



MICHIGAN

To: Honorable Members of the House Education Committee
From: Charles Owens, State Director
Date: June 14, 2017

RE: House Bill 4647 - MPSERS Pension Reforms

We are writing to ask your support for House Bill 4647 that would address the ongoing liability of the Michigan Public School Employees Retirement System (MPSERS), the state's teacher pension system, by encouraging newly hired teachers to opt into a 401(k)-type defined contribution plan. The cost and liabilities associated with a defined benefit pension plan have caused them to become rare in the private sector in favor of defined contribution plans, such as 401K plans, that require employees to contribute to their own retirement plan – with an employer match.

Most government sponsored defined benefit plans are underfunded and in economic distress because politicians from both parties continue to make pension promises they cannot keep with taxpayer dollars. The MPSERS plan is no exception and it currently consumes nearly a third of total teacher payroll. Unless the rosy long term assumptions of the Office of Retirement Services are met (highly unlikely), and a 7 percent return on investments is achieved, the actuarially determined contribution for the state and school districts could approach 60 percent of total teacher payroll in the very near future.

Small business owners are aware that, when future budgets are stressed because of inaction on addressing these unfunded liabilities, the tax man will come calling on them for more revenue to bail out these inefficient and wasteful pension systems. A recent survey of our small business members on the subject indicates that they are tired of their taxes being used to pay for defined benefit pension plans for government employees while most private citizens are in defined contribution – 401K type plans. When asked: "Should government employee pensions be converted to defined contribution plans?" 92 percent of respondents said "YES", 6 percent said "NO" and 2 percent were undecided. A copy of the survey question can be found at <http://bit.ly/SmallBizPensionReform>.

We support efforts by lawmakers to move to defined contribution pension plans for teachers so that taxpayer money can meet other school funding needs rather than be used to prop up these unsustainable defined benefit plans. It is also a significant disincentive for younger people to consider teaching as a profession when they are forced into an antiquated pension plan that primarily benefits teachers that are already retired or nearing retirement while they themselves will likely never benefit because of the long-term vesting requirements.

Again, we ask your support for House Bill 4647 and we thank you for your support of small business!