



MAPERS

COMMENTS FROM MAPERS REGARDING HB 4804

February 26, 2014

The Michigan Association of Public Employee Retirement Systems (MAPERS) represents nearly 120 independent local pension plans throughout the state of Michigan, ranging geographically from Monroe to the Upper Peninsula. MAPERS' membership is a coalition which includes both plan sponsors – employers – as well as plan beneficiaries – employees – as Trustees.

MAPERS is opposed to HB 4804, which (in its current form) seeks to prohibit defined benefit (DB) plans from being the subject of collective bargaining *if* a local unit of government passes an ordinance prohibiting DB plans.

The assumption underlying HB 4804 appears to be based on the belief that defined contribution plans are inherently less expensive to employers (and thus in this case to the public) than defined benefit or hybrid plans. In fact, the cost of a pension system to employers depends instead very much on a combination of plan design and the demographics of members of the plan. No one type of benefit plan is inherently less expensive than others. Therefore MAPERS believes that it is best to leave the final decision at the local level, where specifics of that plan design can be reviewed in detail and considered as part of total compensation for employees. Thus, in its current form, HB 4804 removes one piece of local control from the whole of what makes up compensation. In other words, local units of government need to look at everything that collectively makes up employee compensation, and having one part prohibited – dictated by the State – is one less option a local unit of government has to address the issue of compensation. Pension costs are a significant element of total compensation—but only one element of that package.

MAPERS notes that the bill does not prohibit using DB plans at all; the bill only applies when a local unit of government chooses to pass an ordinance prohibiting DB plans because that unit wishes to move to defined contribution (DC) plans. Certainly, a local unit of government is exercising its power of local control when passing such an ordinance, but the bill takes the unnecessary step of the *State* then prohibiting DB conversions after such a vote. It absolves a local unit of government, then, from negotiating locally whether or not they want to move from DB to DC plans.

Local conversations around such a move are crucial, and thus the subject as part of a bargaining agreement is vital. For example: moving from a DB plan to a DC plan could be very expensive for employees, for the system in general, along with other potentially expensive considerations. All of this should be on the table in a local conversation about local compensation without essentially being able

Michigan Association of Public Employee Retirement Systems

525 E. Michigan Ave. #409 • Saline, MI 48176

Phone: (734) 944-1144 or 1-800-475-4200 • Fax: (734) 944-1145

E-mail: info@mapers.org • Web site: www.mapers.org

to skip a step by passing an ordinance without having to negotiate about it.

Finally, today, without this bill, if a local plan wants to move to DC from DB, they can...or not. Local units of government do not need the State to say what that unit can and cannot discuss. In fact, the state has imposed EVIP requirements onto local units of government in which that unit must describe – in great detail – how it plans to reduce its unfunded accrued liability (among many other transparency and compensation requirements). Thus, flexibility in conversations at the local level is paramount when it comes to satisfying EVIP. Especially when considering a move from DB to DC, there is a large expense to a local unit of government as it has to cover its accrued liability; a move that if not a mandatory conversation at the local level could result in huge costs to that local unit of government; the antithesis of EVIP's intentions.

MAPERS respectfully urges the committee to vote no on HB 4804.