Municipal Pension and OPEB
Workgroup Goals

Goal:
The goal of the workgroup is to provide to the Governor by Fall 2015 recommendations for a sustainable, statewide retirement plan for municipal and school employees that offers security to its participants and standards, tools and templates to address growing pension and OPEB unfunded liabilities in Michigan.

Today's realities:

- Current under-funding issue:
  - A study by the Mackinac Center of the pension funding of Michigan's 35 largest cities showed an unfunded liability of $2.1 billion (2012 data).
  - A 2013 report by Dr. Eric Scorsone found that in the 284 units that provided data, there was $3.1 billion in unfunded pension liabilities (FY 2011 audited financial reports). The same report concluded that of the 1,773 local units of government in Michigan, 311 were found to provide some level of OPEB at the end of FY 2011, totaling a net unfunded liability of $12.7 billion.
  - Dr. Scorsone's report also found that OPEB annual required contribution (ARC) equates to 15 percent of governmental entity-wide revenues; pension ARC is 8 percent. The general fund bears more of the brunt of the cost burden, and OPEB ARC equates to 20 percent of general fund revenues; pension ARC is 10 percent. All amounts are based on aggregate totals.
- The state's current liabilities for pension and health care is $13.1 billion for FY 14 (actuarial value funded ratio):

FY2014	Pension Funded Percentage	Health Funded Percentage
Public Schools	59.9%	21.1%
State Employees	61.6%	12.1%

- Michigan's state budget has constrained resources so it is unlikely that the state will be able to invest additional funds in this matter.
- Municipalities are in different places on pensions and OPEB and offer disparate benefits to employees. For instance:
  - Some pension plans are well funded. Others are not.
  - Not all local units offer retiree health care benefits.
- Local control and The Headlee Amendment are important considerations to be kept in mind.
- Collective bargaining benefits are constantly changing and can significantly impact benefits.
- Portability as well as the type and quality of benefits impact employee attraction and retention.
- With the growing number of retirees, thought should be given to retirement security for employees and the impact of this on our state in the future as they retire.
- The capacity of local units to make payments must be considered.
- Scheduled to take effect in 2018, the federal "Cadillac Tax," which is a 40% non-deductible excise tax on employer-sponsored health coverage will change the federal tax landscape for OPEB benefits.

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Items we want to accomplish:

- An understanding of the background and the size of the problem in Michigan (recent data compilation currently underway).
- An understanding of the characteristics of those that are unfunded to determine what might be needed to resolve this in the future. Define indicators of trouble.
- Full understanding of Michigan's efforts to date: EVIP, CLEAR, MERS best practices, Harvey Hollins' local reforms workgroup, etc.
- Hear from stakeholders on their view of the issue and potential resolutions.
- Learn what others have done to resolve similar issues.
- A menu of options and recommendations, including an understanding of legislative, executive and/or administrative action needed.
- Ensure accountability and transparency of local units' statuses are included.
- A strategy on how to communicate recommendations and build consensus.
- Put Michigan in a position to be a national leader on this issue.

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