized appreciation with respect to employer
19 securities, except to the extent that the portion of a distribution
20 that is not includable in federal gross income is paid to either of
21 the following:

22 (i) An individual retirement account or annuity described in
23 section 408(a) or (b) of the internal revenue code.

24 (ii) A qualified defined contribution plan as described in
25 section 401(a) or 403(a) of the internal revenue code that agrees
26 to separately account for amounts transferred, including separately
27 accounting for the portion of the distribution that is includable

1 in gross income and the portion of the distribution which is not
2 includable in gross income.

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

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

21 (12) "Final average compensation" means the aggregate amount
22 of a member's compensation earned within the averaging period in
23 which the aggregate amount of compensation was highest divided by
24 the member's number of years, including any fraction of a year, of
25 credited service during the averaging period. The averaging period
26 shall be 36 consecutive calendar months if the member contributes
27 to the member investment plan; otherwise, the averaging period

1 shall be 60 consecutive calendar months. If the member has less
2 than 1 year of credited service in the averaging period, the number
3 of consecutive calendar months in the averaging period shall be
4 increased to the lowest number of consecutive calendar months that
5 contains 1 year of credited service.

6 (13) "Health benefits" means hospital, medical-surgical, and
7 sick care benefits and dental, vision, and hearing benefits for
8 retirants, retirement allowance beneficiaries, and health insurance
9 dependents provided pursuant to section 91.

10 (14) "Internal revenue code" means the United States internal
11 revenue code of 1986.

12 (15) "Long-term care insurance" means group insurance that is
13 authorized by the retirement system for retirants, retirement
14 allowance beneficiaries, and health insurance dependents, as that
15 term is defined in section 91, to cover the costs of services
16 provided to retirants, retirement allowance beneficiaries, and
17 health insurance dependents, from nursing homes, assisted living
18 facilities, home health care providers, adult day care providers,
19 and other similar service providers.

20 (16) "Member investment plan" means the program of member
21 contributions described in section 43a.

22 Sec. 41. (1) The annual level percentage of payroll
23 contribution rate to finance benefits being provided and to be
24 provided by the retirement system shall be determined by actuarial
25 valuation pursuant to subsection (2) upon the basis of the risk
26 assumptions that the retirement board and the department adopt
27 after consultation with the state treasurer and an actuary. An

1 annual actuarial valuation shall be made of the retirement system
2 in order to determine the actuarial condition of the retirement
3 system and the required contribution to the retirement system. An
4 annual actuarial gain-loss experience study of the retirement
5 system shall be made in order to determine the financial effect of
6 variations of actual retirement system experience from projected
7 experience.

8 (2) The contribution rate for benefits payable in the event of
9 the death of a member before retirement or the disability of a
10 member shall be computed using a terminal funding method of
11 valuation. Except as otherwise provided in this subsection, the
12 contribution rate for other benefits shall be computed using an
13 individual projected benefit entry age normal cost method of
14 valuation. Except as otherwise provided in this section, for the
15 1995-96 state fiscal year and for each subsequent fiscal year, the
16 contribution rate for health benefits provided under section 91
17 shall be computed using a cash disbursement method. For each fiscal
18 year after the fiscal year in which the actuarial accrued liability
19 for health benefits under section 91 is at least 100% funded by the
20 health advance funding subaccount created under section 34(2), the
21 contribution rate for health benefits provided under section 91
22 shall be computed using an individual projected benefit entry age
23 normal cost method of valuation. The contribution rate for service
24 likely to be rendered in the current year, the normal cost
25 contribution rate, shall be equal to the aggregate amount of
26 individual projected benefit entry age normal costs divided by 1%
27 of the aggregate amount of active members' valuation compensation.

~~The~~ EXCEPT AS OTHERWISE PROVIDED UNDER THIS SUBSECTION, THE contribution rate for unfunded service rendered before the valuation date, the unfunded actuarial accrued liability contribution rate, shall be the aggregate amount of unfunded actuarial accrued liabilities divided by 1% of the actuarial present value over a period not to exceed 50 years of projected valuation compensation, where unfunded actuarial accrued liabilities are equal to the actuarial present value of benefits, reduced by the actuarial present value of future normal cost contributions and the actuarial value of assets on the valuation date. **FOR THE 2006-2007 STATE FISCAL YEAR, THE CONTRIBUTION RATE FOR UNFUNDED SERVICE RENDERED BEFORE THE VALUATION DATE SHALL BE EQUAL TO 4.5% OF THE AGGREGATE AMOUNT OF UNFUNDED ACTUARIAL ACCRUED LIABILITIES DIVIDED BY 1% OF THE ACTUARIAL VALUATION ANNUAL COMPENSATION.**

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

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

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

1 (6) Not later than 90 days after termination of each state
2 fiscal year, the executive secretary of the retirement board shall
3 certify to the director of the department and each reporting unit
4 the actual aggregate compensation paid to public school employees
5 during the preceding state fiscal year. Upon receipt of that
6 certification, the director of the department shall compute any
7 adjustment required to the amount due to a difference between the
8 estimated and the actual aggregate compensation and the estimated
9 and the actual actuarial employer contribution rate. The
10 difference, if any, shall be paid as provided in subsection (9).
11 This subsection does not apply in a fiscal year in which a deposit
12 occurs pursuant to subsection (14).

13 (7) The director of the department may require evidence of
14 correctness and may conduct an audit of the aggregate compensation
15 that the director of the department considers necessary to
16 establish its correctness.

17 (8) A reporting unit shall forward employee and employer
18 social security contributions and reports as required by the
19 federal old-age, survivors, disability, and hospital insurance
20 provisions of title II of the social security act, chapter 531, 49
21 Stat. 620, 42 ~~U.S.C.~~ **USC** 401 to 405, 406 to 418, 420 to 423, 424a
22 to 426-1, and 427 to 433.

23 (9) For an employer of an employee of a local public school
24 district or an intermediate school district, for differences
25 occurring in fiscal years beginning on or after October 1, 1993, a
26 minimum of 20% of the difference between the estimated and the
27 actual aggregate compensation and the estimated and the actual

1 actuarial employer contribution rate described in subsection (6),
2 if any, shall be paid by that employer in the next succeeding state
3 fiscal year and a minimum of 25% of the remaining difference shall
4 be paid by that employer in each of the following 4 state fiscal
5 years, or until 100% of the remaining difference is submitted,
6 whichever first occurs. For an employer of other public school
7 employees, for differences occurring in fiscal years beginning on
8 or after October 1, 1991, a minimum of 20% of the difference
9 between the estimated and the actual aggregate compensation and the
10 estimated and the actual actuarial employer contribution rate
11 described in subsection (6), if any, shall be paid by that employer
12 in the next succeeding state fiscal year and a minimum of 25% of
13 the remaining difference shall be paid by that employer in each of
14 the following 4 state fiscal years, or until 100% of the remaining
15 difference is submitted, whichever first occurs. In addition,
16 interest shall be included for each year that a portion of the
17 remaining difference is carried forward. The interest rate shall
18 equal the actuarially assumed rate of investment return for the
19 state fiscal year in which payment is made. This subsection does
20 not apply in a fiscal year in which a deposit occurs pursuant to
21 subsection (14).

22 (10) Beginning on the designated date, all assets held by the
23 retirement system shall be reassigned their fair market value, as
24 determined by the state treasurer, as of the designated date, and
25 in calculating any unfunded actuarial accrued liabilities, any
26 market gains or losses incurred before the designated date shall
27 not be considered by the retirement system's actuaries.

1 (11) Beginning on the designated date, the actuary used by the
2 retirement board shall assume a rate of return on investments of
3 8.00% per annum, as of the designated date, which rate may only be
4 changed with the approval of the retirement board and the director
5 of the department.

6 (12) Beginning on the designated date, the value of assets
7 used shall be based on a method that spreads over a 5-year period
8 the difference between actual and expected return occurring in each
9 year after the designated date and such methodology may only be
10 changed with the approval of the retirement board and the director
11 of the department.

12 (13) Beginning on the designated date, the actuary used by the
13 retirement board shall use a salary increase assumption that
14 projects annual salary increases of 4%. In addition to the 4%, the
15 retirement board shall use an additional percentage based upon an
16 age-related scale to reflect merit, longevity, and promotional
17 salary increase. The actuary shall use this assumption until a
18 change in the assumption is approved in writing by the retirement
19 board and the director of the department.

20 (14) For fiscal years that begin on or after October 1, 2001,
21 if the actuarial valuation prepared pursuant to this section
22 demonstrates that as of the beginning of a fiscal year, and after
23 all credits and transfers required by this act for the previous
24 fiscal year have been made, the sum of the actuarial value of
25 assets and the actuarial present value of future normal cost
26 contributions exceeds the actuarial present value of benefits, the
27 amount based on the annual level percent of payroll contribution

1 rate pursuant to subsections (1) and (2) may be deposited into the
2 health advance funding subaccount created by section 34.

3 (15) Notwithstanding any other provision of this act, if the
4 retirement board establishes an arrangement and fund as described
5 in section 6 of the public employee retirement benefit protection
6 act, the benefits that are required to be paid from that fund shall
7 be paid from a portion of the employer contributions described in
8 this section or other eligible funds. The retirement board shall
9 determine the amount of the employer contributions or other
10 eligible funds that shall be allocated to that fund and deposit
11 that amount in that fund before it deposits any remaining employer
12 contributions or other eligible funds in the pension fund.

13 Sec. 41a. For fiscal years that begin on or after March 28,
14 1996, the retirement system shall determine a separate contribution
15 rate for a reporting unit that is a university listed in section
16 6(5). The retirement system shall determine the separate
17 contribution rate in the manner prescribed in section 41, except
18 that the unfunded actuarial accrued liability shall be amortized
19 over 40 years beginning October 1, 1996 and ending on September 30,
20 2036, with the payment schedule for universities being based on and
21 applied to the combined payrolls of the universities' employees who
22 are members and who were hired before January 1, 1996 and the
23 universities' employees who would have been members on or after
24 January 1, 1996, but for the enactment of ~~Act No. 272 of the Public~~
25 ~~Acts of 1995~~ **1995 PA 272**. The amount of the unfunded accrued
26 liability on which the separate contribution rate is determined
27 shall be that amount which a reporting unit that is a university

1 listed in section 6(5) is legally responsible for and is calculated
2 by actuarial analysis. Any reduction in the unfunded liability of
3 the system pursuant to governmental action affecting the entire
4 system will be allocated to all reporting units including
5 universities as determined by the system's actuary. **FOR THE 2006-**
6 **2007 STATE FISCAL YEAR, THE CONTRIBUTION FOR UNFUNDED ACTUARIAL**
7 **ACCRUED LIABILITY SHALL BE EQUAL TO 4.5% OF THE UNFUNDED ACTUARIAL**
8 **ACCRUED LIABILITY.**