

**SENATE SUBSTITUTE FOR
HOUSE BILL NO. 4263**

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 2022 PA 220.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 41. (1) The annual level percentage of payroll
2 contribution rates to finance benefits being provided and to be
3 provided by the retirement system must be determined by actuarial
4 valuation under subsection (2) on the basis of the risk assumptions
5 that the retirement board and the department adopt after
6 consultation with the state treasurer and an actuary. An annual
7 actuarial valuation must be made of the retirement system to
8 determine the actuarial condition of the retirement system and the
9 required contribution to the retirement system. An annual actuarial

1 gain-loss experience study of the retirement system must be made to
2 determine the financial effect of variations of actual retirement
3 system experience from projected experience.

4 (2) Except as otherwise provided in sections 41a and 41b, the
5 annual contribution rates for benefits are subject to all of the
6 following:

7 (a) Except as otherwise provided in this subdivision, the
8 contribution rate for benefits must be computed using an individual
9 projected benefit entry age normal cost method of valuation. If the
10 contributions described in section 43e are determined by a final
11 order of a court of competent jurisdiction for which all rights of
12 appeal have been exhausted to be unconstitutional and the
13 contributions are not deposited into the appropriate funding
14 account referenced in section 43e, the contribution rate for health
15 benefits provided under section 91 must be computed using a cash
16 disbursement method.

17 (b) Subject to subdivision (c), the contribution rate for
18 service likely to be rendered in the current year, the normal cost
19 contribution rate, for reporting units must be determined as
20 follows:

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

23 (ii) Divide the result of the calculation under subparagraph (i)
24 by 1% of the aggregate amount of active members' valuation
25 compensation.

26 (c) Except for the employee portion of the normal cost
27 contribution rates for members under section 41b(2), beginning with
28 the state fiscal year ending September 30, 2018 and for each
29 subsequent fiscal year, the normal cost contribution rate must not

1 be less than the normal cost contribution rate in the immediately
2 preceding state fiscal year.

3 (d) Subject to subdivision (e), the contribution rate for
4 unfunded service rendered before the valuation date, the unfunded
5 actuarial accrued liability contribution rate, must be determined
6 as follows:

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

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

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

13 (C) Calculate the actuarial present value of assets on the
14 valuation date.

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

16 (E) Subtract from the result of the calculation under sub-
17 subparagraph (A) the result from the calculation under sub-
18 subparagraph (D).

19 (ii) Subject to subsection (18), divide the result of the
20 calculation under subparagraph (i) by 1% of the actuarial present
21 value over a period not to exceed 50 years of projected valuation
22 compensation.

23 (e) Except for the employee portion of the unfunded actuarial
24 accrued liability contribution rates for members under section
25 41b(2), beginning with the state fiscal year ending September 30,
26 2018 and for each subsequent fiscal year until the state fiscal
27 year ending September 30, 2021, the unfunded actuarial accrued
28 liability contribution rate must not be less than the unfunded
29 actuarial accrued liability contribution rate in the preceding

state fiscal year. Except as otherwise provided in this subdivision, beginning with the state fiscal year ending September 30, 2022, and for each subsequent fiscal year until the unfunded actuarial accrued liability is fully paid, the unfunded actuarial accrued liability contribution amount due and payable must not be less than the unfunded actuarial accrued liability contribution amount due and payable in the preceding state fiscal year. The following applies to a reporting unit that is a university reporting unit:

(i) For the state fiscal year ending September 30, 2023 only, the unfunded actuarial accrued liability contribution due and payable must be equal to the actuarially determined contribution. The contribution described in this subparagraph must reflect the appropriation made under section 236h of the state school aid act of 1979, 1979 PA 94, MCL 388.1836h, as amended by 2022 PA 144.

(ii) Beginning with the state fiscal year ending September 30, 2024, and for each subsequent fiscal year until the unfunded actuarial accrued liability is fully paid, the unfunded actuarial accrued liability contribution amount due and payable must continue to reflect the appropriation made under section 236h of the state school aid act of 1979, 1979 PA 94, MCL 388.1836h, as amended by 2022 PA 144.

(f) Beginning with the state fiscal year ending September 30, 2025 for open plans and with the state fiscal year ending September 30, 2030 for closed plans, and for each subsequent fiscal year, the retirement system shall use layered amortization.

(g) ~~(f)~~ Beginning with the state fiscal year ending September 30, 2013 and for each subsequent fiscal year, the unfunded actuarial accrued liability contribution rate applied to payroll

1 must not exceed 20.96% for a reporting unit that is not a
2 university reporting unit. Any additional unfunded actuarial
3 accrued liability contributions as determined under this section
4 for each fiscal year are to be paid by appropriation from the state
5 school aid fund established by section 11 of article IX of the
6 state constitution of 1963. Except as otherwise provided in this
7 section and sections 41a and 41b, the unfunded actuarial accrued
8 liability contribution rate must be based on and applied to the
9 combined payrolls of the employees who are members or qualified
10 participants, or both.

11 **(h)** ~~(g)~~ Beginning with the state fiscal year ending September
12 30, 2016 and for each subsequent state fiscal year, the unfunded
13 actuarial accrued liability contribution rate applied to the
14 combined payroll, as provided in section 41a, must not exceed
15 25.73% for a university reporting unit. Any additional unfunded
16 actuarial accrued liability contributions as determined under this
17 section for each fiscal year for university reporting units are to
18 be paid by appropriation under article III of the state school aid
19 act of 1979, 1979 PA 94, MCL 388.1836 to 388.1891.

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

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

29 (5) Except as provided in section 41b, the reporting units

1 shall pay the amount certified under subsection (4) to the director
2 of the department in equal payroll cycle installments for unfunded
3 actuarial accrued liability contributions and payroll cycle
4 installments for normal cost contributions.

5 (6) Not later than 90 days after the end of each state fiscal
6 year, the executive secretary of the retirement board shall certify
7 to the director of the department and each reporting unit the
8 actual aggregate compensation paid to public school employees
9 during the preceding state fiscal year. On receipt of that
10 certification, the director of the department may compute any
11 adjustment required to the amount because of a difference between
12 the estimated and the actual aggregate compensation and the
13 estimated and the actual actuarial employer contribution rate. The
14 difference, if any, must be paid as provided in subsection (9).
15 This subsection does not apply in a fiscal year in which a deposit
16 is made under subsection (14).

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

21 (8) A reporting unit shall forward employee and employer
22 Social Security contributions and reports as required by the
23 federal old-age, survivors, disability, and hospital insurance
24 provisions of title II of the social security act, 42 USC 401 to
25 434.

26 (9) ~~For~~**Except as otherwise provided in this subsection, for**
27 an employer of an employee of a local public school district or an
28 intermediate school district, for differences occurring in fiscal
29 years beginning on or after October 1, 1993, a minimum of 20% of

1 any difference between the estimated and the actual aggregate
2 compensation and the estimated and the actual actuarial employer
3 contribution rate described in subsection (6) must be paid by that
4 employer in the next state fiscal year and a minimum of 25% of the
5 remaining difference must be paid by that employer in each of the
6 following 4 state fiscal years, or until 100% of the remaining
7 difference is submitted, whichever first occurs. ~~For~~**Except as**
8 **otherwise provided in this subsection, for** an employer of other
9 public school employees, for differences occurring in fiscal years
10 beginning on or after October 1, 1991, a minimum of 20% of any
11 difference between the estimated and the actual aggregate
12 compensation and the estimated and the actual actuarial employer
13 contribution rate described in subsection (6) must be paid by that
14 employer in the next state fiscal year and a minimum of 25% of the
15 remaining difference must be paid by that employer in each of the
16 following 4 state fiscal years, or until 100% of the remaining
17 difference is submitted, whichever first occurs. **For an employer of**
18 **a public school employee, for differences occurring in fiscal years**
19 **beginning on or after October 1, 2022, a minimum of 34% of any**
20 **difference between the estimated and the actual aggregate**
21 **compensation and the estimated and the actual actuarial employer**
22 **contribution rate described in subsection (6) must be paid by the**
23 **employer in the next state fiscal year and a minimum of 50% of any**
24 **remaining difference must be paid by that employer in each of the**
25 **following 2 state fiscal years, or until 100% of the remaining**
26 **difference is submitted, whichever first occurs.** In addition,
27 interest must be included for each year that a portion of the
28 remaining difference is carried forward. The interest rate must
29 equal the actuarially assumed rate of investment return for the

1 state fiscal year in which payment is made. This subsection does
2 not apply in a fiscal year in which a deposit is made under
3 subsection (14).

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

10 (11) Except as otherwise provided in this subsection,
11 beginning on September 30, 2006, the actuary used by the retirement
12 board shall assume a rate of return on investments of 8% per annum,
13 as of 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~~ **Except as otherwise provided in this**
16 **subsection, beginning** on July 1, 2010, the actuary used by the
17 retirement board shall assume a rate of return on investments of 7%
18 per annum for investments associated with members who first became
19 members after June 30, 2010, and before February 1, 2018, which
20 rate may only be changed with the approval of the retirement board
21 and the director of the department. ~~Beginning~~ **Except as otherwise**
22 **provided in this subsection, beginning** on February 1, 2018, the
23 actuary used by the retirement board shall assume a rate of return
24 on investments of 6% per annum for investments associated with
25 members who first became a member on or after February 1, 2018,
26 which rate may only be changed with the approval of the retirement
27 board and the director of the department. **Beginning with the state**
28 **fiscal year ending September 30, 2022 and for each subsequent state**
29 **fiscal year, the actuary used by the retirement board shall assume**

1 a rate of return on investments and a discount rate of not more
2 than 6% for pension and 6% for retiree health benefits as of
3 September 30, 2021, which rates may only be changed with the
4 approval of the retirement board and the director of the
5 department.

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

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

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

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

12 (16) The retirement board and the department shall conduct and
13 review an experience investigation study and adopt risk assumptions
14 on which actuarial valuations are to be based after consultation
15 with the actuary and the state treasurer. The experience
16 investigation study must be completed and risk assumptions must be
17 periodically reviewed at least once every 5 years. **The retirement**
18 **board and department shall adopt, on the recommendation of the**
19 **actuary and in accordance with all applicable actuarial standards**
20 **of practice, the most current mortality tables that are most**
21 **appropriate for the characteristics of the population.**

22 (17) Every April 1 following the periodic review of risk
23 assumptions under subsection (16), the office of retirement
24 services on behalf of the department and the state treasurer shall
25 collaborate to submit a report to the senate majority leader, the
26 speaker of the house of representatives, the senate and house of
27 representatives appropriations committees, and the senate and house
28 fiscal agencies. A report required under this subsection must be
29 published on the office of retirement services' website and include

1 at least all of the following:

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

4 (i) 5%.

5 (ii) 25%.

6 (iii) 50%.

7 (iv) 75%.

8 (v) 95%.

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

11 (c) Mortality assumptions.

12 (d) Retirement age assumptions.

13 (e) Payroll growth assumptions.

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

16 (18) Except as otherwise provided in this subsection, **subject**
17 **to subsection (2) (f)**, for members who first became members before
18 February 1, 2018, for the state fiscal year ending September 30,
19 2023, the pension and retiree health care payroll growth assumption
20 rate for a reporting unit that is not a university reporting unit
21 must be 1.75%. Except as otherwise provided in this subsection, for
22 members who first became members before February 1, 2018, beginning
23 with the state fiscal year ending September 30, 2024, and for each
24 subsequent state fiscal year until the pension and retiree health
25 care payroll growth assumption rate for a reporting unit that is
26 not a university reporting unit is zero, the payroll growth
27 assumption rate for a reporting unit that is not a university
28 reporting unit must be reduced by 50 basis points. ~~Beginning~~
29 **Subject to subsection (2) (f)**, **beginning** with the state fiscal year

1 ending September 30, 2025 and for each subsequent state fiscal year
 2 until the rate described in this subsection is zero, if the pension
 3 and retiree health care unfunded actuarial accrued liability
 4 contribution amount directly attributable to the 50 basis points
 5 reduction under this subsection for the fiscal year is 7% or more
 6 of the pension and retiree health care unfunded actuarial accrued
 7 liability contribution amount in the preceding state fiscal year,
 8 the office of retirement services may reduce the rate described in
 9 this subsection by 25 basis points in that current fiscal year
 10 instead of the 50 basis point reduction described in this
 11 subsection. ~~Beginning~~ **Subject to subsection (2) (f), beginning** with
 12 the fiscal year ending September 30, 2022 and for each subsequent
 13 state fiscal year until the rate described in this subsection is
 14 zero, the office of retirement services and the retirement board
 15 may agree to reduce the rate described in this subsection by any
 16 number of additional basis points.

17 (19) As used in this section: ~~,"university~~

18 (a) "Closed plan" means a plan under Tier 1 that is closed to
 19 new hires.

20 (b) "Layered amortization" means a fixed and closed period
 21 that separately layers the different components to be amortized
 22 over a fixed period not to exceed 10 years for a closed plan and 15
 23 years for an open plan, as it emerges. The amortization period for
 24 layered amortization must use a level dollar amortization method.
 25 The normal cost contribution for any fiscal year must not be less
 26 than the normal cost component of the actuarially determined
 27 contribution.

28 (c) "Open plan" means a plan under Tier 1 that is open to new
 29 hires.

1 (d) "**University** reporting unit" means a reporting unit that is
2 a university listed in the definition of public school employee
3 under section 6.