

# HOUSE BILL No. 4512

March 22, 2007, Introduced by Reps. Gonzales, Cushingberry and Alma Smith and referred to the Committee on Appropriations.

A bill to amend 1943 PA 240, entitled  
"State employees' retirement act,"  
by amending section 38 (MCL 38.38), as amended by 2002 PA 93.

## THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1       Sec. 38. (1) The annual level percent of payroll contribution  
2 rate to finance the benefits provided under this act shall be  
3 determined by actuarial valuation pursuant to subsections (2) and  
4 (3), upon the basis of the risk assumptions adopted by the  
5 retirement board with approval of the department of management and  
6 budget, and in consultation with the investment counsel and the  
7 actuary. An annual actuarial valuation shall be made of the  
8 retirement system in order to determine the actuarial condition of  
9 the retirement system and the required contribution to the  
10 retirement system. The actuary shall report to the legislature by

1 April 15 of each year on the actuarial condition of the retirement  
2 system as of the end of the previous fiscal year and on the  
3 projections of state contributions for the next fiscal year. The  
4 actuary shall certify in the report that the techniques and  
5 methodologies used are generally accepted within the actuarial  
6 profession and that the assumptions and cost estimates used fall  
7 within the range of reasonable and prudent assumptions and cost  
8 estimates. An annual actuarial gain-loss experience study of the  
9 retirement system shall be made in order to determine the financial  
10 effect of variations of actual retirement system experience from  
11 projected experience.

12 (2) The contribution rate for monthly benefits payable in the  
13 event of the death of a member before retirement or the disability  
14 of a member shall be computed using a terminal funding method of  
15 actuarial valuation.

16 (3) Except as otherwise provided in this subsection, the  
17 contribution rate for benefits other than those provided for in  
18 subsection (2) shall be computed using an individual projected  
19 benefit entry age normal cost method of valuation. For the 1995-96  
20 state fiscal year and for each subsequent fiscal year in which the  
21 actuarial accrued liability for health benefits is less than 100%  
22 funded, the contribution rate for benefits provided under section  
23 20d shall be computed using a cash disbursement method. Beginning  
24 in the fiscal year after the fiscal year in which the actuarial  
25 accrued liability for health benefits under section 20d is at least  
26 100% funded by the health advance funding subaccount created under  
27 section 11(9), and continuing for each subsequent fiscal year, the

1 contribution rate for health benefits provided under section 20d  
2 shall be computed using an individual projected benefit entry age  
3 normal cost method of valuation. The contribution rate for service  
4 that may be rendered in the current year, the normal cost  
5 contribution rate, shall be equal to the aggregate amount of  
6 individual entry age normal costs divided by 1% of the aggregate  
7 amount of active members' valuation compensation. The unfunded  
8 actuarial accrued liability shall be equal to the actuarial present  
9 value of benefits reduced by the actuarial present value of future  
10 normal cost contributions and the actuarial value of assets on the  
11 valuation date. ~~The~~ **EXCEPT AS OTHERWISE PROVIDED IN THIS**  
12 **SUBSECTION, THE** unfunded actuarial accrued liability shall be  
13 amortized in accordance with generally accepted governmental  
14 accounting standards over a period equal to or less than 40 years.  
15 **FOR THE FISCAL YEAR THAT BEGINS ON OCTOBER 1, 2006 ONLY, THE**  
16 **CONTRIBUTION FOR THE UNFUNDED ACTUARIAL ACCRUED LIABILITY SHALL BE**  
17 **EQUAL TO 4.5% OF THE UNFUNDED ACTUARIAL ACCRUED LIABILITY.**

18 (4) The legislature annually shall appropriate to the  
19 retirement system the amount determined pursuant to subsections (2)  
20 and (3). The state treasurer shall transfer monthly to the  
21 retirement system an amount equal to the product of the  
22 contribution rates determined in subsections (2) and (3) times the  
23 aggregate amount of active member compensation paid during that  
24 month. Not later than 60 days after the termination of each state  
25 fiscal year, the executive secretary of the retirement board shall  
26 certify to the director of the department of management and budget  
27 the actual aggregate compensations paid to active members during

1 the preceding state fiscal year. Upon receipt of that  
2 certification, the director of the department of management and  
3 budget shall compute the difference, if any, between actual state  
4 contributions received during the preceding state fiscal year and  
5 the product of the contribution rates determined in subsections (2)  
6 and (3) times the aggregate compensations paid to active members  
7 during the preceding state fiscal year. Except as otherwise  
8 provided in subsection (5), the difference, if any, shall be  
9 submitted in the executive budget to the legislature for  
10 appropriation in the next succeeding state fiscal year. This  
11 subsection does not apply for those fiscal years in which a deposit  
12 occurs pursuant to subsection (6).

13 (5) For differences occurring in fiscal years beginning on or  
14 after October 1, 1991, a minimum of 20% of the difference between  
15 the estimated and the actual aggregate compensation and the  
16 estimated and the actual contribution rate described in subsection  
17 (4), if any, may be submitted in the executive budget to the  
18 legislature for appropriation in the next succeeding state fiscal  
19 year and a minimum of 25% of the remaining difference shall be  
20 submitted in the executive budget to the legislature for  
21 appropriation in each of the following 4 state fiscal years, or  
22 until 100% of the remaining difference is submitted, whichever  
23 first occurs. In addition, interest shall be included for each year  
24 that a portion of the remaining difference is carried forward. The  
25 interest rate shall equal the actuarially assumed rate of  
26 investment return for the state fiscal year in which payment is  
27 made. This subsection does not apply for those fiscal years in

1 which a deposit occurs pursuant to subsection (6).

2 (6) For each fiscal year that begins on or after October 1,  
3 2001, if the actuarial valuation prepared pursuant to this section  
4 for each fiscal year demonstrates that as of the beginning of a  
5 fiscal year, and after all credits and transfers required by this  
6 act for the previous fiscal year have been made, the sum of the  
7 actuarial value of assets and the actuarial present value of future  
8 normal cost contributions exceeds the actuarial present value of  
9 benefits, the annual level percent of payroll contribution rate as  
10 determined pursuant to subsections (1), (2), and (3) may be  
11 deposited into the health advance funding subaccount created under  
12 section 11(9).

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