

HOUSE BILL NO. 4531

April 30, 2019, Introduced by Reps. Paquette, Albert and Lower and referred to the Committee on Appropriations.

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



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

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

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

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

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

26 (ii) Divide the result of the calculation under subparagraph (i)
27 by 1% of the aggregate amount of active members' valuation
28 compensation.

29 (c) Except for the employee portion of the normal cost



1 contribution rates for members under section 41b(2), beginning with
2 the state fiscal year ending September 30, 2018 and for each
3 subsequent fiscal year, the normal cost contribution rate must not
4 be less than the normal cost contribution rate in the immediately
5 preceding state fiscal year.

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

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

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

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

16 (C) Calculate the actuarial present value of assets on the
17 valuation date.

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

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

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

26 (e) Except for the employee portion of the unfunded actuarial
27 accrued liability contribution rates for members under section
28 41b(2), beginning with the state fiscal year ending September 30,
29 2018 and for each subsequent fiscal year until the state fiscal



1 year ending September 30, 2021, the unfunded actuarial accrued
2 liability contribution rate must not be less than the unfunded
3 actuarial accrued liability contribution rate in the ~~immediately~~
4 preceding state fiscal year. Beginning with the state fiscal year
5 ending September 30, 2022, and for each subsequent fiscal year
6 until the unfunded actuarial accrued liability is **fully** paid, ~~off,~~
7 the unfunded actuarial accrued liability contribution ~~sum-~~**amount**
8 due and payable must not be less than the unfunded actuarial
9 accrued liability contribution ~~sum-~~**amount** due and payable in the
10 ~~immediately~~-preceding state fiscal year.

11 **(f) Beginning with the state fiscal year ending September 30,**
12 **2021, and for each subsequent fiscal year, the retirement system**
13 **shall use layered amortization.**

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

27 **(h)** ~~(g)~~—Beginning with the state fiscal year ending September
28 30, 2016 and for each subsequent state fiscal year, the unfunded
29 actuarial accrued liability contribution rate applied to the



1 combined payroll, as provided in section 41a, must not exceed
2 25.73% for a university reporting unit. Any additional unfunded
3 actuarial accrued liability contributions as determined under this
4 section for each fiscal year for university reporting units are to
5 be paid by appropriation under article III of the state school aid
6 act of 1979, 1979 PA 94, MCL 388.1836 to 388.1891.

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

11 (4) On the basis of the estimate under subsection (3), the
12 annual actuarial valuation, and any adjustment required under
13 subsection (6), the director of the department shall compute the
14 ~~sum-~~**amount** due and payable to the retirement system and shall
15 certify this amount to the reporting units.

16 (5) Except as provided in section 41b, the reporting units
17 shall pay the amount certified under subsection (4) to the director
18 of the department in equal payroll cycle installments for unfunded
19 actuarial accrued liability contributions and payroll cycle
20 installments for normal cost contributions.

21 (6) Not later than 90 days after ~~termination~~**the end** of each
22 state fiscal year, the executive secretary of the retirement board
23 shall certify to the director of the department and each reporting
24 unit the actual aggregate compensation paid to public school
25 employees during the preceding state fiscal year. On receipt of
26 that certification, the director of the department may compute any
27 adjustment required to the amount because of a difference between
28 the estimated and the actual aggregate compensation and the
29 estimated and the actual actuarial employer contribution rate. The



1 difference, if any, must be paid as provided in subsection (9).
 2 This subsection does not apply in a fiscal year in which a deposit
 3 ~~occurs~~ **is made** under subsection (14).

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

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

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



1 ~~if any,~~ must be paid by that employer in the next ~~succeeding~~ state
 2 fiscal year and a minimum of 25% of the remaining difference must
 3 be paid by that employer in each of the following 4 state fiscal
 4 years, or until 100% of the remaining difference is submitted,
 5 whichever first occurs. **For an employer of a public school employee**
 6 **for differences occurring in fiscal years beginning on or after**
 7 **October 1, 2021, any difference between the estimated and the**
 8 **actual aggregate compensation and the estimated and the actual**
 9 **actuarial employer contribution rate described in subsection (6)**
 10 **must be paid by appropriation from the state school aid fund**
 11 **established by section 11 of article IX of the state constitution**
 12 **of 1963 in the following fiscal year.** In addition, interest must be
 13 included for each year that a portion of the remaining difference
 14 is carried forward. The interest rate must equal the actuarially
 15 assumed rate of investment return for the state fiscal year in
 16 which payment is made. This subsection does not apply in a fiscal
 17 year in which a deposit ~~occurs~~ **is made** under 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~~ **Except as otherwise provided in this**



1 **subsection, beginning** on July 1, 2010, the actuary used by the
2 retirement board shall assume a rate of return on investments of 7%
3 per annum for investments associated with members who first became
4 members after June 30, 2010, and before February 1, 2018, which
5 rate may only be changed with the approval of the retirement board
6 and the director of the department. ~~Beginning~~ **Except as otherwise**
7 **provided in this subsection, beginning** on February 1, 2018, the
8 actuary used by the retirement board shall assume a rate of return
9 on investments of 6% per annum for investments associated with
10 members who first became a member on or after February 1, 2018,
11 which rate may only be changed with the approval of the retirement
12 board and the director of the department. **Beginning with the state**
13 **fiscal year ending September 30, 2021 and for each subsequent state**
14 **fiscal year, the actuary used by the retirement board shall assume**
15 **a rate of return on investments and a discount rate of not more**
16 **than 6% per annum, as of September 30, 2020, which rates may only**
17 **be changed with the approval of the retirement board and the**
18 **director of the department.**

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

25 (13) Beginning on September 30, 2006, the actuary used by the
26 retirement board shall use a salary increase assumption that
27 projects annual salary increases of 4%. In addition to the 4%, the
28 retirement board shall use an additional percentage based on an
29 age-related scale to reflect merit, longevity, and promotional



1 salary increase. The actuary shall use this assumption until a
2 change in the assumption is approved in writing by the retirement
3 board and the director of the department.

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

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

25 (16) The retirement board and the department shall conduct and
26 review an experience investigation study and adopt risk assumptions
27 on which actuarial valuations are to be based after consultation
28 with the actuary and the state treasurer. The experience
29 investigation study must be completed and risk assumptions must be



1 periodically reviewed at least once every 5 years.

2 (17) Every April 1 following the periodic review of risk
3 assumptions under subsection (16), the office of retirement
4 services on behalf of the department and the state treasurer shall
5 collaborate to submit a report to the senate majority leader, the
6 speaker of the house of representatives, the senate and house of
7 representatives appropriations committees, and the senate and house
8 fiscal agencies. A report required under this subsection must be
9 published on the office of retirement services's website and
10 include at least all of the following:

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

13 (i) 5%.

14 (ii) 25%.

15 (iii) 50%.

16 (iv) 75%.

17 (v) 95%.

18 (b) The actual rate of return on investments for 10-, 15-, and
19 20-year intervals.

20 (c) Mortality assumptions.

21 (d) Retirement age assumptions.

22 (e) Payroll growth assumptions.

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

25 (18) Except as otherwise provided in this subsection, **subject**
26 **to subsection (2) (f)**, for members who first became members before
27 February 1, 2018, beginning with the state fiscal year ending
28 September 30, 2022 and for each subsequent state fiscal year until
29 the pension and retiree health care payroll growth assumption rate



1 for a reporting unit that is not a university reporting unit is
 2 zero, the payroll growth assumption rate for a reporting unit that
 3 is not a university reporting unit must be reduced by 50 basis
 4 points. ~~Beginning~~ **Subject to subsection (2)(f), beginning** with the
 5 state fiscal year ending September 30, 2025 and for each subsequent
 6 state fiscal year until the rate described in this subsection is
 7 zero, if the pension and retiree health care unfunded actuarial
 8 accrued liability contribution ~~sum~~ **amount** directly attributable to
 9 the 50 basis points reduction under this subsection for the ~~current~~
 10 fiscal year is 7% or more of the pension and retiree health care
 11 unfunded actuarial accrued liability contribution ~~sum~~ **amount** in the
 12 ~~immediately~~ preceding state fiscal year, the office of retirement
 13 services may reduce the rate described in this subsection by 25
 14 basis points in that current fiscal year instead of the 50 basis
 15 point reduction described in this subsection. ~~Beginning~~ **Subject to**
 16 **subsection (2)(f), beginning** with the fiscal year ending September
 17 30, 2022 and for each subsequent state fiscal year until the rate
 18 described in this subsection is zero, the office of retirement
 19 services and the retirement board may agree to reduce the rate
 20 described in this subsection by any number of additional basis
 21 points.

22 **(19) Beginning with the state fiscal year ending September 30,**
 23 **2021, and for each subsequent fiscal year, the most recent**
 24 **mortality assumptions provided by the Actuarial Standards Board and**
 25 **adopted as risk assumptions by the actuary under subsection (16)**
 26 **must be used by a reporting unit.**

27 **(20) ~~(19)~~As used in this section: ~~,"university~~**

28 **(a) "Layered amortization" means a fixed and closed period**
 29 **that separately layers the different components to be amortized**



1 over a fixed period not to exceed 10 years, as it emerges. The
2 amortization period for layered amortization must use a level
3 dollar amortization method.

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

