

House Bills 6060-6061: Increase pension underfunding risk

SUMMARY: The bills let new and existing employees in the state and school retirement systems opt for participation in underfunded state pension systems.

RESEARCH: Lawmakers have made their retirement system members the state's largest creditors. They did this not by asking for loans from employees and retirees, but because they promised pension benefits and refused to set aside enough money to pay for them, as required by the state constitution.

Lawmakers have been poor stewards of pension benefits. The school retirement system has been fully funded just once in the past 50 years.

Lawmakers have repeatedly made decisions like marking to market to make lower contributions, extending payment plans, using unrealized assumptions, using pension funds for political purposes and changing statutes to spend pension contributions on other priorities.

The bills make no efforts to ensure that pensions will be funded well in the future.

Converting to a defined contribution retirement system has avoided these funding problems. It has also saved the state from generating \$4 billion in pension debts.

Nor does the pension system work for all of its members. Half of employees in the pension system will leave before they vest in any benefits at all. The system works for neither employees nor taxpayers.

SOURCES:

[Estimated Savings From Michigan's 1997 State Employees Pension Plan Reform – Mackinac Center](#)

[Why defined benefit plans fail the majority of public workers - Reason Foundation](#)

[Public Employee Pension Systems Raided To Pay Film Studio Bills – Michigan Capitol Confidential](#)

FISCAL IMPACT:

The bills increase the chance that lawmakers create new pension debts.

The state owes \$35 billion to members of the state and school pension systems, and only \$27 billion to the people who willingly lent the state money.

Employees in the state's defined contribution system have contributed to no long-term liabilities since the state made its switch in 1997. Since then, the state has underfunded the pensions of legacy employees by \$6 billion.

The Mackinac Center for Public Policy **OPPOSES** HB 6060 and 6061.