SUBSTITUTE FOR

HOUSE BILL NO. 4647

A bill to amend 1980 PA 300, entitled

"The public school employees retirement act of 1979,"

by amending sections 41 and 131 (MCL 38.1341 and 38.1431), section 41 as amended by 2016 PA 136 and section 131 as amended by 2012 PA 300, and by adding section 133.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Sec. 41. (1) The annual level percentage of payroll contribution rates to finance benefits being provided and to be provided by the retirement system must be determined by actuarial valuation under subsection (2) on the basis of the risk assumptions that the retirement board and the department adopt after consultation with the state treasurer and an actuary. An annual actuarial valuation must be made of the retirement system to determine the actuarial condition of the retirement system and the required contribution to the retirement system. An annual actuarial gain-loss experience study of the retirement system must be made to determine the financial effect of variations of actual retirement system experience from projected experience.

(2) Except as otherwise provided in section 41a, the annual contribution rates for benefits is subject to all of the following:

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

(b) The contribution rate for service likely to be rendered in the current year, the normal cost contribution rate, for reporting units must be determined as follows:

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

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

(c) The contribution rate for unfunded service rendered before the valuation date, the unfunded actuarial accrued liability contribution rate, must be determined as follows:

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

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

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

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

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

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

(*ii*) Divide the result of the calculation under subparagraph (*i*) by 1% of the actuarial present value over a period not to exceed 50 years of projected valuation compensation.

(d) 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. Any additional unfunded actuarial accrued liability contributions as determined under this section for each fiscal year are to be paid by appropriation from the **STATE** school aid fund established by section 11 of article IX of the state constitution of 1963. Except as otherwise provided in this section and section 41a, the unfunded actuarial accrued liability contribution rate must be based on and applied to the combined payrolls of the employees who are members ~~and~~ **OR** qualified participants, **OR BOTH.**

(e) Beginning with the state fiscal year ending September 30, 2016 and for each subsequent state fiscal year, the unfunded actuarial accrued liability contribution rate applied to the combined payroll, as provided in section 41a, must not exceed 25.73% for a university reporting unit. Any additional unfunded actuarial accrued liability contributions as determined under this section for each fiscal year for university reporting units are to be paid by appropriation under article III of the state school aid act of 1979, 1979 PA 94, MCL 388.1836 to ~~388.1893.~~ **388.1891.**

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

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

(5) The reporting units shall pay the amount certified under subsection (4) to the director of the department in equal payroll cycle installments for unfunded actuarial accrued liability contributions and payroll cycle installments for normal cost contributions.

(6) Not later than 90 days after termination of each state fiscal year, the executive secretary of the retirement board shall certify to the director of the department and each reporting unit the actual aggregate compensation paid to public school employees

during the preceding state fiscal year. On receipt of that certification, the director of the department may compute any adjustment required to the amount due to a difference between the estimated and the actual aggregate compensation and the estimated and the actual actuarial employer contribution rate. The difference, if any, must be paid as provided in subsection (9). This subsection does not apply in a fiscal year in which a deposit occurs under subsection (14).

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

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

(9) For an employer of an employee of a local public school district or an intermediate school district, for differences occurring in fiscal years beginning on or after October 1, 1993, a minimum of 20% of the difference between the estimated and the actual aggregate compensation and the estimated and the actual actuarial employer contribution rate described in subsection (6), if any, must be paid by that employer in the next succeeding state fiscal year and a minimum of 25% of the remaining difference must be paid by that employer in each of the following 4 state fiscal years, or until 100% of the remaining difference is submitted,

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

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

(11) Except as otherwise provided in this subsection, beginning on September 30, 2006, the actuary used by the retirement board shall assume a rate of return on investments of ~~8.00%~~ **8%** per annum, as of September 30, 2006, which rate may only be changed with the approval of the retirement board and the director of the

department. ~~Beginning~~ **EXCEPT AS OTHERWISE PROVIDED IN THIS SUBSECTION, BEGINNING** on July 1, 2010, the actuary used by the retirement board shall assume a rate of return on investments of ~~7.00%~~ **7%** per annum for investments associated with members who first became members after June 30, 2010, which rate may only be changed with the approval of the retirement board and the director of the department. **EXCEPT AS OTHERWISE PROVIDED IN THIS SUBSECTION, BEGINNING ON SEPTEMBER 30, 2017, THE ACTUARY USED BY THE RETIREMENT BOARD SHALL ASSUME A RATE OF RETURN ON INVESTMENTS OF 7.25% PER ANNUM, AS OF SEPTEMBER 30, 2017, WHICH RATE MAY ONLY BE CHANGED WITH THE APPROVAL OF THE RETIREMENT BOARD AND THE DIRECTOR OF THE DEPARTMENT. BEGINNING ON SEPTEMBER 30, 2017, THE ACTUARY USED BY THE RETIREMENT BOARD SHALL ASSUME A RATE OF RETURN ON INVESTMENTS OF 6.5% PER ANNUM FOR INVESTMENTS ASSOCIATED WITH MEMBERS WHO FIRST BECAME MEMBERS AFTER JUNE 30, 2010, WHICH RATE MAY ONLY BE CHANGED WITH THE APPROVAL OF THE RETIREMENT BOARD AND THE DIRECTOR OF THE DEPARTMENT.**

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

(13) Beginning on September 30, 2006, the actuary used by the retirement board shall use a salary increase assumption that projects annual salary increases of 4%. In addition to the 4%, the retirement board shall use an additional percentage based on an

age-related scale to reflect merit, longevity, and promotional salary increase. The actuary shall use this assumption until a change in the assumption is approved in writing by the retirement board and the director of the department.

(14) 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.

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

(16) As used in this section, "university reporting unit" means a reporting unit that is a university listed in the

definition of public school employee under section 6.

Sec. 131. (1) This section is subject to the vesting requirements of section 132.

(2) Unless a qualified participant who is also a member of Tier 1 affirmatively elects not to contribute or elects to contribute a lesser amount, the qualified participant who is also a member of Tier 1 shall contribute 2% of his or her compensation to his or her Tier 2 account. The qualified participant's employer shall make a contribution to the qualified participant's Tier 2 account in an amount equal to 50% of the first 2% of compensation contributed by the qualified participant under this subsection.

(3) A qualified participant may make contributions in addition to contributions made under subsection (2) to his or her Tier 2 account as permitted by the department and the internal revenue code.

(4) Upon the written determination of the director of the office of retirement services, an employee of an employer that is not a qualified participant may elect to make contributions to a Tier 2 account as permitted by the department and the internal revenue code. An employee as described in this subsection ~~shall be~~ **IS** treated as a qualified participant under this article for the limited purposes of his or her Tier 2 account.

(5) ~~Upon~~ **SUBJECT TO SUBSECTION (7), ON** the written determination of the director of the office of retirement services, an employer may annually elect to make additional matching contributions, including those in addition to matching contributions made under subsections (2) and (6), to an employee's

Tier 2 account as permitted by the plan document and the internal revenue code. ~~Matching~~ **SUBJECT TO SUBSECTION (7), MATCHING** contributions under this subsection ~~shall~~ **MUST** be made in amounts equal to 50% of the contributions made by the employee not to exceed the first 4% of contributions made in whole percentages only, for any employee in addition to amounts that are already matched under this section, if any.

(6) ~~Except~~ **SUBJECT TO SUBSECTION (7), EXCEPT** as otherwise provided in section 81d, unless a qualified participant who is only a Tier 2 qualified participant due to an election made under section 81d(1) affirmatively elects not to contribute or elects to contribute a lesser amount, the qualified participant shall contribute 6% of his or her compensation to his or her Tier 2 account. ~~The~~ **SUBJECT TO SUBSECTION (7), THE** qualified participant's employer shall make a contribution to the qualified participant's Tier 2 account in an amount equal to 50% of the first 6% of compensation contributed by the qualified participant under this subsection.

(7) BEGINNING THE FIRST DAY OF THE PAY PERIOD THAT BEGINS AFTER SEPTEMBER 30, 2017, FOR A QUALIFIED PARTICIPANT WHO IS ONLY A TIER 2 QUALIFIED PARTICIPANT DUE TO AN ELECTION UNDER SECTION 81D(1), ALL OF THE FOLLOWING APPLY:

(A) THIS SECTION DOES NOT APPLY TO THE QUALIFIED PARTICIPANT.

(B) THE QUALIFIED PARTICIPANT IS SUBJECT TO SECTION 133.

SEC. 133. (1) THIS SECTION IS SUBJECT TO THE VESTING REQUIREMENTS OF SECTION 132.

(2) BEGINNING THE FIRST DAY OF THE PAY PERIOD THAT BEGINS

AFTER SEPTEMBER 30, 2017 FOR A QUALIFIED PARTICIPANT WHO IS ONLY A TIER 2 QUALIFIED PARTICIPANT DUE TO AN ELECTION UNDER SECTION 81D(1), ALL OF THE FOLLOWING APPLY:

(A) THE QUALIFIED PARTICIPANT'S EMPLOYER SHALL CONTRIBUTE TO THE QUALIFIED PARTICIPANT'S ACCOUNT IN TIER 2 AN AMOUNT EQUAL TO 4% OF THE QUALIFIED PARTICIPANT'S COMPENSATION.

(B) THE QUALIFIED PARTICIPANT MAY PERIODICALLY ELECT TO CONTRIBUTE UP TO 3% OF HIS OR HER COMPENSATION TO HIS OR HER TIER 2 ACCOUNT. THE QUALIFIED PARTICIPANT'S EMPLOYER SHALL MAKE AN ADDITIONAL CONTRIBUTION TO THE QUALIFIED PARTICIPANT'S TIER 2 ACCOUNT IN AN AMOUNT EQUAL TO THE CONTRIBUTION MADE BY THE QUALIFIED PARTICIPANT UNDER THIS SUBDIVISION. ANY CONTRIBUTIONS MADE BY AN EMPLOYER UNDER THIS SUBDIVISION SHALL BE PAID BY APPROPRIATION FROM THE STATE SCHOOL AID FUND ESTABLISHED BY SECTION 11 OF ARTICLE IX OF THE STATE CONSTITUTION OF 1963.

(C) THE QUALIFIED PARTICIPANT MAY MAKE CONTRIBUTIONS IN ADDITION TO CONTRIBUTIONS MADE UNDER SUBDIVISION (B) TO HIS OR HER TIER 2 ACCOUNT AS PERMITTED BY THE STATE TREASURER AND THE INTERNAL REVENUE CODE. THE QUALIFIED PARTICIPANT'S EMPLOYER SHALL NOT MATCH CONTRIBUTIONS MADE BY THE QUALIFIED PARTICIPANT UNDER THIS SUBDIVISION.