**Testimony before the Detroit's Recovery and Michigan's Future Committee**
**May 15, 2014**

Good afternoon Chairman Walsh and members of the committee. My name is Todd Tennis, and I am here today on behalf of the Coalition for Secure Retirement. CSR is made up of active and retired public school and state employees and works for policies that help to ensure that Michigan residents can retire with dignity.

I am here today to discuss the potential cost implications of forcing the City of Detroit's pension systems from a defined benefit to a defined contribution model. House Bill 5568 specifies that any individuals first employed by the city after December 31, 2014 shall only be placed into a defined contribution system. Moreover, such individuals will be prohibited from receiving any retiree health benefits.

While both of these provisions will serve to greatly diminish the economic security of future retirees, closing the existing defined benefit systems will have an immediate and significant negative impact on the city's finances. The reason for this stems from the accounting changes made necessary by the closure of a DB plan. While the plan is open, assumptions can be made that new entrants into the plan will provide a funding stream to supplement investment earnings. Therefore, the Governmental Accounting Standards Board (GASB) rules allow the unfunded liability of an open DB plan to be amortized over a period of nearly 30 years.

However, when a plan is closed, the amortization must take into account a decreasing payroll. This leads to these plans being "front loaded," where expenses go up sharply immediately after a plan is closed.

By way of comparison, two years ago when the Michigan Legislature was considering switching the Michigan Public School Employees' Retirement System (MPSERS) from defined benefit to defined contribution, the immediate increase in costs to the system was estimated by the Office of Retirement Services to be $400 million in the first year alone, and totaling over $1.4 billion over the following six years. Although MPSERS is much larger than the City of Detroit pension system, up-front costs for closing the defined benefit plan would nonetheless be significant to the city.

The "Plan for Adjustment" being considered by city employee unions and the Emergency Financial Manager never contemplated a complete closure of the pension system. Instead, it proposes a shift to a hybrid pension system that combines elements of a traditional defined benefit plan and a 401(k)-style defined contribution plan. While this nonetheless constitutes a diminishment of the pension security of future employees, it would avoid the immediate costs that would be brought about by a complete switch to a defined contribution plan. Therefore the Coalition for Secure Retirement strongly encourages this committee to amend House Bill 5568 to allow defined benefit plans to continue to be offered to future city employees.