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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: January 11, 2017

TO: Rick Snyder, Governor

FROM: Eric Scorsone, Deputy State Treasurer ES

SUBJECT: OPEB Update

I am providing to you an update of where we stand with our OPEB research and data compilation project. This is reported in phases of the research project.

Phase 1 - At a broad level, we have collected data on all Michigan jurisdictions (cities, counties, villages, and townships) in a database based on information compiled form Comprehensive Annual Financial Reports (CAFR). Based on this analysis, we report that of 1,856 general purpose local governments, 334 of these have an OPEB liability or offer retiree health care in some form. These CAFR reports provide some of the information to assist us in understanding the OPEB problem. We can provide the following summary information:

Types of Jurisdictions

- Well-funded jurisdictions (80% + funding ratio) – 21
- Poorly funded jurisdictions (less than 30%) – 278
- Somewhat funded jurisdictions (30% to 79%) – 35

Total Financials

- OPEB total liability – $13.1 billion
- OPEB total Assets – $3.0 billion
- OPEB unfunded liability – $10.1 billion

Funding

- Actuarial Required payment – $732 million
- Payment actually made – $533 million
- Annual Gap – $199 million

Types of Participants

- Current retiree – 12,587 (very understated as most plans do not disclose in audit, need Actuarial Reports)
- Active employee (this may split based on likely years remaining active) – 10,630 (also very understated; unknown average working years)
- New hires –unknown

Unknown Information (Key variables re participant coverage)

- Medicare integration (also Social Security integration)
- Pre-Medicare coverage
- Ineligible for Medicare
- Exchange eligibility and/or if exchange eliminated
- Federal requirements – e.g. transit employees

Phase 2 – We have just started to collect actuarial reports from these 334 jurisdictions. The actuarial reports will provide more detailed information on:

1) Participants by type
2) Specific coverage plans (Medicare, other….)
3) Specific actuarial assumptions

This information would allow us to partially estimate the impact of various policy proposals on the OPEB unfunded liability and annual payment requirements and potential impact on local government budgets. We anticipate completing Phase 2 by the end of February.

In terms of Phase 2, we will be unable to collect data on individual participants and their specific data in retiree health care plans. This would be information such as years worked, salary, specific benefit to be received, vested status, number of dependents, and so forth. Because it will not be possible to collect this data, a true actuarial financial analysis cannot be completed. Our estimates of the impact of policy reforms on unfunded liability or annual cost estimates are therefore going to be rough aggregate estimates of cost savings.