



**House
Legislative
Analysis
Section**

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**A SUMMARY OF HOUSE BILL 4466 AS
INTRODUCED 3-20-89**

Currently, the Public School Employees Retirement Act allows members, under certain circumstances, to purchase service credit for periods of time that cause interruptions or delays in public school employment. At present, under the act, service credit may be purchased upon payment to the retirement system of 1) the actuarial cost, as determined by the Retirement Board within the Department of Management and Budget; 2) the actuarial cost — as determined by the Retirement Board — of the service credit (but not less than an amount equal to a certain percentage of the member's full-time or equated full-time compensation for the school fiscal year); 3) an amount equal to a certain percentage of their full-time or equated full-time compensation for the school fiscal year; or 4) an amount equal to the amount the member would have contributed under the schedule governing member contributions, plus interest. The compensation amount used may not be less than the highest school fiscal year compensation previously received by the member. The bill would amend the act to revise the method used to compute the cost of purchasing credit. Under the bill the compensation for these members would be based on the member's contract period, which would be defined in the bill as a period of 12 months or less, as provided by agreement between the reporting unit and the employee, regardless of the school fiscal year in which wages or salary are received. The bill would also define "actuarial cost" as the product of the following three items:

- A percentage, determined by the Retirement Board, which when multiplied by a member's contract period compensation resulted in the average actuarial present value of the additional benefits, exclusive of health benefits, resulting from the crediting of one additional year of service. The percentage could vary because of age, credited service, or benefit coverage. An increase or decrease in the percentage under this provision would not become effective until the expiration of six months or more after the board notified the reporting units of the increase or decrease.
- A member's contract period compensation, which would be the member's full-time or equated full-time compensation received in the contract period immediately before the contract period in which the application was made to purchase the service credit and payment for the service was made. The compensation amount used could not be less than the highest contract period compensation previously received by the member.
- The number of years, including any fraction of a year, of credited service a member elected to purchase up to the maximum allowed

If the compensation amount used for computing payment for the service credit were to exceed the member's final average compensation determined at the time of retirement, the payment required would be recomputed

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Sponsor: Rep. Wilfred Webb
Committee: Senior Citizens and Retirement
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using the member's final average compensation, and a refund would be made.

Under the bill, members would be required to pay the actuarial cost to purchase credit for the following:

- a) Service as an elementary or secondary teacher at a U.S. armed forces military base in the U.S. or overseas.
- b) Service in a nonpublic school or a nonpublic two- or four-year institution of higher education in the U.S. or in its territorial possessions; in a foreign country at a school for U.S. military personnel or their dependents, or the U.S. State Department; as a teacher with the Job Corps, as a teacher in a trust territory or former trust territory of the U.S.; or as a teacher on an Indian reservation in this country.
- c) Service with the federal government as a teacher in a foreign country teaching students who are not U.S. citizens, or as a teacher with the Merchant Marines.
- d) Service with a county mental health program, or as an employee in a day care or day training program for handicapped.
- e) Service with the Red Cross on a military base during armed conflict.
- f) Service with the Michigan National Guard or the U.S. Armed Forces Reserve.
- g) Until October 1, 1990, time spent on an employee organization professional services leave or employee organization professional services released time. Under the bill, members would be required to pay the actuarial cost (but not less than an amount equal to a certain percentage of their full-time or equated full-time compensation for the contract period immediately before the contract period in which payment was made) multiplied by the years of service that the members elected to purchase, to purchase service credit for the following:

- time spent in a neighborhood youth corps program;
- employment or out-of-system public education service performed while a graduate student.

As at present, members would be required to pay an amount equal to the amount he or she would have contributed under a schedule governing member contributions in effect at the time of the service, together with regular interest, to purchase service credit or the following out-of-system public education service performed before July 1, 1974:

- in public education in other states or in U. S. territorial possessions;
- at the University of Michigan; Michigan State, Wayne State, Grand Valley State, Oakland and Saginaw Valley Universities;
- at a county juvenile training school in Michigan; or at a community mental health service program for the

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- severely mentally retarded that was transferred to an intermediate school district;
- as a teacher or administrator of American nationals in Department of Defense overseas public elementary or secondary schools.

For service performed after July 1, 1974, the above members would be required to pay an amount equal to five percent of their full-time or equated full-time compensation.

Under the bill, members who purchased service credit for sabbatical leave or for "nonintervening" active duty with the armed forces would be required to pay an amount equal to five percent of their compensation for the contract period immediately before the contract period in which the sabbatical leave was granted (or before the contract period in which payment was made, in the case of military service), plus interest. For a leave occurring after June 30, 1981, members purchasing service credit for sabbatical leave would be required to pay an amount equal to five percent of their compensation for the contract period immediately before the contract period in which payment was made. (Current law requires a payment of five percent of the member's compensation for the appropriate fiscal year, rather than a contract period.)

The bill would also amend the act to extend from December 15, 1988, to December 21, 1988, the effective retirement period under which members may purchase service credit for service performed as an employee in a nonpublic school, and would delete archaic language and provisions.

MCL 38.1303 et al.