



HOUSE BILL No. 5724

May 3, 2000, Introduced by Reps. Jansen, Geiger, Jellema and Vander Roest and referred to the Committee on Appropriations.

A bill to amend 1943 PA 240, entitled "State employees' retirement act," by amending sections 11, 20d, 38, and 52 (MCL 38.11, 38.20d, 38.38, and 38.52), section 11 as amended and section 52 as added by 1996 PA 487, section 20d as amended by 1996 PA 532, and section 38 as amended by 1996 PA 279.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 11. (1) There is created the employees' savings fund,
2 employer's accumulation fund, annuity reserve fund, pension
3 reserve fund, income fund, expense fund, and health insurance
4 reserve fund.

5 (2) The employees' savings fund is the fund in which shall
6 be accumulated at regular interest the contributions to the
7 retirement system deducted from the compensation of members. The
8 retirement board shall provide for the maintenance of an

1 individual account for each member that shows the amount of the
2 member's contributions together with interest on those
3 contributions. The accumulated contributions of a member
4 returned to the member upon his or her withdrawal from service,
5 or paid to the member's estate or designated beneficiary in the
6 event of the member's death, as provided in this act, shall be
7 paid from the employees' savings fund. Any accumulated contribu-
8 tions not claimed by a member or the member's legal representa-
9 tive as provided in this act within 5 years after the member's
10 separation from state service shall be transferred from the
11 employees' savings fund to the income fund. The accumulated con-
12 tributions of a member, upon the member's retirement, shall be
13 transferred from the employees' savings fund to the pension
14 reserve fund.

15 (3) The employer's accumulation fund is the fund in which
16 shall be accumulated the reserves derived from money provided by
17 this state for the payment of all retirement allowances to be
18 payable to retirants and beneficiaries as provided in this act.
19 The amounts paid by this state shall be credited to the
20 employer's accumulation fund. Upon the retirement of a member,
21 or upon the member's death, if a beneficiary is entitled to a
22 retirement allowance payable from funds of the retirement system,
23 the difference between the reserve for the retirement allowance
24 to be paid on account of the member's retirement or death and the
25 member's accumulated contributions standing to his or her credit
26 in the employees' savings fund at the time of his or her
27 retirement or death shall be transferred from the employer's

1 accumulation fund to the pension reserve fund. If, in any year,
2 the pension reserve fund is insufficient to cover the reserves
3 for retirement allowances and other benefits being paid from the
4 fund, the amount or amounts of the insufficiency or insufficien-
5 cies shall be transferred from the employer's accumulation fund
6 to the pension reserve fund.

7 (4) The annuity reserve fund is the fund from which shall be
8 paid all annuities, or benefits in lieu of annuities, because of
9 which reserves have been transferred from the employees' savings
10 fund to the annuity reserve fund. Upon the adoption of this act,
11 the balance in the annuity reserve fund shall be transferred to
12 the pension reserve fund, and the annuities heretofore payable
13 from the annuity reserve fund shall thereafter become payable
14 from the pension reserve fund.

15 (5) The pension reserve fund is the fund from which shall be
16 paid all retirement allowances and benefits in lieu of pensions,
17 as provided in this act. For a disability retirant returned to
18 active service with this state, his or her pension reserve, com-
19 puted as of the date of return, shall be transferred from the
20 pension reserve fund to the employees' savings fund and the
21 employer's accumulation fund in the proportion that this reserve,
22 as of the date of his or her retirement, was transferred to the
23 pension reserve fund from the employees' savings fund and from
24 the employer's accumulation fund. The amounts transferred to the
25 employees' savings fund under this section shall be credited to
26 the member's individual account in the fund.

1 (6) An income fund is created for the purpose of crediting
2 regular interest on the amounts in the various other funds of the
3 retirement system with the exception of the expense fund, and to
4 provide a contingent fund out of which special requirements of
5 any of the other funds may be covered. Transfers for special
6 requirements shall be made only when the amount in the income
7 fund exceeds the ordinary requirements of the fund as evidenced
8 by a resolution of the retirement board recorded in its minutes.
9 The retirement board shall annually allow regular interest for
10 the preceding year to each of the funds enumerated in subsections
11 (2), (3), (4), (5), and (8), and the amount allowed under this
12 subsection shall be due and payable to each of these funds and
13 shall be annually credited to the funds by the retirement board
14 and paid from the income fund. However, interest on contribu-
15 tions from members within a calendar year shall begin on the
16 first day of the next calendar year, and shall be credited at the
17 end of the calendar year. All income, interest, and dividends
18 derived from the deposits and investments authorized by this act
19 shall be paid into the income fund. The retirement board is
20 authorized to accept gifts and bequests. Any funds that come
21 into the possession of the retirement system as a gift or
22 bequest, or any funds that may be transferred from the employees'
23 savings fund by reason of lack of claimant, or because of a sur-
24 plus in any fund created by this act, or any other money the dis-
25 position of which is not otherwise provided for in this act shall
26 be credited to the income fund.

1 (7) The expense fund is the fund from which shall be paid
2 the expenses of the administration of this act, exclusive of
3 amounts payable as retirement allowances and other benefits pro-
4 vided for in this act. The legislature shall appropriate the
5 funds necessary to defray and cover the expenses of administering
6 this act.

7 (8) The health insurance reserve fund is the fund into which
8 appropriations made by the legislature, subscriber co-payments,
9 and payments by the retirement system under section 68 for
10 health, dental, and vision insurance premiums are paid. Health,
11 dental, and vision insurance premiums payable pursuant to
12 sections 20d and 68 shall be paid from the health insurance
13 reserve fund. THE ASSETS AND ANY EARNINGS ON THE ASSETS CON-
14 TAINED IN THE HEALTH INSURANCE RESERVE FUND AND THE HEALTH
15 ADVANCE FUNDING SUBACCOUNT DESCRIBED IN SUBSECTION (9) ARE NOT TO
16 BE TREATED AS PENSION ASSETS FOR ANY PURPOSE.

17 (9) THE HEALTH ADVANCE FUNDING SUBACCOUNT IS THE ACCOUNT TO
18 WHICH AMOUNTS TRANSFERRED PURSUANT TO SECTIONS 20D, 38(6), AND 52
19 ARE CREDITED. ANY AMOUNTS RECEIVED IN THE HEALTH ADVANCE FUNDING
20 SUBACCOUNT AND ACCUMULATED EARNINGS ON THOSE AMOUNTS SHALL NOT BE
21 EXPENDED UNTIL THE ACTUARIAL ACCRUED LIABILITY FOR HEALTH BENE-
22 FITS UNDER SECTION 20D IS AT LEAST 100% FUNDED. THE DEPARTMENT
23 MAY EXPEND FUNDS OR TRANSFER FUNDS TO ANOTHER ACCOUNT TO EXPEND
24 FOR HEALTH BENEFITS UNDER SECTION 20D IF THE ACTUARIAL ACCRUED
25 LIABILITY FOR HEALTH BENEFITS UNDER SECTION 20D IS AT LEAST 100%
26 FUNDED. NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, THE
27 DEPARTMENT MAY TRANSFER AMOUNTS FROM THE HEALTH ADVANCE FUNDING

1 SUBACCOUNT TO THE EMPLOYER'S ACCUMULATION FUND CREATED UNDER THIS
2 SECTION IF THE ACTUARIAL VALUATION PREPARED PURSUANT TO
3 SECTION 38 DEMONSTRATES THAT AS OF THE BEGINNING OF A FISCAL
4 YEAR, AND AFTER ALL CREDITS AND TRANSFERS REQUIRED BY THIS ACT
5 FOR THE PREVIOUS FISCAL YEAR HAVE BEEN MADE, THE SUM OF THE ACTU-
6 ARIAL VALUE OF ASSETS AND THE ACTUARIAL PRESENT VALUE OF FUTURE
7 NORMAL COST CONTRIBUTIONS DOES NOT EXCEED THE ACTUARIAL PRESENT
8 VALUE OF BENEFITS.

9 (10) ~~(9)~~ The description of the various funds in this sec-
10 tion shall be interpreted to refer to the accounting records of
11 the retirement system and not to the segregation of assets cred-
12 ited to the various funds of the retirement system.

13 Sec. 20d. (1) On and after July 1, 1974, hospitalization
14 and medical coverage insurance premium payable by any retirant or
15 his or her beneficiary and his or her dependents under any group
16 health plan authorized by the Michigan civil service commission
17 and the department of management and budget shall be paid by the
18 retirement board from the health insurance reserve fund created
19 in section 11. The amount payable shall be in the same propor-
20 tion of premium payable by the state of Michigan for the classi-
21 fied employees occupying positions in the state civil service.
22 The hospitalization and medical insurance premium payable shall
23 be paid from appropriations made for this purpose to the health
24 insurance reserve fund sufficient to cover the premium payment
25 needed to be made.

26 (2) Effective January 1, 1988, 90% of the premium payable by
27 a retirant or the retirant's beneficiary and his or her

1 dependents for dental coverage or vision coverage, or both, under
2 any group plan authorized by the Michigan civil service commis-
3 sion and the department of management and budget shall be paid by
4 the retirement board from the health insurance reserve fund cre-
5 ated in section 11.

6 (3) THE DEPARTMENT OF MANAGEMENT AND BUDGET SHALL CALCULATE
7 FOR EACH FISCAL YEAR ANY COST SAVINGS THAT HAVE ACCRUED TO THIS
8 STATE AS A RESULT OF THE IMPLEMENTATION OF THE 1996 AMENDATORY
9 ACT THAT ADDED SECTION 68 OVER THE COSTS THAT WOULD HAVE BEEN
10 INCURRED BY THIS STATE TO FUND PREMIUMS PAYABLE PURSUANT TO
11 SECTION 68 HAD THE 1996 AMENDATORY ACT THAT ADDED SECTION 68 NOT
12 BEEN IMPLEMENTED. THE TOTAL AMOUNT OF THE COST SAVINGS, IF ANY,
13 SHALL BE ALLOCATED TO THE HEALTH ADVANCE FUNDING SUBACCOUNT CRE-
14 ATED UNDER SECTION 11(9).

15 (4) ~~(3)~~ On and after March 31, 1997, the retirement system
16 shall also pay health insurance premiums described in this sec-
17 tion in the manner prescribed in section 68.

18 (5) ~~(4)~~ For purposes of this section, "retirant" includes
19 a person who retires under section 306 or 410 of the Michigan
20 military act, ~~Act No. 150 of the Public Acts of 1967, being~~
21 ~~sections 32.706 and 32.810 of the Michigan Compiled Laws 1967~~
22 PA 150, MCL 32.706 AND 32.810.

23 Sec. 38. (1) The annual level percent of payroll contribu-
24 tion rate to finance the benefits provided under this act shall
25 be determined by actuarial valuation pursuant to subsections (2)
26 and (3), upon the basis of the risk assumptions adopted by the
27 retirement board with approval of the department of management

1 and budget, and in consultation with the investment counsel and
2 the actuary. An annual actuarial valuation shall be made of the
3 retirement system in order to determine the actuarial condition
4 of the retirement system and the required contribution to the
5 retirement system. The actuary shall report to the legislature
6 by April 15 of each year on the actuarial condition of the
7 retirement system as of the end of the previous fiscal year and
8 on the projections of state contributions for the next fiscal
9 year. The actuary shall certify in the report that the tech-
10 niques and methodologies used are generally accepted within the
11 actuarial profession and that the assumptions and cost estimates
12 used fall within the range of reasonable and prudent assumptions
13 and cost estimates. An annual actuarial gain-loss experience
14 study of the retirement system shall be made in order to deter-
15 mine the financial effect of variations of actual retirement
16 system experience from projected experience.

17 (2) The contribution rate for monthly benefits payable in
18 the event of the death of a member before retirement or the dis-
19 ability of a member shall be computed using a terminal funding
20 method of actuarial valuation.

21 (3) Except as otherwise provided in this subsection, the
22 contribution rate for benefits other than those provided for in
23 subsection (2) shall be computed using an individual projected
24 benefit entry age normal cost method of valuation. For the
25 1995-96 state fiscal year and for each subsequent fiscal year,
26 the contribution rate for benefits provided under section 20d
27 shall be computed using a cash disbursement method. The

1 contribution rate for service that may be rendered in the current
2 year, the normal cost contribution rate, shall be equal to the
3 aggregate amount of individual entry age normal costs divided by
4 1% of the aggregate amount of active members' valuation
5 compensation. The unfunded actuarial accrued liability shall be
6 equal to the actuarial present value of benefits reduced by the
7 actuarial present value of future normal cost contributions and
8 the actuarial value of assets on the valuation date. The
9 unfunded actuarial accrued liability shall be amortized in
10 accordance with generally accepted governmental accounting stan-
11 dards over a period equal to or less than 40 years.

12 (4) The legislature annually shall appropriate to the
13 retirement system the amount determined pursuant to subsections
14 (2) and (3). The state treasurer shall transfer monthly to the
15 retirement system an amount equal to the product of the contribu-
16 tion rates determined in subsections (2) and (3) times the aggre-
17 gate amount of active member compensation paid during that
18 month. Not later than 60 days after the termination of each
19 state fiscal year, the executive secretary of the retirement
20 board shall certify to the director of the department of manage-
21 ment and budget the actual aggregate compensations paid to active
22 members during the preceding state fiscal year. Upon receipt of
23 that certification, the director of the department of management
24 and budget shall compute the difference, if any, between actual
25 state contributions received during the preceding state fiscal
26 year and the product of the contribution rates determined in
27 subsections (2) and (3) times the aggregate compensations paid to

1 active members during the preceding state fiscal year. Except as
2 otherwise provided in subsection (5), the difference, if any,
3 shall be submitted in the executive budget to the legislature for
4 appropriation in the next succeeding state fiscal year. THIS
5 SUBSECTION DOES NOT APPLY FOR THOSE FISCAL YEARS IN WHICH A
6 DEPOSIT OCCURS PURSUANT TO SUBSECTION (6).

7 (5) 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
10 the estimated and the actual contribution rate described in
11 subsection (4), if any, may be submitted in the executive budget
12 to the legislature for appropriation in the next succeeding state
13 fiscal year and a minimum of 25% of the remaining difference
14 shall be submitted in the executive budget to the legislature for
15 appropriation in each of the following 4 state fiscal years, or
16 until 100% of the remaining difference is submitted, whichever
17 first occurs. In addition, interest shall be included for each
18 year that a portion of the remaining difference is carried
19 forward. The interest rate shall equal the actuarially assumed
20 rate of investment return for the state fiscal year in which pay-
21 ment is made. THIS SUBSECTION DOES NOT APPLY FOR THOSE FISCAL
22 YEARS IN WHICH A DEPOSIT OCCURS PURSUANT TO SUBSECTION (6).

23 (6) IF THE ACTUARIAL VALUATION PREPARED PURSUANT TO THIS
24 SECTION FOR EACH FISCAL YEAR DEMONSTRATES THAT AS OF THE BEGIN-
25 NING OF A FISCAL YEAR, AND AFTER ALL CREDITS AND TRANSFERS
26 REQUIRED BY THIS ACT FOR THE PREVIOUS FISCAL YEAR HAVE BEEN MADE,
27 THE SUM OF THE ACTUARIAL VALUE OF ASSETS AND THE ACTUARIAL

1 PRESENT VALUE OF FUTURE NORMAL COST CONTRIBUTIONS EXCEEDS THE
2 ACTUARIAL PRESENT VALUE OF BENEFITS, THE ANNUAL LEVEL PERCENT OF
3 PAYROLL CONTRIBUTION RATE AS DETERMINED PURSUANT TO
4 SUBSECTIONS (1), (2), AND (3) MAY BE DEPOSITED INTO THE HEALTH
5 ADVANCE FUNDING SUBACCOUNT CREATED UNDER SECTION 11(9).

6 Sec. 52. After consulting the retirement system's actuary,
7 the department of management and budget shall calculate for each
8 fiscal year any cost savings that have accrued to this state as a
9 result of the implementation of the amendatory act that added
10 this section over the costs that would have been incurred by this
11 state to fund this retirement system had the amendatory act that
12 added this section not been implemented. ~~The total amount of~~
13 ~~such cost savings shall be submitted in the executive budget to~~
14 ~~the legislature for appropriation in the next succeeding state~~
15 ~~fiscal year to the health insurance reserve fund created by sec-~~
16 ~~tion 11(8). Any amount appropriated pursuant to this section and~~
17 ~~accumulated earnings on those amounts shall not be expended until~~
18 ~~the actuarial accrued liability for health benefits under section~~
19 ~~20d is 100% funded.~~ FOR EACH FISCAL YEAR IN WHICH A DEPOSIT
20 UNDER SECTION 38(6) DOES NOT OCCUR, THE DEPARTMENT MAY DEPOSIT
21 ALL OR PART OF THE COST SAVINGS CALCULATED PURSUANT TO THIS SEC-
22 TION INTO THE HEALTH ADVANCE FUNDING SUBACCOUNT CREATED UNDER
23 SECTION 11(9) BY REDUCING THE NORMAL COST AND UNFUNDED ACTUARIAL
24 ACCRUED LIABILITY CONTRIBUTION RATES AS CALCULATED PURSUANT TO
25 SECTION 38, AND INCREASING THE CONTRIBUTION RATE FOR BENEFITS
26 PROVIDED UNDER SECTION 20D BY THE SAME AMOUNT. HOWEVER, THE

- 1 NORMAL COST AND UNFUNDED ACCRUED ACTUARIAL LIABILITY RATES SHALL
- 2 NOT BE REDUCED TO AN AMOUNT LESS THAN ZERO.