HOUSE BILL No. 5723

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May 3, 2000, Introduced by Reps. Geiger, Jansen, Jellema and Vander Roest and referred to the Committee on Appropriations.

A bill to amend 1980 PA 300, entitled
"The public school employees retirement act of 1979,"
by amending sections 34, 36, and 41 (MCL 38.1334, 38.1336, and 38.1341), as amended by 1997 PA 143.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Sec. 34. (1) The reserve for health benefits is the account to which payments of reporting units for health benefits are credited. Benefits payable pursuant to section 91 shall be paid from the reserve for health benefits. THE ASSETS AND ANY EARNINGS ON THE ASSETS CONTAINED IN THE RESERVE FOR HEALTH BENEFITS AND THE HEALTH ADVANCE FUNDING SUBACCOUNT ARE NOT TO BE TREATED AS PENSION ASSETS FOR ANY PURPOSE.

(2) THE HEALTH ADVANCE FUNDING SUBACCOUNT IS THE ACCOUNT TO WHICH AMOUNTS TRANSFERRED PURSUANT TO SECTION 41 ARE CREDITED. EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION, ANY AMOUNTS

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RECEIVED IN THE HEALTH ADVANCE FUNDING SUBACCOUNT AND ACCUMULATED EARNINGS ON THOSE AMOUNTS SHALL NOT BE EXPENDED UNTIL THE ACTUARIAL ACCRUED LIABILITY FOR HEALTH BENEFITS UNDER SECTION 91 IS AT LEAST 100% FUNDED. THE DEPARTMENT MAY EXPEND FUNDS OR TRANSFER FUNDS TO ANOTHER ACCOUNT TO EXPEND FOR HEALTH BENEFITS UNDER SECTION 91 IF THE ACTUARIAL ACCRUED LIABILITY FOR HEALTH BENEFITS UNDER SECTION 91 IS AT LEAST 100% FUNDED.

(3) NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, THE DEPARTMENT MAY TRANSFER AMOUNTS FROM THE HEALTH ADVANCE FUNDING SUBACCOUNT TO THE RESERVE FOR EMPLOYER CONTRIBUTIONS ESTABLISHED IN SECTION 30 IF THE ACTUARIAL VALUATION PREPARED PURSUANT TO SECTION 41 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 DOES NOT EXCEED THE ACTUARIAL PRESENT VALUE OF BENEFITS.

Sec. 36. (1) The reserve for undistributed investment income is the account to which all income from the investment of assets, all gifts and bequests received by the retirement system, and all other money received by the retirement system the disposition of which is not specifically provided for is credited. In each fiscal year, the retirement board shall transfer from the reserve for undistributed investment income all amounts necessary to credit the interest required under this act to the reserve for employee contributions, the reserve for employer contributions, the reserve for member investment plan, the reserve for retired benefit payments, and the reserve for health benefits, to fund the reserve for administrative expenses, and any supplemental payments required pursuant to section 104a.

(2) The PENSION stabilization subaccount is the account to which the amounts transferred pursuant to subsection (3) to the reserve for undistributed investment income are credited. Except as otherwise provided in this subsection, no amounts shall be transferred from the stabilization subaccount to any other reserve. The director of the department may transfer ~~from~~ PART OR ALL OF the PENSION stabilization subaccount to the reserve for employer contributions. ~~part or all of the amount necessary to reduce or eliminate any unfunded actuarial accrued liability, as determined under sections 41 and 41a.~~ AFTER THE DEPARTMENT HAS TRANSFERRED THE ENTIRE BALANCE OF THE PENSION STABILIZATION SUB-ACCOUNT TO THE RESERVE FOR EMPLOYER CONTRIBUTIONS CREATED BY SECTION 30, THE PENSION STABILIZATION SUBACCOUNT CREATED BY THIS SUBSECTION SHALL BE CLOSED AND SUBSECTION (3) SHALL NO LONGER APPLY.

(3) Beginning on the designated date, if the actuarial valuation prepared pursuant to sections 41 and 41a 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, an amount equal to the excess shall be credited to the PENSION stabilization subaccount

pursuant to subsection (2) and shall be debited against the reserve for employer contributions.

Sec. 41. (1) The annual level percentage of payroll contribution rate to finance benefits being provided and to be provided by the retirement system shall be determined by actuarial valuation pursuant to subsection (2) upon 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 shall be made of the retirement system in order 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 shall be made in order to determine the financial effect of variations of actual retirement system experience from projected experience.

(2) The contribution rate for benefits payable in the event of the death of a member before retirement or the disability of a member shall be computed using a terminal funding method of valuation. Except as otherwise provided in this subsection, the contribution rate for other benefits shall be computed using an individual projected benefit entry age normal cost method of valuation. For the 1995-96 state fiscal year and for each subsequent fiscal year, the contribution rate for health benefits provided under section 91 shall be computed using a cash disbursement method. The contribution rate for service likely to be rendered in the current year, the normal cost contribution rate, shall be equal to the aggregate amount of individual projected

benefit entry age normal costs divided by 1% of the aggregate amount of active members' valuation compensation. The contribution rate for unfunded service rendered before the valuation date, the unfunded actuarial accrued liability contribution rate, shall be the aggregate amount of unfunded actuarial accrued liabilities divided by 1% of the actuarial present value over a period not to exceed 50 years of projected valuation compensation, where unfunded actuarial accrued liabilities are equal to the actuarial present value of benefits, reduced by the actuarial present value of future normal cost contributions and the actuarial value of assets on the valuation date.

(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 make payment of the amount certified under subsection (4) to the director of the department in 12 equal monthly installments.

(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. Upon receipt of that certification, the director of the department shall 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, shall be paid as provided in subsection (9). THIS SUBSECTION DOES NOT APPLY IN A FISCAL YEAR IN WHICH A DEPOSIT OCCURS PURSUANT TO 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, chapter 531, 49 Stat. 620, 42 U.S.C. 401 to 405, 406 to 418, 420 to 423, 424a to 426-1, and 427 to 433.

(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, shall be paid by that employer in the next succeeding state fiscal year and a minimum of 25% of the remaining difference shall 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, shall be paid by that employer in the next succeeding state fiscal year and a minimum of 25% of the remaining difference shall 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 shall be included for each year that a portion of the remaining difference is carried forward. The interest rate shall 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 PURSUANT TO SUBSECTION (14).

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

(11) Beginning on the designated date, the actuary used by the retirement board shall assume a rate of return on investments

of 8.00% per annum, as of the designated date, which rate may only be changed with the approval of the retirement board and the director of the department.

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

(13) Beginning on the designated date, 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 upon 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) IF THE ACTUARIAL VALUATION PREPARED PURSUANT TO 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 PURSUANT TO SUBSECTIONS (1) AND (2) MAY BE DEPOSITED INTO THE HEALTH ADVANCE FUNDING SUBACCOUNT CREATED BY SECTION 34.