Published on *East Lansing Info* (https://eastlansinginfo.org)

Financial Health Team Looks at Unfunded Liabilities to City?s Retirees [1]

Tuesday, March 15, 2016, 12:00 am
By:
Chris Root

Image: An East Lansing Department of Public Works team filling potholes last week

At its second meeting, on March 14, the Financial Health Team heard a lengthy presentation about the unfunded liabilities of the pension plans of various groups of City of East Lansing retirees and current employees. The commitments owed to retirees ? for both pensions and, in some cases, health insurance ? is one of the biggest financial issues on which the Team is expected to make recommendations to the East Lansing City Council. The Council asked for the team?s input about these legacy costs by July 31.

Staff of MERS, the Michigan Employees? Retirement System, which administers pension plans for East Lansing and 800 other Michigan local governments, presented to the Team an overview [2] of the City?s defined benefit pension plans and the Annual Actuarial Valuation Report [3] of the plans as of December 31, 2014.

The MERS data show that, as of the end of 2014, East Lansing has almost $71 million in unfunded accrued liabilities for its pension plans. ?Unfunded accrued liability? describes the amount of accrued liabilities that exceeds the value of assets that have accumulated to finance the obligation. This obligation is from ?defined benefit? retirement plans from which the City promised employees a set amount of benefits (based on the employees? final average compensation, years of service, and a benefit multiplier).

The actuarial accrued liability for East Lansing?s pension fund is $169,549,000, while the valuation of its assets is $98,571,617**.** Thus, 58% of what the City owes retirees is currently funded. (When we say the pension debt is ?58% funded,? that means there is enough money currently set aside to pay 58% of the debt. The rest is ?unfunded.?) This is well below the average funded ratio of local governments in Michigan.

The state of Michigan sets a minimum contribution that governments must pay to defined benefit plans, which East Lansing has been meeting. But paying only this minimum amount leads the unfunded liabilities to keep growing.

The minimum amount that East Lansing must pay in the upcoming 2017 Fiscal Year is $6.26 million, an increase of $470,000 from the minimum payment in the current year?s budget. This $6.26 million includes $1.70 million in premiums for current employees plus a much larger amount of $4.56 million toward the unfunded accrued liabilities for retirees.

In December 2015, the City Council made a supplemental pension contribution of $2 million in order to begin to address the City?s relatively high unfunded liabilities. City Manager George Lahanas and Finance Director Mary Haskell told the Financial Health Team that they did not foresee that money would be available from the General Fund to contribute more than the required minimum in the coming year. (The total General Fund budget for FY 2016 is $36 million.)

Under the Michigan constitution, local governments may not renege on promised pensions; they may not diminish benefits of current retirees who are already receiving them or the benefits of current employees for the service they have already accrued. The only changes local governments can make are to pension plans for new hires and for current employees for their service in the future.

MERS? representatives brought a booklet [4] to the Team entitled ?Managing UAL: Closing the Gap in Unfunded Accrued Liability.? This document gives MERS? overview of ways local governments can address their unfunded liabilities. Basically, the gap can be reduced either by increasing assets or reducing liabilities.

Increasing pension fund assets can be achieved by paying lump sums to MERS that exceed the required minimum contributions ? assuming the City has the funds available to do so ? or issuing bonds so the City could contribute more to MERS in the hopes that investment earnings on the MERS account would exceed the interest costs of the bonds.

The MERS booklet cites three ways to reduce the liability: offer a lower tier of benefits to new hires; ?bridge? the benefits of existing employees to lower benefits and freeze final average compensation; or eliminate future liability by closing the defined benefit plan and offering instead a defined contribution plan (which, by definition, cannot result in the City having unfunded liabilities).

In recent years, East Lansing has already changed its retirement programs by negotiating with City bargaining units, by example, by moving from ?defined benefit? plans to ?defined contribution? plans or, in some cases, hybrid plans that include some of each. Retiree benefit packages are not solely a budget issue, since they can affect what employees the City is able to recruit and retain.

Lahanas and Haskell gave a shorter presentation about Other Post-Employment Benefits (OPEB), a liability which consists primarily of health insurance benefits. (Many current employees will receive no health benefits when they retire from working for the City.) Estimates made in April 2015 show that the City has an unfunded actuarial accrued liability on its OPEB account of $40 million, in addition to the unfunded liability for the MERS pension accounts. This OPEB unfunded liability would be even higher except that East Lansing has paid about $12.4 million into this fund over about six years.

The Financial Health Team will meet next on Monday, April 11 at 3:30. Meetings are open to the public.

Related Categories:
City Manager [5]
Finance and Taxes [6]
Government [7]

Source URL: https://eastlansinginfo.org/content/financial-health-team-looks-unfunded-liabilities-citys-retirees

Links
[1] https://eastlansinginfo.org/content/financial-health-team-looks-unfunded-liabilities-citys-retirees

[2] http://eastlansing.granicus.com/MetaViewer.php?view_id=2&clip_id=589&meta_id=36001
[3] http://eastlansing.granicus.com/MetaViewer.php?view_id=2&clip_id=589&meta_id=36000
[4]
https://employerportal.mersofmich.com/SharePointFormsService/Default.aspx?Publication=web_ManagingUAL.pdf
[5] https://eastlansinginfo.org/citymanager
[6] https://eastlansinginfo.org/finance
[7] https://eastlansinginfo.org/government