

# SENATE BILL NO. 511

September 19, 2023, Introduced by Senators MCCANN, IRWIN, GEISS and CAVANAGH and referred to the Committee of the Whole.

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

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

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

11 (a) Except as otherwise provided in this subdivision, the  
12 contribution rate for benefits must be computed using an individual  
13 projected benefit entry age normal cost method of valuation. 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 must be computed using a cash  
20 disbursement method.

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

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

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

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

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

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

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

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

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

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

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

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

27           (e) Except for the employee portion of the unfunded actuarial  
28 accrued liability contribution rates for members under section  
29 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 preceding  
5 state fiscal year. Except as otherwise provided in this  
6 subdivision, beginning with the state fiscal year ending September  
7 30, 2022, and for each subsequent fiscal year until the unfunded  
8 actuarial accrued liability is fully paid, the unfunded actuarial  
9 accrued liability contribution amount due and payable must not be  
10 less than the unfunded actuarial accrued liability contribution  
11 amount due and payable in the preceding state fiscal year. The  
12 following applies to a reporting unit that is a university  
13 reporting unit:

14 (i) For the state fiscal ~~year~~**years** ending September 30, 2023  
15 ~~only, and September 30, 2024,~~ the unfunded actuarial accrued  
16 liability contribution due and payable must be equal to the  
17 actuarially determined contribution. The contribution described in  
18 this subparagraph must reflect the ~~appropriation~~**appropriations**  
19 made under section 236h of the state school aid act of 1979, 1979  
20 PA 94, MCL 388.1836h, as amended by 2022 PA 144 **and 2023 PA 103.**

21 (ii) Beginning with the state fiscal year ending September 30,  
22 ~~2024, 2025,~~ and for each subsequent fiscal year until the unfunded  
23 actuarial accrued liability is fully paid, ~~the unfunded actuarial~~  
24 ~~accrued liability contribution amount due and payable must continue~~  
25 ~~to reflect the appropriation made under section 236h of the state~~  
26 ~~school aid act of 1979, 1979 PA 94, MCL 388.1836h, as amended by~~  
27 ~~2022 PA 144.~~**for a university reporting unit, the unfunded actuarial**  
28 **accrued liability contribution amount due and payable must not be**  
29 **less than the unfunded actuarial accrued liability contribution**

1 **amount due and payable in the preceding state fiscal year.**

2 (f) Beginning with the state fiscal year ending September 30,  
3 2013 and for each subsequent fiscal year, the unfunded actuarial  
4 accrued liability contribution rate applied to payroll must not  
5 exceed 20.96% for a reporting unit that is not a university  
6 reporting unit. Any additional unfunded actuarial accrued liability  
7 contributions as determined under this section for each fiscal year  
8 are to be paid by appropriation from the state school aid fund  
9 established by section 11 of article IX of the state constitution  
10 of 1963. Except as otherwise provided in this section and sections  
11 41a and 41b, the unfunded actuarial accrued liability contribution  
12 rate must be based on and applied to the combined payrolls of the  
13 employees who are members or qualified participants, or both.

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

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

27 (4) On the basis of the estimate under subsection (3), the  
28 annual actuarial valuation, and any adjustment required under  
29 subsection (6), the director of the department shall compute the

1 amount due and payable to the retirement system and shall certify  
2 this amount to the reporting units.

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

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

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

24 (8) A reporting unit shall forward employee and employer  
25 Social Security contributions and reports as required by the  
26 federal old-age, survivors, disability, and hospital insurance  
27 provisions of title II of the social security act, 42 USC 401 to  
28 434.

29 (9) For an employer of an employee of a local public school

1 district or an intermediate school district, for differences  
2 occurring in fiscal years beginning on or after October 1, 1993, a  
3 minimum of 20% of any difference between the estimated and the  
4 actual aggregate compensation and the estimated and the actual  
5 actuarial employer contribution rate described in subsection (6)  
6 must be paid by that employer in the next state fiscal year and a  
7 minimum of 25% of the remaining difference must be paid by that  
8 employer in each of the following 4 state fiscal years, or until  
9 100% of the remaining difference is submitted, whichever first  
10 occurs. For an employer of other public school employees, for  
11 differences occurring in fiscal years beginning on or after October  
12 1, 1991, a minimum of 20% of any difference between the estimated  
13 and the actual aggregate compensation and the estimated and the  
14 actual actuarial employer contribution rate described in subsection  
15 (6) must be paid by that employer in the next state fiscal year and  
16 a minimum of 25% of the remaining difference must be paid by that  
17 employer in each of the following 4 state fiscal years, or until  
18 100% of the remaining difference is submitted, whichever first  
19 occurs. In addition, interest must be included for each year that a  
20 portion of the remaining difference is carried forward. The  
21 interest rate must equal the actuarially assumed rate of investment  
22 return for the state fiscal year in which payment is made. This  
23 subsection does not apply in a fiscal year in which a deposit is  
24 made under subsection (14).

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

1 considered by the retirement system's actuaries.

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

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

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

1 change in the assumption is approved in writing by the retirement  
2 board and the director of the department.

3 (14) For fiscal years that begin on or after October 1, 2001,  
4 if the actuarial valuation prepared under this section demonstrates  
5 that as of the beginning of a fiscal year, and after all credits  
6 and transfers required by this act for the previous fiscal year  
7 have been made, the sum of the actuarial value of assets and the  
8 actuarial present value of future normal cost contributions exceeds  
9 the actuarial present value of benefits, the amount based on the  
10 annual level percent of payroll contribution rate under subsections  
11 (1) and (2) may be deposited into the health advance funding  
12 subaccount created by section 34.

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

24 (16) The retirement board and the department shall conduct and  
25 review an experience investigation study and adopt risk assumptions  
26 on which actuarial valuations are to be based after consultation  
27 with the actuary and the state treasurer. The experience  
28 investigation study must be completed and risk assumptions must be  
29 periodically reviewed at least once every 5 years.

1 (17) Every April 1 following the periodic review of risk  
2 assumptions under subsection (16), the office of retirement  
3 services on behalf of the department and the state treasurer shall  
4 collaborate to submit a report to the senate majority leader, the  
5 speaker of the house of representatives, the senate and house of  
6 representatives appropriations committees, and the senate and house  
7 fiscal agencies. A report required under this subsection must be  
8 published on the office of retirement services' website and include  
9 at least all of the following:

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

12 (i) 5%.

13 (ii) 25%.

14 (iii) 50%.

15 (iv) 75%.

16 (v) 95%.

17 (b) The actual rate of return on investments for 10-, 15-, and  
18 20-year intervals.

19 (c) Mortality assumptions.

20 (d) Retirement age assumptions.

21 (e) Payroll growth assumptions.

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

24 (18) Except as otherwise provided in this subsection, for  
25 members who first became members before February 1, 2018, for the  
26 state fiscal year ending September 30, ~~2023,~~ **2024**, the pension and  
27 retiree health care payroll growth assumption rate for a reporting  
28 unit that is not a university reporting unit must be ~~1.75%.~~ **0.75%.**

29 Except as otherwise provided in this subsection, for members who

1 first became members before February 1, 2018, beginning with the  
2 state fiscal year ending September 30, ~~2024~~, **2025**, and for each  
3 subsequent state fiscal year until the pension and retiree health  
4 care payroll growth assumption rate for a reporting unit that is  
5 not a university reporting unit is zero, the payroll growth  
6 assumption rate for a reporting unit that is not a university  
7 reporting unit must be reduced by 50 basis points. Beginning with  
8 the state fiscal year ending September 30, 2025 and for each  
9 subsequent state fiscal year until the rate described in this  
10 subsection is zero, if the pension and retiree health care unfunded  
11 actuarial accrued liability contribution amount directly  
12 attributable to the 50 basis points reduction under this subsection  
13 for the fiscal year is 7% or more of the pension and retiree health  
14 care unfunded actuarial accrued liability contribution amount in  
15 the preceding state fiscal year, the office of retirement services  
16 may reduce the rate described in this subsection by 25 basis points  
17 in that current fiscal year instead of the 50 basis point reduction  
18 described in this subsection. Beginning with the fiscal year ending  
19 September 30, 2022 and for each subsequent state fiscal year until  
20 the rate described in this subsection is zero, the office of  
21 retirement services and the retirement board may agree to reduce  
22 the rate described in this subsection by any number of additional  
23 basis points.

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