

Testimony on Michigan House Bill 6061 (2024)

Prepared for: Michigan House Committee on Labor

Prepared by: Leonard Gilroy, Senior Managing Director
Ryan Frost, Managing Director

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Chairman Haadsma and members of the Committee,

We are managing directors of the Pension Integrity Project at Reason Foundation, a national nonpartisan think tank. Our project has played a key technical assistance role on dozens of bipartisan pension reforms across the states over the last several years, and we have over a decade of experience in public pension research, actuarial modeling and pro bono plan design consulting. Thank you for the opportunity to submit technical comments regarding House Bill 6061.

Our analysis and actuarial modeling of the Michigan State Employees' Retirement System (SERS) suggest that House Bill 6061 could undo decades of progress in public pension stewardship by reopening an underfunded legacy pension system and eliminating the current defined contribution retirement plan. Together, these changes would re-expose Michigan to unnecessary unfunded liabilities, financial risks, and billions in hidden costs that would ultimately be borne by taxpayers and crowd out other spending priorities.

Since the 1990s, several states facing major public pension funding challenges have successfully transitioned to lower-risk retirement designs. Michigan was among the first to do this in 1997 by launching the Michigan SERS Defined Contribution (DC) plan. Over time, that DC plan has seen several improvements and today should be seen as a quality, competitive retirement benefit (relative to either the public or private sector) that meets many best practices.

Unfortunately, after the 1997 reform, the state failed to properly fund the legacy SERS pension for much of the next two decades, which helped yield over \$5.4 billion in unfunded liabilities today. Importantly, all things being equal, the [SERS unfunded liability situation would have been much worse](#) had all the employees hired between 1997 and today entered the legacy pension instead of the current DC plan, given that those additional pensioners over nearly 30 years would have represented billions of dollars in additional accrued pension liabilities.

Instead, thanks to Michigan SERS' DC reform, the total accrued pension liabilities of SERS finally peaked in 2021 and are now beginning to decline, and retirement costs for every employee hired since 1997 are 100% fixed as a share of payroll, unlike the spikes and cost volatility you've experienced in all of your state pension systems this century.

It is also important to note that the \$5.4 billion in current unfunded liabilities today are attached to the legacy pension system that closed back in 1997. By contrast, and by definition, there are no taxpayer-guaranteed “liabilities” in a defined contribution plan. Given that almost 30 years later, the state is still trying to manage the \$5.4 billion in unfunded liabilities related to employees/retirees hired before 1997, it follows that re-opening the exact same pension system back up now would simply expose the state to the same financial and budgetary risks that created the current pension debt.

We conducted some preliminary actuarial modeling and found that under HB 6061, Michigan SERS’ unfunded liabilities could rise to well over \$8 billion over the next 15 years under realistic market underperformance scenarios.

Further, transferring defined contribution account balances to the Michigan SERS pension at the current discount rate would create a major immediate financial risk of immediate underfunding of those transferred liabilities. The bill would allow defined contribution plan participants to transfer up to five years of credited service toward an actuarially equivalent pension benefit, but their previously earned service would be transferred using a relatively high discount rate of 6.0%. Such transfers would create the risk of a pension-obligation-bond-like situation where any downturn in market performance (meaning, any year where investment returns underperform 6%) or any future lowering of the SERS assumed rate of investment return would generate immediate unfunded liabilities in a newly reopened SERS system.

Lastly, the bill has not received a fiscal note, a long-term actuarial analysis, any pension stress testing of the new design, nor any scrutiny from legislative finance and retirement committees, leaving important questions for taxpayers unanswered. Major retirement plan design changes necessitate long-term actuarial analysis and stress testing to ensure financial risks to governments are transparent and clearly understood beforehand.

Our overall assessment is that HB 6061 would bring back a system that exposes taxpayers to the same risk of unfunded liabilities that prompted the closing of that pension almost three decades ago. HB 6061 would undo a nearly 30-year-old pension reform that has been working effectively to manage financial risks and personnel costs for state agency employers and which has helped taxpayers avoid billions of dollars in additional unfunded liabilities.

Thank you very much for the opportunity to submit testimony. We stand ready to respond to any questions the committee may have related to this subject.

Contacts:

- Leonard Gilroy, Senior Managing Director, Pension Integrity Project: leonard.gilroy@reason.org
- Ryan Frost, Managing Director, Pension Integrity Project: ryan.frost@reason.org