The Trillion Dollar Gap

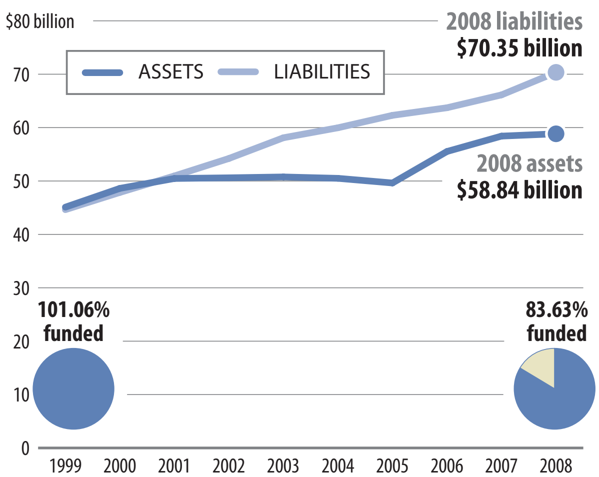
Underfunded State Retirement Systems and the Roads to Reform

Michigan

MICHIGAN needs to improve how it manages the long-term bills coming due for both its pensions and retiree health care and other benefits. Starting in 2002, the state consistently failed to meet annual actuarially required contributions, dipping below 70 percent in 2004. However, the state contributed 111 percent of the annual required contribution in 2008, and had set aside 84 percent of the assets needed to fund its total pension bill as of fiscal year 2008. In 1997, Michigan moved to a defined contribution plan, which today enrolls half of the state's employees; however, teachers remain in a defined benefit plan. Meanwhile, Michigan has a $40.7 billion bill coming due for retiree health care and other benefits. While the state is one of 29 with any assets set aside to cover these benefits, only 1.9 percent of the long-term cost is funded.

PENSIONS, 1999 – 2008

Michigan's pension liabilities grew 58 percent between 1999 and 2008, outpacing assets, which grew only 30 percent in that period.



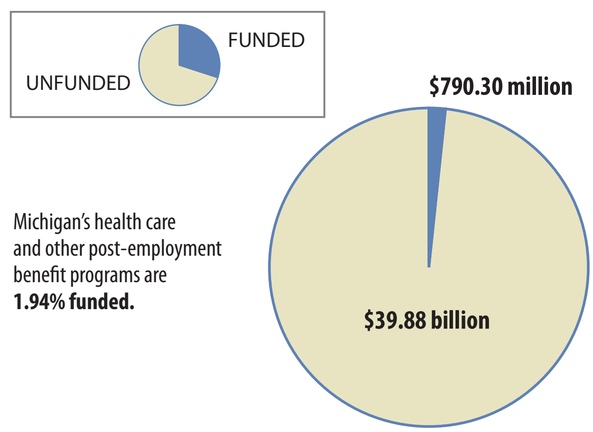
Total Bill Coming Due:	$70,354,300
Portion Unfunded:	$11,514,600
Annual Required Contribution (ARC):	$1,249,909
Percentage ARC Funded:	111.08%

Note: In thousands

PENSIONS: NEEDS IMPROVEMENT

HEALTH CARE & OTHER BENEFITS, 2007

Retiree health care and other benefit liabilities are 37 percent of Michigan's total retirement bill but are 78 percent of the state's retirement funding shortfall.



Total Bill Coming Due:	$40,668,800
Portion Unfunded:	$39,878,500
Annual Required Contribution (ARC):	$3,946,416
Percentage ARC Funded:	30.60%

Note: In thousands

HEALTH CARE & OTHER BENEFITS: NEEDS IMPROVEMENT

Solid performer

Needs improvement

Serious concerns

Our grades assess states on how well they manage their retirement obligations. Each state can earn up to four points for its pension plans: two points for a funding ratio of at least 80 percent; one for an unfunded liability below covered payroll; and one for paying an average of at least 90 percent of the ARC during the past five years. Solid Performer = 4 points. Needs Improvement = 2–3 points. Serious Concerns = 0–1 points. Grading for health care and other benefits is simpler because most states have only recently begun to fund and collect data on these liabilities. States are solid performers if they have set aside assets equal to at least 7.1 percent of their liabilities (the 50-state average), or they need improvement if they have contributed less.
For more details, read the full report at www.pewcenteronthestates.org/TrillionDollarGap.

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