SUBSTITUTE FOR

HOUSE BILL NO. 4266

A bill to amend 1986 PA 182, entitled

"State police retirement act of 1986,"

by amending sections 11 and 14 (MCL 38.1611 and 38.1614), as amended by 2018 PA 674.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

Sec. 11. (1) The retirement board, in consultation with the department, shall engage an actuary, in conformance with section 261 of the management and budget act, 1984 PA 431, MCL 18.1261.

(2) The actuary shall prepare an annual valuation of the assets, liabilities, financial condition, and contribution rate of the retirement system, ~~upon~~ **on** information supplied by the department.

(3) The retirement board and the department shall conduct and

review an experience investigation study and adopt risk assumptions on which actuarial valuations are to be based, after consultation with the actuary, and the state treasurer. **Beginning with the state fiscal year ending September 30, 2022 and for each subsequent state fiscal year, the retirement board and department shall adopt, on the recommendation of the actuary and in accordance with all applicable actuarial standards of practice, the most current mortality tables that are most appropriate for the characteristics of the population.** The experience investigation study must be periodically reviewed at least once every 5 years.

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

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

(*i*) 5%.

(*ii*) 25%.

(*iii*) 50%

(*iv*) 75%.

(*v*) 95%.

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

(c) Mortality assumptions.

(d) Retirement age assumptions.

(e) Payroll growth assumptions.

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

Sec. 14. (1) The funding objective of the retirement system is to establish and receive contributions during each fiscal year that are sufficient to ~~fully~~ **do both of the following:**

(a) Fully cover the actuarial cost of benefits likely to be paid on account of services rendered by members during the fiscal year, **which is** the normal cost requirements of the retirement system. ~~, and finance~~

(b) Finance the unfunded actuarial costs of benefits likely to be paid on account of service rendered before the fiscal year, **which is** the unfunded actuarial accrued liability of the retirement system, and health, dental, and vision insurance.

(2) Subject to subsections (5) to (7), the annual level percentage of payroll contribution rate must be actuarially determined using experience assumptions and level percent of payroll actuarial cost methods adopted by the retirement board and the department pursuant to an annual actuarial valuation, which must be sufficient to finance benefits being provided and to be provided by the retirement system. **Beginning with the state fiscal year ending September 30, 2025 for open plans and with the state fiscal year ending September 30, 2030 for closed plans, and for each subsequent fiscal year, the retirement system shall use layered amortization. As used in this subsection:**

(a) "Layered amortization" means a fixed and closed period that separately layers the different components to be amortized

over a fixed period not to exceed 10 years for a closed plan and 15 years for an open plan, as it emerges. The amortization period for layered amortization must use a level dollar amortization method. The normal cost contribution for any fiscal year must not be less than the normal cost component of the actuarially determined contribution.

(b) "Closed plan" means a plan under Tier 1 that is closed to new hires.

(c) "Open plan" means a plan under Tier 2 that is open for new hires.

(3) Subject to subsections (5) to (7), **except as otherwise provided in this subsection,** for differences occurring in fiscal years beginning on or after October 1, 2001, a minimum of 20% of the difference between the estimated and the actual aggregate compensation and the estimated and the actual contribution rate described in subsection (2), if any, may be submitted in the executive budget to the legislature for appropriation in the next succeeding state fiscal year and a minimum of 25% of the remaining difference must be submitted in the executive budget to the legislature for appropriation in each of the following 4 state fiscal years, or until 100% of the remaining difference is submitted, whichever first occurs. **For differences occurring in fiscal years beginning on or after October 1, 2022, a minimum of 34% of any difference between the estimated and the actual aggregate compensation and the estimated and the actual actuarial contribution rate described in subsection (2) must be paid by the employer in the next state fiscal year and a minimum of 50% of any remaining difference must be paid by the employer in each of the following 2 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.

(4) For each fiscal year that begins on or after October 1, 2003, if the actuarial valuation prepared under this section for each fiscal year 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 42.

(5) Beginning with the state fiscal year ending September 30, 2022 until the pension and retiree health care payroll growth assumption rate is zero, the payroll growth assumption rate must be reduced by 50 basis points. Beginning with the state fiscal year ending September 30, 2022, the office of retirement services within the department of technology, management, and budget and the retirement board may agree to reduce the rate described in this subsection by any number of additional basis points.

(6) Beginning with the state fiscal year ending September 30, 2019 and for each subsequent fiscal year, the normal cost contribution rate must not be less than the normal cost contribution rate in the immediately preceding fiscal year. Additionally, the employer portion of the contribution rate must not be less than the employer portion of the contribution rate in

the immediately preceding fiscal year.

(7) Subject to **the requirements of** this subsection, beginning with the state fiscal year ending September 30, 2019 and for each subsequent fiscal year until the unfunded actuarial accrued liability is paid off, the unfunded actuarial accrued liability contribution ~~sum and~~ **amount** due **and** payable must not be less than the unfunded actuarial accrued liability contribution ~~sum and~~ **amount** due **and** payable in the immediately preceding fiscal year. The unfunded actuarial accrued liability must be paid off no later than September 30, 2038. Additionally, the employer portion of the unfunded actuarial accrued liability contribution ~~sum and~~ **amount** due **and** payable must not be less than the employer portion of the unfunded actuarial accrued liability contribution ~~sum and~~ **amount** due **and** payable in the immediately preceding fiscal year.

(8) 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.

(9) Beginning with the state fiscal year ending September 30, 2022 and for each subsequent state fiscal year, the actuary used by the retirement board shall assume a rate of return on investments of and a discount rate not more than 6.8% for pension and 6.9% for

health insurance coverage, as of September 30, 2020, which rate may only be changed with the approval of the retirement board and the director of the department.