



House
Legislative
Analysis
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MERS: DEFINED CONTRIB. PLAN

House Bill 4049
Sponsor: Rep. Kim Rhead
Committee: Appropriations

Complete to 4-24-95

A SUMMARY OF HOUSE BILL 4049 AS INTRODUCED 1-11-95

The Municipal Employees Retirement Act authorizes municipal retirement boards to provide retirement benefits to municipal employees in participating counties, county road commissions, cities, villages, townships, and to qualifying employees of circuit, district, and probate courts. At present, municipalities or courts that opt into the system can choose from a number of different benefit programs, but all of them constitute what are known as "defined benefit" programs, meaning an employer makes contributions into the retirement system on an employee's behalf--and assets of the system are invested as determined by its managers--and, in return, a vested employee is guaranteed a monthly retirement benefit based on a specified formula. (A vested employee or his or her beneficiary is also eligible to receive various other benefits--i.e., for disability, death--under defined benefit programs offered under the act.)

House Bill 4049 would amend the act (MCL 38.1502a et al.) to allow municipalities and courts to opt into a "defined contribution" retirement program. Under the bill, current employees of municipalities/courts that opted into the program would have the option to elect coverage in the program, but new employees hired after a municipality or court adopted the program would be covered under the bill's defined contribution provisions. Employers opting in would have to contribute at least one percent of a participating employee's salary into an account the employee would own, and the employee would either invest the assets himself or herself or provide for a third party to do so. Employees would be 100 percent vested upon becoming members of the defined contribution program; however, employers would not have to provide to members of the defined contribution program death and disability benefits as they currently must for vested members in a defined benefit program.

Member election to system. The board would have to provide an opportunity for a current member of the retirement system to elect coverage under the defined contribution plan if the member's employer elected to adopt the defined contribution program for current members in a specific benefit program coverage classification. If a current MERS member wished to participate in the defined contribution program, he or she would have to elect coverage in the new program in writing, and once a member elected to opt in he or she could not revoke the election.

The retirement board would establish procedures for the election process and would have to begin accepting written elections on and after the effective date of the change to the defined contribution program, and could continue to accept them for five months. If a member was married at the time of election, the election would not be effective unless

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it was signed by his or her spouse; the board, however, could waive this requirement if a spouse's signature could not be obtained because of "extenuating circumstances."

A member who elected into the defined contribution program would 1) cease to be covered by the previous benefit program--and, simultaneously, would be covered under the new program--effective six months after the effective date of changing to the new program, and 2) waive all of his or her rights to a retirement allowance or any other benefit provided under the previous benefit program, except as provided in the bill.

Employer, member contributions. A member's participating employer would have to contribute a percentage of the member's salary to the retirement system, and would have to choose a percentage from available contribution programs. Contribution programs that could be selected would be any percentage of compensation from one percent to the maximum allowed by federal law, in increments of 0.1 percent, and the same contribution rate would apply to all members in the same benefit program coverage classification.

The MERS Retirement Board would determine the timing and mechanism for the remittance of employer contributions, and could establish a program for making transfers from the reserve for employer contributions to the reserve for defined contribution plan for the purpose of meeting all or a part of the participating employer's contribution. A member could voluntarily contribute additional amounts to his or her individual account in the plan reserve, to the extent allowed by federal law and subject to procedures established by the board. In addition, a member would be immediately 100 percent vested in his or her accumulated balance and could "roll over" (that is, add to his or her account) qualified distributions from other qualified retirement plans, as permitted by federal law.

Transfer of accumulated benefits. For each member who elected coverage in the defined contribution program, the retirement board would have to transfer the following amounts from the reserves for employee and employer contributions to the defined contribution reserve:

* The member's accumulated contributions, if any, as of the day coverage in the new program began would have to be transferred from the reserve for employee contributions to the defined contribution reserve;

* The excess, if any, of the funded portion of the actuarial present value of credited projected benefits associated with the member's coverage under the previous benefit program (over amounts contributed by the employee) would have to be transferred from the employer contributions reserve to the defined benefit plan reserve. (This amount would be determined as of the most recent annual actuarial valuation and could not exceed 100 percent; also, it would be computed as of the member's first day of coverage in the new program and be based on actuarial assumptions adopted by the retirement board for the most recent annual actuarial valuation.)

Management of member account. The retirement board could contract with private investment managers to invest assets in the defined contribution plan reserve. A member, vested former member, or beneficiary could direct the investment of his or her accumulated

balance to one or more available categories of investment provided by the managers, and investment categories made available would have to at least include the following types of securities: short-term, fixed income, and equity. The retirement board would determine the investment categories for the accumulated balance of a member, vested former member, or beneficiary if the person did not choose to direct his or her own investments.

Nominating beneficiaries. When a member or vested former member died, his or her accumulated balance would belong to the beneficiary or beneficiaries, if any, nominated by the decedent. Nominating a beneficiary or beneficiaries would require a member to file a written nomination with the board, based on procedures established by the retirement board.

Upon termination of membership, a vested former member or beneficiary would have to elect one method, or a combination of different methods, of distribution of his or her accumulated balance, subject to federal law and to procedures established by the retirement board. The distribution methods would include 1) lump sum distribution, 2) lump sum direct rollover to another qualified retirement or pension plan, 3) a life annuity or optional forms of annuity as determined by the board, or 4) no distribution, where the accumulated balance would remain in the retirement system.

Defined contribution plan reserve. Member contributions and contributions by or on behalf of participating municipalities and courts for members in the defined contribution program, as well as investment income earned on the contributions, would be credited to the defined contribution plan reserve. The reserve would be the account from which distributions of accumulated balances would be made and from which transfers would be made to the reserve for administrative expenses. The retirement system would have to maintain one or more separate individual accounts for each person having an interest in the reserve.

A participating municipality or court would deduct from compensation of each member in its employ applicable member contributions, and continuation of employment by the member would constitute consent to the deduction of applicable member contributions. Payment of compensation less deduction would discharge a participating employer of all claims for compensation for service rendered by a member to the employer. A participating employer would have to certify to the retirement system the amount of compensation paid to a member who was employed by it, and would have to pay to the retirement system the aggregate amount of member contributions collected. Remittance of member contributions would have to be made under procedures and schedules established by the board. In addition, the bill would authorize the retirement system to assess an interest charge and penalty on any payment not made within 15 days after its due date.