

**SUBSTITUTE FOR  
HOUSE BILL NO. 6357**

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 512.

**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 ~~immediately~~

1 preceding state fiscal year. ~~Beginning~~ **Except as otherwise provided**  
 2 **in this subdivision, beginning** with the state fiscal year ending  
 3 September 30, 2022, and for each subsequent fiscal year until the  
 4 unfunded actuarial accrued liability is **fully** paid, ~~eff,~~ the  
 5 unfunded actuarial accrued liability contribution ~~sum~~ **amount** due  
 6 and payable must not be less than the unfunded actuarial accrued  
 7 liability contribution ~~sum~~ **amount** due and payable in the  
 8 ~~immediately~~ preceding state fiscal year. **The following applies to a**  
 9 **reporting unit that is a university reporting unit:**

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

16 (ii) Beginning with the state fiscal year ending September 30,  
 17 2024, and for each subsequent fiscal year until the unfunded  
 18 actuarial accrued liability is fully paid, the unfunded actuarial  
 19 accrued liability contribution amount due and payable must continue  
 20 to reflect the appropriation made under section 236h of the state  
 21 school aid act of 1979, 1979 PA 94, MCL 388.1836h, as amended by  
 22 2022 PA 144.

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

1 established by section 11 of article IX of the state constitution  
 2 of 1963. Except as otherwise provided in this section and sections  
 3 41a and 41b, the unfunded actuarial accrued liability contribution  
 4 rate must be based on and applied to the combined payrolls of the  
 5 employees who are members or qualified participants, or both.

6 (g) Beginning with the state fiscal year ending September 30,  
 7 2016 and for each subsequent state fiscal year, the unfunded  
 8 actuarial accrued liability contribution rate applied to the  
 9 combined payroll, as provided in section 41a, must not exceed  
 10 25.73% for a university reporting unit. Any additional unfunded  
 11 actuarial accrued liability contributions as determined under this  
 12 section for each fiscal year for university reporting units are to  
 13 be paid by appropriation under article III of the state school aid  
 14 act of 1979, 1979 PA 94, MCL 388.1836 to 388.1891.

15 (3) Before November 1 of each **state fiscal** year, the executive  
 16 secretary of the retirement board shall certify to the director of  
 17 the department the aggregate compensation estimated to be paid  
 18 public school employees for the ~~current~~ state fiscal year.

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

24 (5) Except as provided in section 41b, the reporting units  
 25 shall pay the amount certified under subsection (4) to the director  
 26 of the department in equal payroll cycle installments for unfunded  
 27 actuarial accrued liability contributions and payroll cycle  
 28 installments for normal cost contributions.

29 (6) Not later than 90 days after ~~termination~~ **the end** of each

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

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

16 (8) A reporting unit shall forward employee and employer  
 17 Social Security contributions and reports as required by the  
 18 federal old-age, survivors, disability, and hospital insurance  
 19 provisions of title II of the social security act, 42 USC 401 to  
 20 434.

21 (9) For an employer of an employee of a local public school  
 22 district or an intermediate school district, for differences  
 23 occurring in fiscal years beginning on or after October 1, 1993, a  
 24 minimum of 20% of ~~the~~**any** difference between the estimated and the  
 25 actual aggregate compensation and the estimated and the actual  
 26 actuarial employer contribution rate described in subsection (6) ~~if~~  
 27 ~~if any,~~ must be paid by that employer in the next ~~succeeding~~ state  
 28 fiscal year and a minimum of 25% of the remaining difference must  
 29 be paid by that employer in each of the following 4 state fiscal

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

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

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

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

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

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

25 (14) For fiscal years that begin on or after October 1, 2001,  
26 if the actuarial valuation prepared under this section demonstrates  
27 that as of the beginning of a fiscal year, and after all credits  
28 and transfers required by this act for the previous fiscal year  
29 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 **money**. The retirement board shall determine the amount of the  
13 employer contributions or other eligible ~~funds-~~**money** that must be  
14 allocated to that fund and deposit that amount in that fund before  
15 it deposits any remaining employer contributions or other eligible  
16 ~~funds-~~**money** in the 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 must be completed and risk assumptions must be  
22 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  
28 representatives appropriations committees, and the senate and house  
29 fiscal agencies. A report required under this subsection must be

1 published on the office of retirement ~~services's~~**services'** website  
2 and include at least all of the following:

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

5 (i) 5%.

6 (ii) 25%.

7 (iii) 50%.

8 (iv) 75%.

9 (v) 95%.

10 (b) The actual rate of return on investments for 10-, 15-, and  
11 20-year intervals.

12 (c) Mortality assumptions.

13 (d) Retirement age assumptions.

14 (e) Payroll growth assumptions.

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

17 (18) Except as otherwise provided in this subsection, for  
18 members who first became members before February 1, 2018, **for the**  
19 **state fiscal year ending September 30, 2023, the pension and**  
20 **retiree health care payroll growth assumption rate for a reporting**  
21 **unit that is not a university reporting unit must be 1.75%. Except**  
22 **as otherwise provided in this subsection, for members who first**  
23 **became members before February 1, 2018,** beginning with the state  
24 fiscal year ending September 30, ~~2022~~**2024**, and for each subsequent  
25 state fiscal year until the pension and retiree health care payroll  
26 growth assumption rate for a reporting unit that is not a  
27 university reporting unit is zero, the payroll growth assumption  
28 rate for a reporting unit that is not a university reporting unit  
29 must be reduced by 50 basis points. Beginning with the state fiscal

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

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