

SENATE BILL NO. 911

June 12, 2024, Introduced by Senator HERTEL and referred to the Committee on Appropriations.

A bill to amend 1980 PA 300, entitled
"The public school employees retirement act of 1979,"
by amending sections 41 and 43e (MCL 38.1341 and 38.1343e), section
41 as amended by 2023 PA 198 and section 43e 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 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

1 that the retirement board and the department adopt after
2 consultation with the state treasurer and an actuary. An annual
3 actuarial valuation must be made of the retirement system to
4 determine the actuarial condition of the retirement system and the
5 required contribution to the retirement system. An annual actuarial
6 gain-loss experience study of the retirement system must be made to
7 determine the financial effect of variations of actual retirement
8 system experience from projected experience.

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

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

22 (b) Subject to subdivision (c), the contribution rate for
23 service likely to be rendered in the current year, the normal cost
24 contribution rate, for reporting units must be determined as
25 follows:

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

28 (ii) Divide the result of the calculation under subparagraph (i)
29 by 1% of the aggregate amount of active members' valuation

1 compensation.

2 (c) Except for the employee portion of the normal cost
3 contribution rates for members under section 41b(2), beginning with
4 the state fiscal year ending September 30, 2018 and for each
5 subsequent fiscal year, the normal cost contribution rate must not
6 be less than the normal cost contribution rate in the immediately
7 preceding state fiscal year.

8 (d) Subject to subdivision (e), the contribution rate for
9 unfunded service rendered before the valuation date, the unfunded
10 actuarial accrued liability contribution rate, must be determined
11 as follows:

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

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

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

18 (C) Calculate the actuarial present value of assets on the
19 valuation date.

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

21 (E) Subtract from the result of the calculation under sub-
22 subparagraph (A) the result from the calculation under sub-
23 subparagraph (D).

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

28 (e) Except for the employee portion of the unfunded actuarial
29 accrued liability contribution rates for members under section

41b(2), beginning with the state fiscal year ending September 30, 2018 and for each subsequent fiscal year until the state fiscal year ending September 30, 2021, the unfunded actuarial accrued liability contribution rate must not be less than the unfunded 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. For a reporting unit that is a university reporting unit, for the state fiscal years ending September 30, 2023 and September 30, 2024, the unfunded actuarial accrued liability contribution due and payable must be equal to the actuarially determined contribution. For a reporting unit that is a university reporting unit, for the state fiscal years ending September 30, 2023 and September 30, 2024, the contribution must reflect the appropriations made under section 236h of the state school aid act of 1979, 1979 PA 94, MCL 388.1836h, as amended by 2022 PA 144 and 2023 PA 103.

(f) ~~Beginning~~ **Except as otherwise provided in this subdivision, 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 must not exceed 20.96% for a reporting unit that is not a university reporting unit. **Beginning with the state fiscal year ending September 30, 2025 and for each subsequent fiscal year, the unfunded actuarial accrued liability contribution rate applied to**

1 payroll must not exceed 13.9% 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 (g) Beginning with the state fiscal year ending September 30,
12 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 an employer of an employee of a local public school
27 district or an intermediate school district, for differences
28 occurring in fiscal years beginning on or after October 1, 1993, a
29 minimum of 20% of any difference between the estimated and the

1 actual aggregate compensation and the estimated and the actual
2 actuarial employer contribution rate described in subsection (6)
3 must be paid by that employer in the next state fiscal year and a
4 minimum of 25% of the remaining difference must be paid by that
5 employer in each of the following 4 state fiscal years, or until
6 100% of the remaining difference is submitted, whichever first
7 occurs. For an employer of other public school employees, for
8 differences occurring in fiscal years beginning on or after October
9 1, 1991, a minimum of 20% of any difference between the estimated
10 and the actual aggregate compensation and the estimated and the
11 actual actuarial employer contribution rate described in subsection
12 (6) must be paid by that employer in the next state fiscal year and
13 a minimum of 25% of the remaining difference must be paid by that
14 employer in each of the following 4 state fiscal years, or until
15 100% of the remaining difference is submitted, whichever first
16 occurs. In addition, interest must be included for each year that a
17 portion of the remaining difference is carried forward. The
18 interest rate must equal the actuarially assumed rate of investment
19 return for the state fiscal year in which payment is made. This
20 subsection does not apply in a fiscal year in which a deposit is
21 made under subsection (14).

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

28 (11) Except as otherwise provided in this subsection,
29 beginning on September 30, 2006, the actuary used by the retirement

1 board shall assume a rate of return on investments of 8% per annum,
2 as of September 30, 2006, which rate may only be changed with the
3 approval of the retirement board and the director of the
4 department. Beginning on July 1, 2010, the actuary used by the
5 retirement board shall assume a rate of return on investments of 7%
6 per annum for investments associated with members who first became
7 members after June 30, 2010, and before February 1, 2018, which
8 rate may only be changed with the approval of the retirement board
9 and the director of the department. Beginning on February 1, 2018,
10 the actuary used by the retirement board shall assume a rate of
11 return on investments of 6% per annum for investments associated
12 with members who first became a member on or after February 1,
13 2018, which rate may only be changed with the approval of the
14 retirement board and the director of the department.

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

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

29 (14) ~~For~~ **Except as otherwise provided in this subsection, for**

fiscal years that begin on or after October 1, 2001, if the actuarial valuation prepared under 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 under subsections (1) and (2) may be deposited into the health advance funding subaccount created by section 34. **Beginning in the fiscal year ending September 30, 2025 and each subsequent fiscal year, the following apply, as applicable:**

(a) If the actuarial valuation prepared under 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 is equal to or exceeds the actuarial present value of benefits, a reporting unit shall contribute only the normal costs for retiree health benefits provided under section 91.

(b) If the actuarial valuation prepared under 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 is less than the actuarial present value of benefits, a reporting unit shall contribute the unfunded actuarial accrued liability amount and the normal costs for retiree health benefits provided under section 91.

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.

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

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

29 (i) 5%.

1 (ii) 25%.

2 (iii) 50%.

3 (iv) 75%.

4 (v) 95%.

5 (b) The actual rate of return on investments for 10-, 15-, and
6 20-year intervals.

7 (c) Mortality assumptions.

8 (d) Retirement age assumptions.

9 (e) Payroll growth assumptions.

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

12 (18) Except as otherwise provided in this subsection, for
13 members who first became members before February 1, 2018, for the
14 state fiscal year ending September 30, 2024, the pension and
15 retiree health care payroll growth assumption rate for a reporting
16 unit that is not a university reporting unit must be 0.75%. Except
17 as otherwise provided in this subsection, for members who first
18 became members before February 1, 2018, beginning with the state
19 fiscal year ending September 30, 2025, and for each subsequent
20 state fiscal year until the pension and retiree health care payroll
21 growth assumption rate for a reporting unit that is not a
22 university reporting unit is zero, the payroll growth assumption
23 rate for a reporting unit that is not a university reporting unit
24 must be reduced by 50 basis points. Beginning with the state fiscal
25 year ending September 30, 2025 and for each subsequent state fiscal
26 year until the rate described in this subsection is zero, if the
27 pension and retiree health care unfunded actuarial accrued
28 liability contribution amount directly attributable to the 50 basis
29 points reduction under this subsection for the fiscal year is 7% or

1 more of the pension and retiree health care unfunded actuarial
2 accrued liability contribution amount in the preceding state fiscal
3 year, the office of retirement services may reduce the rate
4 described in this subsection by 25 basis points in that current
5 fiscal year instead of the 50 basis point reduction described in
6 this subsection. Beginning with the fiscal year ending September
7 30, 2022 and for each subsequent state fiscal year until the rate
8 described in this subsection is zero, the office of retirement
9 services and the retirement board may agree to reduce the rate
10 described in this subsection by any number of additional basis
11 points.

12 (19) As used in this section, "university reporting unit"
13 means a reporting unit that is a university listed in the
14 definition of public school employee under section 6.

15 Sec. 43e. Except as otherwise provided in this section or
16 section 91a, each member who first became a member before September
17 4, 2012 shall contribute 3% of the member's compensation to the
18 appropriate funding account established under the public employee
19 retirement health care funding act, 2010 PA 77, MCL 38.2731 to
20 38.2747. **Except as otherwise provided in section 91a, beginning in**
21 **the fiscal year ending September 30, 2025 and each subsequent**
22 **fiscal year, for each member who first became a member before**
23 **September 4, 2012, there is no required member contribution under**
24 **this section.** The member contributions under this section ~~shall~~
25 **must** be deducted by the employer and remitted as employer
26 contributions in a manner that the retirement system shall
27 determine. As used in this section, "funding account" means the
28 appropriate irrevocable trust created in the public employee
29 retirement health care funding act, 2010 PA 77, MCL 38.2731 to

- 1 38.2747, for the deposit of funds and the payment of retirement
- 2 health care benefits.