

HOUSE BILL No. 5768

July 13, 2016, Introduced by Rep. Pagan and referred to the Committee on Financial Liability Reform.

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 2016 PA 136.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

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

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

5 (2) Except as otherwise provided in section 41a, the annual
6 contribution rates for benefits is subject to all of the 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) The contribution rate for service likely to be rendered in
18 the current year, the normal cost contribution rate, for reporting
19 units must be determined as 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) The contribution rate for unfunded service rendered before
26 the valuation date, the unfunded actuarial accrued liability
27 contribution rate, must be determined as follows:

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

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

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

7 (C) Calculate the actuarial present value of assets on the
8 valuation date.

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

10 (E) Subtract from the result of the calculation under sub-
11 subparagraph (A) the result from the calculation under sub-
12 subparagraph (D).

13 (ii) ~~Divide~~ **EXCEPT AS PROVIDED IN SUBPARAGRAPH (iii), DIVIDE**
14 the result of the calculation under subparagraph (i) by 1% of the
15 actuarial present value over a period not to exceed 50 years of
16 projected valuation compensation.

17 (iii) **BEGINNING WITH THE STATE FISCAL YEAR ENDING SEPTEMBER**
18 **30, 2017 AND EACH SUBSEQUENT FISCAL YEAR, DIVIDE THE RESULT OF THE**
19 **CALCULATION UNDER SUBPARAGRAPH (i) BY 1% OF THE ACTUARIAL PRESENT**
20 **VALUE OVER A PERIOD NOT TO EXCEED 50 YEARS OF PROJECTED PAYROLL**
21 **PLUS PURCHASED SERVICES.**

22 (d) ~~Beginning~~ **EXCEPT AS OTHERWISE PROVIDED IN THIS**
23 **SUBDIVISION, BEGINNING** with the state fiscal year ending September
24 30, 2013 and for each subsequent fiscal year, the unfunded
25 actuarial accrued liability contribution rate applied to payroll
26 must not exceed 20.96% for a reporting unit that is not a
27 university reporting unit. ~~Any additional unfunded actuarial~~

1 ~~accrued liability contributions as determined under this section~~
2 ~~for each fiscal year are to be paid by appropriation from the~~
3 ~~school aid fund established by section 11 of article IX of the~~
4 ~~state constitution of 1963.~~ Except as otherwise provided in this
5 section and section 41a, the unfunded actuarial accrued liability
6 contribution rate must be based on and applied to the combined
7 payrolls of the employees who are members and qualified
8 participants. **BEGINNING WITH THE STATE FISCAL YEAR ENDING SEPTEMBER**
9 **30, 2017, THE UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTION**
10 **RATE AND PAYMENT SCHEDULE FOR A REPORTING UNIT THAT IS NOT A**
11 **UNIVERSITY REPORTING UNIT, TAX SUPPORTED COMMUNITY OR JUNIOR**
12 **COLLEGE, OR DISTRICT LIBRARY AS DEFINED IN SECTION 69G MUST BE**
13 **APPLIED TO THE COMBINED PAYROLLS OF THE EMPLOYEES WHO ARE MEMBERS**
14 **AND QUALIFIED PARTICIPANTS PLUS PURCHASED SERVICES. THE RATE**
15 **APPLIED TO PAYROLL PLUS PURCHASED SERVICES MUST NOT EXCEED 16.52%.**
16 **ANY ADDITIONAL UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTIONS**
17 **AS DETERMINED UNDER THIS SECTION FOR EACH FISCAL YEAR ARE TO BE**
18 **PAID BY APPROPRIATION FROM THE STATE SCHOOL AID FUND ESTABLISHED BY**
19 **SECTION 11 OF ARTICLE IX OF THE STATE CONSTITUTION OF 1963.**

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

1 act of 1979, 1979 PA 94, MCL 388.1836 to 388.1893.

2 (3) Before November 1 of each year, the executive secretary of
3 the retirement board shall certify to the director of the
4 department the aggregate compensation estimated to be paid public
5 school employees for the current state fiscal year **AND THE**
6 **ESTIMATED PURCHASED SERVICES.**

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

12 (5) The reporting units shall pay the amount certified under
13 subsection (4) to the director of the department in equal payroll
14 cycle installments for unfunded actuarial accrued liability
15 contributions and payroll cycle installments for normal cost
16 contributions.

17 (6) Not later than 90 days after termination of each state
18 fiscal year, the executive secretary of the retirement board shall
19 certify to the director of the department and each reporting unit
20 the actual aggregate compensation paid to public school employees
21 during the preceding state fiscal year **AND THE ACTUAL PAYROLL PLUS**
22 **PURCHASED SERVICES.** On receipt of that certification, the director
23 of the department may compute any adjustment required to the amount
24 due to a difference between the estimated and the actual aggregate
25 compensation and the estimated and the actual actuarial employer
26 contribution rate. The difference, if any, must be paid as provided
27 in subsection (9). **THE COMPUTATION OF ANY ADJUSTMENT FOR THE**

1 DIFFERENCE BETWEEN PAYROLL PLUS PURCHASED SERVICES AND ACTUAL
2 UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTION RATE AND THE
3 PAYMENT OF THE DIFFERENCE MUST BE DONE IN THE SAME MANNER AS
4 PROVIDED IN THIS SUBSECTION AND SUBSECTION (9). This subsection
5 does not apply in a fiscal year in which a deposit occurs under
6 subsection (14).

7 (7) The director of the department may require evidence of
8 correctness and may conduct an audit of the aggregate compensation
9 that the director of the department considers necessary to
10 establish its correctness.

11 (8) A reporting unit shall forward employee and employer
12 social security contributions and reports as required by the
13 federal old-age, survivors, disability, and hospital insurance
14 provisions of title II of the social security act, 42 USC 401 to
15 434.

16 (9) For an employer of an employee of a local public school
17 district or an intermediate school district, for differences
18 occurring in fiscal years beginning ~~on or after October 1,~~
19 **SEPTEMBER 30, 1993**, a minimum of 20% of the difference between the
20 estimated and the actual aggregate compensation and the estimated
21 and the actual actuarial employer contribution rate described in
22 subsection (6), if any, must be paid by ~~that~~**THE** employer in the
23 next succeeding state fiscal year and a minimum of 25% of the
24 remaining difference must be paid by ~~that~~**THE** employer in each of
25 the following 4 state fiscal years, or until 100% of the remaining
26 difference is submitted, whichever first occurs. For an employer of
27 other public school employees, for differences occurring in fiscal

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

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

22 (11) Except as otherwise provided in this subsection,
23 beginning on September 30, 2006, the actuary used by the retirement
24 board shall assume a rate of return on investments of 8.00% per
25 annum, as of September 30, 2006, which rate may only be changed
26 with the approval of the retirement board and the director of the
27 department. Beginning on July 1, 2010, the actuary used by the

1 retirement board shall assume a rate of return on investments of
2 7.00% per annum for investments associated with members who first
3 became members after June 30, 2010, which rate may only be changed
4 with the approval of the retirement board and the director of the
5 department.

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

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

20 (14) For fiscal years that begin ~~on or after October 1,~~
21 **SEPTEMBER 30**, 2001, if the actuarial valuation prepared under this
22 section demonstrates that as of the beginning of a fiscal year, and
23 after all credits and transfers required by this act for the
24 previous fiscal year have been made, the sum of the actuarial value
25 of assets and the actuarial present value of future normal cost
26 contributions exceeds the actuarial present value of benefits, the
27 amount based on the annual level percent of payroll contribution

1 rate OR RATE APPLIED TO PAYROLL PLUS PURCHASED SERVICES, AS
2 APPLICABLE, under subsections (1) and (2) may be deposited into the
3 health advance funding subaccount created by section 34.

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

15 (16) As used in this section: ~~"university~~

16 (A) "ACHIEVEMENT AUTHORITY" MEANS THAT TERM AS DEFINED IN
17 SECTION 3 OF THE STATE SCHOOL AID ACT OF 1979, 1979 PA 94,
18 388.1603.

19 (B) "PURCHASED SERVICES" FOR A PUBLIC LOCAL SCHOOL DISTRICT,
20 INTERMEDIATE SCHOOL DISTRICT, PUBLIC SCHOOL ACADEMY, ACHIEVEMENT
21 AUTHORITY, OR AN ENTITY FULFILLING THE FUNCTIONS OF THE STATE
22 SCHOOL REFORM/REDESIGN SCHOOL DISTRICT UNDER SECTION 1280C OF THE
23 REVISED SCHOOL CODE, 1976 PA 451, MCL 380.1280C, INCLUDES FUNCTIONS
24 1XX, 2XX, 45X, AND OBJECT CODES 31XX, 33XX, 38XX, 41XX, AND 82XX AS
25 DEFINED IN THE MICHIGAN PUBLIC SCHOOL ACCOUNTING MANUAL BULLETIN
26 1022, AND IS EQUAL TO THE TOTAL OF INSTRUCTIONAL AND SUPPORT
27 SERVICES EXPENDITURES, INCLUDING THE TOTAL GENERAL FUND CHARGES

1 INCURRED IN THE GENERAL, SPECIAL EDUCATION, VOCATIONAL EDUCATION,
2 ATHLETIC, AND SCHOOL LUNCH FUNDS FOR THE BENEFIT OF THE CURRENT
3 FISCAL YEAR, WHETHER PAID OR UNPAID, AND ALL EXPENDITURES OF THE
4 INSTRUCTIONAL PROGRAMS PLUS APPLICABLE SUPPORTING SERVICE COSTS
5 REDUCED BY CAPITAL OUTLAY, DEBT SERVICE, COMMUNITY SERVICES, AND
6 OUTGOING TRANSFERS AND OTHER TRANSACTIONS. PURCHASED SERVICES FOR A
7 PUBLIC LOCAL SCHOOL DISTRICT ALSO INCLUDE OPERATING FUNDS FOR ANY
8 PUBLIC SCHOOL OR OTHER PUBLIC EDUCATIONAL ENTITY FIRST AUTHORIZED
9 OR ESTABLISHED BY THE PUBLIC LOCAL SCHOOL DISTRICT ON OR AFTER THE
10 EFFECTIVE DATE OF THE AMENDATORY ACT THAT ADDED THIS SUBDIVISION.

11 (C) "UNIVERSITY reporting unit" means a reporting unit that is
12 a university listed in the definition of public school employee
13 under section 6.