



Michigan

MICHIGAN FACES A SUBSTANTIAL BILL coming due for health care benefits for retired state employees, and even greater costs are likely to emerge for retired teachers. Michigan is also struggling with its pension benefits—its contributions to the pension system have suffered in recent years because of the state’s budget problems. About 10 years ago, Michigan took the unusual action of shifting new employees to a defined contribution plan. The only other state that has followed this path in recent years is Alaska. Even so, Michigan has a substantial number of employees still in defined benefit plans. The state showed a slight uptick in the funding level for its defined benefit plans in 2006, but it has fallen short of paying the annual required contribution in the last five years. On the non-pension side, Michigan is one of a handful of states that has a long record of calculating the costs of retiree health care benefits, which other states are just now evaluating. It is one of just 13 states that had set aside any assets for that bill as of 2006.

PENSIONS

TOTAL BILL COMING DUE: **\$63 billion** ¹


FUNDS SET ASIDE: **\$51 billion**

PORTION UNFUNDED: **\$12 billion**

PERCENT FUNDED: **81 as of 2006** ²

TEN YEAR FUNDING HIGH: **101% in 2000**

TEN YEAR FUNDING LOW: **79% in 2005**

HOW IS THE STATE DOING IN PAYING ITS ANNUAL BILL? 

ASSUMPTIONS: Michigan assumed an 8% return on its pension investments, which is the 50-state median. The five-year smoothing period it uses to calculate the actuarial value of assets is similar to the method used in most states. As of 2006, Michigan was using a 40-year amortization period, which does not conform to accounting standards. (The Governmental Accounting Standards Board establishes the time used to amortize pension benefits as 30 years or less.)

¹ Pension funds include state employees, public school employees and state police.
² 50-state mean was 82%.

KEY:  Top Performer  Needs Improvement  Below Par  Non-Pension Benefits are Minimal

This fact sheet stems from a 50-state analysis of states’ retiree benefit obligations by Pew’s Center on the States. The full report and 50 state fact sheets can be found at www.pewcenteronthestates.org.


OTHER BENEFITS

TOTAL BILL COMING DUE: **\$8.03 billion**

FUNDS SET ASIDE: **\$60 million**

PORTION UNFUNDED: **\$7.97 billion** ¹

PERCENT FUNDED: **less than 1 as of 2006**

HOW IS THE STATE DOING IN MANAGING THIS BILL? 

¹ 267% of covered payroll, compared to a national median of 135%.

REFORMS: Michigan’s major pension reform occurred 10 years ago, when it shifted employees hired after April 1, 1997, to a defined contribution plan. In 2007, the legislature made some changes to retired school employees’ health care coverage so that it more closely parallels what retired state employees get.



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