

SENATE SUBSTITUTE FOR
HOUSE BILL NO. 4264

A bill to amend 1943 PA 240, entitled
"State employees' retirement act,"
by amending sections 7, 20g, 38, 49, and 68b (MCL 38.7, 38.20g,
38.38, 38.49, and 38.68b), section 20g as amended by 1987 PA 241,
section 38 as amended and section 68b as added by 2011 PA 264, and
section 49 as amended by 2018 PA 336.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 7. The retirement board shall collect and keep in
2 convenient form ~~such~~**the** data ~~as shall be necessary~~**necessary** for
3 an actuarial valuation of the assets and liabilities of the
4 retirement system; and for making an actuarial investigation into
5 the mortality, service, compensation, and other experience of the
6 members, retirants and beneficiaries of the retirement system. At

1 least once in each 5 year period, the retirement board shall cause
 2 an actuarial investigation to be made into the mortality, service,
 3 compensation, and other experience of the members and beneficiaries
 4 of the retirement system. ~~Upon~~ **On** the basis of ~~such~~ **the** actuarial
 5 investigation the retirement board shall adopt ~~such~~ **tables as that**
 6 are ~~deemed~~ **considered** necessary for the proper operation of the
 7 retirement system and for making effective ~~the provisions of this~~
 8 act. **The retirement board and department shall adopt, on the**
 9 **recommendation of the actuary and in accordance with all applicable**
 10 **actuarial standards of practice, the most current mortality tables**
 11 **that are most appropriate for the characteristics of the**
 12 **population. Beginning with the state fiscal year ending September**
 13 **30, 2021, and for each subsequent state fiscal year, the actuary**
 14 **used by the retirement board shall assume a rate of return on**
 15 **investments and a discount rate of not more than 6% for pension and**
 16 **6.2% for retiree health care, which rates may only be changed with**
 17 **the approval of the retirement board and the director of the**
 18 **department.**

19 Sec. 20g. (1) After the end of each state fiscal year, the
 20 department of **technology**, management, and budget shall determine
 21 the rate **and discount rate** of investment return earned on
 22 retirement system assets during the fiscal year, based ~~upon~~ **on**
 23 methods established by the retirement board.

24 (2) At the end of each state fiscal year, the retirement
 25 system's actuary shall determine the present value of retirement
 26 allowances to be paid after the end of the fiscal year to retirants
 27 and retirement allowance beneficiaries in receipt of retirement
 28 allowances at the end of the fiscal period. The assumed interest
 29 rate **and discount rate** used in the determination ~~shall be 8%~~ **must**

1 **not exceed 8%** per year, compounded annually.

2 (3) The distribution income at the end of each state fiscal
3 year ~~shall~~**must** be equal to the product of the present value of
4 retirement allowances determined in subsection (2) at the end of
5 the previous fiscal year times the positive excess, if any, of the
6 rate of investment return determined in subsection (1) exceeding
7 8%. ~~The distribution income calculated pursuant to this subsection~~
8 ~~at the end of the fiscal years 1984-85 and 1985-86 shall be reduced~~
9 ~~by the costs of postretirement adjustments paid during the fiscal~~
10 ~~year pursuant to sections 20b, 20c, 20e, and 20f.~~**the assumed**
11 **interest rate used under subsection (2).**

12 (4) After the end of each state fiscal year, each retirant and
13 retirement allowance beneficiary in receipt of a retirement
14 allowance at the end of the fiscal year, and whose effective date
15 of retirement allowance preceded the beginning of that fiscal year,
16 ~~shall~~**must** be credited with 1 distribution unit for each full year
17 between the effective date of retirement and the end of the fiscal
18 year and 1 distribution unit for each full year of service credit
19 in force on the effective date of retirement. Distribution units
20 ~~shall~~**must** not accumulate from 1 year to the next year.

21 (5) The distribution amount for an individual retirant or
22 retirement allowance beneficiary ~~shall~~**must** be equal to the product
23 of the distribution income determined in subsection (3) times the
24 individual's number of distribution units determined in subsection
25 (4) divided by the total number of distribution units for all
26 eligible retirants and retirement allowance beneficiaries in
27 receipt of retirement allowances at the end of the fiscal year. The
28 distribution amount for an individual retirant or retirement
29 allowance beneficiary of a retirant whose retirement allowance

1 effective date is ~~on or after October 1,~~ **September 30**, 1987 is
2 zero.

3 (6) The distribution amount for each retirant or retirement
4 allowance beneficiary ~~shall be~~ **is** payable in the form of a
5 supplemental payment ~~prior to~~ **before** the seventh month after the
6 end of the state fiscal year. Except as provided in subsection (9),
7 a distribution amount ~~shall~~ **is** not be payable after March 31, 1988.
8 If a retirant dies before receipt of the distribution amount, the
9 payment ~~shall~~ **must** be made to the retirant's retirement allowance
10 beneficiary, if any. If both the retirant and the retirement
11 allowance beneficiary die before receipt of the distribution
12 amount, ~~no~~ **a** payment ~~shall~~ **must not** be made.

13 (7) ~~Each~~ **The retirement system shall increase each** retirement
14 allowance ~~shall be increased~~ each October 1 beginning with ~~the~~
15 ~~later of October 1, 1988 or the first October 1 which~~ **that** is at
16 least 12 months after the retirement allowance effective date. The
17 amount of the annual increase ~~shall~~ **under this subsection must** be
18 equal to 3% of the retirement allowance that would be payable as of
19 the date of the increase without application of this subsection,
20 except that if the member made the election permitted under section
21 20(2), the increase ~~shall~~ **must** be based on the amount of retirement
22 allowance that would have been paid without application of section
23 20(2). The annual increase ~~shall~~ **must** not exceed \$300.00.

24 (8) After the end of each state fiscal year, the cumulative
25 increase amount ~~shall~~ **must** be computed for each retirant or
26 retirement allowance beneficiary. The cumulative increase amount
27 ~~shall~~ **must** be equal to the difference between the total retirement
28 allowance paid during the state fiscal year and the retirement
29 allowance that would have been payable without application of

subsection (7) and section 20h. The cumulative increase amount for any retirant or retirement allowance beneficiary whose retirement allowance effective date is ~~on or after October 1,~~ **September 30,** 1987 is zero.

(9) In March of each year, beginning in March, 1989, **the retirement system shall pay** each retirant or retirement allowance beneficiary, ~~shall be paid,~~ in a single supplemental payment, the excess, if any, of the distribution amount over the cumulative increase amount for the previous state fiscal year. If a retirant dies before receipt of a supplemental payment, **the retirement system shall pay the** supplemental payment ~~shall be made to the~~ retirant's retirement allowance beneficiary, if any. If both the retirant and the retirement allowance beneficiary die before receipt of a supplemental payment, ~~no payment shall be made.~~ **the retirement system shall not make a supplemental payment.**

Sec. 38. (1) The annual level percent of payroll contribution rate to finance the benefits provided under this act ~~shall~~ **must** be determined by actuarial valuation ~~pursuant to~~ **under** subsections (2) and (3), ~~upon~~ **on** the basis of the risk assumptions adopted by the retirement board with approval of the department of technology, management, and budget, and in consultation with the investment counsel and the actuary. An annual actuarial valuation ~~shall~~ **must** be made of the retirement system ~~in order to~~ determine the actuarial condition of the retirement system and the required contribution to the retirement system. The actuary shall report to the legislature by April 15 of each year on the actuarial condition of the retirement system as of the end of the previous fiscal year and on the projections of state contributions for the next fiscal year. The actuary shall certify in the report that the techniques

1 and methodologies used are generally accepted within the actuarial
2 profession and that the assumptions and cost estimates used fall
3 within the range of reasonable and prudent assumptions and cost
4 estimates. An annual actuarial gain-loss experience study of the
5 retirement system ~~shall~~**must** be made ~~in order~~ to determine the
6 financial effect of variations of actual retirement system
7 experience from projected experience.

8 (2) The contribution rate for monthly benefits payable in the
9 event of the death of a member before retirement or the disability
10 of a member ~~shall~~**must** be computed using an individual projected
11 benefit entry age normal cost method of valuation.

12 (3) Except as otherwise provided in this subsection, the
13 contribution rate for benefits ~~shall~~**must** be computed using an
14 individual projected benefit entry age normal cost method of
15 valuation. For the ~~1995-96~~ state fiscal year **ending September 30,**
16 **1996** and for each subsequent fiscal year in which the actuarial
17 accrued liability for health benefits is less than 100% funded, the
18 contribution rate for benefits provided under section 20d ~~shall~~
19 **must** be computed using a cash disbursement method with the payment
20 schedule for the employer being based ~~upon~~**on** and applied to the
21 combined payrolls of the employees who are members and qualified
22 participants. Beginning in the fiscal year after the fiscal year in
23 which the actuarial accrued liability for health benefits under
24 section 20d is at least 100% funded by the health advance funding
25 subaccount created under section 11(9), and continuing for each
26 subsequent fiscal year, the contribution rate for health benefits
27 provided under section 20d ~~shall~~**must** be computed using an
28 individual projected benefit entry age normal cost method of
29 valuation. The contribution rate for service that may be rendered

1 in the current year, the normal cost contribution rate, ~~shall~~**must**
2 be equal to the aggregate amount of individual entry age normal
3 costs divided by 1% of the aggregate amount of active members'
4 valuation compensation. The unfunded actuarial accrued liability
5 ~~shall~~**must** be equal to the actuarial present value of benefits
6 reduced by the actuarial present value of future normal cost
7 contributions and the actuarial value of assets on the valuation
8 date. Except as otherwise provided in ~~this subsection,~~**subsection**
9 **(1),** the unfunded actuarial accrued liability ~~shall~~**must** be
10 amortized in accordance with generally accepted governmental
11 accounting standards over a period equal to or less than 40 years,
12 with the payment schedule for the employer being based ~~upon~~**on** and
13 applied to the combined payrolls of the employees who are members
14 and qualified participants. **Beginning with the state fiscal year**
15 **ending September 30, 2028, and for each subsequent fiscal year, the**
16 **retirement system shall use layered amortization. As used in this**
17 **subsection, "layered amortization" means a fixed and closed period**
18 **that separately layers the different components to be amortized**
19 **over a fixed period not to exceed 10 years, as it emerges. The**
20 **amortization period for layered amortization must use a level**
21 **dollar amortization method. The normal cost contribution for any**
22 **fiscal year must not be less than the normal cost component of the**
23 **actuarially determined contribution.**

24 (4) The legislature annually shall appropriate to the
25 retirement system the amount determined ~~pursuant to~~**under**
26 subsections (2) and (3). The state treasurer shall transfer monthly
27 to the retirement system an amount equal to the product of the
28 contribution rates determined in subsections (2) and (3) times the
29 aggregate amount of active member or qualified participant

1 compensation, as appropriate, paid during that month. Not later
 2 than 60 days after the ~~termination~~**end** of each state fiscal year,
 3 the executive secretary of the retirement board shall certify to
 4 the director of the department of technology, management, and
 5 budget the actual aggregate compensations paid to active members
 6 and qualified participants during the preceding state fiscal year.
 7 ~~Upon~~**On** receipt of that certification, the director of the
 8 department of technology, management, and budget shall compute ~~the~~
 9 **any** difference ~~, if any,~~ between actual state contributions
 10 received during the preceding state fiscal year and the product of
 11 the contribution rates determined in subsections (2) and (3) times
 12 the aggregate compensations paid to active members or qualified
 13 participants, as appropriate, during the preceding state fiscal
 14 year. Except as otherwise provided in subsection (5), ~~the any~~
 15 difference ~~, if any, shall~~ **must** be submitted in the executive
 16 budget to the legislature for appropriation in the next ~~succeeding~~
 17 state fiscal year. This subsection does not apply for those fiscal
 18 years in which a deposit occurs pursuant to subsection (6).

19 (5) ~~For~~**Except as otherwise provided in this subsection, for**
 20 **any** differences occurring in fiscal years beginning on or after
 21 October 1, 1991, a minimum of 20% of ~~the any~~ difference between the
 22 estimated and the actual aggregate compensation and the estimated
 23 and the actual contribution rate described in subsection (4) ~~, if~~
 24 ~~any,~~ may be submitted in the executive budget to the legislature
 25 for appropriation in the next ~~succeeding~~ state fiscal year and a
 26 minimum of 25% of the remaining difference ~~shall~~ **must** be submitted
 27 in the executive budget to the legislature for appropriation in
 28 each of the following 4 state fiscal years, or until 100% of the
 29 remaining difference is submitted, whichever first occurs. **For**

1 differences occurring in fiscal years beginning on or after October
 2 1, 2022, a minimum of 34% of any difference between the estimated
 3 and the actual aggregate compensation and the estimated and the
 4 actual actuarial contribution rate described in subsection (4) must
 5 be paid by the employer in the next state fiscal year and a minimum
 6 of 50% of any remaining difference must be paid by the employer in
 7 each of the following 2 state fiscal years, or until 100% of the
 8 remaining difference is submitted, whichever first occurs. In
 9 addition, interest ~~shall~~**must** be included for each year that a
 10 portion of the remaining difference is carried forward. The
 11 interest rate ~~shall~~**must** equal the actuarially assumed rate of
 12 investment return for the state fiscal year in which payment is
 13 made. This subsection does not apply for those fiscal years in
 14 which a deposit occurs pursuant to subsection (6).

15 (6) For each fiscal year that begins on or after October 1,
 16 2001, if the actuarial valuation prepared ~~pursuant to~~**under** this
 17 section for each fiscal year demonstrates that as of the beginning
 18 of a fiscal year, and after all credits and transfers required by
 19 this act for the previous fiscal year have been made, the sum of
 20 the actuarial value of assets and the actuarial present value of
 21 future normal cost contributions exceeds the actuarial present
 22 value of benefits, the annual level percent of payroll contribution
 23 rate as determined ~~pursuant to~~**under** subsections (1), (2), and (3)
 24 may be deposited into the health advance funding subaccount created
 25 under section 11(9).

26 (7) Notwithstanding any other provision of this act, if the
 27 retirement board establishes an arrangement and fund as described
 28 in section 6 of the public employee retirement benefit protection
 29 act, 2002 PA 100, MCL 38.1686, the benefits that are required to be

1 paid from that fund ~~shall~~**must** be paid from a portion of the
2 employer contributions described in this section or other eligible
3 funds. The retirement board shall determine the amount of the
4 employer contributions or other eligible funds that ~~shall~~**must** be
5 allocated to that fund and deposit that amount in that fund before
6 it deposits any remaining employer contributions or other eligible
7 funds in the pension fund.

8 Sec. 49. (1) This section is enacted under section 401(a) of
9 the internal revenue code, 26 USC 401, which imposes certain
10 administrative requirements and benefit limitations for qualified
11 governmental plans. This state intends that the retirement system
12 be a qualified pension plan created in trust under section 401 of
13 the internal revenue code, 26 USC 401, and that the trust be an
14 organization exempt from taxation under section 501 of the internal
15 revenue code, 26 USC 501. The department shall administer the
16 retirement system to fulfill this intent.

17 (2) The retirement system ~~shall~~**must** be administered in
18 compliance with section 415 of the internal revenue code, 26 USC
19 415, and regulations under that section that ~~are applicable~~**apply**
20 to governmental plans and, beginning January 1, 2010, applicable
21 provisions of the final regulations issued by the Internal Revenue
22 Service on April 5, 2007. Employer-financed benefits provided by
23 the retirement system under this act must not exceed the applicable
24 limitations set forth in section 415 of the internal revenue code,
25 26 USC 415, as adjusted by the commissioner of internal revenue
26 under section 415(d) of the internal revenue code, 26 USC 415, to
27 reflect cost-of-living increases, and the retirement system shall
28 adjust the benefits, including benefits payable to retirants and
29 retirement allowance beneficiaries, subject to the limitation each

1 calendar year to conform with the adjusted limitation. For purposes
2 of section 415(b) of the internal revenue code, 26 USC 415, the
3 applicable limitation applies to aggregated benefits received from
4 all qualified pension plans for which the office of retirement
5 services coordinates administration of that limitation. If there is
6 a conflict between this section and another section of this act,
7 this section prevails.

8 (3) The assets of the retirement system must be held in trust
9 and invested for the sole purpose of meeting the legitimate
10 obligations of the retirement system and must not be used for any
11 other purpose. The assets must not be used for or diverted to a
12 purpose other than for the exclusive benefit of the members, vested
13 former members, retirants, and retirement allowance beneficiaries
14 before satisfaction of all retirement system liabilities.

15 (4) The retirement system shall return post-tax member
16 contributions made by a member and received by the retirement
17 system to a member on retirement, under Internal Revenue Service
18 regulations and approved Internal Revenue Service exclusion ratio
19 tables.

20 (5) The required beginning date for retirement allowances and
21 other distributions must not be later than April 1 of the calendar
22 year following the calendar year in which the employee attains age
23 70-1/2 or April 1 of the calendar year following the calendar year
24 in which the employee retires. The required minimum distribution
25 requirements imposed by section 401(a)(9) of the internal revenue
26 code, 26 USC 401, apply to this act and must be administered in
27 accordance with a reasonable and good faith interpretation of the
28 required minimum distribution requirements for all years to which
29 the required minimum distribution requirements apply to the

1 retirement system.

2 (6) If the retirement system is terminated, the interest of
3 the members, vested former members, retirants, and retirement
4 allowance beneficiaries in the retirement system is nonforfeitable
5 to the extent funded as described in section 411(d)(3) of the
6 internal revenue code, 26 USC 411, and related Internal Revenue
7 Service regulations applicable to governmental plans.

8 (7) Notwithstanding any other provision of this act to the
9 contrary that would limit a distributee's election under this act,
10 a distributee may elect, at the time and in the manner prescribed
11 by the retirement board, to have any portion of an eligible
12 rollover distribution paid directly to an eligible retirement plan
13 specified by the distributee in a direct rollover. This subsection
14 applies to distributions made after December 31, 1992. Beginning
15 October 1, 2010, a nonspouse beneficiary may elect to have any
16 portion of an amount payable under this act that is an eligible
17 rollover distribution treated as a direct rollover that will be
18 paid in a direct trustee-to-trustee transfer to an individual
19 retirement account or individual retirement annuity described in
20 section 408(a) or (b) of the internal revenue code, 26 USC 408,
21 that is established for the purpose of receiving a distribution on
22 behalf of the beneficiary and that will be treated as an inherited
23 individual retirement account or individual retirement annuity
24 under section 402(c)(11) of the internal revenue code, 26 USC 402.

25 (8) ~~For~~ **Except as otherwise provided in this subsection, for**
26 purposes of determining actuarial equivalent retirement allowances
27 under sections 31(1) and 20(2), the actuarially assumed interest
28 rate must be determined by the director of the department of
29 technology, management, and budget and the retirement board in

consultation with the actuary using the mortality tables adopted by the department of technology, management, and budget and the retirement board. **Beginning with the state fiscal year ending September 30, 2022 and for each subsequent state fiscal year, for purposes of determining actuarial equivalent retirement allowances under sections 31(1) and 20(2), the actuarially assumed interest rate and discount rate must not exceed 6.75%.**

(9) Notwithstanding any other provision of this act to the contrary, the compensation of a member of the retirement system must be taken into account for any year under the retirement system only to the extent that it does not exceed the compensation limit established in section 401(a)(17) of the internal revenue code, 26 USC 401, as adjusted by the commissioner of internal revenue. This subsection applies to an individual who first becomes a member of the retirement system after September 30, 1996.

(10) Notwithstanding any other provision of this act to the contrary, contributions, benefits, and service credit with respect to qualified military service must be provided under the retirement system in accordance with section 414(u) of the internal revenue code, 26 USC 414. This subsection applies to all qualified military service after December 11, 1994. Beginning on January 1, 2007, in accordance with section 401(a)(37) of the internal revenue code, 26 USC 401, if a member dies while performing qualified military service for purposes of determining death benefits payable under this act, the member is treated as having resumed and then terminated employment because of death.

Sec. 68b. (1) A qualified participant or former qualified participant who was first employed and entered ~~upon~~**on** the payroll of his or her employer ~~on or after January 1, 2012~~**December 31,**

1 **2011** or who made an election under subsection (5) or (6) ~~shall~~**will**
2 not receive any health insurance coverage premium from this state
3 under section 68. In lieu of any health insurance coverage premium
4 that might have been paid by this state under section 68, a
5 qualified participant's employer shall make a matching contribution
6 up to 2% of the qualified participant's compensation to an
7 appropriate tax-deferred account for each qualified participant who
8 was first employed and entered ~~upon~~**on** the payroll of his or her
9 employer ~~on or after January 1, 2012~~**December 31, 2011** or who made
10 an election under subsection (5) or (6). A matching contribution
11 under this subsection ~~shall~~**must** not be used as the basis for a
12 loan from an employee's Tier 2 or tax-deferred account.

13 (2) A qualified participant who was first employed and entered
14 ~~upon~~**on** the payroll of his or her employer ~~on or after January 1,~~
15 ~~2012~~**December 31, 2011** or who made an election under subsection (5)
16 or (6) may make a contribution up to 2% of the qualified
17 participant's compensation to an appropriate tax-deferred account.

18 (3) Except as otherwise provided in this subsection, a
19 qualified participant is vested in contributions made to his or her
20 tax-deferred account under subsections (1) and (2) according to the
21 vesting provisions under section 64(1). A qualified participant who
22 is eligible for health insurance coverage under section 67a(4) or
23 (8) is not vested in any employer contributions under subsection
24 (1) and forfeits the contributions and earnings on the
25 contributions.

26 (4) The contributions described in this section ~~shall~~**must**
27 begin with the first payday after the qualified participant is
28 employed or ~~on or after April 1,~~**March 31,** 2012 for a qualified
29 participant who makes an election under subsection (5) or (6) and

1 end ~~upon~~**on** his or her termination of employment.

2 (5) Except as otherwise provided in this subsection, beginning
3 January 3, 2012 and ending at 5 p.m. eastern standard time on March
4 2, 2012, the retirement system shall permit each qualified
5 participant who is a qualified participant on December 31, 2011 to
6 make an election to opt out of the health insurance coverage
7 premium that would have been paid by this state under section 68
8 and opt in to the tax-deferred account provisions of this section
9 effective April 1, 2012. A qualified participant who is a qualified
10 participant on December 31, 2011 and who does not make the election
11 under this subsection continues to be eligible for the health
12 insurance coverage premium paid by this state under section 68 and
13 is not eligible for the tax-deferred account provisions of this
14 section. A qualified participant who is a qualified participant on
15 December 31, 2011 and who makes the election under this subsection
16 ~~shall cease~~**ceases** accruing years of service credit for purposes of
17 calculating a portion of the health insurance coverage premium that
18 would have been paid by this state under section 68 as if that
19 section continued to apply and for the portion of the amount to be
20 calculated under subsection (7) for crediting to a tax-deferred
21 account. This subsection does not apply to any of the following:

22 (a) A former member who made an election to become a qualified
23 participant under section 50.

24 (b) A member who did not make the election under section 50a.

25 (c) A member who made the election under section 50a(1) and
26 the designation under section 50a(2), who has attained 30 years of
27 credited service, and who remains employed by this state.

28 (d) A former qualified participant who was a former qualified
29 participant on December 31, 2011.

(6) Except as otherwise provided in this subsection, a former qualified participant who has 10 or more years of service on or before December 31, 2011 and who is reemployed by this state ~~on or~~ after ~~January 1, 2012~~ **December 31, 2011** and before January 1, 2014 may make an election under this subsection and receive an amount, if any, as determined under this section. Beginning on the date of the former qualified participant's reemployment and ending 60 days after the former qualified participant's first pay date, the retirement system shall permit the former qualified participant to make an election to opt out of the health insurance coverage premium that would have been paid by this state under section 68 and opt in to the tax-deferred account provisions of this section effective on or after the former qualified participant's date of reemployment. If the former qualified participant does not make the election under this subsection, he or she continues to be eligible for the health insurance coverage premium paid by this state under section 68 and is not eligible for the tax-deferred account provisions of this section. A former qualified participant who makes the election under this subsection ceases to accrue years of service credit for purposes of calculating a portion of the health insurance coverage premium that would have been paid by this state under section 68 as if that section continued to apply and for purposes of calculating the portion of the amount to be credited to a tax-deferred account under subsection (7). This subsection does not apply to any of the following:

(a) A former member who made an election to become a qualified participant under section 50.

(b) A member who did not make the election under section 50a.

(c) A member who made the election under section 50a(1) and

1 the designation under section 50a(2), who has attained 30 years of
2 credited service, and who remains employed by this state.

3 (7) Except as otherwise provided in this section, in lieu of
4 any health insurance coverage premium that might have been paid by
5 this state under section 68, the retirement system shall calculate
6 an amount to be credited at termination to an appropriate tax-
7 deferred account for each qualified participant who makes an
8 election under subsection (5) or (6). The amount described in this
9 subsection ~~shall~~**must** be an amount calculated to approximate the
10 actuarial present value as of 12 midnight March 31, 2012 of the
11 projected retirant health benefits based on the current benefit
12 structure under section 68 and the qualified participant's years of
13 service as of March 31, 2012. The amount calculated under this
14 subsection ~~shall~~**must** be equal to the product of all of the
15 following as determined by the retirement system in consultation
16 with the actuary for the system:

17 (a) An average monthly premium of \$1,000.00, payable for the
18 life of the qualified participant, which approximates the overall
19 average value of all types of premium coverages for single and
20 multiple lives during both ~~pre-medicare~~**pre-Medicare** and ~~post-~~
21 ~~medicare~~**post-Medicare** periods.

22 (b) A frozen benefit accrual percent that is the product of 3%
23 and the qualified participant's years of service as of March 31,
24 2012, up to 30 years.

25 (c) A deferred life annuity factor equal to the actuarial
26 present value as of March 31, 2012 of \$1.00 per month payable for
27 the life of the qualified participant, based on the following
28 actuarial assumptions:

29 (i) An interest discount rate of 4% annually for all future

1 years, which approximates the use of an assumed rate of investment
 2 return or interest discount rate of 8%, combined with an assumption
 3 that the average premium is projected to increase 4% annually for
 4 all future years.

5 (ii) Mortality rates based on a 50% male - 50% female blend of
 6 the 1994 group annuity mortality table set forward 1 year for both
 7 males and females.

8 (iii) Commencement of the \$1.00 per month deferred life annuity
 9 based on an assumption that the qualified participant will
 10 terminate employment ~~upon-on~~ reaching age 60 and that the qualified
 11 participant would have received health insurance coverage
 12 immediately ~~upon-on~~ termination of employment.

13 (8) The amount calculated under subsection (7) ~~shall-must~~ be
 14 adjusted annually from March 31, 2012 to the date of the qualified
 15 participant's actual termination of employment. Except as otherwise
 16 provided in this subsection, the retirement system shall establish
 17 the amount of the annual adjustment to be equal to the change in
 18 the medical care component of the United States ~~consumer price~~
 19 ~~index~~ **Consumer Price Index** for the most recent 12-month period for
 20 which data are available from the ~~bureau of labor statistics~~ **Bureau**
 21 **of Labor Statistics** of the United States ~~department~~ **Department** of
 22 ~~labor~~ **Labor**. The adjustment under this subsection ~~shall-must~~ not
 23 be less than 0% and ~~shall-must~~ not be more than 4%.

24 (9) The amount calculated under subsection (7) and adjusted
 25 under subsection (8) ~~shall-must~~ be credited at the qualified
 26 participant's first termination of employment following December
 27 31, 2011, to the qualified participant's tax-deferred account
 28 according to the following schedule:

29 (a) One hundred percent of the calculated amount to a

1 qualified participant who is at least 60 years of age with at least
 2 10 years of service or is at least 55 years of age with at least 30
 3 years of service.

4 (b) Fifty percent of the calculated amount to a qualified
 5 participant who has at least 10 years of service and who does not
 6 meet the age and service qualifications of subdivision (a).

7 (10) An individual who is a former qualified participant on
 8 December 31, 2011, who has 10 or more years of service on or before
 9 December 31, 2011, and who is reemployed by this state ~~on or after~~
 10 ~~January 1, 2014 shall~~ **December 31, 2013 must** be treated in the same
 11 manner as a qualified participant under this section who made the
 12 election under subsection (5) and ~~shall~~ **must** receive an amount, if
 13 any, as determined under this section. This subsection does not
 14 apply to any of the following:

15 (a) A former member who made the election to become a
 16 qualified participant under section 50.

17 (b) A member who did not make the election under section 50a.

18 (c) A member who made the election under section 50a(1) and
 19 the designation under section 50a(2), who has attained 30 years of
 20 credited service, and who remains employed by this state.

21 (11) In lieu of any other health insurance coverage that might
 22 have been paid by this state, a credit to a health reimbursement
 23 account within the trust created under the public employee
 24 retirement health care funding act, 2010 PA 77, MCL 38.2731 to
 25 38.2747, ~~shall~~ **must** be made by this state in the amounts and to the
 26 qualified participants or former qualified participants as follows:

27 (a) Two thousand dollars to a qualified participant who was
 28 first employed and entered ~~upon~~ **on** the payroll of his or her
 29 employer ~~on or after January 1, 2012,~~ **December 31, 2011**, who is 60

1 years of age or older, and who has at least 10 years of service at
2 his or her first termination of employment.

3 (b) One thousand dollars to a qualified participant who was
4 first employed and entered ~~upon~~**on** the payroll of his or her
5 employer ~~on or after January 1, 2012,~~**December 31, 2011**, who is
6 less than 60 years of age, and who has at least 10 years of service
7 at his or her first termination of employment.

8 (c) Two thousand dollars to a former qualified participant who
9 has less than 10 years of service as of December 31, 2011, who is
10 reemployed by this state ~~on or after January 1, 2012,~~**December 31,**
11 **2011**, who is 60 years of age or older, and who has at least 10
12 years of service at his or her first termination of employment
13 following December 31, 2011. This subdivision does not apply to an
14 individual described in subsection (10) (a), (b), or (c).

15 (d) One thousand dollars to a former qualified participant who
16 has less than 10 years of service as of December 31, 2011, who is
17 reemployed by this state ~~on or after January 1, 2012,~~**December 31,**
18 **2011**, who is less than 60 years of age, and who has at least 10
19 years of service at his or her first termination of employment
20 following December 31, 2011. This subdivision does not apply to an
21 individual described in subsection (10) (a), (b), or (c).

22 (e) Two thousand dollars shall be the minimum amount credited
23 to a qualified participant who made an election under subsection
24 (5) and who does not otherwise qualify for an amount or qualifies
25 for a lesser amount under this subsection at his or her first
26 termination of employment after December 31, 2011.

27 (12) The retirement system shall determine a method to
28 implement subsections (5) to (11), including a method for crediting
29 the amounts in subsection (9) to comply with any contribution

1 limits imposed by the internal revenue code, including, but not
2 limited to, crediting of payments before termination of employment.

3 (13) Subsections (5) to (11) do not apply to a qualified
4 participant who is eligible for health insurance coverage under
5 section 67a(4) or (8).

6 (14) On or before January 1, 2017, the retirement system shall
7 provide a report to the chair of the house and senate
8 appropriations committees that provides the projected impact of
9 subsection (11) as it applies to qualified participants entered
10 ~~upon~~**on** the payroll of this state ~~on or after January 1, 2017~~
11 **December 31, 2016** with regard to the annual required contribution
12 as used by the governmental accounting standards board and for
13 purposes of the annual financial statements prepared under section
14 12(1).