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Retiree News

AFT Michigan Retiree Report

August 2014

CSR Unveils Pension Study

In June, the Coalition for Secure Retirement (an organization made up of active and retired public school and state employees of which AFT Michigan is a member) held a press conference in Lansing to announce the results of the pension study it had commissioned. Mitch Bean, the author of the paper, discussed his findings along with former Michigan Treasurer Robert Klein who also worked on the study. CSR President Nick Ciaramitaro opened up the press conference, and he was joined on the dais by State Representative Andy Schor (D-Lansing) and Ingham County Clerk Barb Byrum (D-Onondaga).
Key findings of the study included:

- There are immediate and substantial costs when closing a defined benefit pension related to having to reduce the time period in which unfunded liabilities must be paid;
- Defined benefit pensions offer a much more generous benefit to retirees than a defined contribution plan for the same cost to the employer;
- Defined contribution plans place high risks on retirees and often do not provide sufficient retirement income;
- Switching to a defined contribution plan could force some employers who currently do not pay Social Security costs to do so in the future.

Senator Jansen Shopping MPSERS Defined Contribution Package

Last last year, a package of bills that would make significant changes to MPSERS – including shifting new hires into a defined contribution pension – were introduced and referred to the Senate Appropriations Committee. The bills, SB 722-728, have been promoted by Senator Mark Jansen (R-Gaines Twp.), one of the key sponsors. We are grateful that the Senate Appropriations Committee has yet to take action on these bills, but now that the budget is completed, that may change.

Senator Jansen has been meeting with school management organizations over the past few months to drum up support for the package, especially the defined contribution portion. We expect that, once the Legislature returns from summer recess, we could see hearings beginning on this issue. We are working to communicate the results of the Mitch Bean pension study (see above) to key legislators in an effort to forestall movement on these bills.

Detroit Bankruptcy Legislation Stopped Short of Forcing Defined Contribution

Although the legal fights over the Detroit bankruptcy plan may go on for some time, the Legislature enacted their part of the “Grand Bargain” that would tap private foundation funds and state dollars to ease the pain for Detroit bondholders. In our opinion, the most important bondholders are of course the retirees and future retirees counting on a City of Detroit pension. The agreement contained in the “Grand Bargain” will still see city pensions cut, as future cost of living increases are curtailed or eliminated and medical expenses are pushed onto the retirees. However, most observers fear that the outcome could have been much worse and the cuts much deeper without a settlement.

As the Legislature moved forward with a package of bills to provide state funds for the settlement, there was great pressure to attach constraints and restrictions on those funds. The package included bills to increase state oversight of the city for the long term, and greatly curtail the autonomy of its citizens. The most troubling of these bills would also have required newly hired city employees to be placed into a defined contribution pension system – closing the current system to only current employees and retirees.

House Bill 5568, sponsored by Representative Gail Haines (R-Oakland County), would mandate that all Detroit employees first hired after December 31, 2014 be placed into a defined contribution pension system. Although the Legislature had flirted with encouraging local units of government to adopt defined contribution plans, this would have been the first time that a city was prohibited by state law from having an open defined benefit plan. The bill also forbade the provision of retiree health care to new employees, allowing only a small employer contribution to a health savings account.

Supporters of defined benefit pension plans testified in opposition to HB 5568 stating that the closure of the existing defined benefit plans would accelerate pension costs to a level that was unwise for a city trying to emerge from bankruptcy. Fortunately, the majority of those on the House Committee (with the leadership of Rep. John Walsh, R-Livonia) agreed that saddling the city with transition costs associated with closing a pension system was an unwise course of action. The committee also felt that the pension hits being advocated by the Emergency Financial Manager (which include transforming the existing pension systems into hybrid plans) were hard enough.

Therefore the bill was amended to eliminate the forced shift to defined contribution plans and instead made broad restrictions on pensions based on current pension negotiations in Detroit. Key restrictions contained in the final bill include:

- Limiting the calculation of pension benefits only to base pay;
- Prohibiting additional annual pension payments based on investment returns;
- Allowing the City of Detroit to only offer pension plans for employees hired after July 1, 2023 that cap the city’s contribution to 7% of base pay.

August 11, 2014