State of Michigan
Department of Treasury

# Background on Municipal and County OPEB/Pension

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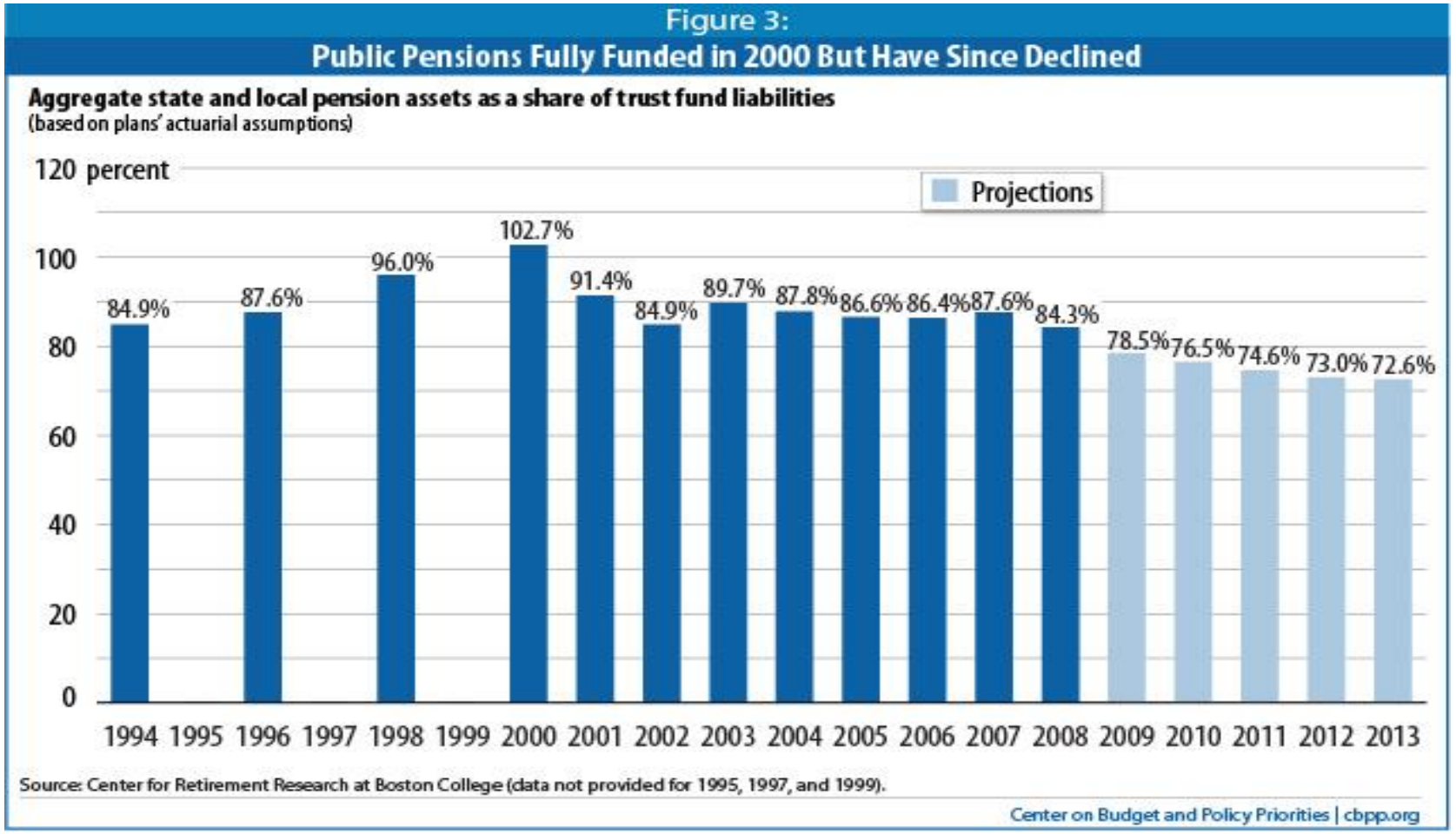
February 10, 2017

# National Challenge

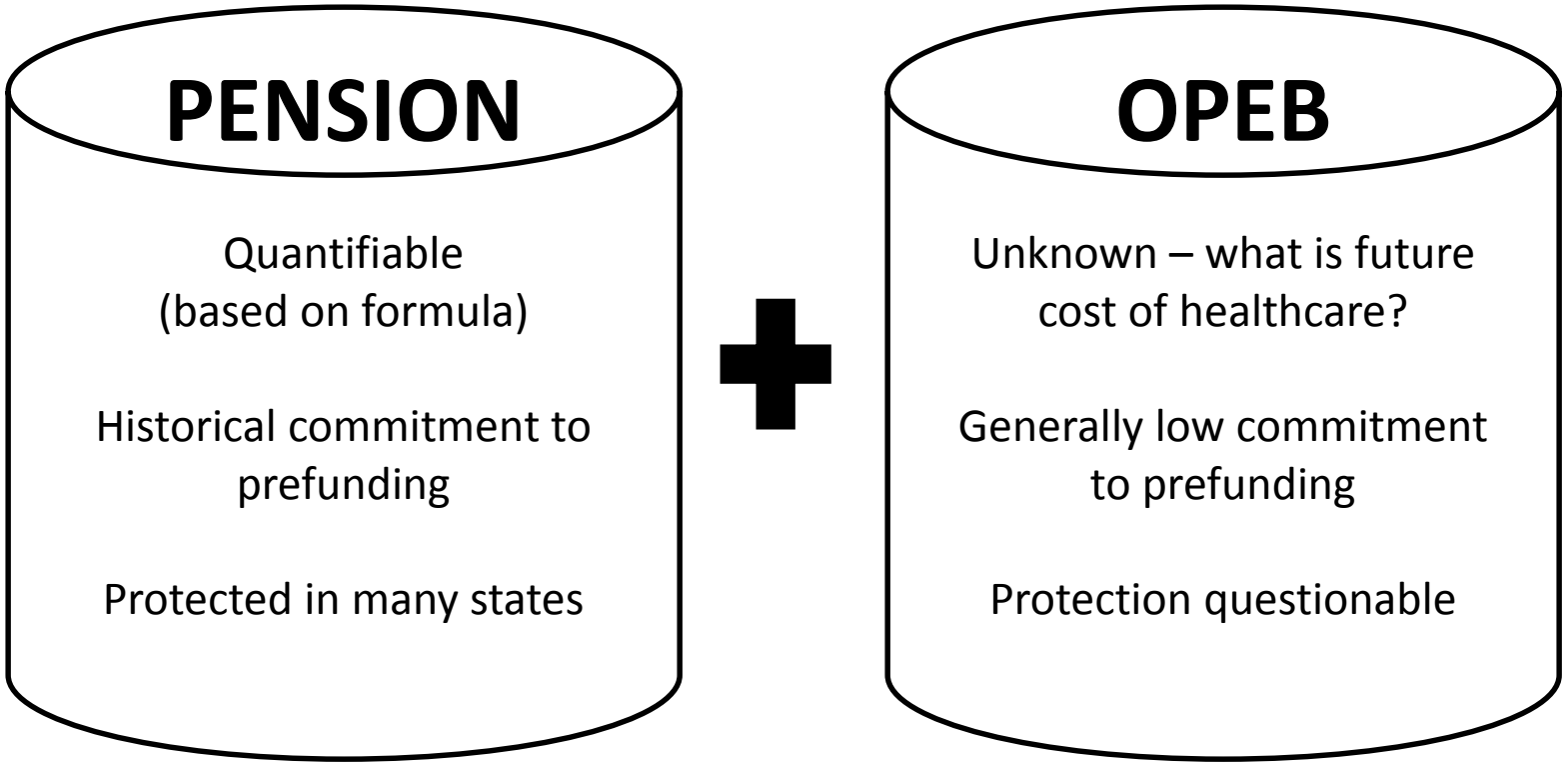
- $1 trillion in unfunded pension liabilities  local government

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

# U.S. State and Local Pension Funding



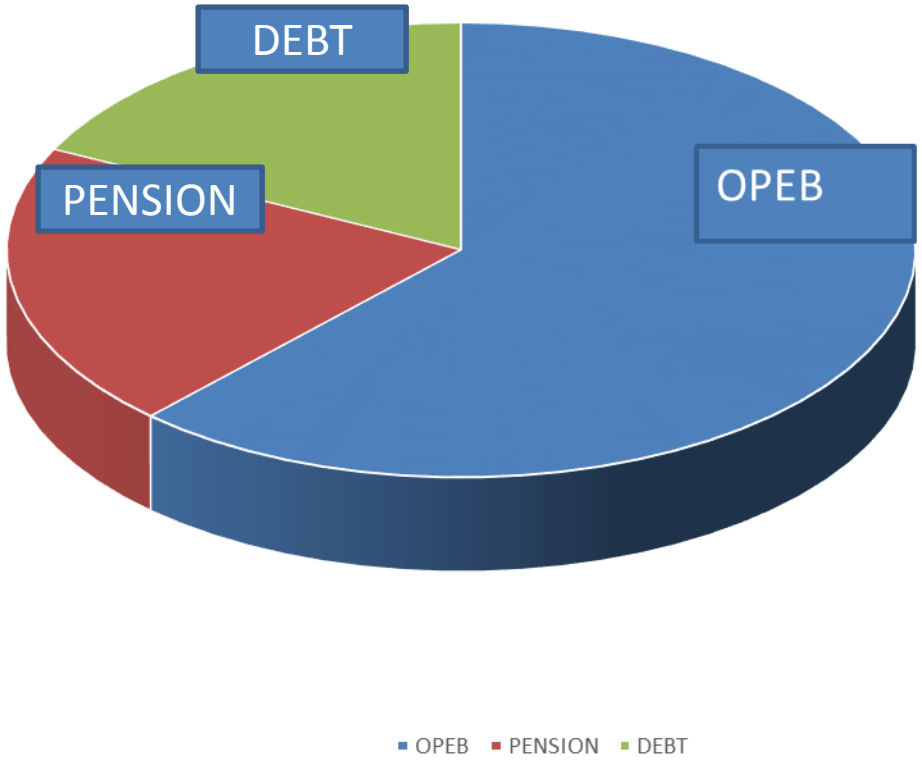
# Legacy Costs



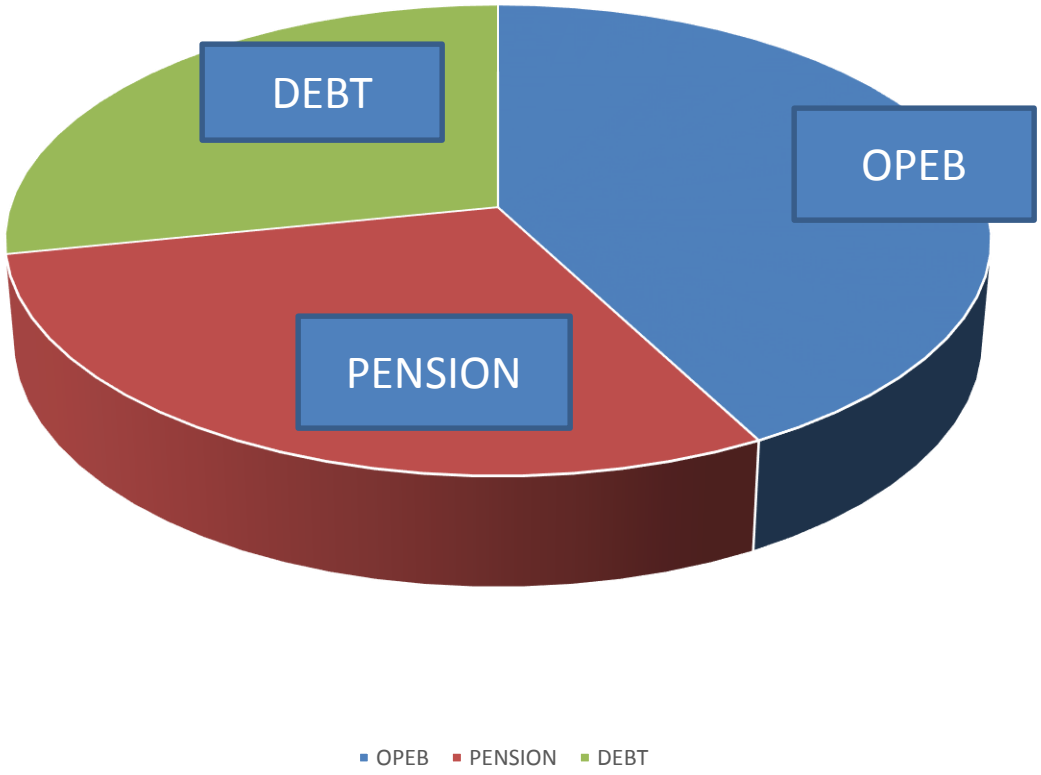
# Michigan Local Governments

- **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

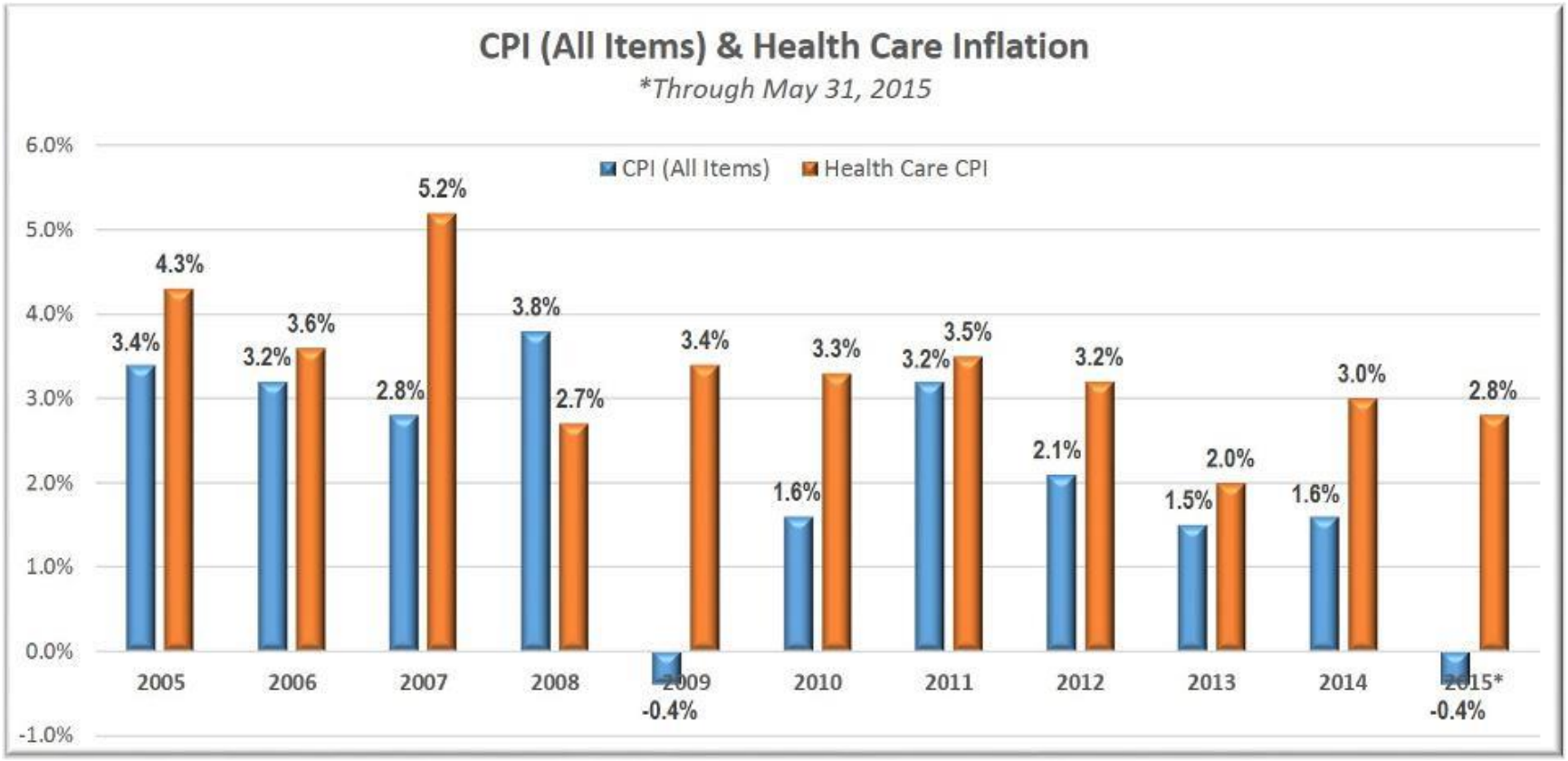
# OPEB Liabilities

- $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 |

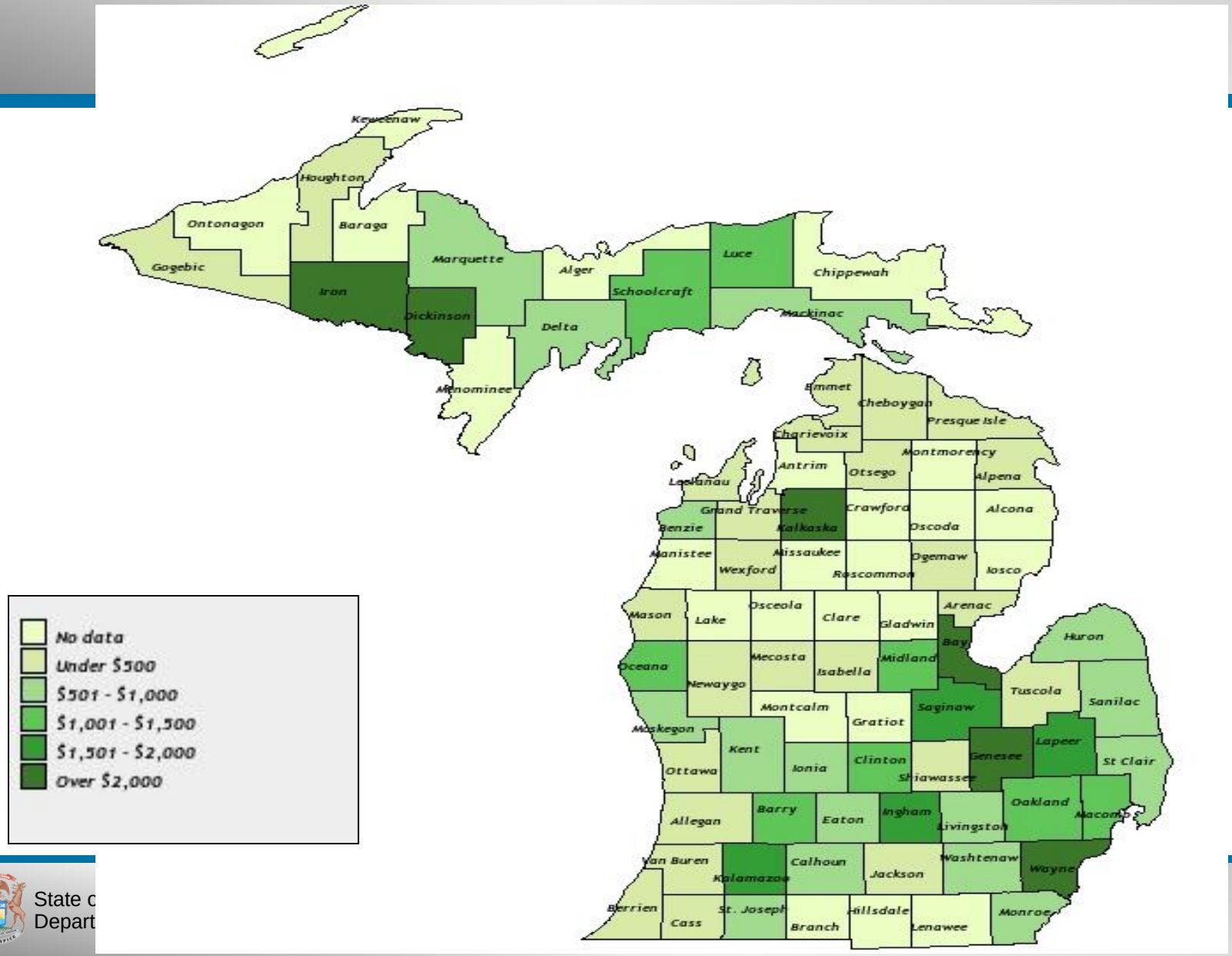
# County OPEB/Pension

| | 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