

**SUBSTITUTE FOR
HOUSE BILL NO. 6357**

A bill to amend 1980 PA 300, entitled
"The public school employees retirement act of 1979,"
by amending section 41 (MCL 38.1341), as amended by 2018 PA 512.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 41. (1) The annual level percentage of payroll
2 contribution rates to finance benefits being provided and to be
3 provided by the retirement system must be determined by actuarial
4 valuation under subsection (2) on the basis of the risk assumptions
5 that the retirement board and the department adopt after
6 consultation with the state treasurer and an actuary. An annual
7 actuarial valuation must be made of the retirement system to
8 determine the actuarial condition of the retirement system and the
9 required contribution to the retirement system. An annual actuarial

1 gain-loss experience study of the retirement system must be made to
2 determine the financial effect of variations of actual retirement
3 system experience from projected experience.

4 (2) Except as otherwise provided in sections 41a and 41b, the
5 annual contribution rates for benefits are subject to all of the
6 following:

7 (a) Except as otherwise provided in this subdivision, the
8 contribution rate for benefits must be computed using an individual
9 projected benefit entry age normal cost method of valuation. If the
10 contributions described in section 43e are determined by a final
11 order of a court of competent jurisdiction for which all rights of
12 appeal have been exhausted to be unconstitutional and the
13 contributions are not deposited into the appropriate funding
14 account referenced in section 43e, the contribution rate for health
15 benefits provided under section 91 must be computed using a cash
16 disbursement method.

17 (b) Subject to subdivision (c), the contribution rate for
18 service likely to be rendered in the current year, the normal cost
19 contribution rate, for reporting units must be determined as
20 follows:

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

23 (ii) Divide the result of the calculation under subparagraph (i)
24 by 1% of the aggregate amount of active members' valuation
25 compensation.

26 (c) Except for the employee portion of the normal cost
27 contribution rates for members under section 41b(2), beginning with
28 the state fiscal year ending September 30, 2018 and for each
29 subsequent fiscal year, the normal cost contribution rate must not

1 be less than the normal cost contribution rate in the immediately
2 preceding state fiscal year.

3 (d) Subject to subdivision (e), the contribution rate for
4 unfunded service rendered before the valuation date, the unfunded
5 actuarial accrued liability contribution rate, must be determined
6 as follows:

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

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

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

13 (C) Calculate the actuarial present value of assets on the
14 valuation date.

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

16 (E) Subtract from the result of the calculation under sub-
17 subparagraph (A) the result from the calculation under sub-
18 subparagraph (D).

19 (ii) Subject to subsection (18), divide the result of the
20 calculation under subparagraph (i) by 1% of the actuarial present
21 value over a period not to exceed 50 years of projected valuation
22 compensation.

23 (e) Except for the employee portion of the unfunded actuarial
24 accrued liability contribution rates for members under section
25 41b(2), beginning with the state fiscal year ending September 30,
26 2018 and for each subsequent fiscal year until the state fiscal
27 year ending September 30, 2021, the unfunded actuarial accrued
28 liability contribution rate must not be less than the unfunded
29 actuarial accrued liability contribution rate in the ~~immediately~~

1 preceding state fiscal year. ~~Beginning~~ **Except as otherwise provided**
 2 **in this subdivision, beginning** with the state fiscal year ending
 3 September 30, 2022, and for each subsequent fiscal year until the
 4 unfunded actuarial accrued liability is **fully** paid, ~~eff,~~ the
 5 unfunded actuarial accrued liability contribution ~~sum~~ **amount** due
 6 and payable must not be less than the unfunded actuarial accrued
 7 liability contribution ~~sum~~ **amount** due and payable in the
 8 ~~immediately~~ preceding state fiscal year. **The following applies to a**
 9 **reporting unit that is a university reporting unit:**

10 (i) For the state fiscal year ending September 30, 2023 only,
 11 the unfunded actuarial accrued liability contribution due and
 12 payable must be equal to the actuarially determined contribution.
 13 The contribution described in this subparagraph must reflect the
 14 appropriation made under section 236h of the state school aid act
 15 of 1979, 1979 PA 94, MCL 388.1836h, as amended by 2022 PA 144.

16 (ii) Beginning with the state fiscal year ending September 30,
 17 2024, and for each subsequent fiscal year until the unfunded
 18 actuarial accrued liability is fully paid, the unfunded actuarial
 19 accrued liability contribution amount due and payable must continue
 20 to reflect the appropriation made under section 236h of the state
 21 school aid act of 1979, 1979 PA 94, MCL 388.1836h, as amended by
 22 2022 PA 144.

23 (f) Beginning with the state fiscal year ending September 30,
 24 2013 and for each subsequent fiscal year, the unfunded actuarial
 25 accrued liability contribution rate applied to payroll must not
 26 exceed 20.96% for a reporting unit that is not a university
 27 reporting unit. Any additional unfunded actuarial accrued liability
 28 contributions as determined under this section for each fiscal year
 29 are to be paid by appropriation from the state school aid fund

1 established by section 11 of article IX of the state constitution
2 of 1963. Except as otherwise provided in this section and sections
3 41a and 41b, the unfunded actuarial accrued liability contribution
4 rate must be based on and applied to the combined payrolls of the
5 employees who are members or qualified participants, or both.

6 (g) Beginning with the state fiscal year ending September 30,
7 2016 and for each subsequent state fiscal year, the unfunded
8 actuarial accrued liability contribution rate applied to the
9 combined payroll, as provided in section 41a, must not exceed
10 25.73% for a university reporting unit. Any additional unfunded
11 actuarial accrued liability contributions as determined under this
12 section for each fiscal year for university reporting units are to
13 be paid by appropriation under article III of the state school aid
14 act of 1979, 1979 PA 94, MCL 388.1836 to 388.1891.

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

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

24 (5) Except as provided in section 41b, the reporting units
25 shall pay the amount certified under subsection (4) to the director
26 of the department in equal payroll cycle installments for unfunded
27 actuarial accrued liability contributions and payroll cycle
28 installments for normal cost contributions.

29 (6) Not later than 90 days after ~~termination~~ **the end** of each

1 state fiscal year, the executive secretary of the retirement board
2 shall certify to the director of the department and each reporting
3 unit the actual aggregate compensation paid to public school
4 employees during the preceding state fiscal year. On receipt of
5 that certification, the director of the department may compute any
6 adjustment required to the amount because of a difference between
7 the estimated and the actual aggregate compensation and the
8 estimated and the actual actuarial employer contribution rate. The
9 difference, if any, must be paid as provided in subsection (9).
10 This subsection does not apply in a fiscal year in which a deposit
11 ~~occurs~~**is made** under subsection (14).

12 (7) The director of the department may require evidence of
13 correctness and may conduct an audit of the aggregate compensation
14 that the director of the department considers necessary to
15 establish its correctness.

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

21 (9) For an employer of an employee of a local public school
22 district or an intermediate school district, for differences
23 occurring in fiscal years beginning on or after October 1, 1993, a
24 minimum of 20% of ~~the~~**any** difference between the estimated and the
25 actual aggregate compensation and the estimated and the actual
26 actuarial employer contribution rate described in subsection (6) ~~if~~
27 ~~if any,~~ must be paid by that employer in the next ~~succeeding~~ state
28 fiscal year and a minimum of 25% of the remaining difference must
29 be paid by that employer in each of the following 4 state fiscal

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

18 (10) Beginning on September 30, 2006, all assets held by the
19 retirement system must be reassigned their fair market value, as
20 determined by the state treasurer, as of September 30, 2006, and in
21 calculating any unfunded actuarial accrued liabilities, any market
22 gains or losses incurred before September 30, 2006 may not be
23 considered by the retirement system's actuaries.

24 (11) Except as otherwise provided in this subsection,
25 beginning on September 30, 2006, the actuary used by the retirement
26 board shall assume a rate of return on investments of 8% per annum,
27 as of September 30, 2006, which rate may only be changed with the
28 approval of the retirement board and the director of the
29 department. Beginning on July 1, 2010, the actuary used by the

1 retirement board shall assume a rate of return on investments of 7%
2 per annum for investments associated with members who first became
3 members after June 30, 2010, and before February 1, 2018, which
4 rate may only be changed with the approval of the retirement board
5 and the director of the department. Beginning on February 1, 2018,
6 the actuary used by the retirement board shall assume a rate of
7 return on investments of 6% per annum for investments associated
8 with members who first became a member on or after February 1,
9 2018, which rate may only be changed with the approval of the
10 retirement board and the director of the department.

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

17 (13) Beginning on September 30, 2006, the actuary used by the
18 retirement board shall use a salary increase assumption that
19 projects annual salary increases of 4%. In addition to the 4%, the
20 retirement board shall use an additional percentage based on an
21 age-related scale to reflect merit, longevity, and promotional
22 salary increase. The actuary shall use this assumption until a
23 change in the assumption is approved in writing by the retirement
24 board and the director of the department.

25 (14) For fiscal years that begin on or after October 1, 2001,
26 if the actuarial valuation prepared under this section demonstrates
27 that as of the beginning of a fiscal year, and after all credits
28 and transfers required by this act for the previous fiscal year
29 have been made, the sum of the actuarial value of assets and the

1 actuarial present value of future normal cost contributions exceeds
2 the actuarial present value of benefits, the amount based on the
3 annual level percent of payroll contribution rate under subsections
4 (1) and (2) may be deposited into the health advance funding
5 subaccount created by section 34.

6 (15) Notwithstanding any other provision of this act, if the
7 retirement board establishes an arrangement and fund as described
8 in section 6 of the public employee retirement benefit protection
9 act, 2002 PA 100, MCL 38.1686, the benefits that are required to be
10 paid from that fund must be paid from a portion of the employer
11 contributions described in this section or other eligible ~~funds-~~
12 **money**. The retirement board shall determine the amount of the
13 employer contributions or other eligible ~~funds-~~**money** that must be
14 allocated to that fund and deposit that amount in that fund before
15 it deposits any remaining employer contributions or other eligible
16 ~~funds-~~**money** in the pension fund.

17 (16) The retirement board and the department shall conduct and
18 review an experience investigation study and adopt risk assumptions
19 on which actuarial valuations are to be based after consultation
20 with the actuary and the state treasurer. The experience
21 investigation study must be completed and risk assumptions must be
22 periodically reviewed at least once every 5 years.

23 (17) Every April 1 following the periodic review of risk
24 assumptions under subsection (16), the office of retirement
25 services on behalf of the department and the state treasurer shall
26 collaborate to submit a report to the senate majority leader, the
27 speaker of the house of representatives, the senate and house of
28 representatives appropriations committees, and the senate and house
29 fiscal agencies. A report required under this subsection must be

1 published on the office of retirement ~~services's~~**services'** website
2 and include at least all of the following:

3 (a) Forecasted rate of return on investments at all of the
4 following probability levels:

5 (i) 5%.

6 (ii) 25%.

7 (iii) 50%.

8 (iv) 75%.

9 (v) 95%.

10 (b) The actual rate of return on investments for 10-, 15-, and
11 20-year intervals.

12 (c) Mortality assumptions.

13 (d) Retirement age assumptions.

14 (e) Payroll growth assumptions.

15 (f) Any other assumptions that have a material impact on the
16 financial status of the retirement system.

17 (18) Except as otherwise provided in this subsection, for
18 members who first became members before February 1, 2018, **for the**
19 **state fiscal year ending September 30, 2023, the pension and**
20 **retiree health care payroll growth assumption rate for a reporting**
21 **unit that is not a university reporting unit must be 1.75%. Except**
22 **as otherwise provided in this subsection, for members who first**
23 **became members before February 1, 2018,** beginning with the state
24 fiscal year ending September 30, ~~2022~~**2024**, and for each subsequent
25 state fiscal year until the pension and retiree health care payroll
26 growth assumption rate for a reporting unit that is not a
27 university reporting unit is zero, the payroll growth assumption
28 rate for a reporting unit that is not a university reporting unit
29 must be reduced by 50 basis points. Beginning with the state fiscal

1 year ending September 30, 2025 and for each subsequent state fiscal
2 year until the rate described in this subsection is zero, if the
3 pension and retiree health care unfunded actuarial accrued
4 liability contribution ~~sum-amount~~ directly attributable to the 50
5 basis points reduction under this subsection for the ~~current~~-fiscal
6 year is 7% or more of the pension and retiree health care unfunded
7 actuarial accrued liability contribution ~~sum-amount~~ in the
8 ~~immediately~~-preceding state fiscal year, the office of retirement
9 services may reduce the rate described in this subsection by 25
10 basis points in that current fiscal year instead of the 50 basis
11 point reduction described in this subsection. Beginning with the
12 fiscal year ending September 30, 2022 and for each subsequent state
13 fiscal year until the rate described in this subsection is zero,
14 the office of retirement services and the retirement board may
15 agree to reduce the rate described in this subsection by any number
16 of additional basis points.

17 (19) As used in this section, "university reporting unit"
18 means a reporting unit that is a university listed in the
19 definition of public school employee under section 6.