



# Addressing Our Liabilities

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## The Path to a AAA Rated State

- Produce structurally balanced budgets
- Establish and maintain rainy day savings
- Work to reduce long-term liabilities
- Maintain positive direction without reverting to bad habits



## What We've Done:

- Overcame perpetual \$1.5B deficit
- Started accounting for one-time versus ongoing money
- Implemented multi-year budgeting
- Addressed long-term liabilities
- Eliminated job killing tax system
- Invested in rainy day fund
- Linked policy decisions to funding (Capital Outlay Reform)
- School Bond Loan Fund Reforms
- Retirement reforms
  - Michigan Public School Employees Retirement System



— Michigan State Employee Retirement System



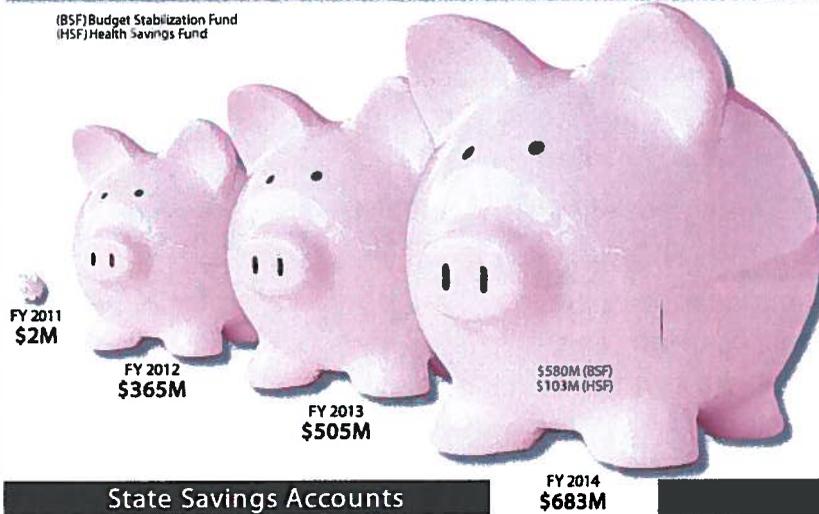
## Why Invest in the Budget Stabilization Fund?

- Should have 6-8 percent of state appropriations set aside (\$1.2B to \$1.6B)
- Saving money puts the state in control
- Takes us out of crisis management

# Long-term Savings

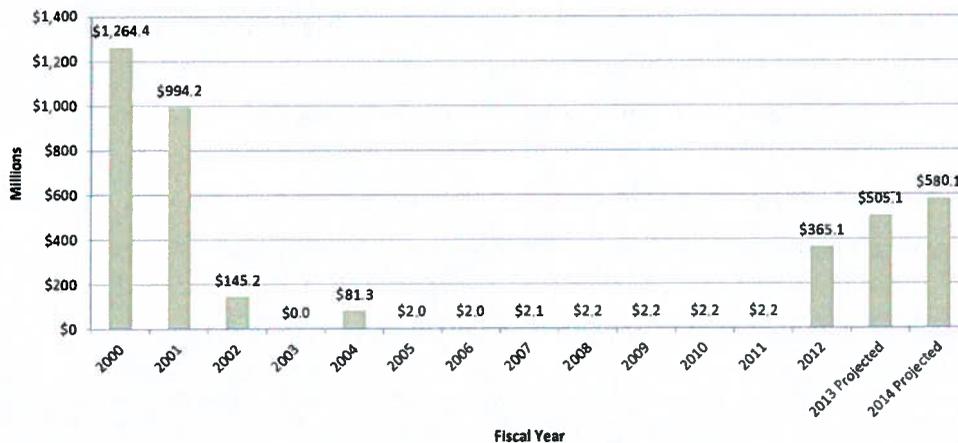
Under Gov. Rick Snyder, Michigan is saving for the future

(BSF) Budget Stabilization Fund  
(HSF) Health Savings Fund



# History of the BSF

The Budget Stabilization Fund (BSF) peaked at \$1.3 billion in FY 2000, but was quickly depleted. Michigan has started to rebuild the BSF balance in FY 2012 and projects that the balance will be approximately \$580 million by the end of FY 2014.





## Reforms 2011 - 2013

- Both state and public school employees were offered a pension choice
  - State employees were offered a choice between contributing more toward their pension or an account with a matching contribution for future service
    - This choice eliminated **\$500M** in long-term employer contributions
  - Public school employees were offered a choice between higher contributions, a smaller benefit for future service, or an account with a matching contribution for future service
    - This choice eliminated **\$1.56B** in long-term liabilities

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## Reforms 2011 - 2013

- Both state and public school employees were offered a retiree health care choice
  - State employees were offered a choice between retaining a subsidized retiree health care premium benefit based on career length or an account with a matching contribution for future service
  - Public school employees were offered a choice between continuing to contribute toward their retiree health care and maintaining their premium subsidy benefit or an account with a matching contribution for future service

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## Reforms 2011 - 2013

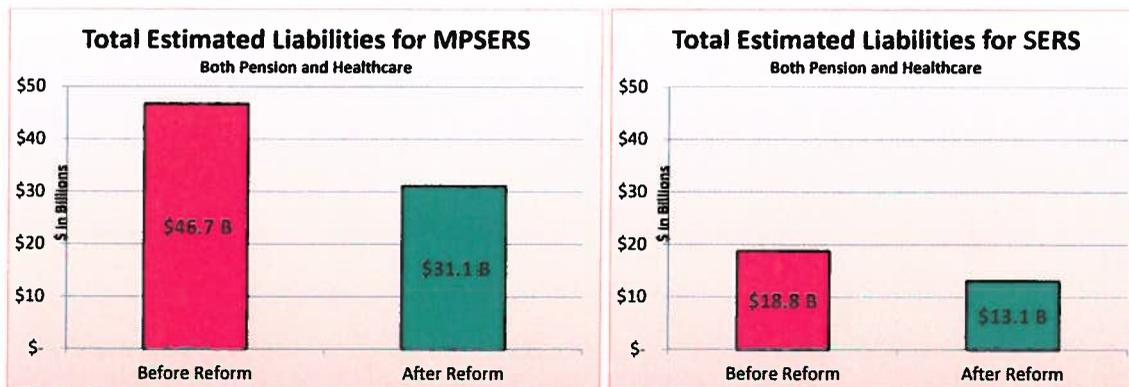
- Health care premium subsidy was adjusted to a maximum of 80 percent to put Michigan in line with national averages
- Best Practice Funding Policies
  - Pre-funding of health liabilities allows investment returns to help pay costs over time, instead of paying all expenses each year
    - The decision to pre-fund (combined with the health care choices) eliminated **\$19.7B** in liabilities
  - In place of subsidized retiree health care premiums, new members receive an account with a matching contribution
    - Upon retirement, the account balance can be used for medical expenses

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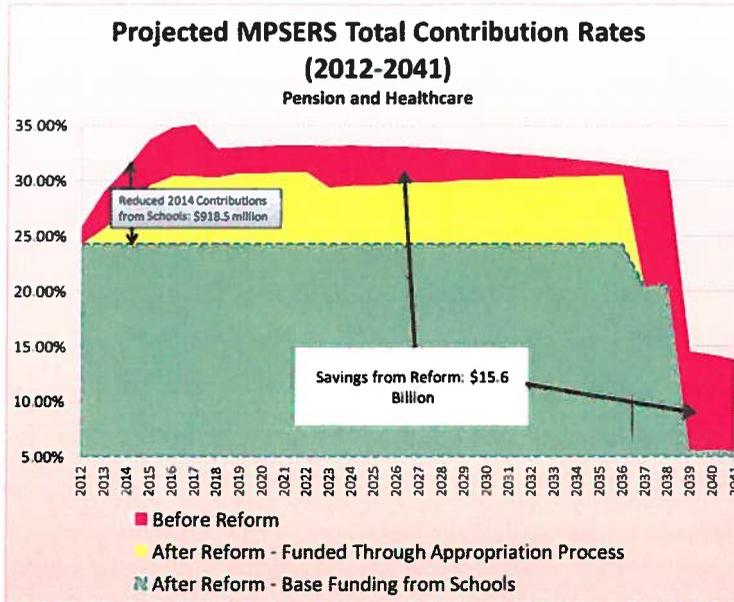


## Retirement Reforms

Long-term results: savings of **\$2,200** per citizen and more than **\$10,000** per student



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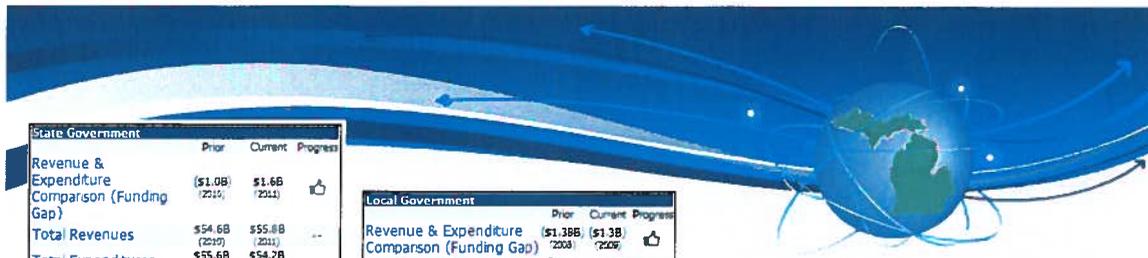
- Savings from reforms equals **\$482M** or **\$315** per K-12 student in FY 14
- FY 14 funding recommendation is an increase of **\$436M** or **\$250** per K-12 student
- These two actions translate into **\$918M** or **\$565** per student in FY 14

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## Other Retirement Reforms

- Other Post Employment Benefits
- MSP retirement system
- Moving military retirement system from cash basis to pre-funded



State Government	Prior	Current	Progress
Revenue & Expenditure Comparison (Funding Gap)	(\$1.0B) (2010)	\$1.6B (2011)	👍
Total Revenues	\$54.6B (2010)	\$55.8B (2011)	--
Total Expenditures	\$55.6B (2010)	\$54.2B (2011)	--
Size of Budget	\$48.09B (2010)	\$47.13B (2011)	--
Reserves	1.50% (2010)	2.47% (2011)	👍
Rainy Day Fund	\$2.2M (2010)	\$364.9M (2011)	👍
Cash Balances	(\$371.5M) (2010)	\$1,027.3M (2011)	👍
Issued Outstanding Debt	(\$23.2B) (2010)	(\$23.4B) (2011)	👎
Debt Per Capita	\$2,354 (2010)	\$2,373 (2011)	👎
Tax Revenue Compared to Debt (Gap)	(\$0.4B) (2010)	\$1.4B (2011)	👍
Revenue Dedicated Debt - Revenue to Debt Service Ratio	3x (2010)	2.9x (2011)	👎
Pension & Other Postemployment Benefit Obligations (Funding Gap)*	(\$19.8B) (2010)	(\$3.0B) (2011)	👍
Unemployment Benefits (Fund Balance)	(\$3.0B) (2010)	(\$2.8B) (2011)	👍
Credit Rating:			
- Moody's	Aa2 (Stable)	Aa2 (Stable)	=
- S & P	AA- (Stable)	AA- (Stable)	=
- Fitch	AA- (Positive)	AA- (Positive)	=
Number of Employees	50,615 (2010)	47,819 (2011)	--

Local Government	Prior	Current	Progress
Revenue & Expenditure Comparison (Funding Gap)	(\$1.38B) (2008)	(\$1.3B) (2009)	👍
Total Revenues	\$35.18B (2008)	\$35.95B (2009)	--
Total Expenditures	\$26.56B (2008)	\$27.25B (2009)	--
Issued Outstanding Debt	(\$23.4B) (2008)	(\$35.5B) (2009)	👎
Pension Obligations (Funding Gap)	(\$1.8B) (2008)	(\$0.7B) (2009)	👍
Number of Jurisdictions	--	1,858 (2009)	--
Number of Employees	153,745 (2008)	148,267 (2009)	--
School Districts			
Revenue & Expenditure Comparison (Funding Gap)	(\$0.9B) (2010)	(\$0.9B) (2011)	=
Total Revenues	\$19.0B (2010)	\$18.6B (2011)	--
Total Expenditures	\$19.9B (2010)	\$19.5B (2011)	--
Reserves	4.64% (2010)	6.88% (2011)	👍
Cash Balances	\$2.5B (2010)	\$2.4B (2011)	👎
Issued Outstanding Debt	(\$12.8B) (2010)	(\$15.4B) (2011)	👎
Pension & Other Postemployment Benefit Obligations (Funding Gap)	(\$45.3B) (2010)	(\$48.3B) (2011)	👎
Number of Jurisdictions	862 (2010)	884 (2011)	--
Number of Students	1,592,598 (2010)	1,565,390 (2011)	--
Number of Employees	263,982 (2010)	255,915 (2011)	--

## Financial Health Dashboards

Aggregated Governments	Prior	Current	Progress
Issued Outstanding Debt	(\$69.2B) (2008)	(\$72.2B) (2009)	👎
Pension & Other Postemployment Benefit Obligations (Funding Gap)	(\$66.8B) (2010)	(\$59.9B) (2011)	👍
Number of Employees	460,268 (2008)	444,627 (2009)	--

### Performance Key:

- 👍 Performance improving
- = Performance staying about the same
- 👎 Performance declining
- For information purposes only; not intended to measure performance

[www.michigan.gov/midashboard/0,4624,7-256-59631--00.html](http://www.michigan.gov/midashboard/0,4624,7-256-59631--00.html)

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## Next Steps ...

- Stranded costs
- OPEB costs in contracting
- Protecting the system
- Institutionalizing reforms

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