

Testimony on Michigan Senate Bills 165, 166, and 167

Prepared for: Michigan House Standing Labor Committee

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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 Pension Integrity Project has played a key pro bono 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 plan design consulting.

Thank you for the opportunity to provide testimony on Senate Bills 165-167, which propose significant changes to the Michigan State Employees' Retirement System (SERS) and State Police Retirement System. These bills would dramatically increase costs for specific employee groups, including corrections officers, by removing new hires from the SERS defined contribution (DC) retirement plan and placing them in the hybrid pension plan currently available to state police officers. Additionally, the bills would allow current SERS employees to purchase years of service credit in the state police defined benefit plan, up to the total years they have contributed to SERS.

Fiscal Impacts

Defined benefit pensions rely on several actuarial assumptions to be accurate. If they aren't, unfunded liabilities begin to accumulate. As of today, Michigan still has \$49 billion worth of unfunded pension liabilities to pay off. With that amount of debt still left to pay off, it was surprising to see these bills pass the Senate without a single study on potential cost impacts. There was only a single sentence in the three-page fiscal note that mentioned potential risks. It stated:

"Other unfunded liabilities could accrue in the future if actual conditions failed to meet actuarial assumptions ... but future liabilities are not known, assumed, or calculated in this analysis."

As a pension proposal of this magnitude will commit generations of employers and taxpayers to pay for benefits, the evaluation of this legislation requires better than "not known, assumed, or

calculated.” Therefore, we built our own actuarial model to study the long-term costs of this proposal, and the results show that this pension swap would have a major impact on both required employer contributions and the funded status of the state police pension system.

Under a best-case scenario, where 100% of plan assumptions are met 100% of the time, the additional cost of this pension proposal would be just north of \$800 million over the next 30 years. Because assumptions are never met 100% of the time, it’s important to look at what would happen under a scenario with more realistic investment returns. If the next 30 years of investment experience matched the previous 30, with multiple major market losses, the cost of this proposal could be up to \$1.85 billion.

Recruitment and Retention

While proponents of these bills suggest that shifting these employee groups to the state police pension plan will improve staffing levels, we have yet to see experience play out in other states that shows one retirement plan design is better than another for overall recruitment and retention. It is also important to recognize that, based on most non-partisan surveys of employees, today’s workforce increasingly values and needs portability and flexibility in retirement benefits. Therefore, we have strongly advocated for at least offering an optional defined contribution plan to new employees because it would align more closely with the career mobility patterns of modern employees. Unfortunately, that option would be completely removed for all new employees covered by these bills because the SERS DC plan would be closed to new entrants.

States, like Michigan, that have moved toward offering portable plans to public employees have seen improvements in long-term fiscal stability while still offering robust retirement benefits. Enhancing the existing DC plan with targeted longevity bonuses, rather than reverting to a legacy DB system with unknown future costs, could achieve the same recruitment and retention goals without laying “not known” costs on taxpayers and jeopardizing the state’s financial health.

Thank you for your time and consideration. We look forward to any questions you may have.

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