

HOUSE BILL No. 6378

September 25, 2018, Introduced by Rep. VanSingel 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 2018 PA 181, and by adding sections 43h, 43i, and 43j.

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
24 (i) 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

1 the state fiscal year ending September 30, 2018 and for each
2 subsequent fiscal year, the normal cost contribution rate must not
3 be less than the normal cost contribution rate in the immediately
4 preceding state fiscal year.

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

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

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

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

15 (C) Calculate the actuarial present value of assets on the
16 valuation date.

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

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

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

25 (e) Except for the employee portion of the unfunded actuarial
26 accrued liability contribution rates for members under section
27 41b(2), beginning with the state fiscal year ending September 30,

1 2018 and for each subsequent fiscal year until the state fiscal
2 year ending September 30, 2021, the unfunded actuarial accrued
3 liability contribution rate must not be less than the unfunded
4 actuarial accrued liability contribution rate in the immediately
5 preceding state fiscal year. Beginning with the state fiscal year
6 ending September 30, 2022, and for each subsequent fiscal year
7 until the unfunded actuarial accrued liability is paid off, the
8 unfunded actuarial accrued liability contribution sum due and
9 payable must not be less than the unfunded actuarial accrued
10 liability contribution sum due and payable in the immediately
11 preceding state fiscal year.

12 (f) Beginning with the state fiscal year ending September 30,
13 2013 and for each subsequent fiscal year, the unfunded actuarial
14 accrued liability contribution rate applied to payroll must not
15 exceed 20.96% for a reporting unit that is not a university
16 reporting unit. Any additional unfunded actuarial accrued liability
17 contributions as determined under this section for each fiscal year
18 are to be paid by appropriation from the state school aid fund
19 established by section 11 of article IX of the state constitution
20 of 1963. Except as otherwise provided in this section ~~section~~ **AND**
21 **SECTIONS** 41a ~~and section~~ 41b, the unfunded actuarial accrued
22 liability contribution rate must be based on and applied to the
23 combined payrolls of the employees who are members or qualified
24 participants, or both.

25 (g) Beginning with the state fiscal year ending September 30,
26 2020 and for each subsequent fiscal year, for a reporting unit that
27 is not a university reporting unit, tax supported community or

1 junior college, public school academy, or district library as that
2 term is defined in section 69g, the unfunded actuarial accrued
3 liability contribution rate determined under subdivision (d) must
4 be applied to the reporting unit's payroll, as adjusted under
5 subdivision (h).

6 (h) Beginning with the state fiscal year ending September 30,
7 2020, the payroll for which the unfunded actuarial accrued
8 liability contribution rate is applied for a reporting unit
9 described in subdivision (g) must be adjusted by the growth rate of
10 the reporting unit's payroll plus purchased services in the
11 previous fiscal years based on methods as determined by the
12 retirement system and in consultation with the system's actuary.
13 The adjusted payroll under this subdivision must become the basis
14 on which the contribution rate provided under subdivision (d) for
15 each subsequent state fiscal year is determined for a reporting
16 unit described in subdivision (g).

17 (i) Beginning with the state fiscal year ending September 30,
18 2016 and for each subsequent state fiscal year, the unfunded
19 actuarial accrued liability contribution rate applied to the
20 combined payroll, as provided in section 41a, must not exceed
21 25.73% for a university reporting unit. Any additional unfunded
22 actuarial accrued liability contributions as determined under this
23 section for each fiscal year for university reporting units are to
24 be paid by appropriation under article III of the state school aid
25 act of 1979, 1979 PA 94, MCL 388.1836 to 388.1891.

26 (3) Before November 1 of each year, the executive secretary of
27 the retirement board shall certify to the director of the

1 department the aggregate compensation estimated to be paid public
2 school employees for the current state fiscal year.

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

8 (5) Except as provided in section 41b, the reporting units
9 shall pay the amount certified under subsection (4) to the director
10 of the department in equal payroll cycle installments for unfunded
11 actuarial accrued liability contributions and payroll cycle
12 installments for normal cost contributions.

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

25 (7) The director of the department may require evidence of
26 correctness and may conduct an audit of the aggregate compensation
27 that the director of the department considers necessary to

1 establish its correctness.

2 (8) A reporting unit shall forward employee and employer
3 Social Security contributions and reports as required by the
4 federal old-age, survivors, disability, and hospital insurance
5 provisions of title II of the social security act, 42 USC 401 to
6 434.

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

1 remaining difference is carried forward. The interest rate must
2 equal the actuarially assumed rate of investment return for the
3 state fiscal year in which payment is made. This subsection does
4 not apply in a fiscal year in which a deposit occurs under
5 subsection (14).

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

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

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

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

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

25 (15) Notwithstanding any other provision of this act, if the
26 retirement board establishes an arrangement and fund as described
27 in section 6 of the public employee retirement benefit protection

1 act, 2002 PA 100, MCL 38.1686, the benefits that are required to be
2 paid from that fund must be paid from a portion of the employer
3 contributions described in this section or other eligible funds.
4 The retirement board shall determine the amount of the employer
5 contributions or other eligible funds that must be allocated to
6 that fund and deposit that amount in that fund before it deposits
7 any remaining employer contributions or other eligible funds in the
8 pension fund.

9 (16) The retirement board and the department shall conduct and
10 review an experience investigation study and adopt risk assumptions
11 on which actuarial valuations are to be based after consultation
12 with the actuary and the state treasurer. The experience
13 investigation study must be completed and risk assumptions must be
14 periodically reviewed at least once every 5 years.

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

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

- 26 (i) 5%.
27 (ii) 25%.

1 (iii) 50%.

2 (iv) 75%.

3 (v) 95%.

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

6 (c) Mortality assumptions.

7 (d) Retirement age assumptions.

8 (e) Payroll growth assumptions.

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

11 (18) Except as otherwise provided in this subsection, for
12 members who first became members before February 1, 2018, beginning
13 with the state fiscal year ending September 30, 2022 and for each
14 subsequent state fiscal year until the pension and retiree health
15 care payroll growth assumption rate for a reporting unit that is
16 not a university reporting unit is zero, the payroll growth
17 assumption rate for a reporting unit that is not a university
18 reporting unit must be reduced by 50 basis points. Beginning with
19 the state fiscal year ending September 30, 2025 and for each
20 subsequent state fiscal year until the rate described in this
21 subsection is zero, if the pension and retiree health care unfunded
22 actuarial accrued liability contribution sum directly attributable
23 to the 50 basis points reduction under this subsection for the
24 current fiscal year is 7% or more of the pension and retiree health
25 care unfunded actuarial accrued liability contribution sum in the
26 immediately preceding state fiscal year, the office of retirement
27 services may reduce the rate described in this subsection by 25

1 basis points in that current fiscal year instead of the 50 basis
2 point reduction described in this subsection. **BEGINNING WITH THE**
3 **FISCAL YEAR ENDING SEPTEMBER 30, 2022 AND FOR EACH SUBSEQUENT STATE**
4 **FISCAL YEAR UNTIL THE RATE DESCRIBED IN THIS SUBSECTION IS ZERO,**
5 **THE OFFICE OF RETIREMENT SERVICES AND THE RETIREMENT BOARD MAY**
6 **AGREE TO REDUCE THE RATE DESCRIBED IN THIS SUBSECTION BY ANY NUMBER**
7 **OF ADDITIONAL BASIS POINTS.**

8 (19) As used in this section:

9 (a) "Payroll plus purchased services" includes functions 1xx,
10 2xx, and 45x, and object codes 1xxx, 31xx, 33xx, and 41xx, as
11 defined in the most recent "Michigan Public School Accounting
12 Manual Bulletin 1022" as of July 13, 2017, and is equal to the
13 total of salaries, professional and technical services,
14 client/pupil transportation, and repairs and maintenance services
15 expenditures, including the charges incurred in the general,
16 special education, and vocational education funds for the benefit
17 of the current fiscal year, whether paid or unpaid.

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

21 **SEC. 43H. (1) AN INDIVIDUAL WHO WAS FIRST EMPLOYED BY A**
22 **REPORTING UNIT THAT IS A TAX SUPPORTED COMMUNITY COLLEGE OR JUNIOR**
23 **COLLEGE BEFORE JULY 2, 2018, AND WHO DID NOT PREVIOUSLY HAVE THAT**
24 **SERVICE REPORTED BY A REPORTING UNIT ON HIS OR HER BEHALF, MAY**
25 **CLAIM AND THEREAFTER BE CREDITED WITH THE SERVICE ONLY IF ALL OF**
26 **THE FOLLOWING APPLY:**

27 **(A) THE INDIVIDUAL OTHERWISE MEETS THE REQUIREMENTS OF SECTION**

1 5(P).

2 (B) THE INDIVIDUAL FILES A WRITTEN APPLICATION WITH THE
3 RETIREMENT BOARD AFTER JANUARY 1, 2019 BUT NOT LATER THAN 5 P.M.
4 EASTERN STANDARD TIME ON JANUARY 31, 2020 IN A METHOD DETERMINED BY
5 THE RETIREMENT SYSTEM.

6 (C) A WRITTEN APPLICATION SUBMITTED BY AN INDIVIDUAL UNDER
7 THIS SECTION IS IRREVOCABLE.

8 (D) THE INDIVIDUAL FULFILLS THE TERMS OF ANY BILLING STATEMENT
9 ISSUED BY THE RETIREMENT SYSTEM THAT CORRESPONDS WITH THE AMOUNT
10 THE MEMBER WOULD HAVE CONTRIBUTED ACCORDING TO THE SCHEDULE
11 GOVERNING CONTRIBUTIONS IN EFFECT AT THE TIME OF THAT SERVICE, PLUS
12 REGULAR INTEREST ON THE CONTRIBUTIONS, BEFORE THE INDIVIDUAL
13 ESTABLISHES A RETIREMENT ALLOWANCE EFFECTIVE DATE.

14 (2) AN INDIVIDUAL WHO SATISFIES THE CONDITIONS OF SUBSECTION
15 (1) MUST HAVE SERVICE CREDITED IN AN AMOUNT COMMENSURATE WITH THE
16 CONTRIBUTIONS REMITTED UNDER SUBSECTION (1) IN A TIME AND MANNER AS
17 DETERMINED BY THE RETIREMENT SYSTEM.

18 (3) AN INDIVIDUAL WHO WAS FIRST HIRED BY A REPORTING UNIT THAT
19 IS A TAX SUPPORTED COMMUNITY OR JUNIOR COLLEGE BEFORE JULY 2, 2018
20 AND WHO DOES NOT SATISFY THE CONDITIONS OF SUBSECTION (1) SHALL
21 FORFEIT ANY CLAIM TO RECEIVE CREDIT FOR THAT SERVICE UNLESS GOOD
22 CAUSE IS SHOWN TO THE SATISFACTION OF THE BOARD.

23 (4) A REPORTING UNIT SHALL REMIT EMPLOYER CONTRIBUTIONS
24 REQUIRED BY THIS ACT FOR SERVICE CREDITED UNDER SUBSECTION (1),
25 INCLUSIVE OF REGULAR INTEREST AND ANY LATE FEES, IN A TIME AND
26 MANNER DETERMINED BY THE RETIREMENT SYSTEM.

27 SEC. 43I. AFTER JANUARY 31, 2020, THE RETIREMENT SYSTEM SHALL

1 DETERMINE AND ASSESS A SUPPLEMENTAL EMPLOYER CONTRIBUTION FOR EACH
2 REPORTING UNIT THAT IS A TAX SUPPORTED COMMUNITY OR JUNIOR COLLEGE
3 ON THE BASIS OF INFORMATION REPORTED BY THE REPORTING UNIT UNDER
4 SECTION 42A, AND PAYROLL DATA REPORTED TO THE RETIREMENT SYSTEM BY
5 THE REPORTING UNIT. THE CONTRIBUTION DETERMINED AND ASSESSED UNDER
6 THIS SECTION MUST TAKE INTO ACCOUNT ALL OF THE FOLLOWING:

7 (A) THE EXTENT TO WHICH THE REPORTING UNIT REMITTED EMPLOYER
8 CONTRIBUTIONS AND RELATED RETIREMENT INFORMATION FOR INDIVIDUALS
9 EMPLOYED BY THE REPORTING UNIT WHILE ENROLLED AS A PART-TIME
10 STUDENT IN THAT SAME REPORTING UNIT FOR EACH SCHOOL FISCAL YEAR
11 STARTING WITH THE 2001-2002 SCHOOL FISCAL YEAR.

12 (B) THE CONTRIBUTION RATE MUST BE CALCULATED IN THE MANNER
13 PROVIDED BY SECTION 42, EXCEPT AS FOLLOWS:

14 (i) THE PORTION OF THE RATE CORRESPONDING WITH PENSION
15 BENEFITS MUST NOT INCLUDE AN ASSESSMENT FOR NORMAL COST OR
16 ACTUARIAL ACCRUED LIABILITIES FOR SERVICE RENDERED BEFORE THE 2000-
17 2001 SCHOOL FISCAL YEAR.

18 (ii) THE RATE CORRESPONDING WITH HEALTH BENEFITS MUST NOT
19 INCLUDE AN ASSESSMENT FOR NORMAL COST OR ANY UNFUNDED ACTUARIAL
20 ACCRUED LIABILITIES FOR SERVICE RENDERED BEFORE THE 2011-2012
21 SCHOOL FISCAL YEAR.

22 (C) THE CONTRIBUTION RATE MUST INCLUDE INTEREST AND LATE FEES,
23 AS PROVIDED UNDER SECTION 42.

24 SEC. 43J. (1) THERE IS APPROPRIATED FOR THE FISCAL YEAR ENDING
25 SEPTEMBER 30, 2019, \$650,000.00 TO THE OFFICE OF RETIREMENT
26 SERVICES IN THE DEPARTMENT OF TECHNOLOGY, MANAGEMENT, AND BUDGET
27 FOR ADMINISTRATION OF THE CHANGES UNDER THE AMENDATORY ACT THAT

1 ADDED THIS SECTION.

2 (2) THE APPROPRIATION AUTHORIZED IN SUBSECTION (1) IS A WORK
3 PROJECT APPROPRIATION AND ANY UNENCUMBERED OR UNALLOTTED FUNDS ARE
4 CARRIED FORWARD INTO THE FOLLOWING FISCAL YEAR. THE FOLLOWING IS IN
5 COMPLIANCE WITH SECTION 451A(1) OF THE MANAGEMENT AND BUDGET ACT,
6 1984 PA 431, MCL 18.1451A:

7 (A) THE PURPOSE OF THE PROJECT IS TO ADMINISTER CHANGES UNDER
8 THE AMENDATORY ACT THAT ADDED THIS SECTION.

9 (B) THE WORK PROJECT WILL BE ACCOMPLISHED THROUGH A PLAN
10 UTILIZING INTERAGENCY AGREEMENTS, EMPLOYEES, AND CONTRACTS.

11 (C) THE TOTAL ESTIMATED COMPLETION COST OF THE WORK PROJECT IS
12 \$650,000.00.

13 (D) THE ESTIMATED COMPLETION DATE FOR THE WORK PROJECT IS
14 SEPTEMBER 30, 2020.