Michigan Public School Employees Retirement System (MPSERS)

Redirecting MPSERS Debt Payment Could Cost Taxpayers $1.4 Billion

Michigan's Pension Debt Is Expensive

- The Michigan Public School Employees Retirement System (MPSERS) is over $35 billion short of the money needed to pay for already promised pension benefits.
- Unfunded pension liabilities accrue interest at the same rates as the MPSERS discount rate—currently 6% annually—making them among Michigan's most expensive taxpayer-backed debts.
- Gov. Gretchen Whitmer proposes changing state law so that an annual $670 million debt payment can be redirected to fund other spending priorities.

Paying Down Pension Debt Faster Is Prudent Fiscal Policy

- Due to Michigan's large unfunded public pension and health care liabilities, the legislature passed a law in 2017 that required extra payments to accelerate MPSERS debt reduction.
- Under current law, because the unfunded liabilities in the MPSERS retiree health care plan have been eliminated, an extra $670 million would annually go towards paying down the remaining pension debt.
- Accelerating debt payments that are associated with promised, constitutionally protected pension benefits is a time-tested way to save taxpayers long-term money by avoiding interest costs and savings on future contributions through investment earnings.
- Actuarial modeling by Reason Foundation's Pension Integrity Project finds that eliminating this $670 million annual contribution into MPSERS would require an additional **$1.4 billion** over the next 14 years in net pension payments.

MPSERS Ignoring Contribution Floor

- Currently, MPSERS actuaries are not including in their analysis the "contribution floor" provision in state statute, which is increasing the pension system's long-term costs.

> The computed employer contribution rates presented throughout this report do not reflect the normal cost or UAAL "floor" provisions described in bullet (5) of Public Act 92 of 2017 on page 3 of the Appendix or bullet (4) of Public Act 181 of 2018 on page 4 of the Appendix.
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> GRS MPSERS Annual Actuarial Valuation 2

- If this floor was properly accounted for as directed by current law, Reason Foundation's modeling shows that MPSERS would become fully funded two years sooner, in 2036.

Takeaway: Continuing to pay down MPSERS' unfunded liabilities will benefit taxpayers by reducing pension debt—yielding long-term savings—and bringing annual costs down to manageable levels by 2038. Gov. Whitmer's proposal would cost taxpayers $1.4 billion more and keep the state's annual costs high for longer.

Contact: Leonard Gilroy, Vice President, len.gilroy@reason.org
Ryan Frost, Managing Director, ryan.frost@reason.org

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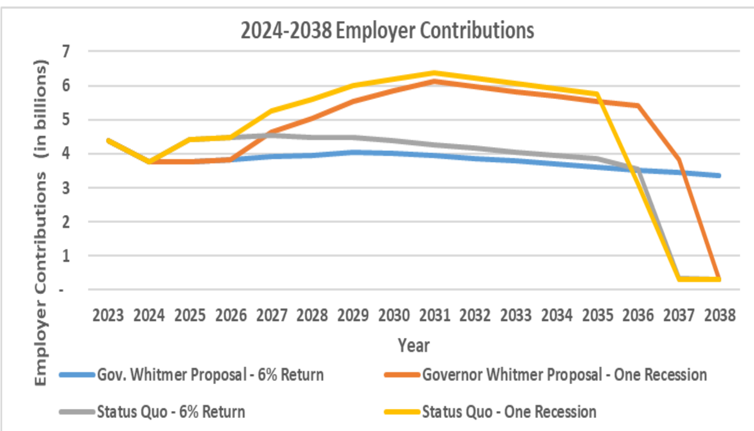
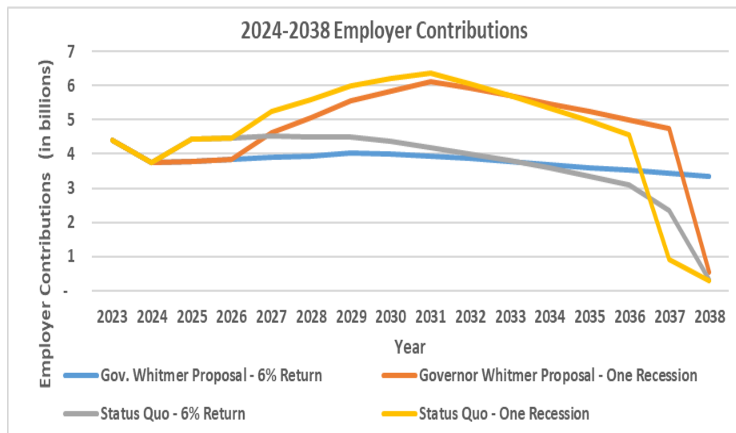
Floor Provision Included

	6% Return		One Recession	
	Status Quo	Gov. Whitmer Proposal	Status Quo	Gov. Whitmer Proposal
Total Employer Contribution: MPSERS (2024-2038)	$55 billion	$56.4 billion	$69.7 billion	$71.1 billion
Projected Unfunded Liability: MPSERS (2038)	-$11 million (surplus)	-$5 million (surplus)	-$29 million (surplus)	$-29 million (surplus)
All-in Cost to Employers	$55 billion	$56.4 billion	$69.7 billion	$71.1 billion



No Floor Provision

	6% Return		One Recession	
	Status Quo	Gov. Whitmer Proposal	Status Quo	Gov. Whitmer Proposal
Total Employer Contribution: MPSERS (2024-2038)	$55.2 billion	$56.5 billion	$69.9 billion	$71.2 billion
Projected Unfunded Liability: MPSERS (2038)	-$11 million (surplus)	-$5 million surplus	-$29 million (surplus)	-$29 million surplus
All-in Cost to Employers	$55.2 billion	$56.4 billion	$69.9 billion	$71.2 billion



Source: Pension Integrity Project actuarial modeling of MPSERS. Dollar figures are adjusted for inflation.

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