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Ask Eli: Reducing East Lansing's Pension Costs ^[1]

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Above: Photos taken by embedded ELi photographers around the City.

ELi readers who responded to our survey ^[2] last month expressed a very high interest in learning about what the City of East Lansing has done and what it can do in the future to reduce its pension obligations and liabilities. I have spent the last month digging into these questions.

This article functions essentially something like an executive summary of the findings. You can click on the "read more" options to read deeper into a particular issue.

East Lansing's pension obligations are currently only 50% funded, leaving about \$89.4 million ^[3] in liabilities to retirees and employees that are not funded. Pension liabilities are the biggest component of the City's debt. (This amount does not include retiree health care benefit costs, categorized under Other Post-Employment Benefits or OPEB. East Lansing's accrued unfunded liabilities for OPEB currently stand at about \$35.5 million ^{[4].})

The pensions are currently the biggest financial issue for East Lansing, as is true for many other American cities that are facing financial problems. East Lansing employees' pension plans have understandably figured prominently in the City Council's ongoing discussions ^[5] about pressures on the City's budget ^[6] and the need for added revenue from new taxes ^[7], which the Council might place on the August or November 2018 ballot.

How do pensions matter to public employees and the people they serve?

A retirement plan is often described as "deferred compensation" because it is that portion of the compensation package that the employer and employee agree upon that will be paid later. Together with the immediate compensation of salary or wages, a pension can be a key part of a compensation package.

Many people who have worked in the public sector have opted to make lower salaries than they could in the private sector because they were offered good retirement plans.

How good a compensation plan East Lansing can offer affects who we can hire to work for us as police officers, paramedics, firefighters, engineers, refuse collectors, parks managers, building inspectors, and in various jobs in offices like the City Clerk and Planning Department.

What we found in this investigation, in summary

When the City of East Lansing started providing pensions in 1947, eligible employees were covered under a defined benefit plan, which guaranteed a predictable income in retirement. Over the years, the City shifted many employees into defined contribution plans, which guarantee a contribution by the employer into an investment account but don't guarantee a predictable income, and then into hybrid plans, which are a blend of defined benefits and defined contribution plans. This shift has helped reduce financial risk to the City. Read more ^[8] about these plans.

The City of East Lansing's pension liability is challenging in part because there are many more retirees (373) than current workers (about 270, reduced from a high of 400 city workers in 2000). "Mature" pension systems like this are more likely to be financially challenged than ones where there are more workers than retirees. Read more ^[9] about who is covered in East Lansing.

According to the Michigan Constitution, East Lansing cannot stop paying pensions to which it is already obligated. Read more ^[10] about that legal obligation.

Pension benefits for about 80% of East Lansing's employees are negotiated as part of collective bargaining agreements, and East Lansing's seven union contracts do not end until June 2019.

So, it is likely that voters will be asked to decide on a new tax ballot question before these contracts are renegotiated. Read more ^[11] about how the City might reduce pension benefits in the future.

The City has also taken a number of steps to work to significantly reduce the cost of retirement benefits provided to current and future employees. In 2010 and 2011, changes went into effect ^[12] to the retirement plans of number of City employee groups that reduced retirement benefits, particularly for new hires, lowering current and future costs to the City. Read more. ^[13]

Sworn police officers and firefighters continue to have defined benefit (guaranteed pay-out) pensions. These individuals will not receive Social Security benefits from their years of work in these positions. Read more. ^[14]

The East Lansing Financial Health Review Team ^[15] (FHT) that met during 2016 made a number of recommendations about the City's pensions. In a separate article, we will examine the FHT recommendations and what the City has done in response to them.

A note on sourcing

Much of the data used in this ELi investigation comes from the MERS Annual Actuarial Valuation (AAV) report ^[16] to East Lansing for the period ending December 2016. (MERS is an independent fiduciary created by the Michigan legislature that administers the pension plans of East Lansing and 800 other municipalities in Michigan.)

Assistance for this investigation was given by East Lansing's Director of Human Resources Shelli Neumann and MERS Communications and Retirement Strategies Director Jennifer Mausolf. We are grateful for their assistance with fact-finding and fact-checking.

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