

**SUBSTITUTE FOR  
SENATE BILL NO. 102**

A bill to amend 1980 PA 300, entitled  
"The public school employees retirement act of 1979,"  
by amending sections 5, 41, 81d, 91a, and 131 (MCL 38.1305,  
38.1341, 38.1381d, 38.1391a, and 38.1431), sections 5 and 131 as  
amended and section 81d as added by 2012 PA 300, section 41 as  
amended by 2016 PA 136, and section 91a as amended by 2012 PA 359,  
and by adding sections 21a and 133.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1           Sec. 5. (1) "Member" means a public school employee, except  
2 that member does not include any of the following:

3           (a) A person enrolled in a neighborhood youth corps program  
4 operated with funds from the federal office of economic opportunity

1 or a person enrolled in a comparable youth training program  
2 designed to prevent high school dropouts and rehabilitate high  
3 school dropouts operated by an intermediate school district.

4 (b) A person enrolled in a transitional public employment  
5 program and employed by a reporting unit.

6 (c) A person employed by a reporting unit while enrolled as a  
7 full-time student in that same reporting unit.

8 (d) A person who elects to participate in the optional  
9 retirement program under the optional retirement act of 1967, 1967  
10 PA 156, MCL 38.381 to 38.388.

11 (e) A retirant of this retirement system.

12 (f) A person, not regularly employed by a reporting unit, who  
13 is employed by a reporting unit through a summer youth employment  
14 program established ~~pursuant to~~ **UNDER** the Michigan youth corps act,  
15 1983 PA 69, MCL 409.221 to 409.229.

16 (g) A person, not regularly employed by a reporting unit, who  
17 is employed by a reporting unit to administer a program described  
18 in subdivision (f), (h), (i), (j), or (k).

19 (h) After September 30, 1983, a person, not regularly employed  
20 by a reporting unit, who is employed by a reporting unit through  
21 participation in a program established ~~pursuant to~~ **UNDER** the former  
22 job training partnership act, Public Law 97-300, 96-~~Stat.~~ **STAT** 1322  
23 or beginning July 1, 2000, the workforce investment act of 1998,  
24 Public Law 105-220, 112 ~~Stat.~~ **STAT** 936.

25 (i) A person, not regularly employed by a reporting unit, who  
26 is employed by a reporting unit through participation in a program  
27 established ~~pursuant to~~ **UNDER** the ~~work first~~ **PATH** program under

1 section 57f of the social welfare act, 1939 PA 280, MCL 400.57f.

2 (j) A person, not regularly employed by a reporting unit, who  
3 is employed by a reporting unit through participation in a program  
4 established ~~pursuant to~~ **UNDER** the Michigan community service corps  
5 program, first established under sections 25 to 35 of 1983 PA 259.

6 (k) A person, not regularly employed by a reporting unit, who  
7 is employed by a reporting unit through participation in a program  
8 established ~~pursuant to~~ **UNDER** the older American community service  
9 employment program under the older American community service  
10 employment act, title V of the older Americans act of 1965, Public  
11 Law 89-73, 42 USC 3056 to 3056i.

12 (l) A person, not regularly employed by a reporting unit, who  
13 is employed by a reporting unit in a temporary, intermittent, or  
14 irregular seasonal or athletic position and who is under the age of  
15 19 years.

16 (m) A person, not regularly employed by a reporting unit, who  
17 is employed by a reporting unit only in a temporary position to  
18 assist in the conduct of a school election.

19 (n) A qualified participant who makes a valid election under  
20 section ~~81d~~ **81D(1)** to not become a member of Tier 1.

21 **(O) A QUALIFIED PARTICIPANT WHO IS NOT A MEMBER OF TIER 1**  
22 **UNDER SECTION 81D(4).**

23 (2) "Membership service" means service performed after June  
24 30, 1945.

25 (3) "Noncontributory plan" means the plan which began between  
26 July 1, 1974 and July 1, 1977, in which the reporting unit elected  
27 to discontinue withholding contributions from employees'

1 compensation.

2 (4) "Noncontributory service" means credited service rendered  
3 under the noncontributory plan.

4 (5) "Nonteacher" means a person employed by a reporting unit  
5 who is not a teacher as defined in section 8(4).

6 **SEC. 21A. AS PROVIDED UNDER SECTION 24 OF ARTICLE IX OF THE**  
7 **STATE CONSTITUTION OF 1963, ACCRUED FINANCIAL BENEFITS OF THE**  
8 **PENSION PLAN AND RETIREMENT SYSTEM CREATED UNDER THIS ACT ARE A**  
9 **CONTRACTUAL OBLIGATION OF THIS STATE THAT SHALL NOT BE DIMINISHED**  
10 **OR IMPAIRED.**

11 Sec. 41. (1) The annual level percentage of payroll  
12 contribution rates to finance benefits being provided and to be  
13 provided by the retirement system must be determined by actuarial  
14 valuation under subsection (2) on the basis of the risk assumptions  
15 that the retirement board and the department adopt after  
16 consultation with the state treasurer and an actuary. An annual  
17 actuarial valuation must be made of the retirement system to  
18 determine the actuarial condition of the retirement system and the  
19 required contribution to the retirement system. An annual actuarial  
20 gain-loss experience study of the retirement system must be made to  
21 determine the financial effect of variations of actual retirement  
22 system experience from projected experience.

23 (2) Except as otherwise provided in section 41a, the annual  
24 contribution rates for benefits is subject to all of the following:

25 (a) Except as otherwise provided in this subdivision, the  
26 contribution rate for benefits must be computed using an individual  
27 projected benefit entry age normal cost method of valuation. If the

1 contributions described in section 43e are determined by a final  
2 order of a court of competent jurisdiction for which all rights of  
3 appeal have been exhausted to be unconstitutional and the  
4 contributions are not deposited into the appropriate funding  
5 account referenced in section 43e, the contribution rate for health  
6 benefits provided under section 91 must be computed using a cash  
7 disbursement method.

8 (b) The contribution rate for service likely to be rendered in  
9 the current year, the normal cost contribution rate, for reporting  
10 units must be determined as follows:

11 (i) Calculate the aggregate amount of individual projected  
12 benefit entry age normal costs.

13 (ii) Divide the result of the calculation under subparagraph  
14 (i) by 1% of the aggregate amount of active members' valuation  
15 compensation.

16 (c) The contribution rate for unfunded service rendered before  
17 the valuation date, the unfunded actuarial accrued liability  
18 contribution rate, must be determined as follows:

19 (i) Calculate the aggregate amount of unfunded actuarial  
20 accrued liabilities of reporting units as follows:

21 (A) Calculate the actuarial present value of benefits for  
22 members attributable to reporting units.

23 (B) Calculate the actuarial present value of future normal  
24 cost contributions of reporting units.

25 (C) Calculate the actuarial present value of assets on the  
26 valuation date.

27 (D) Add the results of sub-subparagraphs (B) and (C).

1 (E) Subtract from the result of the calculation under sub-  
2 subparagraph (A) the result from the calculation under sub-  
3 subparagraph (D).

4 (ii) ~~Divide~~ **SUBJECT TO SUBDIVISIONS (F) AND (G), DIVIDE** the  
5 result of the calculation under subparagraph (i) by 1% of the  
6 actuarial present value over a period not to exceed 50 years of  
7 projected valuation compensation.

8 (d) Beginning with the state fiscal year ending September 30,  
9 2013 and for each subsequent fiscal year, the unfunded actuarial  
10 accrued liability contribution rate applied to payroll must not  
11 exceed 20.96% for a reporting unit that is not a university  
12 reporting unit. Any additional unfunded actuarial accrued liability  
13 contributions as determined under this section for each fiscal year  
14 are to be paid by appropriation from the school aid fund  
15 established by section 11 of article IX of the state constitution  
16 of 1963. Except as otherwise provided in this section and section  
17 41a, the unfunded actuarial accrued liability contribution rate  
18 must **BE DETERMINED USING A LEVEL PERCENTAGE OF PAYROLL AMORTIZATION**  
19 **METHOD AND MUST** be based on and applied to the combined payrolls of  
20 the employees who are members ~~and~~ **OR** qualified participants, **OR**  
21 **BOTH.**

22 (e) Beginning with the state fiscal year ending September 30,  
23 2016 and for each subsequent state fiscal year, the unfunded  
24 actuarial accrued liability contribution rate applied to the  
25 combined payroll, as provided in section 41a, must not exceed  
26 25.73% for a university reporting unit. Any additional unfunded  
27 actuarial accrued liability contributions as determined under this

1 section for each fiscal year for university reporting units are to  
2 be paid by appropriation under article III of the state school aid  
3 act of 1979, 1979 PA 94, MCL 388.1836 to ~~388.1893~~.388.1891.

4 (F) SUBJECT TO SUBDIVISION (G), FOR A REPORTING UNIT THAT IS  
5 NOT A UNIVERSITY REPORTING UNIT, THE UNFUNDED ACTUARIAL ACCRUED  
6 LIABILITY MUST BE AMORTIZED OVER 21 YEARS BEGINNING OCTOBER 1, 2017  
7 AND ENDING ON SEPTEMBER 30, 2038.

8 (G) FOR A REPORTING UNIT THAT IS NOT A UNIVERSITY REPORTING  
9 UNIT, ANY INCREASE IN THE UNFUNDED ACTUARIAL ACCRUED LIABILITY AS A  
10 RESULT OF A CHANGE TO A RATE OF RETURN DESCRIBED IN SUBSECTION (11)  
11 AFTER THE EFFECTIVE DATE OF THE AMENDATORY ACT THAT ADDED SECTION  
12 133 MUST BE AMORTIZED OVER 40 YEARS BEGINNING OCTOBER 1, 2017 AND  
13 ENDING ON SEPTEMBER 30, 2057. HOWEVER, BEGINNING OCTOBER 1, 2038,  
14 WITH THE APPROVAL OF THE STATE TREASURER, THE OFFICE OF RETIREMENT  
15 SERVICE MAY REDUCE THE AMORTIZATION PERIOD DESCRIBED IN THIS  
16 SUBDIVISION.

17 (3) Before November 1 of each year, the executive secretary of  
18 the retirement board shall certify to the director of the  
19 department the aggregate compensation estimated to be paid public  
20 school employees for the current state fiscal year.

21 (4) On the basis of the estimate under subsection (3), the  
22 annual actuarial valuation, and any adjustment required under  
23 subsection (6), the director of the department shall compute the  
24 sum due and payable to the retirement system and shall certify this  
25 amount to the reporting units.

26 (5) The reporting units shall pay the amount certified under  
27 subsection (4) to the director of the department in equal payroll

1 cycle installments for unfunded actuarial accrued liability  
2 contributions and payroll cycle installments for normal cost  
3 contributions.

4 (6) Not later than 90 days after termination of each state  
5 fiscal year, the executive secretary of the retirement board shall  
6 certify to the director of the department and each reporting unit  
7 the actual aggregate compensation paid to public school employees  
8 during the preceding state fiscal year. On receipt of that  
9 certification, the director of the department may compute any  
10 adjustment required to the amount due to a difference between the  
11 estimated and the actual aggregate compensation and the estimated  
12 and the actual actuarial employer contribution rate. The  
13 difference, if any, must be paid as provided in subsection (9).  
14 This subsection does not apply in a fiscal year in which a deposit  
15 occurs under subsection (14).

16 (7) The director of the department may require evidence of  
17 correctness and may conduct an audit of the aggregate compensation  
18 that the director of the department considers necessary to  
19 establish its correctness.

20 (8) A reporting unit shall forward employee and employer  
21 social security contributions and reports as required by the  
22 federal old-age, survivors, disability, and hospital insurance  
23 provisions of title II of the social security act, 42 USC 401 to  
24 434.

25 (9) For an employer of an employee of a local public school  
26 district or an intermediate school district, for differences  
27 occurring in fiscal years beginning on or after October 1, 1993, a



1 minimum of 20% of the difference between the estimated and the  
2 actual aggregate compensation and the estimated and the actual  
3 actuarial employer contribution rate described in subsection (6),  
4 if any, must be paid by that employer in the next succeeding state  
5 fiscal year and a minimum of 25% of the remaining difference must  
6 be paid by that employer in each of the following 4 state fiscal  
7 years, or until 100% of the remaining difference is submitted,  
8 whichever first occurs. For an employer of other public school  
9 employees, for differences occurring in fiscal years beginning on  
10 or after October 1, 1991, a minimum of 20% of the difference  
11 between the estimated and the actual aggregate compensation and the  
12 estimated and the actual actuarial employer contribution rate  
13 described in subsection (6), if any, must be paid by that employer  
14 in the next succeeding state fiscal year and a minimum of 25% of  
15 the remaining difference must be paid by that employer in each of  
16 the following 4 state fiscal years, or until 100% of the remaining  
17 difference is submitted, whichever first occurs. In addition,  
18 interest must be included for each year that a portion of the  
19 remaining difference is carried forward. The interest rate must  
20 equal the actuarially assumed rate of investment return for the  
21 state fiscal year in which payment is made. This subsection does  
22 not apply in a fiscal year in which a deposit occurs under  
23 subsection (14).

24 (10) Beginning on September 30, 2006, all assets held by the  
25 retirement system must be reassigned their fair market value, as  
26 determined by the state treasurer, as of September 30, 2006, and in  
27 calculating any unfunded actuarial accrued liabilities, any market

1 gains or losses incurred before September 30, 2006 may not be  
2 considered by the retirement system's actuaries.

3 (11) Except as otherwise provided in this subsection,  
4 beginning on September 30, 2006, the actuary used by the retirement  
5 board shall assume a rate of return on investments of 8.00% per  
6 annum, as of September 30, 2006, which rate may only be changed  
7 with the approval of the retirement board and the director of the  
8 department. ~~Beginning~~ **EXCEPT AS OTHERWISE PROVIDED IN THIS**  
9 **SUBSECTION, BEGINNING** on July 1, 2010, the actuary used by the  
10 retirement board shall assume a rate of return on investments of  
11 7.00% per annum for investments associated with members who first  
12 became members after June 30, 2010, which rate may only be changed  
13 with the approval of the retirement board and the director of the  
14 department. **BEGINNING ON THE EFFECTIVE DATE OF THE AMENDATORY ACT**  
15 **THAT ADDED SECTION 133, THE RATES OF RETURN DESCRIBED IN THIS**  
16 **SUBSECTION MAY ONLY BE CHANGED WITH THE APPROVAL OF THE RETIREMENT**  
17 **BOARD, THE DIRECTOR OF THE DEPARTMENT, AND THE STATE TREASURER.**

18 (12) Beginning on September 30, 2006, the value of assets used  
19 must be based on a method that spreads over a 5-year period the  
20 difference between actual and expected return occurring in each  
21 year after September 30, 2006, and the methodology may only be  
22 changed with the approval of the retirement board and the director  
23 of the department.

24 (13) Beginning on September 30, 2006, the actuary used by the  
25 retirement board shall use a salary increase assumption that  
26 projects annual salary increases of 4%. In addition to the 4%, the  
27 retirement board shall use an additional percentage based on an

1 age-related scale to reflect merit, longevity, and promotional  
2 salary increase. The actuary shall use this assumption until a  
3 change in the assumption is approved in writing by the retirement  
4 board and the director of the department.

5 (14) For fiscal years that begin on or after October 1, 2001,  
6 if the actuarial valuation prepared under this section demonstrates  
7 that as of the beginning of a fiscal year, and after all credits  
8 and transfers required by this act for the previous fiscal year  
9 have been made, the sum of the actuarial value of assets and the  
10 actuarial present value of future normal cost contributions exceeds  
11 the actuarial present value of benefits, the amount based on the  
12 annual level percent of payroll contribution rate under subsections  
13 (1) and (2) may be deposited into the health advance funding  
14 subaccount created by section 34.

15 (15) Notwithstanding any other provision of this act, if the  
16 retirement board establishes an arrangement and fund as described  
17 in section 6 of the public employee retirement benefit protection  
18 act, 2002 PA 100, MCL 38.1686, the benefits that are required to be  
19 paid from that fund must be paid from a portion of the employer  
20 contributions described in this section or other eligible funds.  
21 The retirement board shall determine the amount of the employer  
22 contributions or other eligible funds that must be allocated to  
23 that fund and deposit that amount in that fund before it deposits  
24 any remaining employer contributions or other eligible funds in the  
25 pension fund.

26 (16) As used in this section, "university reporting unit"  
27 means a reporting unit that is a university listed in the

1 definition of public school employee under section 6.

2       Sec. 81d. (1) The retirement system shall permit each  
3 qualified participant who first becomes a qualified participant and  
4 first works for a reporting unit on or after September 4, 2012 **BUT**  
5 **BEFORE JULY 1, 2017** to make an election to not become a member of  
6 Tier 1 and become only a qualified participant in Tier 2.

7       ~~——(2)——~~The retirement system shall determine a method of  
8 accepting elections under **THIS** subsection ~~(1)~~—and reporting units  
9 shall secure those elections during the period beginning on the  
10 date of the individual's employment and ending upon the expiration  
11 of 75 days from the individual's first payroll date. An election  
12 under **THIS** subsection ~~(1)~~—is irrevocable.

13       ~~——(3)——~~An individual who does not make an election **UNDER THIS**  
14 **SUBSECTION** for any reason on or before the close of the election  
15 period is considered to have made an election to become a member of  
16 Tier 1 and is subject to all of the following as of the date of his  
17 or her employment:

18       (a) He or she is eligible to accrue any service credit or  
19 qualify for any retirement allowance under Tier 1 under the terms  
20 as provided in section 81c.

21       (b) He or she is also a qualified participant under Tier 2.

22       (2) ~~(4)~~—An individual who makes the election under subsection  
23 (1) on or before the close of the election period is considered to  
24 have made an election to not become a member of Tier 1 and is  
25 subject to all of the following as of the date of his or her  
26 employment:

27       (a) He or she is not eligible to accrue any service credit or

1 qualify for any retirement allowance under Tier 1 under the terms  
2 as provided in section 81c.

3 (b) He or she is only a qualified participant under Tier 2.

4 (3) ~~(5)~~—The retirement system shall collect from ~~the~~ **AN**  
5 individual **DESCRIBED IN SUBSECTION (1)** all amounts required under  
6 sections 43a and 131(2) and shall collect all required employer  
7 contributions required under Tier 1 from his or her date of  
8 employment. If an individual makes a valid election under  
9 subsection (1) to not become a member of Tier 1, the retirement  
10 system shall determine and implement a method to reconcile employer  
11 and employee contributions to be deposited to Tier 2, and any such  
12 employee contributions will be considered to be elective  
13 contributions under section 131.

14 (4) **AN INDIVIDUAL WHO FIRST BECOMES A QUALIFIED PARTICIPANT**  
15 **AND FIRST WORKS FOR A REPORTING UNIT AFTER JUNE 30, 2017 IS NOT A**  
16 **MEMBER OF TIER 1 AND IS ONLY A QUALIFIED PARTICIPANT IN TIER 2. AN**  
17 **INDIVIDUAL DESCRIBED IN THIS SUBSECTION IS SUBJECT TO ALL OF THE**  
18 **FOLLOWING AS OF THE DATE OF HIS OR HER EMPLOYMENT:**

19 (A) **HE OR SHE IS NOT ELIGIBLE TO ACCRUE ANY SERVICE CREDIT OR**  
20 **QUALIFY FOR ANY RETIREMENT ALLOWANCE UNDER TIER 1 UNDER THE TERMS**  
21 **AS PROVIDED IN SECTION 81C.**

22 (B) **HE OR SHE IS ONLY A QUALIFIED PARTICIPANT UNDER TIER 2.**

23 Sec. 91a. (1) An individual who first became a member or  
24 qualified participant on or after September 4, 2012 or who made the  
25 election under subsection (5) shall not receive any health  
26 insurance coverage premium from the retirement system for any  
27 benefits under section 91 or as a result of benefits provided under

1 section 86, 87, or 89. In lieu of any of these benefits that might  
2 have been paid by the retirement system, a member's or qualified  
3 participant's employer shall make a matching contribution up to 2%  
4 of the member's or qualified participant's compensation to Tier 2  
5 for each member who first became a member or qualified participant  
6 on or after September 4, 2012 or who made the election under  
7 subsection (5). A matching contribution under this subsection shall  
8 not be used as the basis for a loan from an employee's Tier 2  
9 account. If the department or retirement system offers a health  
10 expenditure account or similar account for the purpose of managing  
11 a member's health care funds under this section, as permitted by  
12 state or federal law, the department or retirement system shall  
13 issue a request for proposals before implementation of that health  
14 expenditure account or similar account.

15 (2) An individual who first became a member or qualified  
16 participant on or after September 4, 2012 or who made the election  
17 under subsection (5) may make a contribution up to 2% of the  
18 member's or qualified participant's compensation to a Tier 2  
19 account. A member or qualified participant described in this  
20 subsection may make additional contributions to his or her Tier 2  
21 account as permitted by the department and the internal revenue  
22 code.

23 (3) Except as otherwise provided in this subsection, a member  
24 or qualified participant is vested in contributions made to his or  
25 her Tier 2 account under subsections (1) and (2) according to the  
26 vesting provisions under section 132. A member who is eligible for  
27 the payment of health insurance coverage premiums by the retirement

1 system as a result of benefits provided under section 90 is not  
2 vested in any employer contributions under subsection (1) and  
3 forfeits the employer contributions and earnings on those  
4 contributions.

5 (4) The contributions described in this section shall begin  
6 with the first payroll date after the member or qualified  
7 participant is employed or on or after the transition date for a  
8 member who makes the election under subsection (5) and end upon his  
9 or her termination of employment.

10 (5) Except as otherwise provided in this section, beginning  
11 September 4, 2012 and ending at 5 p.m. eastern standard time on  
12 January 9, 2013, the retirement system shall permit each qualified  
13 member to make an election to opt out of health insurance coverage  
14 premiums that would have been paid by the retirement system under  
15 section 91 and opt into the Tier 2 account provisions of this  
16 section effective on the transition date. A qualified member who  
17 makes the election under this subsection shall cease accruing years  
18 of service credit for purposes of calculating a portion of the  
19 health insurance coverage premiums that would have been paid by the  
20 retirement system under section 91 as if that section continued to  
21 apply.

22 (6) A qualified member who does not make the election under  
23 subsection (5) continues to be eligible for the payment of health  
24 insurance coverage premiums by the retirement system under section  
25 91 and is not eligible for the Tier 2 account provisions of this  
26 section. An individual who is not a qualified member, who is a  
27 former member on September 3, 2012, and who is reemployed by an

1 employer on or after September 4, 2012 shall be treated in the same  
2 manner as a member described in this subsection who did not make  
3 the election under subsection (5).

4 (7) The retirement system shall calculate an amount to be  
5 credited to a Tier 2 account for each member who makes the election  
6 under subsection (5). The amount described in this subsection shall  
7 be an amount equal to the contributions made by the member under  
8 section 43e. A member who makes the election under subsection (5)  
9 shall cease making contributions under section 43e as determined by  
10 the retirement system, but no later than the first payroll date  
11 after the transition date. The amount calculated under this  
12 subsection shall be deposited as an employer contribution into the  
13 member's Tier 2 account as determined by the retirement system, but  
14 no later than the first payroll date after March 1, 2013. A member  
15 is immediately 100% vested in amounts deposited to his or her Tier  
16 2 account under this subsection.

17 (8) A member or former member who does not make the election  
18 under subsection (5), who is 60 years of age or older, who does not  
19 qualify for the payment of health insurance coverage premiums by  
20 the retirement system under section 91, and who files an  
21 application with the retirement system on or after termination of  
22 employment shall receive a separate retirement allowance as  
23 calculated under this subsection. Except as otherwise provided  
24 under this subsection, the separate retirement allowance under this  
25 subsection shall be paid for 60 months and shall be equal to 1/60  
26 of the amount equal to the contributions made by the member under  
27 section 43e. The retirement system may pay out de minimus amounts



1 as a lump sum as determined by the retirement system and as  
2 permitted by the internal revenue code. A member receiving a  
3 separate retirement allowance under this subsection shall not  
4 subsequently receive the payment of health insurance coverage  
5 premiums by the retirement system under section 91. A member who  
6 dies before qualifying for the payment of health insurance coverage  
7 premiums by the retirement system under section 91 shall have a  
8 separate retirement allowance as provided in this subsection paid  
9 to the member's beneficiary upon application to the retirement  
10 system. A member who qualifies for the payment of health insurance  
11 coverage premiums by the retirement system under section 91 but who  
12 dies before the payment of health insurance coverage premiums by  
13 the retirement system in an amount equal to or greater than the  
14 amounts contributed under section 43e shall have a separate  
15 retirement allowance as provided in this subsection paid to the  
16 member's beneficiary following the cessation of health insurance  
17 coverage premiums paid by the retirement system in an amount equal  
18 to the difference between the health insurance coverage premiums  
19 paid by the retirement system under section 91 and contributions  
20 made by the member under section 43e. The amount of the separate  
21 retirement allowance as determined under this subsection shall be  
22 increased in a manner as determined by the retirement system by a  
23 percentage equal to 1.5% multiplied by the total number of years  
24 that member made contributions under section 43e.

25 (9) A member or former member who has a break in service and  
26 is reemployed retains the same election that the member made under  
27 this section before the break in service. If the member made the

1 election under subsection (5), the member shall continue to receive  
2 the Tier 2 account contributions as provided in subsections (1) and  
3 (2). If the member did not make the election under subsection (5),  
4 the member shall continue to make the contributions as provided  
5 under section 43e and is subject to subsection (8), if applicable.

6 (10) In lieu of any other health insurance coverage premium  
7 that might have been paid by the retirement system under section  
8 91, a credit to a health reimbursement account within the trust  
9 created under the public employee retirement health care funding  
10 act, 2010 PA 77, MCL 38.2731 to 38.2747, shall be made by the  
11 retirement system in the amounts and to the members or qualified  
12 participants as follows:

13 (a) Two thousand dollars to an individual who first became a  
14 member or qualified participant on or after September 4, 2012, who  
15 is 60 years of age or older, and who has at least 10 years of  
16 service at his or her first termination of employment.

17 (b) One thousand dollars to an individual who first became a  
18 member or qualified participant on or after September 4, 2012, who  
19 is less than 60 years of age, and who has at least 10 years of  
20 service at his or her first termination of employment.

21 (11) The retirement system shall determine a method to  
22 implement subsections (5) to (10), including a method for crediting  
23 the amounts in those subsections to comply with any restrictions  
24 imposed by the internal revenue code. Notwithstanding any provision  
25 of this act to the contrary, the Tier 2 plan provisions of this  
26 section shall be implemented by the department as soon as feasible  
27 but not later than January 1, 2013.

1           (12) Subsections (5) to (10) do not apply to a member who is  
2 eligible for the payment of health insurance coverage premiums by  
3 the retirement system as a result of benefits provided under  
4 section 90.

5           (13) On or before July 1, 2017, the retirement system shall  
6 provide a report to the chairs of the house and senate  
7 appropriations committees that provides the projected impact of  
8 subsection (10) as it applies to ~~members~~ **QUALIFIED PARTICIPANTS**  
9 first employed and entered upon the payroll of reporting units on  
10 or after July 1, 2017 with regard to the annual required  
11 contribution as used by the governmental accounting standards board  
12 and for purposes of the annual financial statements prepared under  
13 section 28(1).

14           (14) As used in this section:

15           (a) "Compensation" means that term as defined in section  
16 122(2).

17           (b) "Qualified member" means a member who meets all of the  
18 following requirements:

19           (i) He or she first became a member before September 4, 2012.

20           (ii) He or she has earned service credit in the 12 months  
21 ending September 3, 2012 or was on an approved professional  
22 services or military leave of absence on September 3, 2012.

23           Sec. 131. (1) This section is subject to the vesting  
24 requirements of section 132.

25           (2) Unless a qualified participant who is also a member of  
26 Tier 1 affirmatively elects not to contribute or elects to  
27 contribute a lesser amount, the qualified participant who is also a

1 member of Tier 1 shall contribute 2% of his or her compensation to  
2 his or her Tier 2 account. The qualified participant's employer  
3 shall make a contribution to the qualified participant's Tier 2  
4 account in an amount equal to 50% of the first 2% of compensation  
5 contributed by the qualified participant under this subsection.

6 (3) A qualified participant may make contributions in addition  
7 to contributions made under subsection (2) to his or her Tier 2  
8 account as permitted by the department and the internal revenue  
9 code.

10 (4) Upon the written determination of the director of the  
11 office of retirement services, an employee of an employer that is  
12 not a qualified participant may elect to make contributions to a  
13 Tier 2 account as permitted by the department and the internal  
14 revenue code. An employee as described in this subsection ~~shall be~~  
15 **IS** treated as a qualified participant under this article for the  
16 limited purposes of his or her Tier 2 account.

17 (5) ~~Upon~~ **SUBJECT TO SUBSECTION (7), ON** the written  
18 determination of the director of the office of retirement services,  
19 an employer may annually elect to make additional matching  
20 contributions, including those in addition to matching  
21 contributions made under subsections (2) and (6), to an employee's  
22 Tier 2 account as permitted by the plan document and the internal  
23 revenue code. ~~Matching~~ **SUBJECT TO SUBSECTION (7), MATCHING**  
24 contributions under this subsection ~~shall~~ **MUST** be made in amounts  
25 equal to 50% of the contributions made by the employee not to  
26 exceed the first 4% of contributions made in whole percentages  
27 only, for any employee in addition to amounts that are already

1 matched under this section, if any.

2 (6) ~~Except~~ **SUBJECT TO SUBSECTION (7), EXCEPT** as otherwise  
3 provided in section 81d, unless a qualified participant who is only  
4 a Tier 2 qualified participant due to an election made under  
5 section 81d(1) affirmatively elects not to contribute or elects to  
6 contribute a lesser amount, the qualified participant shall  
7 contribute 6% of his or her compensation to his or her Tier 2  
8 account. ~~The~~ **SUBJECT TO SUBSECTION (7), THE** qualified participant's  
9 employer shall make a contribution to the qualified participant's  
10 Tier 2 account in an amount equal to 50% of the first 6% of  
11 compensation contributed by the qualified participant under this  
12 subsection.

13 (7) **BEGINNING THE FIRST DAY OF THE PAY PERIOD THAT BEGINS**  
14 **AFTER JUNE 30, 2017, FOR A QUALIFIED PARTICIPANT WHO IS ONLY A TIER**  
15 **2 QUALIFIED PARTICIPANT DUE TO AN ELECTION UNDER SECTION 81D(1),**  
16 **ALL OF THE FOLLOWING APPLY:**

17 (A) **THIS SECTION DOES NOT APPLY TO THE QUALIFIED PARTICIPANT.**

18 (B) **THE QUALIFIED PARTICIPANT IS SUBJECT TO SECTION 133.**

19 **SEC. 133. (1) THIS SECTION IS SUBJECT TO THE VESTING**  
20 **REQUIREMENTS OF SECTION 132.**

21 (2) **FOR A QUALIFIED PARTICIPANT WHO IS ONLY A TIER 2 QUALIFIED**  
22 **PARTICIPANT UNDER SECTION 81D(4), OR BEGINNING THE FIRST DAY OF THE**  
23 **PAY PERIOD THAT BEGINS AFTER JUNE 30, 2017 FOR A QUALIFIED**  
24 **PARTICIPANT WHO IS ONLY A TIER 2 QUALIFIED PARTICIPANT DUE TO AN**  
25 **ELECTION UNDER SECTION 81D(1), ALL OF THE FOLLOWING APPLY:**

26 (A) **THE QUALIFIED PARTICIPANT'S EMPLOYER SHALL CONTRIBUTE TO**  
27 **THE QUALIFIED PARTICIPANT'S ACCOUNT IN TIER 2 AN AMOUNT EQUAL TO 4%**

1 OF THE QUALIFIED PARTICIPANT'S COMPENSATION.

2 (B) THE QUALIFIED PARTICIPANT MAY PERIODICALLY ELECT TO  
3 CONTRIBUTE UP TO 3% OF HIS OR HER COMPENSATION TO HIS OR HER TIER 2  
4 ACCOUNT. THE QUALIFIED PARTICIPANT'S EMPLOYER SHALL MAKE AN  
5 ADDITIONAL CONTRIBUTION TO THE QUALIFIED PARTICIPANT'S TIER 2  
6 ACCOUNT IN AN AMOUNT EQUAL TO THE CONTRIBUTION MADE BY THE  
7 QUALIFIED PARTICIPANT UNDER THIS SUBDIVISION. ANY CONTRIBUTIONS  
8 MADE BY AN EMPLOYER UNDER THIS SUBDIVISION SHALL BE PAID BY  
9 APPROPRIATION FROM THE STATE SCHOOL AID FUND ESTABLISHED BY SECTION  
10 11 OF ARTICLE IX OF THE STATE CONSTITUTION OF 1963.

11 (C) THE QUALIFIED PARTICIPANT MAY MAKE CONTRIBUTIONS IN  
12 ADDITION TO CONTRIBUTIONS MADE UNDER SUBDIVISION (B) TO HIS OR HER  
13 TIER 2 ACCOUNT AS PERMITTED BY THE STATE TREASURER AND THE INTERNAL  
14 REVENUE CODE. THE QUALIFIED PARTICIPANT'S EMPLOYER SHALL NOT MATCH  
15 CONTRIBUTIONS MADE BY THE QUALIFIED PARTICIPANT UNDER THIS  
16 SUBDIVISION.