

REFUND OF MIP CONTRIBUTIONS

House Bill 4901

Sponsor: Rep. James E. O'Neill, Jr.

Committee: Senior Citizens
& Retirement

Complete to 9-20-91

A SUMMARY OF HOUSE BILL 4901 INTRODUCED 6-4-91

The bill would amend the Public School Employees Retirement Act to require the Bureau of Retirement Systems in the Department of Management and Budget to administer the retirement system in compliance with Internal Revenue Code provisions and related Internal Revenue Service (IRS) regulations for qualified governmental pension plans and for exempt organizations. Should a conflict arise between the provisions of the bill and another provision of the act or of any other Michigan act, the provisions of the bill would prevail.

Member Investment Plan (MIP). Currently, under the act, a person who first became a member of the Member Investment Plan on or before January 1, 1990 (or who first became a member on or before December 31, 1986, but did not perform membership service between that date and January 1, 1990), may not elect to discontinue contributions to the plan until the expiration of three school fiscal years after the date he or she first contributed, or after the expiration of four school fiscal years following the date he or she first contributed. Also, under the act, a member who elected to discontinue contributions would receive a refund of the contributions, plus interest, payable before the expiration of six months after the date of notification by the reporting unit. Under the bill, a member's election to discontinue contributions would be irrevocable. In addition, the retirement system could not return contributions received from a member unless the member were receiving a retirement or disability retirement allowance, the member terminated employment as a public school employee and was not entitled to receive a retirement allowance under the provisions of the act, or the member died and a survivor was eligible to receive a retirement allowance. The retirement system would be required to return post-tax member contributions that it had received from a member, according to IRS regulations and approved IRS exclusion ratio tables. The distribution amount for an individual retirant or for the retirement allowance beneficiary of a retirant who had contributed to the plan, but who irrevocable elected to discontinue contributions, would be calculated in the same manner as the distribution amount for retirants and retirement allowance beneficiaries who receive a "thirteenth check."

Employer-financed Benefits. Under the bill, a member who retired with 15 or more years of credited service at retirement could not receive more than \$10,000 in employer-financed benefits except under certain circumstances. The \$10,000 limitation would not apply if one of the following computations resulted in a higher amount. A member could receive employer-financed benefits not exceeding the lessor of:

A. 100 percent of the member's average compensation for the three highest consecutive years, as prescribed under the Internal Revenue Code regulations; or

B. One of the following amounts, as applicable to each member:

I) For an member who retired at age 62 or older, \$90,000, or an amount adjusted for an annual cost-of-living increase, as prescribed under the Internal Revenue Code regulations.

II) For a member who retired between the ages of 55 and 62, the actuarially reduced amount of the limitation of \$90,000. The retirement system would be required to use an interest rate of 5 percent per year, compounded annually, to calculate the actuarial reduction, but the limitation could not be actuarially reduced below \$75,000.

III) For a member who retired before age 55, the actuarially reduced amount of the limitation of \$90,000. The retirement system would be required to use an interest rate of 5 percent per year, compounded annually, to calculate the actuarial reduction.

Allowance Adjustments. The Internal Revenue Code requires the secretary of the treasury to annually adjust the \$10,000 and \$90,000 limitations for cost of living increases, beginning in 1988. The retirement system would adjust benefits subject to the limitation each year, to conform with the adjusted limitation.

Restrictions. Under the bill, the retirement system's assets could not be used for any purpose other than being held and invested for the sole purpose of meeting the legitimate obligations of the system. The assets could not be used for, or diverted to, a purpose other than for the exclusive benefit of the members, deferred members, retirants, and retirement allowance beneficiaries.

If a retirement system were discontinued, the interest of the members, deferred members, retirants, and retirement allowance beneficiaries in the system would be nonforfeitable to the extent funded, as described in the Internal Revenue Code and related IRS regulations applicable to governmental plans.

MCL 38.1343a et al.