

# HOUSE BILL No. 6019

November 9, 2016, Introduced by Rep. Irwin 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 section 41 (MCL 38.1341), 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 **OR RATE APPLIED TO CURRENT OPERATING**  
3 **EXPENDITURES, AS APPLICABLE,** to finance benefits being provided and  
4 to be provided by the retirement system ~~shall~~ **MUST** be determined by  
5 actuarial valuation ~~pursuant to~~ **UNDER** subsection (2) ~~upon~~ **ON** the  
6 basis of the risk assumptions that the retirement board and the  
7 department adopt after consultation with the state treasurer and an  
8 actuary. An annual actuarial valuation ~~shall~~ **MUST** be made of the  
9 retirement system ~~in order to~~ determine the actuarial condition of  
10 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, the  
6 contribution rate for benefits ~~shall~~**MUST** be computed using an  
7 individual projected benefit entry age normal cost method of  
8 valuation. Except as otherwise provided in this section, for the  
9 1995-96 state fiscal year and for each subsequent fiscal year  
10 before the 2012-2013 state fiscal year, the contribution rate for  
11 health benefits provided under section 91 ~~shall~~**MUST** be computed  
12 using a cash disbursement method. Beginning in the 2012-2013 state  
13 fiscal year and for each subsequent fiscal year, if the  
14 contributions described in section 43e are determined by a final  
15 order of a court of competent jurisdiction for which all rights of  
16 appeal have been exhausted to be unconstitutional and the  
17 contributions are not deposited into the appropriate funding  
18 account referenced in section 43e, the contribution rate for health  
19 benefits provided under section 91 ~~shall~~**MUST** be computed using a  
20 cash disbursement method. The contribution rate for service likely  
21 to be rendered in the current year, the normal cost contribution  
22 rate, ~~shall~~**MUST** be equal to the aggregate amount of individual  
23 projected benefit entry age normal costs divided by 1% of the  
24 aggregate amount of active members' valuation compensation. Except  
25 as otherwise provided under this subsection, the contribution rate  
26 for unfunded service rendered before the valuation date, the  
27 unfunded actuarial accrued liability contribution rate, ~~shall~~**MUST**

1 be the aggregate amount of unfunded actuarial accrued liabilities  
2 divided by 1% of the actuarial present value over a period not to  
3 exceed 50 years of projected valuation compensation, ~~where~~ **AND A**  
4 **SEPARATE RATE BASED ON PROJECTED CURRENT OPERATING EXPENDITURES AS**  
5 **CALCULATED FOR THE 2016-2017 STATE FISCAL YEAR AND EACH SUBSEQUENT**  
6 **STATE FISCAL YEAR, IF** unfunded actuarial accrued liabilities are  
7 equal to the actuarial present value of benefits, reduced by the  
8 actuarial present value of future normal cost contributions and the  
9 actuarial value of assets on the valuation date. ~~Beginning~~ **EXCEPT**  
10 **AS OTHERWISE PROVIDED UNDER THIS SUBSECTION, BEGINNING** with the  
11 2012-2013 state fiscal year and for each subsequent fiscal year,  
12 the unfunded actuarial accrued liability contribution rate applied  
13 to payroll ~~shall~~ **MUST** not exceed 20.96%. **BEGINNING WITH THE 2016-**  
14 **2017 STATE FISCAL YEAR, THE UNFUNDED ACTUARIAL ACCRUED LIABILITY**  
15 **CONTRIBUTION RATE AND PAYMENT SCHEDULE FOR PUBLIC LOCAL SCHOOL**  
16 **DISTRICTS MUST BE APPLIED TO CALCULATED CURRENT OPERATING**  
17 **EXPENDITURES. THE UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTION**  
18 **RATE CALCULATED AND APPLIED TO CURRENT OPERATING EXPENDITURES MUST**  
19 **BE CALCULATED AFTER THE UNFUNDED ACTUARIAL ACCRUED LIABILITY**  
20 **CONTRIBUTION RATE BASED ON PROJECTED VALUATION COMPENSATION IS**  
21 **CALCULATED AND APPLIED TO PAYROLL OF REPORTING UNITS OTHER THAN**  
22 **PUBLIC LOCAL SCHOOL DISTRICTS, BASED ON PRIOR BASE YEAR DATA AND**  
23 **METHODS AS DETERMINED BY THE RETIREMENT SYSTEM AND IN CONSULTATION**  
24 **WITH THE SYSTEM ACTUARY. BEGINNING WITH THE 2016-2017 STATE FISCAL**  
25 **YEAR AND FOR EACH SUBSEQUENT FISCAL YEAR, THE UNFUNDED ACTUARIAL**  
26 **ACCRUED LIABILITY CONTRIBUTION RATE APPLIED TO CALCULATED CURRENT**  
27 **OPERATING EXPENDITURES MUST NOT EXCEED 11.9% AND THE UNFUNDED**

1 **ACTUARIAL ACCRUED LIABILITY CONTRIBUTION RATE APPLIED TO PAYROLL**  
2 **MUST NOT EXCEED 20.96%**. Any additional unfunded actuarial accrued  
3 liability contributions as determined under this section for each  
4 fiscal year are to be paid by appropriation from the school aid  
5 fund established by section 11 of article IX of the state  
6 constitution of 1963. Except as otherwise provided in section 41a,  
7 the unfunded actuarial accrued liability contribution rate ~~shall~~  
8 **MUST** be based ~~upon~~ **ON** and applied to the combined payrolls of the  
9 employees who are members and qualified participants.

10 (3) Before November 1 of each year, the executive secretary of  
11 the retirement board shall certify to the director of the  
12 department the aggregate compensation estimated to be paid public  
13 school employees for the current state fiscal year **AND THE**  
14 **ESTIMATED CURRENT OPERATING EXPENDITURES FOR THE CURRENT SCHOOL**  
15 **FISCAL YEAR.**

16 (4) On the basis of the estimate under subsection (3), the  
17 annual actuarial valuation, and any adjustment required under  
18 subsection (6), the director of the department shall compute the  
19 sum due and payable to the retirement system and shall certify this  
20 amount to the reporting units.

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

26 (6) Not later than 90 days after termination of each state  
27 fiscal year, the executive secretary of the retirement board shall

1 certify to the director of the department and each reporting unit  
2 the actual aggregate compensation paid to public school employees  
3 during the preceding state fiscal year. ~~Upon~~**ON** receipt of that  
4 certification, the director of the department may compute any  
5 adjustment required to the amount due to a difference between the  
6 estimated and the actual aggregate compensation and the estimated  
7 and the actual actuarial employer contribution rate. The  
8 difference, if any, ~~shall~~**MUST** be paid as provided in subsection  
9 (9). This subsection does not apply in a fiscal year in which a  
10 deposit occurs ~~pursuant to~~**UNDER** subsection (14).

11 (7) The director of the department may require evidence of  
12 correctness and may conduct an audit of the aggregate compensation  
13 that the director of the department considers necessary to  
14 establish its correctness.

15 (8) A reporting unit shall forward employee and employer  
16 social security contributions and reports as required by the  
17 federal old-age, survivors, disability, and hospital insurance  
18 provisions of title II of the social security act, 42 USC 401 to  
19 434.

20 (9) For an employer of an employee of a local public school  
21 district or an intermediate school district, for differences  
22 occurring in fiscal years beginning on or after October 1, 1993, a  
23 minimum of 20% of the difference between the estimated and the  
24 actual aggregate compensation and the estimated and the actual  
25 actuarial employer contribution rate described in subsection (6),  
26 if any, ~~shall~~**MUST** be paid by that employer in the next succeeding  
27 state fiscal year and a minimum of 25% of the remaining difference

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

19 (10) Beginning ~~on the designated date,~~**SEPTEMBER 30, 2006**, all  
20 assets held by the retirement system ~~shall~~**MUST** be reassigned their  
21 fair market value, as determined by the state treasurer, as of ~~the~~  
22 ~~designated date,~~**SEPTEMBER 30, 2006**, and in calculating any  
23 unfunded actuarial accrued liabilities, any market gains or losses  
24 incurred before ~~the designated date shall~~**SEPTEMBER 30, 2006, MUST**  
25 not be considered by the retirement system's actuaries.

26 (11) Except as otherwise provided in this subsection,  
27 beginning on ~~the designated date,~~**SEPTEMBER 30, 2006**, the actuary

1 used by the retirement board shall assume a rate of return on  
2 investments of 8.00% per annum, as of ~~the designated date,~~  
3 **SEPTEMBER 30, 2006**, which rate may only be changed with the  
4 approval of the retirement board and the director of the  
5 department. Beginning on July 1, 2010, the actuary used by the  
6 retirement board shall assume a rate of return on investments of  
7 7.00% per annum for investments associated with members who first  
8 became members ~~on and after July 1,~~ **JUNE 30, 2010**, which rate may  
9 only be changed with the approval of the retirement board and the  
10 director of the department.

11 (12) Beginning on ~~the designated date,~~ **SEPTEMBER 30, 2006**, the  
12 value of assets used shall **MUST** be based on a method that spreads  
13 over a 5-year period the difference between actual and expected  
14 return occurring in each year after ~~the designated date~~ **SEPTEMBER**  
15 **30, 2006** and ~~such~~ **THE** methodology may only be changed with the  
16 approval of the retirement board and the director of the  
17 department.

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

26 (14) For fiscal years that begin on or after October 1, 2001,  
27 if the actuarial valuation prepared ~~pursuant to~~ **UNDER** this section

1 demonstrates that as of the beginning of a fiscal year, and after  
2 all credits and transfers required by this act for the previous  
3 fiscal year have been made, the sum of the actuarial value of  
4 assets and the actuarial present value of future normal cost  
5 contributions exceeds the actuarial present value of benefits, the  
6 amount based on the annual level percent of payroll contribution  
7 rate ~~pursuant to~~ **OR RATE APPLIED TO CURRENT OPERATING EXPENDITURES,**  
8 **AS APPLICABLE, UNDER** subsections (1) and (2) may be deposited into  
9 the health advance funding subaccount created by section 34.

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

21 **(16) BEGINNING WITH THE 2016-2017 STATE FISCAL YEAR, THE**  
22 **ACTUARY USED BY THE RETIREMENT BOARD SHALL USE A CURRENT OPERATING**  
23 **EXPENDITURE INCREASE ASSUMPTION THAT PROJECTS ANNUAL CURRENT**  
24 **OPERATING EXPENDITURE INCREASES OF 3.5%.**

25 **(17)** ~~(16)~~ As used in this section, "current operating  
26 expenditures" for a public local school district includes functions  
27 1xx, 2xx, 45x, and all object codes except 6xxx, as defined in the



1 Michigan Public School Accounting Manual Bulletin 1022, and is  
2 equal to the total of instructional and support services  
3 expenditures, including the total general fund charges incurred in  
4 the general, special education, and vocational education funds for  
5 the benefit of the current fiscal year, whether paid or unpaid, and  
6 all expenditures of the instructional programs plus applicable  
7 supporting service costs reduced by capital outlay, debt service,  
8 community services, and outgoing transfers and other transactions.  
9 Current operating expenditures for a public local school district  
10 also include operating funds for any public school or other public  
11 educational entity first authorized or established by the public  
12 local school district on or after ~~the effective date of the~~  
13 ~~amendatory act that added this subsection.~~ **SEPTEMBER 4, 2012.**