

HOUSE BILL No. 5478

January 30, 2018, Introduced by Reps. Pagan, Ellison, Greig, Sowerby, Sneller, Gay-Dagnogo, Geiss, Lasinski, Brinks, LaGrand, Neeley, Garrett, Cambensy, Hertel, Hoadley, Love, Moss, Chang, Liberati, Yancey, Chirkun, Camilleri, Green, Wittenberg, Durhal, Cochran, Faris, Dianda, Jones, Clemente and Hammoud 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 7 and 41 (MCL 38.1307 and 38.1341), section 7
as amended by 1995 PA 272 and section 41 as amended by 2017 PA 92.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 7. (1) "Refund beneficiary" means 1 or more persons whom
2 the member or former member nominates in writing and files with the
3 retirement system for the purpose of being paid accumulated
4 contributions in the event of the death of the member or former
5 member. If a valid nomination is not on file, the retirement board
6 shall pay the accumulated contributions to the legal representative
7 of the deceased member or deceased former member, if any, or to the

1 estate of the deceased member or deceased former member.

2 (2) "Regular interest" means interest at 1 or more rates per
3 annum determined by the retirement board and compounded annually.

4 (3) Except as otherwise provided in this subsection,
5 "reporting unit" means a public school district, intermediate
6 school district, public school academy, tax supported community or
7 junior college, or university, or an agency having employees on its
8 payroll who are members of ~~this~~**THE** retirement system. The
9 reporting unit ~~shall be~~**IS** the employer for purposes of this act.

10 On and after January 1, 1996, reporting unit does not include a
11 university, except to the extent that university has employees on
12 its payroll who are members of ~~this~~**THE** retirement system.

13 **BEGINNING ON THE EFFECTIVE DATE OF THE AMENDATORY ACT THAT ADDED**
14 **THIS SENTENCE, A PUBLIC SCHOOL ACADEMY THAT DOES NOT HAVE AN**
15 **EMPLOYEE ON ITS PAYROLL WHO IS A MEMBER OF THE RETIREMENT SYSTEM IS**
16 **CONSIDERED A REPORTING UNIT FOR THE PURPOSE OF INCLUDING THE PUBLIC**
17 **SCHOOL ACADEMY'S PAYROLL OF ITS FULL-TIME EMPLOYEES IN THE**
18 **REMITTANCE OF UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTIONS**
19 **CALCULATED UNDER SECTION 41.**

20 (4) "Retirant" means a member who retires with a retirement
21 allowance payable from reserves of the retirement system.

22 (5) "Retirement allowance" means a payment for life or a
23 temporary period provided for in this act to which a retirant,
24 retirement allowance beneficiary, or refund beneficiary is
25 entitled.

26 (6) "Retirement allowance beneficiary" means a person who is
27 being paid or has entitlement to the payment of a retirement

1 allowance in the event of the death of a member, deferred member,
2 or retirant.

3 (7) "Retirement board" means the board provided to administer
4 ~~this~~**THE** retirement system.

5 (8) "Retirement system" means the Michigan public school
6 employees' retirement system provided for in this act.

7 Sec. 41. (1) The annual level percentage of payroll
8 contribution rates to finance benefits being provided and to be
9 provided by the retirement system must be determined by actuarial
10 valuation under subsection (2) on the basis of the risk assumptions
11 that the retirement board and the department adopt after
12 consultation with the state treasurer and an actuary. An annual
13 actuarial valuation must be made of the retirement system to
14 determine the actuarial condition of the retirement system and the
15 required contribution to the retirement system. An annual actuarial
16 gain-loss experience study of the retirement system must be made to
17 determine the financial effect of variations of actual retirement
18 system experience from projected experience.

19 (2) Except as otherwise provided in sections 41a and 41b, the
20 annual contribution rates for benefits ~~is~~**ARE** subject to all of the
21 following:

22 (a) Except as otherwise provided in this subdivision, the
23 contribution rate for benefits must be computed using an individual
24 projected benefit entry age normal cost method of valuation. If the
25 contributions described in section 43e are determined by a final
26 order of a court of competent jurisdiction for which all rights of
27 appeal have been exhausted to be unconstitutional and the

1 contributions are not deposited into the appropriate funding
2 account referenced in section 43e, the contribution rate for health
3 benefits provided under section 91 must be computed using a cash
4 disbursement method.

5 (b) Subject to subdivision (c), the contribution rate for
6 service likely to be rendered in the current year, the normal cost
7 contribution rate, for reporting units must be determined as
8 follows:

9 (i) Calculate the aggregate amount of individual projected
10 benefit entry age normal costs.

11 (ii) Divide the result of the calculation under subparagraph
12 (i) by 1% of the aggregate amount of active members' valuation
13 compensation.

14 (c) Except for the employee portion of the normal cost
15 contribution rates for members under section 41b(2), beginning with
16 the state fiscal year ending September 30, 2018 and for each
17 subsequent fiscal year, the normal cost contribution rate must not
18 be less than the normal cost contribution rate in the immediately
19 preceding state fiscal year.

20 (d) Subject to ~~the~~ subdivision (e), the contribution rate for
21 unfunded service rendered before the valuation date, the unfunded
22 actuarial accrued liability contribution rate, must be determined
23 as follows:

24 (i) Calculate the aggregate amount of unfunded actuarial
25 accrued liabilities of reporting units as follows:

26 (A) Calculate the actuarial present value of benefits for
27 members attributable to reporting units.

1 (B) Calculate the actuarial present value of future normal
2 cost contributions of reporting units.

3 (C) Calculate the actuarial present value of assets on the
4 valuation date.

5 (D) Add the results of sub-subparagraphs (B) and (C).

6 (E) Subtract from the result of the calculation under sub-
7 subparagraph (A) the result from the calculation under sub-
8 subparagraph (D).

9 (ii) Divide the result of the calculation under subparagraph
10 (i) by 1% of the actuarial present value over a period not to
11 exceed 50 years of projected valuation compensation.

12 (e) Except for the employee portion of the unfunded actuarial
13 accrued liability contribution rates for members under section
14 41b(2), beginning with the state fiscal year ending September 30,
15 2018 and for each subsequent fiscal year until the unfunded
16 actuarial accrued liability is paid off, the unfunded actuarial
17 accrued liability contribution rate must not be less than the
18 unfunded actuarial accrued liability contribution rate in the
19 immediately preceding state fiscal year.

20 (f) Beginning with the state fiscal year ending September 30,
21 2013 and for each subsequent fiscal year, the unfunded actuarial
22 accrued liability contribution rate applied to payroll must not
23 exceed 20.96% for a reporting unit that is not a university
24 reporting unit. Any additional unfunded actuarial accrued liability
25 contributions as determined under this section for each fiscal year
26 are to be paid by appropriation from the state school aid fund
27 established by section 11 of article IX of the state constitution

1 of 1963. Except as otherwise provided in this section, **SECTION 7**,
2 section 41a, and section 41b, the unfunded actuarial accrued
3 liability contribution rate must be based on and applied to the
4 combined payrolls of the employees who are members or qualified
5 participants, or both.

6 (g) Beginning with the state fiscal year ending September 30,
7 2019 ~~and~~ for each subsequent fiscal year, for a reporting unit
8 that is not a university reporting unit, tax supported community or
9 junior college, public school academy, or district library as **THAT**
10 **TERM IS** defined in section 69g, the unfunded actuarial accrued
11 liability contribution rate determined under subdivision (d) must
12 be applied to the reporting unit's payroll, as adjusted under
13 subdivision (h).

14 (h) Beginning with the state fiscal year ending September 30,
15 2019, the payroll for which the unfunded actuarial accrued
16 liability contribution rate is applied for a reporting unit
17 described in subdivision (g) must be adjusted by the growth rate of
18 the reporting unit's current operating expenditures in the previous
19 fiscal year based on methods as determined by the retirement system
20 and in consultation with the system's actuary. The adjusted payroll
21 under this subdivision must become the basis on which the
22 contribution rate provided under subdivision (d) for each
23 subsequent state fiscal year is determined for a reporting unit
24 described in subdivision (g).

25 (i) Beginning with the state fiscal year ending September 30,
26 2016 and for each subsequent state fiscal year, the unfunded
27 actuarial accrued liability contribution rate applied to the

1 combined payroll, as provided in section 41a, must not exceed
2 25.73% for a university reporting unit. Any additional unfunded
3 actuarial accrued liability contributions as determined under this
4 section for each fiscal year for university reporting units are to
5 be paid by appropriation under article III of the state school aid
6 act of 1979, 1979 PA 94, MCL 388.1836 to 388.1891.

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

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

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

21 (6) Not later than 90 days after termination of each state
22 fiscal year, the executive secretary of the retirement board shall
23 certify to the director of the department and each reporting unit
24 the actual aggregate compensation paid to public school employees
25 during the preceding state fiscal year. On receipt of that
26 certification, the director of the department may compute any
27 adjustment required to the amount ~~due to~~ **BECAUSE OF** a difference

1 between the estimated and the actual aggregate compensation and the
2 estimated and the actual actuarial employer contribution rate. The
3 difference, if any, must be paid as provided in subsection (9).

4 This subsection does not apply in a fiscal year in which a deposit
5 occurs under subsection (14).

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

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

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

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

14 (10) Beginning on September 30, 2006, all assets held by the
15 retirement system must be reassigned their fair market value, as
16 determined by the state treasurer, as of September 30, 2006, and in
17 calculating any unfunded actuarial accrued liabilities, any market
18 gains or losses incurred before September 30, 2006 may not be
19 considered by the retirement system's actuaries.

20 (11) Except as otherwise provided in this subsection,
21 beginning on September 30, 2006, the actuary used by the retirement
22 board shall assume a rate of return on investments of 8% per annum,
23 as of September 30, 2006, which rate may only be changed with the
24 approval of the retirement board and the director of the
25 department. Beginning on July 1, 2010, the actuary used by the
26 retirement board shall assume a rate of return on investments of 7%
27 per annum for investments associated with members who first became

1 members after June 30, 2010, and before February 1, 2018, which
2 rate may only be changed with the approval of the retirement board
3 and the director of the department. Beginning on February 1, 2018,
4 the actuary used by the retirement board shall assume a rate of
5 return on investments of 6% per annum for investments associated
6 with members who first became a member on or after February 1,
7 2018, which rate may only be changed with the approval of the
8 retirement board and the director of the department.

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

15 (13) Beginning on September 30, 2006, the actuary used by the
16 retirement board shall use a salary increase assumption that
17 projects annual salary increases of 4%. In addition to the 4%, the
18 retirement board shall use an additional percentage based on an
19 age-related scale to reflect merit, longevity, and promotional
20 salary increase. The actuary shall use this assumption until a
21 change in the assumption is approved in writing by the retirement
22 board and the director of the department.

23 (14) For fiscal years that begin on or after October 1, 2001,
24 if the actuarial valuation prepared under this section demonstrates
25 that as of the beginning of a fiscal year, and after all credits
26 and transfers required by this act for the previous fiscal year
27 have been made, the sum of the actuarial value of assets and the

1 actuarial present value of future normal cost contributions exceeds
2 the actuarial present value of benefits, the amount based on the
3 annual level percent of payroll contribution rate under subsections
4 (1) and (2) may be deposited into the health advance funding
5 subaccount created by section 34.

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

17 (16) The retirement board and the department shall conduct and
18 review an experience investigation study and adopt risk assumptions
19 on which actuarial valuations are to be based after consultation
20 with the actuary and the state treasurer. The experience
21 investigation study ~~shall~~**MUST** be completed and risk assumptions
22 ~~shall~~**MUST** be periodically reviewed at least once every 5 years.

23 (17) Every April 1 following the periodic review of risk
24 assumptions under subsection (16), the office of retirement
25 services on behalf of the department and the state treasurer shall
26 collaborate to submit a report to the senate majority leader, the
27 speaker of the house of representatives, the senate and house of

representatives appropriations committees, and the senate and house fiscal agencies. A report required under this subsection must be published on the office of retirement ~~services'~~**SERVICES'S** website and include at least all of the following:

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

(i) 5%.

(ii) 25%.

(iii) 50%

(iv) 75%.

(v) 95%.

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

(c) Mortality assumptions.

(d) Retirement age assumptions.

(e) Payroll growth assumptions.

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

(18) As used in this section:

(a) "Current operating expenditures" includes functions 1xx, 2xx, 45x, and all object codes except 6xxx, as defined in the most recent "Michigan Public School Accounting Manual Bulletin 1022" as of ~~the effective date of the amendatory act that added this subdivision,~~**JULY 13, 2017,** 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

1 current fiscal year, whether paid or unpaid, and all expenditures
2 of the instructional programs plus applicable supporting service
3 costs reduced by capital outlay, debt service, community services,
4 and outgoing transfers and other transactions. Current operating
5 expenditures also include operating funds for any public school or
6 other public educational entity first authorized or established by
7 a reporting unit described in subsection (2) (g) on or after ~~the~~
8 ~~effective date of the amendatory act that added this subdivision.~~

9 **JULY 13, 2017.**

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