

**SUBSTITUTE FOR
HOUSE BILL NO. 5803**

A bill to amend 1980 PA 300, entitled
"The public school employees retirement act of 1979,"
by amending sections 41 and 43e (MCL 38.1341 and 38.1343e), section
41 as amended by 2023 PA 198 and section 43e as amended by 2012 PA
300.

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

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 sections 41a and 41b, the annual contribution rates for benefits are 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) Subject to subdivision (c), 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) Except for the employee portion of the normal cost 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,
28 2018 and for each subsequent fiscal year until the state fiscal
29 year ending September 30, 2021, the unfunded actuarial accrued

1 liability contribution rate must not be less than the unfunded
2 actuarial accrued liability contribution rate in the preceding
3 state fiscal year. Except as otherwise provided in this
4 subdivision, beginning with the state fiscal year ending September
5 30, 2022, and for each subsequent fiscal year until the unfunded
6 actuarial accrued liability is fully paid, the unfunded actuarial
7 accrued liability contribution amount due and payable must not be
8 less than the unfunded actuarial accrued liability contribution
9 amount due and payable in the preceding state fiscal year. **For the**
10 **state fiscal year ending September 30, 2025, the unfunded actuarial**
11 **accrued liability contribution due and payable must be equal to the**
12 **actuarially determined contribution.** For a reporting unit that is a
13 university reporting unit, for the state fiscal years ending
14 September 30, 2023 and September 30, 2024, the unfunded actuarial
15 accrued liability contribution due and payable must be equal to the
16 actuarially determined contribution. For a reporting unit that is a
17 university reporting unit, for the state fiscal years ending
18 September 30, 2023 and September 30, 2024, the contribution must
19 reflect the appropriations made under section 236h of the state
20 school aid act of 1979, 1979 PA 94, MCL 388.1836h, as amended by
21 2022 PA 144 and 2023 PA 103.

22 (f) ~~Beginning~~ **Except as otherwise provided in this**
23 **subdivision, beginning** with the state fiscal year ending September
24 30, 2013 and for each subsequent fiscal year, the unfunded
25 actuarial accrued liability contribution rate applied to payroll
26 must not exceed 20.96% for a reporting unit that is not a
27 university reporting unit. **For the state fiscal year ending**
28 **September 30, 2025, the unfunded actuarial accrued liability**
29 **contribution rate applied to payroll must not exceed 14.56% for a**

1 **reporting unit that is not a university reporting unit. Beginning**
2 **with the state fiscal year ending September 30, 2026 and for each**
3 **subsequent fiscal year, the unfunded actuarial accrued liability**
4 **contribution rate applied to payroll must not exceed 13.96% for a**
5 **reporting unit that is not a university reporting unit. Any**
6 additional unfunded actuarial accrued liability contributions as
7 determined under this section for each fiscal year are to be paid
8 by appropriation from the state school aid fund established by
9 section 11 of article IX of the state constitution of 1963. Except
10 as otherwise provided in this section and sections 41a and 41b, the
11 unfunded actuarial accrued liability contribution rate must be
12 based on and applied to the combined payrolls of the employees who
13 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~~ **Except as otherwise provided in this subsection, for**
4 fiscal years that begin on or after October 1, 2001, if the
5 actuarial valuation prepared under this section demonstrates that
6 as of the beginning of a fiscal year, and after all credits and
7 transfers required by this act for the previous fiscal year have
8 been made, the sum of the actuarial value of assets and the
9 actuarial present value of future normal cost contributions exceeds
10 the actuarial present value of benefits, the amount based on the
11 annual level percent of payroll contribution rate under subsections
12 (1) and (2) may be deposited into the health advance funding
13 subaccount created by section 34. **Beginning in the fiscal year**
14 **ending September 30, 2025 and each subsequent fiscal year, the**
15 **following apply, as applicable:**

16 (a) If the actuarial valuation prepared under this section
17 demonstrates that as of the beginning of a fiscal year, and after
18 all credits and transfers required by this act for the previous
19 fiscal year have been made, the sum of the actuarial value of
20 assets and the actuarial present value of future normal cost
21 contributions is equal to or exceeds the actuarial present value of
22 retiree health benefits, a reporting unit shall contribute only the
23 normal costs for retiree health benefits provided under section 91.

24 (b) If the actuarial valuation prepared under this section
25 demonstrates that as of the beginning of a fiscal year, and after
26 all credits and transfers required by this act for the previous
27 fiscal year have been made, the sum of the actuarial value of
28 assets and the actuarial present value of future normal cost
29 contributions is less than the actuarial present value of retiree

1 **health benefits, a reporting unit shall contribute the unfunded**
2 **actuarial accrued liability amount and the normal costs for retiree**
3 **health benefits provided under section 91.**

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

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

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

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

3 (i) 5%.

4 (ii) 25%.

5 (iii) 50%.

6 (iv) 75%.

7 (v) 95%.

8 (b) The actual rate of return on investments for 10-, 15-, and
9 20-year intervals.

10 (c) Mortality assumptions.

11 (d) Retirement age assumptions.

12 (e) Payroll growth assumptions.

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

15 (18) Except as otherwise provided in this subsection, for
16 members who first became members before February 1, 2018, for the
17 state fiscal year ending September 30, 2024, the pension and
18 retiree health care payroll growth assumption rate for a reporting
19 unit that is not a university reporting unit must be 0.75%. Except
20 as otherwise provided in this subsection, for members who first
21 became members before February 1, 2018, beginning with the state
22 fiscal year ending September 30, 2025, and for each subsequent
23 state fiscal year until the pension and retiree health care payroll
24 growth assumption rate for a reporting unit that is not a
25 university reporting unit is zero, the payroll growth assumption
26 rate for a reporting unit that is not a university reporting unit
27 must be reduced by 50 basis points. Beginning with the state fiscal
28 year ending September 30, 2025 and for each subsequent state fiscal
29 year until the rate described in this subsection is zero, if the

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

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

18 Sec. 43e. Except as otherwise provided in this section or
19 section 91a, each member who first became a member before September
20 4, 2012 shall contribute 3% of the member's compensation to the
21 appropriate funding account established under the public employee
22 retirement health care funding act, 2010 PA 77, MCL 38.2731 to
23 38.2747. **Except as otherwise provided in section 91a, beginning in**
24 **the fiscal year ending September 30, 2025 and each subsequent**
25 **fiscal year, for each member who first became a member before**
26 **September 4, 2012, there is no required member contribution under**
27 **this section.** The member contributions under this section ~~shall~~
28 **must** be deducted by the employer and remitted as employer
29 contributions in a manner that the retirement system shall

1 determine. As used in this section, "funding account" means the
2 appropriate irrevocable trust created in the public employee
3 retirement health care funding act, 2010 PA 77, MCL 38.2731 to
4 38.2747, for the deposit of funds and the payment of retirement
5 health care benefits.