State of Michigan
Department of Treasury

Background on Municipal and County OPEB/Pension

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Deputy State Treasurer

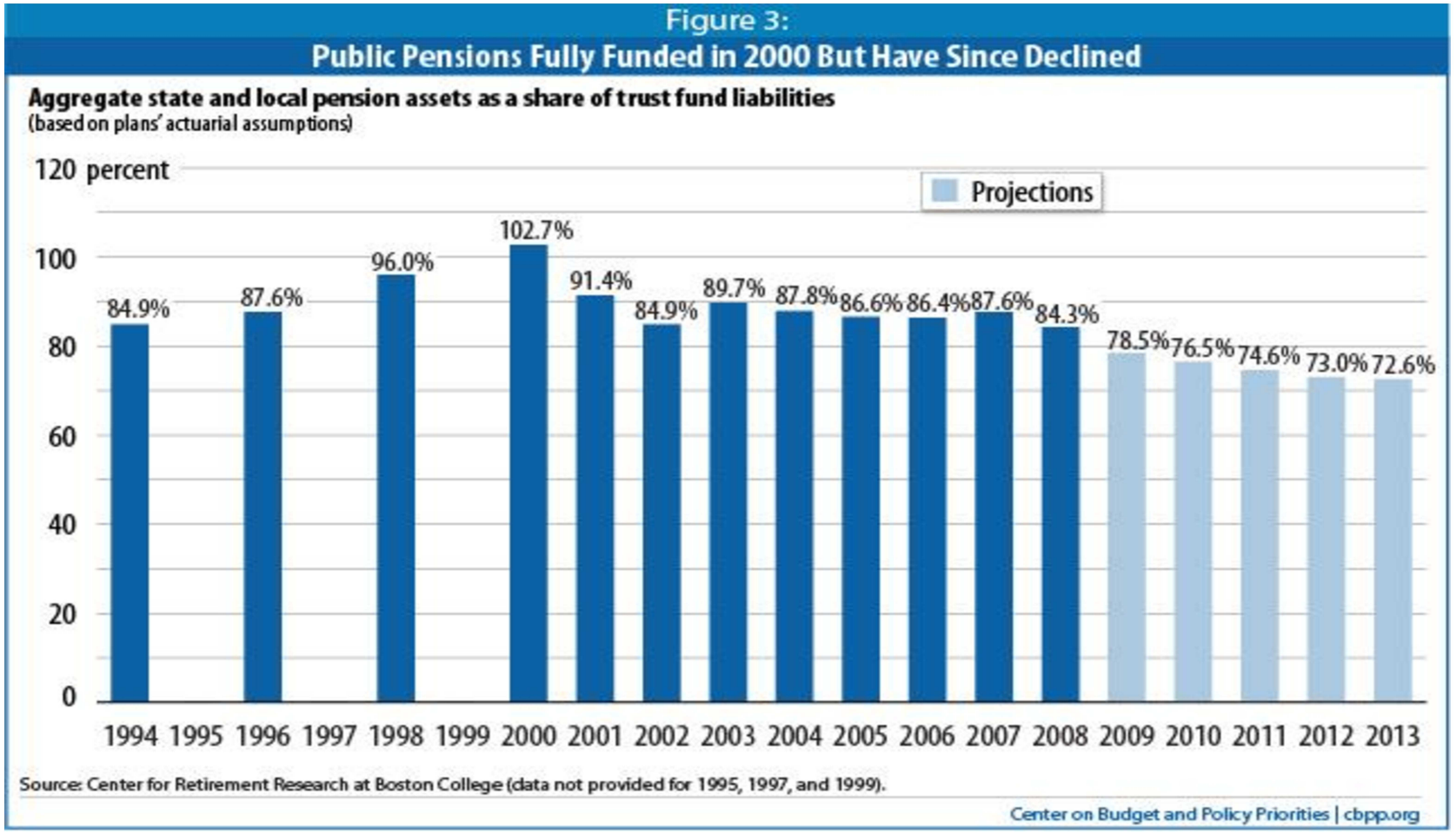
February 10, 2017

National Challenge

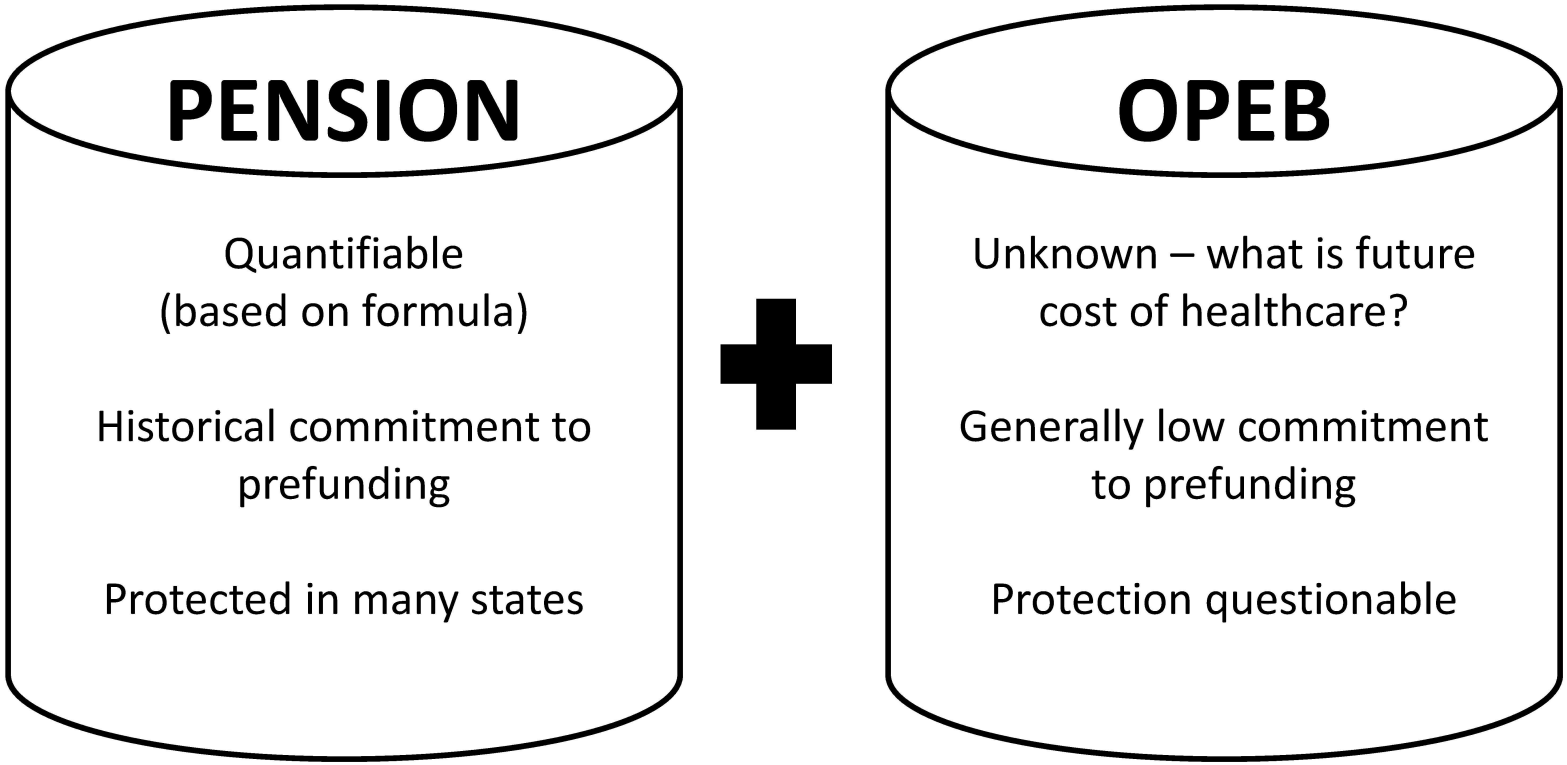
- $1 trillion in unfunded pension liabilities local government

- $750 billion in unfunded OPEB liabilities for U.S. local governments

U.S. State and Local Pension Funding



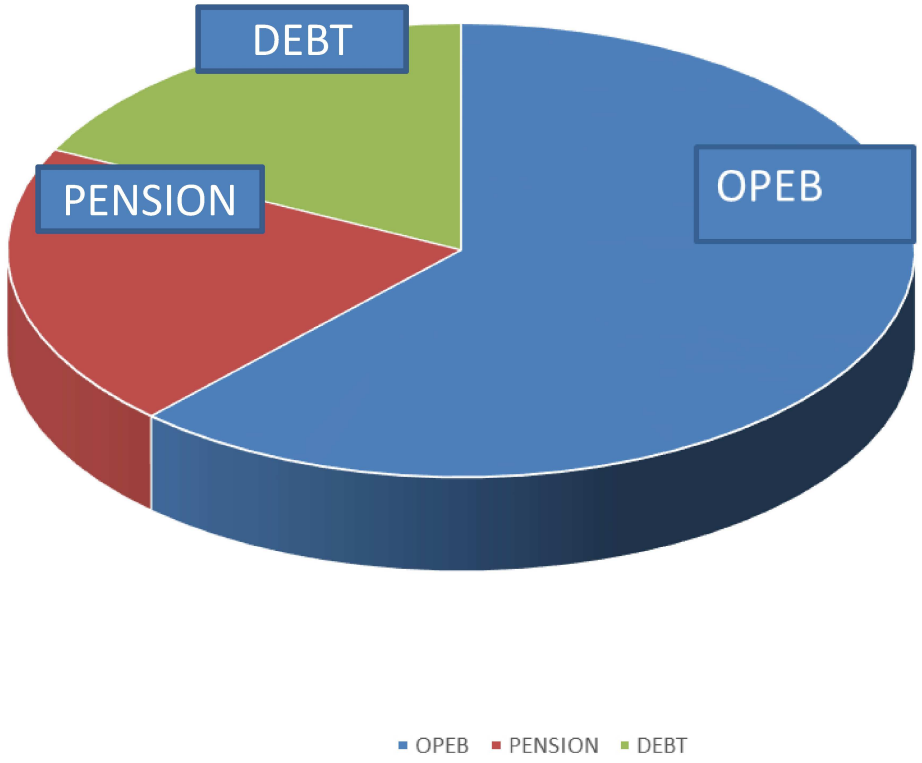
Legacy Costs



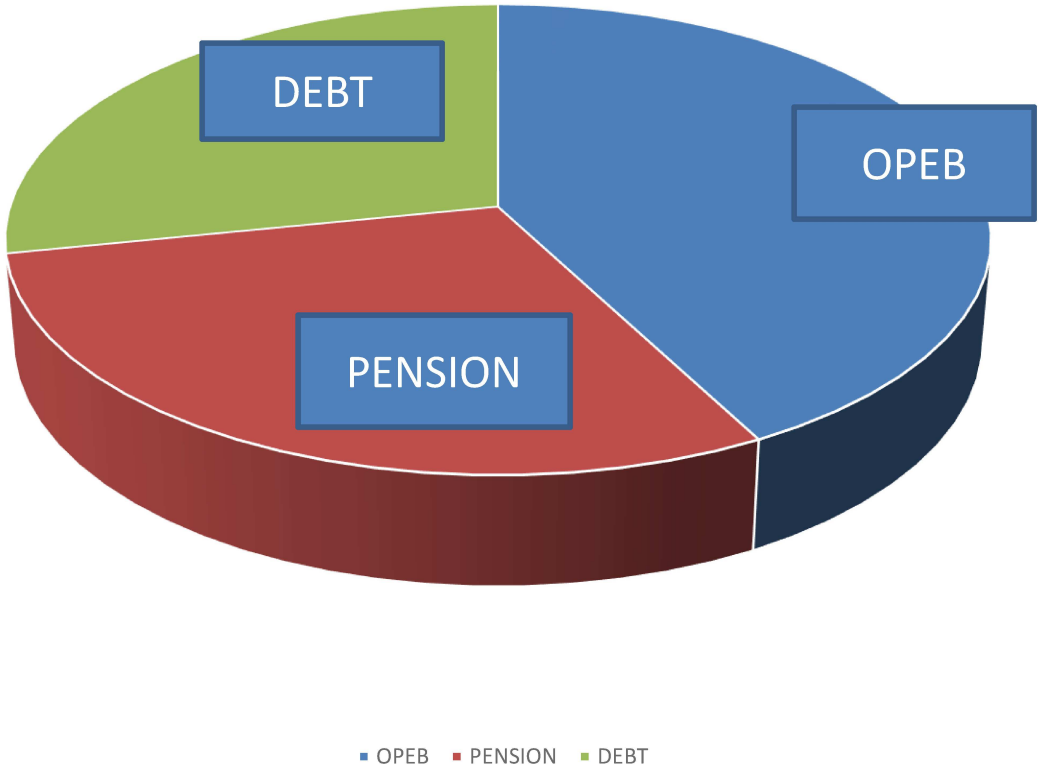
Michigan Local Governments

- **General purpose local governments**
  - City, village, township, county
  - 1,856 general purpose governments
- **Component units**
  - County road commission, health departments, senior centers, hospitals and nursing homes
- **Special district governments (ex. School districts)**
  - 458 special district governments

Cities, Villages and Townships Total Liabilities



County Liabilities in Total



Michigan Local Pensions Systems

- **Municipal Employer Retirement System (MERS)**
  - 713 municipalities/counties
- **Michigan Association of Public Employee Retirement Systems**
  - 116 member municipalities/counties
- **Census Report**
  - 132 local systems; MERS would be counted as one here
  - PA, IL and FL are only states that have more local pensions

Michigan has roughly 1,000 local pension systems

Michigan Local Pensions Funding

- **Funding Ratio averages**
  - Michigan average local pension funding ratio is 78%
  - National average state and local pension funding ratio is 74%
- **Dispersion**
  - Michigan has some systems funded over 100% and some systems funded as low as 20%

Pension as an Annual Expense

- Pension payments are also consuming a growing portion of operating municipal and county budgets

- Municipal and county pension ARC payments were $500 million and on aggregate that was being made $500 million

Pension Liabilities

- Michigan municipal governments owe about $3 billion in unfunded liabilities

- Michigan county governments owe about $1 billion in unfunded pension liabilities

Pension Trends

- Ongoing changes in mortality assumptions
- Lowering of discount rate and actual investment return experiences
- Benefits offered

Local Government OPEB Systems

- 282 municipalities offer a defined retiree health care benefit
- 52 counties offer a defined retiree health care benefit
- 334 local units of government offer a defined retiree health care benefit
  - Excludes component units

OPEB as Annual Expense Burden

- OPEB is now consuming a significant portion of current budget expenses for local govt.
  - Despite this burden, most local governments are not fully funding annual required contribution

- $800 million for cities, counties, villages and townships is estimated required payment

- $480 million is what is actually being paid today

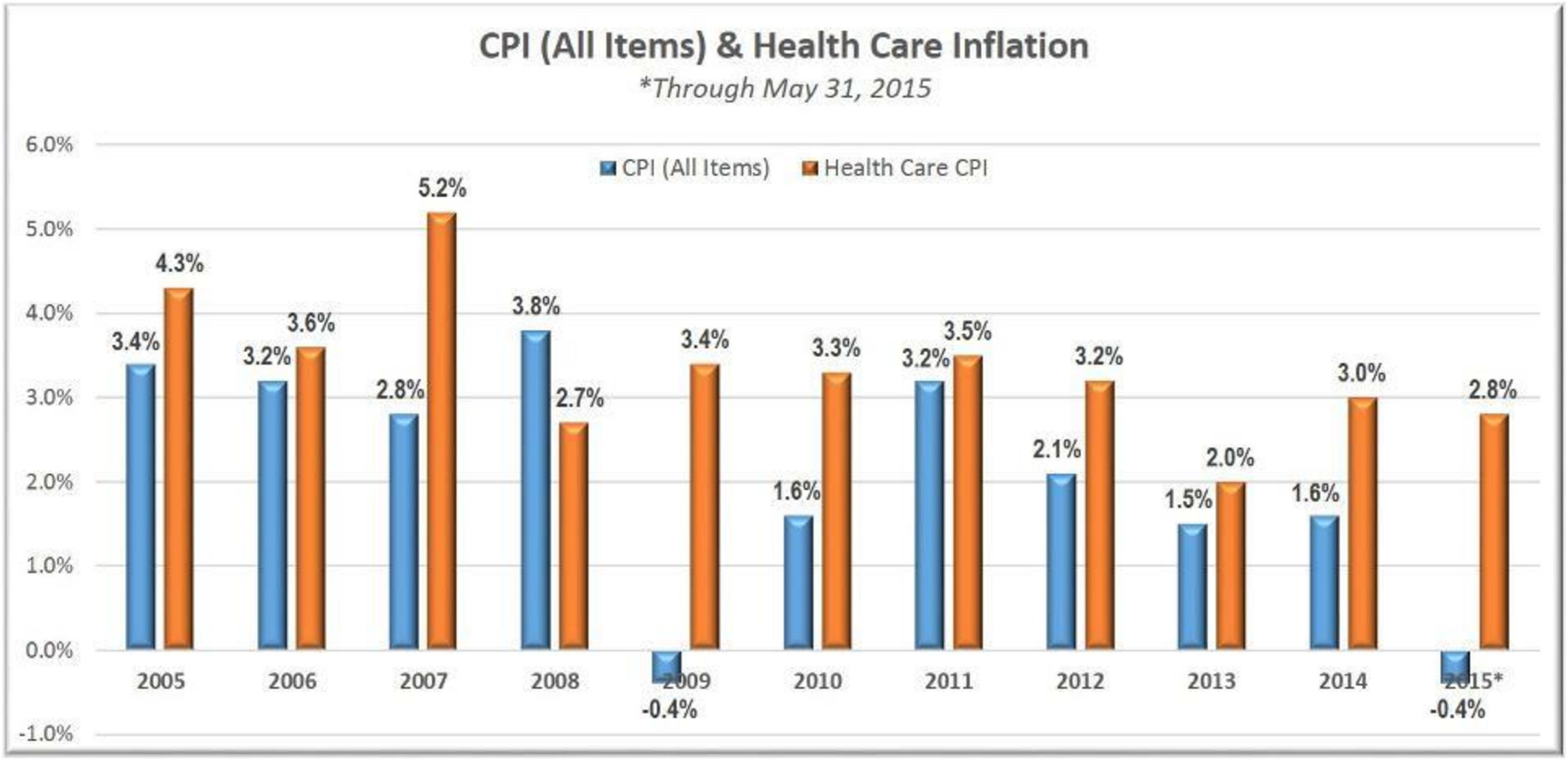
OPEB Liabilities

- $7.1 billion for cities, villages and townships
- $3 billion for counties
- Total of $10 billion in unfunded liabilities
- Major cause of negative net position (assets) for local governments

Forces Driving OPEB Challenge

- Increase in health care costs
  - Uncertain health care policy
- Demographic challenges as retirement population increases
- Lack of OPEB accounting until 2008 and lack of commitment to pre-funding

OPEB Liability is Driven by:



Municipal OPEB Funding Ratios

Pop. Size	2012	2015
less than 1,500	5.0%	7.0%
1,501-5,000	2.0%	9.0%
5,001 - 10,000	14.0%	13.0%
10,001 - 30,000	12.0%	14.0%
30,000 - 200,000	16.0%	22.0%
total OPEB Assets	810,080,965	1,326,636,553
total OPEB liabilties	8,570,242,386	8,354,872,783
overall funding level	11.0%	14.0%

Municipal OPEB as Percent of Revenue

	Number of Units	Government Wide Revenue	OPEB ARC	% of GW Revenue
less than 1,500	11	24,044,364	1,014,266	4%
1,501 - 5,000	70	208,812,690	11,618,284	6%
5,001 - 10,000	56	349,866,714	30,361,103	9%
10,001 - 30,000	88	1,074,714,714	126,319,962	12%
30,000 - 200,000	57	2,911,972,010	372,736,822	13%
total	282	4,569,410,492	542,050,437	12%

County OPEB

Population Category	Number of Units with Prefunding	OPEB Assets	OBEP Liabilities	Funded Status
Less than 15,000	1	436,354	27,497,934	0.02
15,001 - 25,000	1	437,412	11,918,097	0.04
25,001 - 35,000	3	5,931,152	60,323,096	0.10
35,001 - 65,000	13	6,031,613	50,241,042	0.12
65,001 - 115,000	15	50,312,364	261,211,710	0.19
Greater than 115,000	16	1,505,745,368	4,137,839,976	0.36
Total	52	1,568,894,263	4,549,031,855	0.34

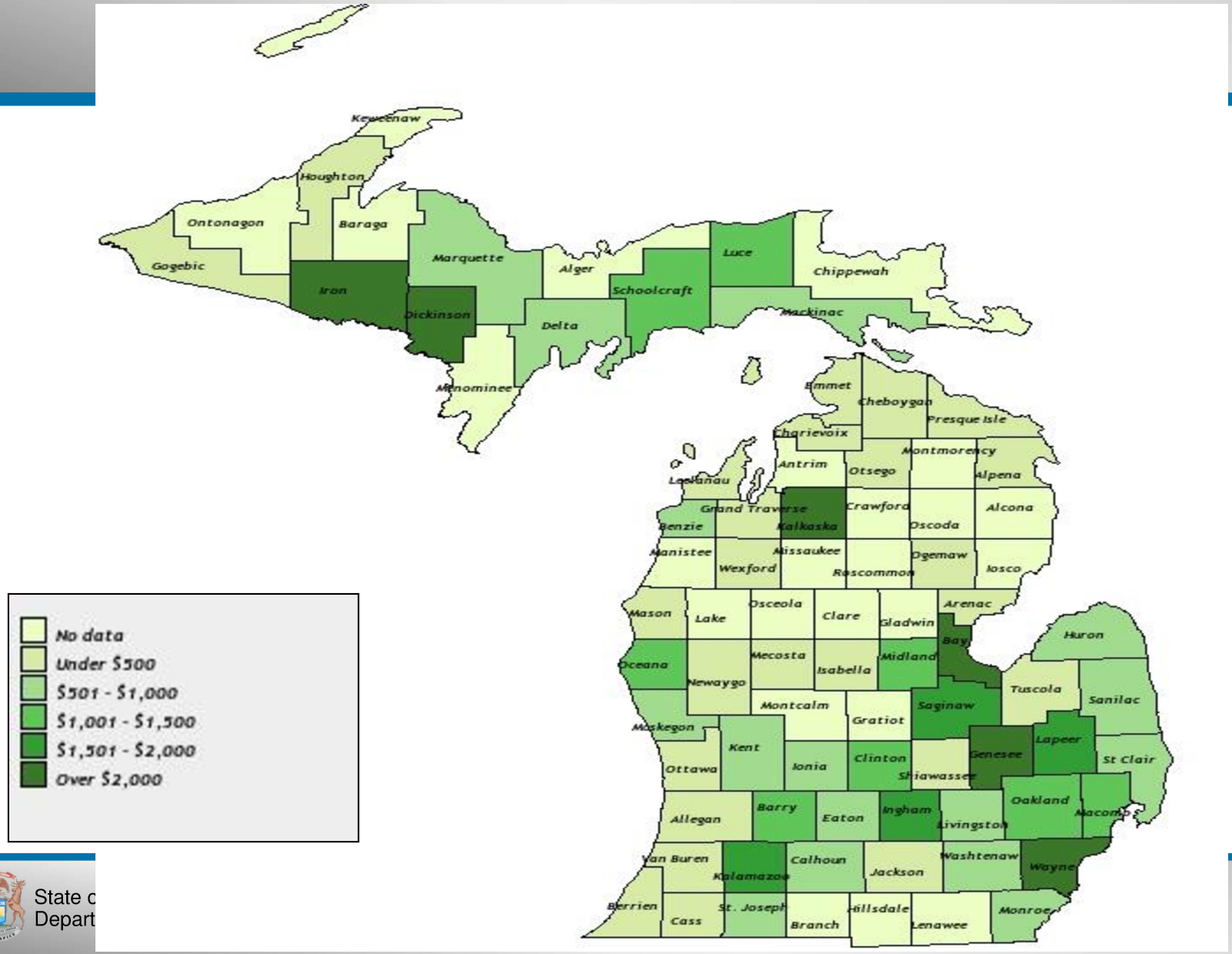
County OPEB/Pension

	OPEB		Pension	
Local Unit Population	Annual Required Contribution (ARC)	Percent of ARC Funded	Annual Required Contribution (ARC)	Percent of ARC Funded
Less than 15,000	2,545,562	40%	5,536,720	100%
15,001 - 25,000	1,054,451	59%	8,384,396	112%
25,001 - 35,000	3,919,665	205%	11,178,554	101%
35,001 - 65,000	3,682,077	65%	12,811,980	105%
65,001 - 115,000	22,076,903	45%	29,610,909	103%
Greater than 115,000	223,409,244	56%	116,421,236	103%
	256,687,902	58%	183,943,795	102%

County Pensions

Population Category	Number of Local Units with Pensions	Pension Assets	Pension Liability	Funded Status
Less than 15,000	14	111,359,884	147,348,864	0.75
15,001 - 25,000	13	171,754,751	221,111,217	0.77
25,001 - 35,000	12	274,658,890	364,223,690	0.75
35,001 - 65,000	15	321,265,287	407,388,141	0.78
65,001 - 115,000	12	939,387,469	1,131,441,703	0.83
Greater than 115,000	17	4,604,056,352	5,364,633,507	0.85
Total	83	6,422,482,633	7,636,147,122	0.84

OPEB Per Capita by County



- Thank you

- Q & A