

**SUBSTITUTE FOR
HOUSE BILL NO. 5355**

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 2017 PA 92.

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
10 gain-loss experience study of the retirement system must be made to

1 determine the financial effect of variations of actual retirement
2 system experience from projected experience.

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

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

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

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

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

25 (c) Except for the employee portion of the normal cost
26 contribution rates for members under section 41b(2), beginning with
27 the state fiscal year ending September 30, 2018 and for each

1 subsequent fiscal year, the normal cost contribution rate must not
2 be less than the normal cost contribution rate in the immediately
3 preceding state fiscal year.

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

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

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

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

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

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

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

20 (ii) ~~Divide~~ **SUBJECT TO SUBSECTION (18), DIVIDE** the result of
21 the calculation under subparagraph (i) by 1% of the actuarial
22 present value over a period not to exceed 50 years of projected
23 valuation compensation.

24 (e) Except for the employee portion of the unfunded actuarial
25 accrued liability contribution rates for members under section
26 41b(2), beginning with the state fiscal year ending September 30,
27 2018 and for each subsequent fiscal year until ~~the unfunded~~

1 ~~actuarial accrued liability is paid off,~~ **THE STATE FISCAL YEAR**
 2 **ENDING SEPTEMBER 30, 2021,** the unfunded actuarial accrued liability
 3 contribution rate must not be less than the unfunded actuarial
 4 accrued liability contribution rate in the immediately preceding
 5 state fiscal year. **BEGINNING WITH THE STATE FISCAL YEAR ENDING**
 6 **SEPTEMBER 30, 2022, AND FOR EACH SUBSEQUENT FISCAL YEAR UNTIL THE**
 7 **UNFUNDED ACTUARIAL ACCRUED LIABILITY IS PAID OFF, THE UNFUNDED**
 8 **ACTUARIAL ACCRUED LIABILITY CONTRIBUTION SUM DUE AND PAYABLE MUST**
 9 **NOT BE LESS THAN THE UNFUNDED ACTUARIAL ACCRUED LIABILITY**
 10 **CONTRIBUTION SUM DUE AND PAYABLE IN THE IMMEDIATELY PRECEDING STATE**
 11 **FISCAL YEAR.**

12 (f) Beginning with the state fiscal year ending September 30,
 13 2013 and for each subsequent fiscal year, the unfunded actuarial
 14 accrued liability contribution rate applied to payroll must not
 15 exceed 20.96% for a reporting unit that is not a university
 16 reporting unit. Any additional unfunded actuarial accrued liability
 17 contributions as determined under this section for each fiscal year
 18 are to be paid by appropriation from the state school aid fund
 19 established by section 11 of article IX of the state constitution
 20 of 1963. Except as otherwise provided in this section, section 41a,
 21 and section 41b, the unfunded actuarial accrued liability
 22 contribution rate must be based on and applied to the combined
 23 payrolls of the employees who are members or qualified
 24 participants, or both.

25 (g) Beginning with the state fiscal year ending September 30,
 26 2019 ~~,~~ and for each subsequent fiscal year, for a reporting unit
 27 that is not a university reporting unit, tax supported community or

1 junior college, public school academy, or district library as **THAT**
2 **TERM IS** defined in section 69g, the unfunded actuarial accrued
3 liability contribution rate determined under subdivision (d) must
4 be applied to the reporting unit's payroll, as adjusted under
5 subdivision (h).

6 (h) Beginning with the state fiscal year ending September 30,
7 2019, the payroll for which the unfunded actuarial accrued
8 liability contribution rate is applied for a reporting unit
9 described in subdivision (g) must be adjusted by the growth rate of
10 the reporting unit's current operating expenditures in the previous
11 fiscal year based on methods as determined by the retirement system
12 and in consultation with the system's actuary. The adjusted payroll
13 under this subdivision must become the basis on which the
14 contribution rate provided under subdivision (d) for each
15 subsequent state fiscal year is determined for a reporting unit
16 described in subdivision (g).

17 (i) Beginning with the state fiscal year ending September 30,
18 2016 and for each subsequent state fiscal year, the unfunded
19 actuarial accrued liability contribution rate applied to the
20 combined payroll, as provided in section 41a, must not exceed
21 25.73% for a university reporting unit. Any additional unfunded
22 actuarial accrued liability contributions as determined under this
23 section for each fiscal year for university reporting units are to
24 be paid by appropriation under article III of the state school aid
25 act of 1979, 1979 PA 94, MCL 388.1836 to 388.1891.

26 (3) Before November 1 of each year, the executive secretary of
27 the retirement board shall certify to the director of the

1 department the aggregate compensation estimated to be paid public
2 school employees for the current state fiscal year.

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

8 (5) Except as provided in section 41b, the reporting units
9 shall pay the amount certified under subsection (4) to the director
10 of the department in equal payroll cycle installments for unfunded
11 actuarial accrued liability contributions and payroll cycle
12 installments for normal cost contributions.

13 (6) Not later than 90 days after termination of each state
14 fiscal year, the executive secretary of the retirement board shall
15 certify to the director of the department and each reporting unit
16 the actual aggregate compensation paid to public school employees
17 during the preceding state fiscal year. On receipt of that
18 certification, the director of the department may compute any
19 adjustment required to the amount ~~due to~~ **BECAUSE OF** a difference
20 between the estimated and the actual aggregate compensation and the
21 estimated and the actual actuarial employer contribution rate. The
22 difference, if any, must be paid as provided in subsection (9).
23 This subsection does not apply in a fiscal year in which a deposit
24 occurs under subsection (14).

25 (7) The director of the department may require evidence of
26 correctness and may conduct an audit of the aggregate compensation
27 that the director of the department considers necessary to

1 establish its correctness.

2 (8) A reporting unit shall forward employee and employer
3 ~~social security~~ **SOCIAL SECURITY** contributions and reports as
4 required by the federal old-age, survivors, disability, and
5 hospital insurance provisions of title II of the social security
6 act, 42 USC 401 to 434.

7 (9) For an employer of an employee of a local public school
8 district or an intermediate school district, for differences
9 occurring in fiscal years beginning on or after October 1, 1993, a
10 minimum of 20% of the difference between the estimated and the
11 actual aggregate compensation and the estimated and the actual
12 actuarial employer contribution rate described in subsection (6),
13 if any, must be paid by that employer in the next succeeding state
14 fiscal year and a minimum of 25% of the remaining difference must
15 be paid by that employer in each of the following 4 state fiscal
16 years, or until 100% of the remaining difference is submitted,
17 whichever first occurs. For an employer of other public school
18 employees, for differences occurring in fiscal years beginning on
19 or after October 1, 1991, a minimum of 20% of the difference
20 between the estimated and the actual aggregate compensation and the
21 estimated and the actual actuarial employer contribution rate
22 described in subsection (6), if any, must be paid by that employer
23 in the next succeeding state fiscal year and a minimum of 25% of
24 the remaining difference must be paid by that employer in each of
25 the following 4 state fiscal years, or until 100% of the remaining
26 difference is submitted, whichever first occurs. In addition,
27 interest must be included for each year that a portion of the

1 remaining difference is carried forward. The interest rate must
2 equal the actuarially assumed rate of investment return for the
3 state fiscal year in which payment is made. This subsection does
4 not apply in a fiscal year in which a deposit occurs under
5 subsection (14).

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

12 (11) Except as otherwise provided in this subsection,
13 beginning on September 30, 2006, the actuary used by the retirement
14 board shall assume a rate of return on investments of 8% per annum,
15 as of September 30, 2006, which rate may only be changed with the
16 approval of the retirement board and the director of the
17 department. Beginning on July 1, 2010, the actuary used by the
18 retirement board shall assume a rate of return on investments of 7%
19 per annum for investments associated with members who first became
20 members after June 30, 2010, and before February 1, 2018, which
21 rate may only be changed with the approval of the retirement board
22 and the director of the department. Beginning on February 1, 2018,
23 the actuary used by the retirement board shall assume a rate of
24 return on investments of 6% per annum for investments associated
25 with members who first became a member on or after February 1,
26 2018, which rate may only be changed with the approval of the
27 retirement board and the director of the department.

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

7 (13) Beginning on September 30, 2006, the actuary used by the
8 retirement board shall use a salary increase assumption that
9 projects annual salary increases of 4%. In addition to the 4%, the
10 retirement board shall use an additional percentage based on an
11 age-related scale to reflect merit, longevity, and promotional
12 salary increase. The actuary shall use this assumption until a
13 change in the assumption is approved in writing by the retirement
14 board and the director of the department.

15 (14) For fiscal years that begin on or after October 1, 2001,
16 if the actuarial valuation prepared under this section demonstrates
17 that as of the beginning of a fiscal year, and after all credits
18 and transfers required by this act for the previous fiscal year
19 have been made, the sum of the actuarial value of assets and the
20 actuarial present value of future normal cost contributions exceeds
21 the actuarial present value of benefits, the amount based on the
22 annual level percent of payroll contribution rate under subsections
23 (1) and (2) may be deposited into the health advance funding
24 subaccount created by section 34.

25 (15) Notwithstanding any other provision of this act, if the
26 retirement board establishes an arrangement and fund as described
27 in section 6 of the public employee retirement benefit protection

1 act, 2002 PA 100, MCL 38.1686, the benefits that are required to be
2 paid from that fund must be paid from a portion of the employer
3 contributions described in this section or other eligible funds.
4 The retirement board shall determine the amount of the employer
5 contributions or other eligible funds that must be allocated to
6 that fund and deposit that amount in that fund before it deposits
7 any remaining employer contributions or other eligible funds in the
8 pension fund.

9 (16) The retirement board and the department shall conduct and
10 review an experience investigation study and adopt risk assumptions
11 on which actuarial valuations are to be based after consultation
12 with the actuary and the state treasurer. The experience
13 investigation study ~~shall~~ **MUST** be completed and risk assumptions
14 ~~shall~~ **MUST** be periodically reviewed at least once every 5 years.

15 (17) Every April 1 following the periodic review of risk
16 assumptions under subsection (16), the office of retirement
17 services on behalf of the department and the state treasurer shall
18 collaborate to submit a report to the senate majority leader, the
19 speaker of the house of representatives, the senate and house of
20 representatives appropriations committees, and the senate and house
21 fiscal agencies. A report required under this subsection must be
22 published on the office of retirement ~~services'~~ **SERVICES'S** website
23 and include at least all of the following:

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

26 (i) 5%.

27 (ii) 25%.

1 (iii) 50%

2 (iv) 75%.

3 (v) 95%.

4 (b) The actual rate of return on investments for 10-, 15-, and
5 20-year ~~time~~ intervals.

6 (c) Mortality assumptions.

7 (d) Retirement age assumptions.

8 (e) Payroll growth assumptions.

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

11 (18) EXCEPT AS OTHERWISE PROVIDED IN THIS SUBSECTION, FOR
12 MEMBERS WHO FIRST BECAME MEMBERS BEFORE FEBRUARY 1, 2018, BEGINNING
13 WITH THE STATE FISCAL YEAR ENDING SEPTEMBER 30, 2022 AND FOR EACH
14 SUBSEQUENT STATE FISCAL YEAR UNTIL THE PENSION AND RETIREE HEALTH
15 CARE PAYROLL GROWTH ASSUMPTION RATE FOR A REPORTING UNIT THAT IS
16 NOT A UNIVERSITY REPORTING UNIT IS ZERO, THE PAYROLL GROWTH
17 ASSUMPTION RATE FOR A REPORTING UNIT THAT IS NOT A UNIVERSITY
18 REPORTING UNIT MUST BE REDUCED BY 0.5. BEGINNING WITH THE STATE
19 FISCAL YEAR ENDING SEPTEMBER 30, 2025 AND FOR EACH SUBSEQUENT STATE
20 FISCAL YEAR UNTIL THE RATE DESCRIBED IN THIS SUBSECTION IS ZERO, IF
21 THE PENSION AND RETIREE HEALTH CARE UNFUNDED ACTUARIAL ACCRUED
22 LIABILITY CONTRIBUTION SUM DIRECTLY ATTRIBUTABLE TO THE 0.5
23 REDUCTION UNDER THIS SUBSECTION FOR THE CURRENT FISCAL YEAR IS 7%
24 OR MORE OF THE PENSION AND RETIREE HEALTH CARE UNFUNDED ACTUARIAL
25 ACCRUED LIABILITY CONTRIBUTION SUM IN THE IMMEDIATELY PRECEDING
26 STATE FISCAL YEAR, THE OFFICE OF RETIREMENT SERVICES MAY REDUCE THE
27 RATE DESCRIBED IN THIS SUBSECTION BY 0.25 IN THAT CURRENT FISCAL

1 **YEAR.**

2 **(19)** ~~(18)~~ As used in this section:

3 (a) "Current operating expenditures" includes functions 1xx,
4 2xx, 45x, and all object codes except 6xxx, as defined in the most
5 recent "Michigan Public School Accounting Manual Bulletin 1022" as
6 ~~of the effective date of the amendatory act that added this~~
7 ~~subdivision,~~ **JULY 13, 2017**, and is equal to the total of
8 instructional and support services expenditures, including the
9 total general fund charges incurred in the general, special
10 education, and vocational education funds for the benefit of the
11 current fiscal year, whether paid or unpaid, and all expenditures
12 of the instructional programs plus applicable supporting service
13 costs reduced by capital outlay, debt service, community services,
14 and outgoing transfers and other transactions. Current operating
15 expenditures also include operating funds for any public school or
16 other public educational entity first authorized or established by
17 a reporting unit described in subsection (2)(g) on or after ~~the~~
18 ~~effective date of the amendatory act that added this subdivision.~~
19 **JULY 13, 2017.**

20 (b) "University reporting unit" means a reporting unit that is
21 a university listed in the definition of public school employee
22 under section 6.