

# Legislative Analysis

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## **PUBLIC EMPLOYEE RETIREMENT ANNUAL REPORTS**

Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

**House Bill 6075 (as reported from committee w/o amendment)**

Analysis available at  
<http://www.legislature.mi.gov>

**Sponsor: Rep. Dan Lauwers  
Committee: Local Government  
Complete to 12-6-16**

### **SUMMARY:**

House Bill 6075 would require that each retirement system submit its summary annual report, as currently required under the Public Employee Retirement System Investment Act, to the Department of Treasury within 30 days of publication. Also, it would require Treasury to create, and post online, an executive summary for each submitted summary annual report, including at least the system's unfunded actuarial accrued liability for retiree health and pension. Treasury would have to submit the executive summaries to the House and Senate Appropriations Committees and the House and Senate Fiscal Agencies within 30 days of posting.

The bill would also require that if a system's actuarial accrued liability for retiree health or pension is less than 60% funded according to its most recent summary annual report, it must post on its website the steps the system is taking to increase the funding level. If a system does not have a website, the bill would require it to make the steps available to the plan participants and beneficiaries as well as the local government citizens. Finally, a system would have to submit the steps to Treasury.

### **BACKGROUND:**

A 2016 report by the Michigan State University Extension Center for Local Government Finance and Policy estimated that the unfunded liabilities related to retiree health care benefits for cities, villages, townships, and counties in Michigan totaled approximately \$10.0 billion in 2014<sup>1</sup>. For perspective, the study reports that the annual required contributions for retiree health care (actuarially calculated amounts for annual unfunded liability payments) for cities, villages, and townships totaled \$540 million or about 12% of total revenues, while for counties they totaled \$256 million per year or about 6% of total county revenues.

Large unfunded liabilities are primarily due to local governments not prefunding retiree health benefits (setting aside funding for benefits as they are accrued) and instead waiting to pay for benefits as the annual health care costs are incurred. Even those local governments that do prefund retiree health care benefits often have substantial unfunded liabilities mainly due to the following: (1) they do not make the full annual required

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<sup>1</sup> "Legacy Costs Facing Michigan Municipalities"  
[http://msue.anr.msu.edu/uploads/resources/pdfs/GMI\\_044\\_Legacy\\_Costs\\_WP-AA.pdf](http://msue.anr.msu.edu/uploads/resources/pdfs/GMI_044_Legacy_Costs_WP-AA.pdf)

payments, (2) system assets do not generate the investment returns assumed, and 3) the cost of health care increases at a rate significantly higher than general inflation. The MSU study estimated that in 2014, Michigan cities, villages, and townships retiree health care actuarial accrued liabilities on average were 14% funded, and those of Michigan counties on average were 21% funded.

**FISCAL IMPACT:**

House Bill 6075 could create administrative costs for local units of government and the state.

The bill could create administrative costs for certain local units of government related to providing information regarding its steps to improve the funded status of its retirement systems, either on its website or in another manner to all plan beneficiaries and citizens.

The bill could also create administrative costs for Treasury related to creating and making available online an executive summary for each local unit of government's retirement system's summary annual report.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.