HOUSE BILL No. 4190

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February 5, 2013, Introduced by Rep. Farrington 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 2012 PA 300.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Sec. 41. (1) The annual level percentage of payroll contribution rate **OR RATE APPLIED TO CURRENT OPERATING EXPENDITURES, AS APPLICABLE,** to finance benefits being provided and to be provided by the retirement system shall be determined by actuarial valuation pursuant to subsection (2) upon the basis of the risk assumptions that the retirement board and the department adopt after consultation with the state treasurer and an actuary. An annual actuarial valuation shall be made of the retirement system in order to determine the actuarial condition of the retirement system and the required contribution to the retirement

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system. An annual actuarial gain-loss experience study of the retirement system shall be made in order to determine the financial effect of variations of actual retirement system experience from projected experience.

(2) Except as otherwise provided in this subsection, the contribution rate for benefits shall be computed using an individual projected benefit entry age normal cost method of valuation. Except as otherwise provided in this section, for the 1995-96 state fiscal year and for each subsequent fiscal year before the 2012-2013 state fiscal year, the contribution rate for health benefits provided under section 91 shall be computed using a cash disbursement method. Beginning in the 2012-2013 state fiscal year and for each subsequent fiscal year, if the contributions described in section 43e are determined by a final order of a court of competent jurisdiction for which all rights of appeal have been exhausted to be unconstitutional and the contributions are not deposited into the appropriate funding account referenced in section 43e, the contribution rate for health benefits provided under section 91 shall be computed using a cash disbursement method. The contribution rate for service likely to be rendered in the current year, the normal cost contribution rate, shall be equal to the aggregate amount of individual projected benefit entry age normal costs divided by 1% of the aggregate amount of active members' valuation compensation. Except as otherwise provided under this subsection, the contribution rate for unfunded service rendered before the valuation date, the unfunded actuarial accrued liability contribution rate, shall be the aggregate amount of

unfunded actuarial accrued liabilities divided by 1% of the actuarial present value over a period not to exceed 50 years of projected valuation compensation ~~,~~ **AND A SEPARATE RATE BASED ON PROJECTED CURRENT OPERATING EXPENDITURES AS CALCULATED FOR THE 2013-2014 STATE FISCAL YEAR AND EACH SUBSEQUENT STATE FISCAL YEAR,** where unfunded actuarial accrued liabilities are equal to the actuarial present value of benefits, reduced by the actuarial present value of future normal cost contributions and the actuarial value of assets on the valuation date. ~~Beginning~~ **EXCEPT AS OTHERWISE PROVIDED UNDER THIS SUBSECTION, BEGINNING** with the 2012-2013 state fiscal year and for each subsequent fiscal year, the unfunded actuarial accrued liability contribution rate applied to payroll shall not exceed 20.96%. **BEGINNING WITH THE 2013-2014 STATE FISCAL YEAR, THE UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTION RATE AND PAYMENT SCHEDULE FOR PUBLIC LOCAL SCHOOL DISTRICTS SHALL BE APPLIED TO CALCULATED CURRENT OPERATING EXPENDITURES. THE UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTION RATE CALCULATED AND APPLIED TO CURRENT OPERATING EXPENDITURES SHALL BE CALCULATED AFTER THE UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTION RATE BASED ON PROJECTED VALUATION COMPENSATION IS CALCULATED AND APPLIED TO PAYROLL OF REPORTING UNITS OTHER THAN PUBLIC LOCAL SCHOOL DISTRICTS, BASED ON PRIOR BASE YEAR DATA AND METHODS AS DETERMINED BY THE RETIREMENT SYSTEM AND IN CONSULTATION WITH THE SYSTEM ACTUARY. BEGINNING WITH THE 2013-2014 STATE FISCAL YEAR AND FOR EACH SUBSEQUENT FISCAL YEAR, THE UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTION RATE APPLIED TO CALCULATED CURRENT OPERATING EXPENDITURES SHALL NOT EXCEED 11.9% AND THE UNFUNDED ACTUARIAL**

ACCRUED LIABILITY CONTRIBUTION RATE APPLIED TO PAYROLL SHALL NOT EXCEED 20.96%. Any additional unfunded actuarial accrued liability contributions as determined under this section for each fiscal year are to be paid by appropriation from the school aid fund established by section 11 of article IX of the state constitution of 1963. Except as otherwise provided in section 41a, the unfunded actuarial accrued liability contribution rate shall be based upon and applied to the combined payrolls of the employees who are members and qualified participants.

(3) Before November 1 of each year, the executive secretary of the retirement board shall certify to the director of the department the aggregate compensation estimated to be paid public school employees for the current state fiscal year **AND THE ESTIMATED CURRENT OPERATING EXPENDITURES FOR THE CURRENT SCHOOL FISCAL YEAR**.

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

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

(6) Not later than 90 days after termination of each state fiscal year, the executive secretary of the retirement board shall

certify to the director of the department and each reporting unit the actual aggregate compensation paid to public school employees during the preceding state fiscal year. Upon receipt of that certification, the director of the department may compute any adjustment required to the amount due to a difference between the estimated and the actual aggregate compensation and the estimated and the actual actuarial employer contribution rate. The difference, if any, shall be paid as provided in subsection (9). This subsection does not apply in a fiscal year in which a deposit occurs pursuant to subsection (14).

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

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

(9) For an employer of an employee of a local public school district or an intermediate school district, for differences occurring in fiscal years beginning on or after October 1, 1993, a minimum of 20% of the difference between the estimated and the actual aggregate compensation and the estimated and the actual actuarial employer contribution rate described in subsection (6), if any, shall be paid by that employer in the next succeeding state fiscal year and a minimum of 25% of the remaining difference shall

be paid by that employer in each of the following 4 state fiscal years, or until 100% of the remaining difference is submitted, whichever first occurs. For an employer of other public school employees, for differences occurring in fiscal years beginning on or after October 1, 1991, a minimum of 20% of the difference between the estimated and the actual aggregate compensation and the estimated and the actual actuarial employer contribution rate described in subsection (6), if any, shall be paid by that employer in the next succeeding state fiscal year and a minimum of 25% of the remaining difference shall be paid by that employer in each of the following 4 state fiscal years, or until 100% of the remaining difference is submitted, whichever first occurs. In addition, interest shall be included for each year that a portion of the remaining difference is carried forward. The interest rate shall equal the actuarially assumed rate of investment return for the state fiscal year in which payment is made. This subsection does not apply in a fiscal year in which a deposit occurs pursuant to subsection (14).

(10) Beginning on the designated date, all assets held by the retirement system shall be reassigned their fair market value, as determined by the state treasurer, as of the designated date, and in calculating any unfunded actuarial accrued liabilities, any market gains or losses incurred before the designated date shall not be considered by the retirement system's actuaries.

(11) Except as otherwise provided in this subsection, beginning on the designated date, the actuary used by the retirement board shall assume a rate of return on investments of

8.00% per annum, as of the designated date, which rate may only be changed with the approval of the retirement board and the director of the department. Beginning on July 1, 2010, the actuary used by the retirement board shall assume a rate of return on investments of 7.00% per annum for investments associated with members who first became members on and after July 1, 2010, which rate may only be changed with the approval of the retirement board and the director of the department.

(12) Beginning on the designated date, the value of assets used shall be based on a method that spreads over a 5-year period the difference between actual and expected return occurring in each year after the designated date and such methodology may only be changed with the approval of the retirement board and the director of the department.

(13) Beginning on the designated date, the actuary used by the retirement board shall use a salary increase assumption that projects annual salary increases of 4%. In addition to the 4%, the retirement board shall use an additional percentage based upon 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 pursuant to 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 **OR RATE APPLIED TO CURRENT OPERATING EXPENDITURES, AS APPLICABLE,** pursuant to 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 shall be paid from a portion of the employer contributions described in this section or other eligible funds. The retirement board shall determine the amount of the employer contributions or other eligible funds that shall be allocated to that fund and deposit that amount in that fund before it deposits any remaining employer contributions or other eligible funds in the pension fund.

(16) BEGINNING WITH THE 2013-2014 STATE FISCAL YEAR, THE ACTUARY USED BY THE RETIREMENT BOARD SHALL USE A CURRENT OPERATING EXPENDITURE INCREASE ASSUMPTION THAT PROJECTS ANNUAL CURRENT OPERATING EXPENDITURE INCREASES OF 3.5%.

(17) ~~(16)~~ As used in this section, "current operating expenditures" for a public local school district includes functions 1xx, 2xx, 45x, and all object codes except 6xxx, as defined in the Michigan Public School Accounting Manual Bulletin 1022, and is equal to the total of instructional and support services expenditures, including the total general fund charges incurred in the general, special education, and vocational education funds for the benefit of the current fiscal year, whether paid or unpaid, and all expenditures of the instructional programs plus applicable supporting service costs reduced by capital outlay, debt service, community services, and outgoing transfers and other transactions. Current operating expenditures for a public local school district also include operating funds for any public school or other public educational entity first authorized or established by the public local school district on or after ~~the effective date of the amendatory act that added this subsection.~~**SEPTEMBER 4, 2012.**