Summary-Municipal Finances Discussion
Tuesday, June 17, 2014
Hosted by Governor's Office of Urban and Metropolitan Initiatives
And the State Department of Treasury
Lansing, MI

Guiding Principles
The focus of this discussion was to introduce innovative ways to restructure municipal finance. Participants worked through the following questions to identify challenges and brainstorm policy reform to OPEB and pension systems.

1. What are the most significant challenges you have faced with respect to your pension system, and what factors have exacerbated those challenges?

- Aging Population
  - Longer life expectancy
  - Unreliable retirement age/offset retirement to age 65
  - Number of retirees exceed active employees
- Pensions Boards
  - Lack of knowledge, time, and expertise to understand and address issues
  - Members of pension board
    - Local board makes decisions
    - Members who are on a plan lack a governing role
    - Trustees believe they can operate without city oversight
- Revenue
  - Reduction of property values leading to decreasing revenue
  - Limited ability to raise taxes
  - Funding decline and lack of financing from local units
  - Falling funding ratio (more retirees than active employees)
  - Poor credit rating, unable to issue bonds
  - Poverty
  - Drop in market value of assets
  - Inflation rates
- Liabilities
  - Employers bear UAL burden
  - Accelerating costs per employee
  - Unfunded liability in each government unit
  - Escalating liabilities
- Guidelines/Policy
  - PA 312
  - Standardized performance assumptions
  - Accounting standards
  - Using ranges for funding (one size does not fit all)
  - Enforcement to pay minimum contributions
  - No discipline with long-term investment

- Pension Contracts
    - Close existing system in COA
    - Union contracts
        - Benefits that employees are unwilling to give up
        - Limited ability to change benefits
        - Contract restraints-no ability to mitigate costs
    - Not bargaining pension benefits while reducing pay and benefits
    - The current plan design rewards risk-taking; the employer is held responsible for poor choices
    - DBC
- Outside Influences
    - Political influence on employee autonomy leading to bad decisions and slow responses
    - Privatizing labor employees

2. What key governance standards that should be applied to OPEB and pension systems? This could include qualification requirements for board members and investment managers, transparency requirements, or parameters to guide investment decisions.

- Transparency Requirements for:
    - Liabilities
    - Information and best practices between boards and finance plan sponsors shared
- Governance
    - Lower number of current and retired employees on boards
    - Restrictions on nepotism and close friends managing pension systems
    - Diversity of skill set and thought on boards
    - Accreditation for managers
    - Remove self-administration
    - Members responsible for finances and systems, not employees, unions, politics
    - Qualification requirements for board members
        - Managers need __ amount of years of service before managing
        - Qualifications determined by Treasury
        - Required training
        - Minimum education requirement
        - Members trained or have background in Pensions/ OPEB
    - Trustees not elected from rank and file
    - Investment Committee vs. Board Members Committee
- State Standards
    - Requirement for constituency auditing, reporting
    - Standards and guidelines for actuaries
    - Annual review and adhered to by a third party
    - Pre-funding requirements
    - Controlled funding program (state?)
    - Ability to raise taxes for OPEB without voter approval
    - Statewide investment policy
    - Recruit investors to serve on committee
    - Members should not be participants on boards
    - Limit numbers of pensioners on board
    - Affordable, sustainable, admin
- Investment Guidelines
    - Consistency in cost assumptions
    - Strict guidelines for investments
    - Benchmarks and evaluation methods

- Retirement Changes
    - Longer vesting periods
    - Minimum years of service and age
    - Benefit limits
    - Avoid hedge funds
    - Ability to make changes to OPEB benefits
    - Differentiate between stipends and promise to pay premiums

4. If you could make 2-3 policy recommendations to address the core challenges associated with the funding and management of OPEB and pension systems, what would they be?
***=Top policy recommendation**

- State Standards
    - Legislation
        - Standard equation based on municipality size and tax base (age, years of service, employees/investments)
        - Minimum vesting requirement limit final average multipliers
        - Standards for pension healthcare in union contracts similar to PA 152
        - Requirements for pension boards
        - *Set benchmark/Define appropriate benefit levels (ex. Employee/retiree cost sharing for health care and retirement)
        - Amend laws that hinder transition from DB to DC; become more hybrid
        - *Change PA 345
            - (restrict retirement age to 55 or 60, and must have 35 years of service)
        - *Stop PA 312 or exclude retirement from PA 312 binding arbitration
        - Leave PA 54
        - Require municipalities to have certain funding levels
        - *Combine systems and pool resources in order to establish a dedicated revenue stream for struggling municipalities
        - *Create OPEB financing authority to “buy into” borrowing costs
        - Deal with healthcare inflation
        - Require analysis of financial impact of OPEB changes
        - Firm limit on what you can pay for
        - New CBAs should eliminate retiree healthcare with OPEB less than x% funded and/or GF deficit equal to x% FB
        - *Health care for retirees should be the same as current employees
        - Require better cost disclosure for pension/OPEB benefits
    - Enforcement
        - Reporting/monitoring enforce contribution requirement
        - Fully funded actuarial determines annual requirement
        - Pre-funding requirement
        - Make certain costs shared by employees
        - Limits on plan sponsor contributions to future cost-shift burden to employees
        - Employees pay full cost of negotiated benefits, including UAL-share gain or loss
        - Reduce number of health care plans to 1-2
    - Standardization across government units

- City Standards
    - Supplemental payments to more as needed
    - Limit amount of paid leave in final average computation for employees
    - Limit amount of OT used in final average computation for employees
    - Limit discount rate based on extent of funding
    - Limit, reduce, stop certain benefits
    - Increase power of local boards to modify benefits
    - Increase requirement to document a plan for future payment before benefits enacted
    - Incentivize municipals government to get out of pensions and OPEB
    - Allow locals to move retirees to the same coverage as active employees

5. Are there fundamentally new ideas that should be considered to address these challenges? For example, a statewide plan, or mandatory funding requirements?

- Acts/Contracts
    - Eliminate "binding arbitration"/eliminate OPEB
    - Remove healthcare/pensions from PA 312 arbitration
    - Statewide standards
    - Right to work applicable to all public employees
    - Close all plans
    - Healthcare plan limits for prescriptions
    - Cap on plan sponsor funding
    - All employees or no employees not just public employees
    - Single plan for all public employees
        - No negotiations; state mandated and funded
    - Statewide maximum standards for OPEB
- Government
    - Eliminate townships
    - Consolidate benefit plans to state/regional standards
    - Regionalize public safety
    - State takes all OPEB liabilities (not just public safety)
    - Mandate pension and OPEB reporting
    - Terminate Congressional lifetime healthcare
        - Use funds to support retiree healthcare
    - Legislation to compel an overfunded component of retirement system to fund the underfunded part
- Funding
    - Require minimum cash balances and funding levels
    - State funding to target OPEB and supplement lost revenue sharing
    - State program municipalities could enter "closed" group into Municipal Retirees Fund
    - State plan to understand existing obligation
    - Statewide government employee healthcare plan
    - Statewide plan
        - Initiated by annuity
        - Based on what each person contributes -> payout
        - DB structure based on DB employee responsibility
    - State funds UAAL
    - Moving forward, local units requirement to pre-fund
        - Revenue sharing deducted if plans aren't funded
    - Statewide pool for pre-65 retirees