

**SENATE SUBSTITUTE FOR
HOUSE BILL NO. 4263**

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~~



preceding state fiscal year. Beginning with the state fiscal year ending September 30, 2022, and for each subsequent fiscal year until the unfunded actuarial accrued liability is **fully** paid, ~~off~~, the unfunded actuarial accrued liability contribution ~~sum-~~**amount** due and payable must not be less than the unfunded actuarial accrued liability contribution ~~sum-~~**amount** due and payable in the ~~immediately~~-preceding state fiscal year.

(f) Beginning with the state fiscal year ending September 30, 2025 for open plans and with the state fiscal year ending September 30, 2030 for closed plans, and for each subsequent fiscal year, the retirement system shall use layered amortization.

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

(h) ~~(g)~~—Beginning with the state fiscal year ending September 30, 2016 and for each subsequent state fiscal year, the unfunded actuarial accrued liability contribution rate applied to the combined payroll, as provided in section 41a, must not exceed 25.73% for a university reporting unit. Any additional unfunded



1 actuarial accrued liability contributions as determined under this
2 section for each fiscal year for university reporting units are to
3 be paid by appropriation under article III of the state school aid
4 act of 1979, 1979 PA 94, MCL 388.1836 to 388.1891.

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

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

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

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



1 ~~occurs~~**-is made** under subsection (14).

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

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

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



1 be paid by that employer in each of the following 4 state fiscal
 2 years, or until 100% of the remaining difference is submitted,
 3 whichever first occurs. **For an employer of a public school**
 4 **employee, for differences occurring in fiscal years beginning on or**
 5 **after October 1, 2022, a minimum of 34% of any difference between**
 6 **the estimated and the actual aggregate compensation and the**
 7 **estimated and the actual actuarial employer contribution rate**
 8 **described in subsection (6) must be paid by the employer in the**
 9 **next state fiscal year and a minimum of 50% of any remaining**
 10 **difference must be paid by that employer in each of the following 2**
 11 **state fiscal years, or until 100% of the remaining difference is**
 12 **submitted, whichever first occurs.** 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, 2022 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% for pension and 6% for retiree health benefits as of**
 17 **September 30, 2021, which rates may only be changed with the**
 18 **approval of the retirement board and the director of the**
 19 **department.**

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

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



age-related scale to reflect merit, longevity, and promotional salary increase. The actuary shall use this assumption until a change in the assumption is approved in writing by the retirement board and the director of the department.

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

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

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



1 investigation study must be completed and risk assumptions must be
2 periodically reviewed at least once every 5 years. **The retirement**
3 **board and department shall adopt, on the recommendation of the**
4 **actuary and in accordance with all applicable actuarial standards**
5 **of practice, the most current mortality tables that are most**
6 **appropriate for the characteristics of the population.**

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

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

18 (i) 5%.

19 (ii) 25%.

20 (iii) 50%.

21 (iv) 75%.

22 (v) 95%.

23 (b) The actual rate of return on investments for 10-, 15-, and
24 20-year intervals.

25 (c) Mortality assumptions.

26 (d) Retirement age assumptions.

27 (e) Payroll growth assumptions.

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



(18) Except as otherwise provided in this subsection, **subject to subsection (2)(f)**, for members who first became members before February 1, 2018, beginning with the state fiscal year ending September 30, 2022 and for each subsequent state fiscal year until the pension and retiree health care payroll growth assumption rate for a reporting unit that is not a university reporting unit is zero, the payroll growth assumption rate for a reporting unit that is not a university reporting unit must be reduced by 50 basis points. ~~Beginning~~ **Subject to subsection (2)(f), beginning** with the state fiscal year ending September 30, 2025 and for each subsequent state fiscal year until the rate described in this subsection is zero, if the pension and retiree health care unfunded actuarial accrued liability contribution ~~sum-amount~~ directly attributable to the 50 basis points reduction under this subsection for the ~~current~~ fiscal year is 7% or more of the pension and retiree health care unfunded actuarial accrued liability contribution ~~sum-amount~~ in the ~~immediately~~-preceding state fiscal year, the office of retirement services may reduce the rate described in this subsection by 25 basis points in that current fiscal year instead of the 50 basis point reduction described in this subsection. ~~Beginning~~ **Subject to subsection (2)(f), beginning** with the fiscal year ending September 30, 2022 and for each subsequent state fiscal year until the rate described in this subsection is zero, the office of retirement services and the retirement board may agree to reduce the rate described in this subsection by any number of additional basis points.

(19) As used in this section: ~~"university~~

(a) **"Closed plan" means a plan under Tier 1 that is closed to new hires.**



1 (b) "Layered amortization" means a fixed and closed period
2 that separately layers the different components to be amortized
3 over a fixed period not to exceed 10 years for a closed plan and 15
4 years for an open plan, as it emerges. The amortization period for
5 layered amortization must use a level dollar amortization method.
6 The normal cost contribution for any fiscal year must not be less
7 than the normal cost component of the actuarially determined
8 contribution.

9 (c) "Open plan" means a plan under Tier 1 that is open to new
10 hires.

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