

HOUSE SUBSTITUTE FOR
SENATE BILL NO. 343

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~~ **RATES** to finance benefits being provided and to
3 be provided by the retirement system ~~shall~~ **MUST** be determined by
4 actuarial valuation ~~pursuant to~~ **UNDER** subsection (2) ~~upon~~ **ON** the
5 basis of the risk assumptions that the retirement board and the
6 department adopt after consultation with the state treasurer and an
7 actuary. An annual actuarial valuation ~~shall~~ **MUST** 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

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

5 (2) Except as otherwise provided in ~~this subsection,~~ **SECTION**
 6 **41A,** the **ANNUAL** contribution rate ~~shall be~~ **RATES** for benefits ~~shall be~~
 7 ~~computed~~ **IS SUBJECT TO ALL OF THE FOLLOWING:**

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

23 (B) The contribution rate for service likely to be rendered in
 24 the current year, the normal cost contribution rate, ~~shall~~ **FOR**
 25 **REPORTING UNITS MUST** be ~~equal to~~ **DETERMINED AS FOLLOWS:**

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

1 (ii) DIVIDE THE RESULT OF THE CALCULATION UNDER SUBPARAGRAPH
2 (i) by 1% of the aggregate amount of active members' valuation
3 compensation. ~~Except as otherwise provided under this subsection,~~
4 ~~the~~

5 (C) ~~THE~~ contribution rate for unfunded service rendered before
6 the valuation date, the unfunded actuarial accrued liability
7 contribution rate, ~~shall~~ **MUST** be **DETERMINED AS FOLLOWS:**

8 (i) **CALCULATE** the aggregate amount of unfunded actuarial
9 accrued liabilities ~~divided~~ **OF REPORTING UNITS AS FOLLOWS:**

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

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

14 (C) **CALCULATE THE ACTUARIAL PRESENT VALUE OF ASSETS ON THE**
15 **VALUATION DATE.**

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

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

20 (ii) **DIVIDE THE RESULT OF THE CALCULATION UNDER SUBPARAGRAPH**
21 **(i)** by 1% of the actuarial present value over a period not to
22 exceed 50 years of projected valuation compensation. ~~, where~~
23 ~~unfunded actuarial accrued liabilities are equal to the actuarial~~
24 ~~present value of benefits, reduced by the actuarial present value~~
25 ~~of future normal cost contributions and the actuarial value of~~
26 ~~assets on the valuation date.~~

27 (D) Beginning with the ~~2012-2013~~ state fiscal year **ENDING**

1 **SEPTEMBER 30, 2013** and for each subsequent fiscal year, the
2 unfunded actuarial accrued liability contribution rate applied to
3 payroll ~~shall~~**MUST** not exceed 20.96% **FOR A REPORTING UNIT THAT IS**
4 **NOT A UNIVERSITY REPORTING UNIT**. Any additional unfunded actuarial
5 accrued liability contributions as determined under this section
6 for each fiscal year are to be paid by appropriation from the
7 school aid fund established by section 11 of article IX of the
8 state constitution of 1963. Except as otherwise provided in **THIS**
9 **SECTION AND** section 41a, the unfunded actuarial accrued liability
10 contribution rate ~~shall~~**MUST** be based ~~upon~~**ON** and applied to the
11 combined payrolls of the employees who are members and qualified
12 participants.

13 (E) BEGINNING WITH THE STATE FISCAL YEAR ENDING SEPTEMBER 30,
14 2016 AND FOR EACH SUBSEQUENT STATE FISCAL YEAR, THE UNFUNDED
15 ACTUARIAL ACCRUED LIABILITY CONTRIBUTION RATE APPLIED TO THE
16 COMBINED PAYROLL, AS PROVIDED IN SECTION 41A, MUST NOT EXCEED
17 25.73% FOR A UNIVERSITY REPORTING UNIT. ANY ADDITIONAL UNFUNDED
18 ACTUARIAL ACCRUED LIABILITY CONTRIBUTIONS AS DETERMINED UNDER THIS
19 SECTION FOR EACH FISCAL YEAR FOR UNIVERSITY REPORTING UNITS ARE TO
20 BE PAID BY APPROPRIATION UNDER ARTICLE III OF THE STATE SCHOOL AID
21 ACT OF 1979, 1979 PA 94, MCL 388.1836 TO 388.1893.

22 (3) Before November 1 of each year, the executive secretary of
23 the retirement board shall certify to the director of the
24 department the aggregate compensation estimated to be paid public
25 school employees for the current state fiscal year.

26 (4) On the basis of the estimate under subsection (3), the
27 annual actuarial valuation, and any adjustment required under

1 subsection (6), the director of the department shall compute the
2 sum due and payable to the retirement system and shall certify this
3 amount to the reporting units.

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

9 (6) Not later than 90 days after termination of each state
10 fiscal year, the executive secretary of the retirement board shall
11 certify to the director of the department and each reporting unit
12 the actual aggregate compensation paid to public school employees
13 during the preceding state fiscal year. ~~Upon~~ **ON** receipt of that
14 certification, the director of the department may compute any
15 adjustment required to the amount due to a difference between the
16 estimated and the actual aggregate compensation and the estimated
17 and the actual actuarial employer contribution rate. The
18 difference, if any, ~~shall~~ **MUST** be paid as provided in subsection
19 (9). This subsection does not apply in a fiscal year in which a
20 deposit occurs ~~pursuant to~~ **UNDER** subsection (14).

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

25 (8) A reporting unit shall forward employee and employer
26 social security contributions and reports as required by the
27 federal old-age, survivors, disability, and hospital insurance

1 provisions of title II of the social security act, 42 USC 401 to
2 434.

3 (9) For an employer of an employee of a local public school
4 district or an intermediate school district, for differences
5 occurring in fiscal years beginning on or after October 1, 1993, a
6 minimum of 20% of the difference between the estimated and the
7 actual aggregate compensation and the estimated and the actual
8 actuarial employer contribution rate described in subsection (6),
9 if any, ~~shall~~**MUST** be paid by that employer in the next succeeding
10 state fiscal year and a minimum of 25% of the remaining difference
11 ~~shall~~**MUST** be paid by that employer in each of the following 4
12 state fiscal years, or until 100% of the remaining difference is
13 submitted, whichever first occurs. For an employer of other public
14 school employees, for differences occurring in fiscal years
15 beginning on or after October 1, 1991, a minimum of 20% of the
16 difference between the estimated and the actual aggregate
17 compensation and the estimated and the actual actuarial employer
18 contribution rate described in subsection (6), if any, ~~shall~~**MUST**
19 be paid by that employer in the next succeeding state fiscal year
20 and a minimum of 25% of the remaining difference ~~shall~~**MUST** be paid
21 by that employer 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~~**MUST** be included for each
24 year that a portion of the remaining difference is carried forward.
25 The interest rate ~~shall~~**MUST** 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 in a fiscal year in which a

1 deposit occurs pursuant to ~~UNDER~~ subsection (14).

2 (10) Beginning on ~~the designated date,~~ **SEPTEMBER 30, 2006**, all
3 assets held by the retirement system ~~shall~~ **MUST** be reassigned their
4 fair market value, as determined by the state treasurer, as of ~~the~~
5 ~~designated date,~~ **SEPTEMBER 30, 2006**, and in calculating any
6 unfunded actuarial accrued liabilities, any market gains or losses
7 incurred before ~~the designated date shall~~ **SEPTEMBER 30, 2006 MAY**
8 not be considered by the retirement system's actuaries.

9 (11) Except as otherwise provided in this subsection,
10 beginning on ~~the designated date,~~ **SEPTEMBER 30, 2006**, the actuary
11 used by the retirement board shall assume a rate of return on
12 investments of 8.00% per annum, as of ~~the designated date,~~
13 **SEPTEMBER 30, 2006**, which rate may only be changed with the
14 approval of the retirement board and the director of the
15 department. Beginning on July 1, 2010, the actuary used by the
16 retirement board shall assume a rate of return on investments of
17 7.00% per annum for investments associated with members who first
18 became members ~~on and after July 1,~~ **JUNE 30, 2010**, which rate may
19 only be changed with the approval of the retirement board and the
20 director of the department.

21 (12) Beginning on ~~the designated date,~~ **SEPTEMBER 30, 2006**, the
22 value of assets used ~~shall~~ **MUST** be based on a method that spreads
23 over a 5-year period the difference between actual and expected
24 return occurring in each year after ~~the designated date~~ **SEPTEMBER**
25 **30, 2006**, and ~~such~~ **THE** methodology may only be changed with the
26 approval of the retirement board and the director of the
27 department.

1 (13) Beginning on ~~the designated date,~~ **SEPTEMBER 30, 2006**, the
2 actuary used by the retirement board shall use a salary increase
3 assumption that projects annual salary increases of 4%. In addition
4 to the 4%, the retirement board shall use an additional percentage
5 based ~~upon~~ **ON** an age-related scale to reflect merit, longevity, and
6 promotional salary increase. The actuary shall use this assumption
7 until a change in the assumption is approved in writing by the
8 retirement board and the director of the department.

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

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

1 it deposits any remaining employer contributions or other eligible
2 funds in the pension fund.

3 (16) As used in this section, ~~"current operating expenditures"~~
4 ~~for a public local school district includes functions 1xx, 2xx,~~
5 ~~45x, and all object codes except 6xxx, as defined in the Michigan~~
6 ~~Public School Accounting Manual Bulletin 1022, and is equal to the~~
7 ~~total of instructional and support services expenditures, including~~
8 ~~the total general fund charges incurred in the general, special~~
9 ~~education, and vocational education funds for the benefit of the~~
10 ~~current fiscal year, whether paid or unpaid, and all expenditures~~
11 ~~of the instructional programs plus applicable supporting service~~
12 ~~costs reduced by capital outlay, debt service, community services,~~
13 ~~and outgoing transfers and other transactions. Current operating~~
14 ~~expenditures for a public local school district also include~~
15 ~~operating funds for any public school or other public educational~~
16 ~~entity first authorized or established by the public local school~~
17 ~~district on or after the effective date of the amendatory act that~~
18 ~~added this subsection.~~ **"UNIVERSITY REPORTING UNIT" MEANS A REPORTING**
19 **UNIT THAT IS A UNIVERSITY LISTED IN THE DEFINITION OF PUBLIC SCHOOL**
20 **EMPLOYEE UNDER SECTION 6.**

21 Sec. 41a. (1) For fiscal years that begin ~~on or after~~ March
22 ~~28,~~ 27, 1996, the retirement system shall determine a separate
23 contribution rate for a **UNIVERSITY** reporting unit. ~~that is a~~
24 ~~university listed in the definition of public school employee under~~
25 ~~section 6. The~~ **SUBJECT TO THIS SUBSECTION, THE** retirement system
26 shall determine the separate contribution rate in the manner
27 prescribed in section 41, except that the unfunded actuarial

1 accrued liability ~~shall~~**MUST** be amortized over 40 years beginning
 2 October 1, 1996 and ending on September 30, 2036, with the payment
 3 schedule for universities being based on and applied to the
 4 combined payrolls of the universities' employees who are members
 5 and who were hired before January 1, 1996 and the universities'
 6 employees who would have been members ~~on or after January 1, 1996,~~
 7 **DECEMBER 31, 1995**, but for the enactment of 1995 PA 272. **BEGINNING**
 8 **WITH THE STATE FISCAL YEAR ENDING SEPTEMBER 30, 2016 AND FOR EACH**
 9 **SUBSEQUENT FISCAL YEAR, THE COMBINED PAYROLLS USED FOR THE PAYMENT**
 10 **SCHEDULE FOR THE UNIVERSITY REPORTING UNITS MUST INCLUDE EACH**
 11 **UNIVERSITY REPORTING UNIT'S COMBINED PAYROLL, AS PROJECTED BY THE**
 12 **ACTUARY BASED ON THE ACTUARIAL VALUATION FOR EACH FOLLOWING FISCAL**
 13 **YEAR, EXCEPT THAT THE COMBINED PAYROLL FOR EACH UNIVERSITY**
 14 **REPORTING UNIT MUST NOT BE LESS THAN THE COMBINED PAYROLL PROJECTED**
 15 **FOR EACH SUBSEQUENT FISCAL YEAR FOR EACH UNIVERSITY REPORTING UNIT**
 16 **BY THE ACTUARY BASED ON THE SEPTEMBER 30, 2012 ACTUARIAL VALUATION.**
 17 The amount of the unfunded accrued liability on which the separate
 18 contribution rate is determined ~~shall~~**MUST** be that amount which a
 19 **UNIVERSITY** reporting unit ~~that is a university listed in the~~
 20 ~~definition of public school employee under section 6~~ is legally
 21 responsible for and is calculated by actuarial analysis. Any
 22 reduction in the unfunded liability of the system ~~pursuant to~~**UNDER**
 23 governmental action affecting the entire system will be allocated
 24 to all reporting units including universities as determined by the
 25 system's actuary. For the ~~2006-2007~~ state fiscal year **ENDING**
 26 **SEPTEMBER 30, 2007**, the contribution for unfunded actuarial accrued
 27 liability ~~shall~~**MUST** be equal to 4.5% of the unfunded actuarial

1 accrued liability.

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