



Department of Technology,  
Management & Budget

# Public Act 264 of 2011 Summary

## State Employees' Retirement System – Defined Benefit Plan

This summary highlights changes to the State Employees' Retirement Act and the Public Employee Retirement Health Care Funding Act as signed into law on December 15, 2011. Full law changes can be reviewed at [www.michigan.gov/orsstatedb](http://www.michigan.gov/orsstatedb).

### Changes for Members of the Defined Benefit (DB) Plan

Changes to the Defined Benefit (DB) plan grant members a choice regarding their future retirement plan. Members can voluntarily pay 4 percent of compensation to remain in the DB pension plan for future service, or decide not to make that choice and become a participant in the Defined Contribution (DC) plan for future years of service. They have the following options:

- **Option 1: DB Classified.** Members selecting this option voluntarily elect to remain in the DB plan for future service and contribute 4 percent of their annual compensation to the pension fund until they terminate state employment. The 4 percent contribution would begin on April 1, 2012.
- **Option 2: DB 30.** Members selecting this option voluntarily elect to remain in the DB plan for future service and contribute 4 percent of pay until they reach 30 years of service. When they reach 30 years of service, they will be switched to the state's DC plan. The 4 percent contribution would begin April 1, 2012, and continue until they switch to the DC plan or terminate employment, whichever comes first.
- **Option 3: DB/DC Blend.** Members selecting this option choose not to pay the 4 percent and therefore become participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant they would receive a 4 percent employer contribution to their 401(k) account and be eligible for a dollar-for-dollar employer match of up to 3 percent of pay to the plan.

**Deadline:** Elections must be made in miAccount beginning Wednesday, January 3, 2012, and no later than 5:00 p.m. EST, Friday, March 2, 2012. Requests to change an election must be received before the election deadline.

Members who make no election will become qualified participants in the state's DC plan as of April 1, 2012.

#### Changes to pension calculation:

- Final Average Compensation (FAC) is initially determined as the annual average of the highest 3 years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012, and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015, or later, then an annual average of overtime – for the 6-year period ending on the FAC calculation date – will be added to that initial FAC calculation to get the final FAC number.
- For members who switch to the DC plan for future service, the pension calculation (FAC times 1.5 percent times years of service) will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation.

#### Service credit:

- DB members will continue to accrue service credit towards eligibility and vesting as long as they continue to work for the state (even as a DC participant).
- Service purchase agreements initiated while a member of the DB plan remain in effect and will continue as long as the member is employed by the state.

#### Insurance:

Eligibility for the retiree health insurance premium subsidy remains unchanged whether a member remains in the DB plan or switches to the DC plan for future service. Eligibility for retiree health insurance premium subsidy remains unchanged for DC participants who transferred from the DB plan pursuant to the 1997 reform.



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### Returning to state employment:

- Deferred members of the DB plan (with 10 or more years of service) who are reemployed by the state on or after January 1, 2012, become participants in the DC plan. Their pension calculation is determined by their Final Average Compensation and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the state.
- Former nonvested members of the DB plan (with less than 10 years of service) who are reemployed by the state on or after January 1, 2012 and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their Final Average Compensation and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the state.
- Former nonvested members of the DB plan who are reemployed by the state on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count towards vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium but will receive the following:
  - Up to 2 percent matching employer contribution into a 401(k) or 457 account if the employee contributes 2 percent of pay.
  - A credit into a health reimbursement account (HRA) at termination if they have at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years old or \$1,000 for participants who are less than 60 years old.