The Widening Gap Update — MICHIGAN

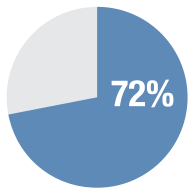
Michigan failed to pay its full annual pension contribution four times from 2005 to 2010. The system was 72 percent funded in fiscal year 2010 and faced a $22 billion funding gap. Most experts agree that a fiscally sustainable system should be at least 80 percent funded. The state also had a $45 billion bill for retiree health care costs, less than 3 percent of which was funded, well below the 8 percent national average in 2010.

Michigan lawmakers approved pension benefit cuts in 2010 that applied to newly hired school employees. The changes required new school employees to participate in a hybrid plan, eliminated annual cost-of-living increases, raised the retirement age from 55 to 60, and decreased employees' final average compensation. Lawmakers also required current and future state employees to contribute 3 percent of their pay into a trust fund to finance retiree health care benefits.

TOTAL BILL COMING DUE

Michigan's retirement plans had a liability of $123.3 billion and the state has fallen $67 billion short in setting aside money to pay for it.

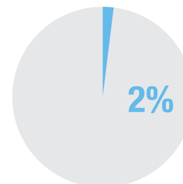
Pensions



$77.8B Total Liability

Percent Funded

Retiree Health Care



$45.5B Total Liability

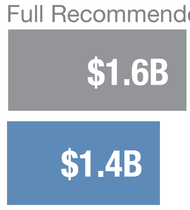
Percent Funded

ANNUAL RECOMMENDED CONTRIBUTION

In 2010, Michigan only paid 86 percent of the recommended contribution to its pension plans and just 36 percent of what the state should have paid to fund retiree health benefits.

Pensions

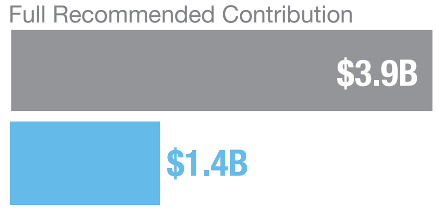
Full Recommended Contribution



Actual

Retiree Health Care

Full Recommended Contribution



Actual

HOW DID THIS STATE FARE?

Michigan's management of its long-term liabilities for pensions was cause for **serious concern** and the state **needed to improve** how it managed its bill for retiree health care.

Pensions

Retiree Health Care

solid performer | needs improvement | serious concerns

The grades for pensions and retiree health benefits assess how well the states have managed these liabilities. The pension grade is based on being above 80 percent funded (2 points), having an unfunded liability that is less than the payroll for active members (1 point), and paying at least 90 percent of the recommended pension contribution over the last five years (1 point). Plans that got all four points were solid performers, plans with two or three needed improvement, and plans with one or no points were cause for serious concern. Grades for retiree health benefits were based on whether the state's benefits had a funding level above the national average (1 point), whether 90 percent of the recommended contribution was made in the most recent year (1 point), and whether the state's plans were better funded based on the most recent data than they were in the prior year (1 point). States with two or three points were solid performers, those with just one point needed improvement, and states with no points were cause for serious concern. This fact sheet stems from a 50-state analysis of states' retiree benefit obligations by the Pew Center on the States. The full report and 50 state fact sheets can be found at **www.pewstates.org**.