

# HOUSE BILL No. 5516

May 1, 2014, Introduced by Rep. Pscholka 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 sections 41 and 41a (MCL 38.1341 and 38.1341a), as  
amended by 2012 PA 300.

## THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1       Sec. 41. (1) The annual level percentage of payroll  
2       contribution rate to finance benefits being provided and to be  
3       provided by the retirement system shall be determined by actuarial  
4       valuation ~~pursuant to~~ **UNDER** subsection (2) upon the basis of the  
5       risk assumptions that the retirement board and the department adopt  
6       after consultation with the state treasurer and an actuary. An  
7       annual actuarial valuation shall be made of the retirement system  
8       ~~in order to~~ determine the actuarial condition of the retirement

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

6 (2) ~~Except as otherwise provided in this subsection, the~~ **THE**  
 7 contribution rate for benefits ~~shall be computed~~ **IS SUBJECT TO ALL**  
 8 **OF THE FOLLOWING:**

9 (A) **EXCEPT AS OTHERWISE PROVIDED IN THIS SUBDIVISION, THE**  
 10 **CONTRIBUTION RATE FOR BENEFITS SHALL BE COMPUTED** using an  
 11 individual projected benefit entry age normal cost method of  
 12 valuation. ~~Except as otherwise provided in this section, for the~~  
 13 ~~1995-96 state fiscal year and for each subsequent fiscal year~~  
 14 ~~before the 2012-2013 state fiscal year, the contribution rate for~~  
 15 ~~health benefits provided under section 91 shall be computed using a~~  
 16 ~~cash disbursement method. Beginning in the 2012-2013 state fiscal~~  
 17 ~~year and for each subsequent fiscal year, if~~ **IF** the contributions  
 18 described in section 43e are determined by a final order of a court  
 19 of competent jurisdiction for which all rights of appeal have been  
 20 exhausted to be unconstitutional and the contributions are not  
 21 deposited into the appropriate funding account referenced in  
 22 section 43e, the contribution rate for health benefits provided  
 23 under section 91 shall be computed using a cash disbursement  
 24 method.

25 (B) ~~The contribution rate for service likely to be rendered in~~  
 26 ~~the current year, the normal cost contribution rate ,~~ shall be  
 27 ~~equal to~~ **DETERMINED AS FOLLOWS:**

1           (i) **CALCULATE** the aggregate amount of individual projected  
2 benefit entry age normal costs. ~~divided~~

3           (ii) **DIVIDE THE RESULT OF THE CALCULATION UNDER SUBPARAGRAPH (i)**  
4 by 1% of the aggregate amount of active members' valuation  
5 compensation. ~~Except as otherwise provided under this subsection,~~  
6 ~~the contribution rate for unfunded service rendered before the~~  
7 ~~valuation date,~~

8           **(C) BEGINNING IN THE 2014-2015 STATE FISCAL YEAR AND FOR EACH**  
9 **SUBSEQUENT STATE FISCAL YEAR, FOR REPORTING UNITS THAT ARE NOT**  
10 **UNIVERSITY REPORTING UNITS, the unfunded actuarial accrued**  
11 **liability contribution rate shall be DETERMINED AS FOLLOWS:**

12           (i) **CALCULATE** the aggregate amount of unfunded actuarial  
13 accrued liabilities ~~divided~~ **OF REPORTING UNITS THAT ARE NOT**  
14 **UNIVERSITY REPORTING UNITS AS FOLLOWS:**

15           **(A) CALCULATE THE ACTUARIAL PRESENT VALUE OF BENEFITS FOR**  
16 **MEMBERS ATTRIBUTABLE TO REPORTING UNITS THAT ARE NOT UNIVERSITY**  
17 **REPORTING UNITS.**

18           **(B) CALCULATE THE ACTUARIAL PRESENT VALUE OF FUTURE NORMAL**  
19 **COST CONTRIBUTIONS OF REPORTING UNITS THAT ARE NOT UNIVERSITY**  
20 **REPORTING UNITS.**

21           **(C) CALCULATE THE ACTUARIAL PRESENT VALUE OF ASSETS**  
22 **ATTRIBUTABLE TO REPORTING UNITS THAT ARE NOT UNIVERSITY REPORTING**  
23 **UNITS ON THE VALUATION DATE.**

24           **(D) ADD THE RESULTS OF SUB-SUBPARAGRAPHS (B) AND (C) .**

25           **(E) SUBTRACT FROM THE RESULT OF CALCULATION UNDER SUB-**  
26 **SUBPARAGRAPH (A) THE RESULT FROM THE CALCULATION UNDER SUB-**  
27 **SUBPARAGRAPH (D) .**

(ii) DIVIDE THE RESULT OF THE CALCULATION UNDER SUBPARAGRAPH (i) by 1% of the actuarial present value over a period not to exceed 50 years of projected valuation compensation ~~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.~~ OF REPORTING UNITS THAT ARE NOT UNIVERSITY REPORTING UNITS.

(D) BEGINNING IN THE 2014-2015 STATE FISCAL YEAR AND FOR EACH SUBSEQUENT STATE FISCAL YEAR, FOR A UNIVERSITY REPORTING UNIT, THE CONTRIBUTION RATE FOR UNFUNDED ACTUARIAL ACCRUED LIABILITY FOR HEALTH BENEFITS UNDER SECTION 91 SHALL BE DETERMINED AS FOLLOWS:

(i) CALCULATE THE AGGREGATE AMOUNT OF UNFUNDED ACTUARIAL ACCRUED LIABILITIES FOR UNIVERSITY REPORTING UNITS AS FOLLOWS:

(A) CALCULATE THE ACTUARIAL PRESENT VALUE OF BENEFITS FOR MEMBERS ATTRIBUTABLE TO UNIVERSITY REPORTING UNITS.

(B) CALCULATE THE ACTUARIAL PRESENT VALUE OF FUTURE NORMAL COST CONTRIBUTIONS OF UNIVERSITY REPORTING UNITS.

(C) CALCULATE THE ACTUARIAL PRESENT VALUE OF ASSETS ATTRIBUTABLE TO UNIVERSITY REPORTING UNITS ON THE VALUATION DATE.

(D) ADD THE RESULTS OF SUB-SUBPARAGRAPHS (B) AND (C).

(E) SUBTRACT FROM THE RESULT OF CALCULATION UNDER SUB-SUBPARAGRAPH (A) THE RESULT FROM THE CALCULATION UNDER SUB-SUBPARAGRAPH (D).

(ii) DIVIDE THE RESULT OF THE CALCULATION UNDER SUBPARAGRAPH (i) BY 1% OF THE ACTUARIAL PRESENT VALUE DETERMINED OVER A PERIOD OF YEARS OF PROJECTED VALUATION COMPENSATION ATTRIBUTABLE TO

1 UNIVERSITY REPORTING UNITS NOT TO EXTEND BEYOND SEPTEMBER 30, 2036.

2 (E) Beginning with the 2012-2013 state fiscal year and for  
3 each subsequent fiscal year, the unfunded actuarial accrued  
4 liability contribution rate applied to payroll shall not exceed  
5 20.96% **FOR A REPORTING UNIT THAT IS NOT A UNIVERSITY REPORTING**  
6 **UNIT.** Any additional unfunded actuarial accrued liability  
7 contributions as determined under this section, **AND BEGINNING WITH**  
8 **THE 2014-2015 STATE FISCAL YEAR UNDER SECTION 41A,** for each fiscal  
9 year are to be paid by appropriation from the school aid fund  
10 established by section 11 of article IX of the state constitution  
11 of 1963. Except as otherwise provided in **THIS SECTION AND** section  
12 41a, the unfunded actuarial accrued liability contribution rate  
13 shall be based upon and applied to the combined payrolls of the  
14 employees who are members and qualified participants.

15 (F) **FOR A UNIVERSITY REPORTING UNIT, THE CONTRIBUTION RATE FOR**  
16 **UNFUNDED ACTUARIAL ACCRUED LIABILITY FOR HEALTH BENEFITS UNDER**  
17 **SECTION 91 SHALL BE BASED UPON AND APPLIED TO THE COMBINED PAYROLLS**  
18 **OF THE UNIVERSITY'S EMPLOYEES WHO ARE MEMBERS AND WHO WERE HIRED**  
19 **BEFORE JANUARY 1, 1996, AND THE UNIVERSITY EMPLOYEES WHO WOULD HAVE**  
20 **BEEN MEMBERS ON OR AFTER JANUARY 1, 1996 BUT FOR THE ENACTMENT OF**  
21 **1995 PA 272.**

22 (G) **BEGINNING WITH THE 2014-2015 STATE FISCAL YEAR, FOR A**  
23 **UNIVERSITY REPORTING UNIT, THE COMBINED CONTRIBUTION RATES FOR**  
24 **PENSION UNFUNDED ACTUARIAL ACCRUED LIABILITY DETERMINED UNDER**  
25 **SECTION 41A AND UNFUNDED ACTUARIAL ACCRUED LIABILITY FOR HEALTH**  
26 **BENEFITS PAYABLE UNDER SECTION 91 DETERMINED UNDER THIS SUBSECTION**  
27 **SHALL NOT EXCEED 20.96% OF THE COMBINED PAYROLLS OF THE**

1 UNIVERSITY'S EMPLOYEES WHO ARE MEMBERS AND WHO WERE HIRED BEFORE  
2 JANUARY 1, 1996, AND THE UNIVERSITY EMPLOYEES WHO WOULD HAVE BEEN  
3 MEMBERS ON OR AFTER JANUARY 1, 1996 BUT FOR THE ENACTMENT OF 1995  
4 PA 272.

5 (3) Before November 1 of each year, the executive secretary of  
6 the retirement board shall certify to the director of the  
7 department the aggregate compensation estimated to be paid public  
8 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 due and payable to the retirement system and shall certify this  
13 amount to the reporting units.

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

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

1 difference, if any, shall be paid as provided in subsection (9).

2 This subsection does not apply in a fiscal year in which a deposit  
3 occurs pursuant to 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 an employer of an employee of a local public school  
14 district or an intermediate school district, for differences  
15 occurring in fiscal years beginning on or after October 1, 1993, a  
16 minimum of 20% of the difference between the estimated and the  
17 actual aggregate compensation and the estimated and the actual  
18 actuarial employer contribution rate described in subsection (6),  
19 if any, shall be paid by that employer in the next succeeding state  
20 fiscal year and a minimum of 25% of the remaining difference shall  
21 be paid by that employer in each of the following 4 state fiscal  
22 years, or until 100% of the remaining difference is submitted,  
23 whichever first occurs. For an employer of other public school  
24 employees, for differences occurring in fiscal years beginning on  
25 or after October 1, 1991, a minimum of 20% of the difference  
26 between the estimated and the actual aggregate compensation and the  
27 estimated and the actual actuarial employer contribution rate

1 described in subsection (6), if any, shall be paid by that employer  
2 in the next succeeding state fiscal year and a minimum of 25% of  
3 the remaining difference shall be paid by that employer in each of  
4 the following 4 state fiscal years, or until 100% of the remaining  
5 difference is submitted, whichever first occurs. In addition,  
6 interest shall be included for each year that a portion of the  
7 remaining difference is carried forward. The interest rate shall  
8 equal the actuarially assumed rate of investment return for the  
9 state fiscal year in which payment is made. This subsection does  
10 not apply in a fiscal year in which a deposit occurs pursuant to  
11 subsection (14).

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

18 (11) Except as otherwise provided in this subsection,  
19 beginning on the designated date, the actuary used by the  
20 retirement board shall assume a rate of return on investments of  
21 8.00% per annum, as of the designated date, which rate may only be  
22 changed with the approval of the retirement board and the director  
23 of the department. Beginning on July 1, 2010, the actuary used by  
24 the retirement board shall assume a rate of return on investments  
25 of 7.00% per annum for investments associated with members who  
26 first became members on and after July 1, 2010, which rate may only  
27 be changed with the approval of the retirement board and the



1 director of the department.

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

8 (13) Beginning on the designated date, the actuary used by the  
9 retirement board shall use a salary increase assumption that  
10 projects annual salary increases of 4%. In addition to the 4%, the  
11 retirement board shall use an additional percentage based upon an  
12 age-related scale to reflect merit, longevity, and promotional  
13 salary increase. The actuary shall use this assumption until a  
14 change in the assumption is approved in writing by the retirement  
15 board and the director of the department.

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

26 (15) Notwithstanding any other provision of this act, if the  
27 retirement board establishes an arrangement and fund as described

1 in section 6 of the public employee retirement benefit protection  
2 act, 2002 PA 100, MCL 38.1686, the benefits that are required to be  
3 paid from that fund shall be paid from a portion of the employer  
4 contributions described in this section or other eligible funds.  
5 The retirement board shall determine the amount of the employer  
6 contributions or other eligible funds that shall be allocated to  
7 that fund and deposit that amount in that fund before it deposits  
8 any remaining employer contributions or other eligible funds in the  
9 pension fund.

10 (16) As used in this section: ~~"current operating~~  
11 ~~expenditures" for a public local school district includes functions~~  
12 ~~1xx, 2xx, 45x, and all object codes except 6xxx, as defined in the~~  
13 ~~Michigan Public School Accounting Manual Bulletin 1022, and is~~  
14 ~~equal to the total of instructional and support services~~  
15 ~~expenditures, including the total general fund charges incurred in~~  
16 ~~the general, special education, and vocational education funds for~~  
17 ~~the benefit of the current fiscal year, whether paid or unpaid, and~~  
18 ~~all expenditures of the instructional programs plus applicable~~  
19 ~~supporting service costs reduced by capital outlay, debt service,~~  
20 ~~community services, and outgoing transfers and other transactions.~~  
21 ~~Current operating expenditures for a public local school district~~  
22 ~~also include operating funds for any public school or other public~~  
23 ~~educational entity first authorized or established by the public~~  
24 ~~local school district on or after the effective date of the~~  
25 ~~amendatory act that added this subsection.~~

26 (A) "NORMAL COST CONTRIBUTION RATE" MEANS THE CONTRIBUTION  
27 RATE FOR SERVICE RENDERED IN THE CURRENT YEAR.

1           (B) "UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTION RATE"  
2 MEANS THE CONTRIBUTION RATE APPLIED TO REDUCE LIABILITIES ARISING  
3 FROM SERVICES RENDERED BEFORE THE VALUATION DATE THAT EXCEED THE  
4 LEVEL OF ACTUARIALLY DETERMINED VALUE OF ASSETS AND PROJECTED  
5 INCOME.

6           (C) "UNIVERSITY REPORTING UNIT" MEANS A REPORTING UNIT THAT IS  
7 A UNIVERSITY LISTED IN THE DEFINITION OF PUBLIC SCHOOL EMPLOYEE  
8 UNDER SECTION 6.

9           Sec. 41a. (1) For fiscal years that begin on or after March  
10 28, 1996, the retirement system shall determine a separate  
11 contribution rate for **PENSION UNFUNDED ACTUARIAL ACCRUED LIABILITY**  
12 **ATTRIBUTABLE TO** a **UNIVERSITY** reporting unit. ~~that is a university~~  
13 ~~listed in the definition of public school employee under section 6.~~  
14 The retirement system shall determine the separate **PENSION UNFUNDED**  
15 **ACTUARIAL ACCRUED LIABILITY** contribution rate in the manner  
16 prescribed in section 41, except that the **PENSION** unfunded  
17 actuarial accrued liability shall be amortized over 40 years  
18 beginning October 1, 1996 and ending on September 30, 2036, with  
19 the payment schedule for universities being based on and applied to  
20 the combined payrolls of the universities' employees who are  
21 members and who were hired before January 1, 1996 and the  
22 universities' employees who would have been members on or after  
23 January 1, 1996, but for the enactment of 1995 PA 272. The amount  
24 of the **PENSION** unfunded accrued liability on which the separate  
25 contribution rate is determined shall be that amount which a  
26 **UNIVERSITY** reporting unit ~~that is a university listed in the~~  
27 ~~definition of public school employee under section 6~~ is legally

1 responsible for and is calculated by actuarial analysis. Any  
2 reduction in the unfunded liability of the system ~~pursuant to~~ **UNDER**  
3 governmental action affecting the entire system will be allocated  
4 to all reporting units including universities as determined by the  
5 system's actuary. For the 2006-2007 state fiscal year, the  
6 contribution for unfunded actuarial accrued liability shall be  
7 equal to 4.5% of the unfunded actuarial accrued liability.

8       **(2) AS USED IN THIS SECTION, "UNIVERSITY REPORTING UNIT" MEANS**  
9 **A REPORTING UNIT THAT IS A UNIVERSITY LISTED IN THE DEFINITION OF**  
10 **PUBLIC SCHOOL EMPLOYEE UNDER SECTION 6.**