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Olson Report Confirms High Cost of Proposed Benefit Switch Taxpayers to Pay \$400 Million Next Year, Accounting Threatens State Credit Rating

Lansing, Michigan— (May 24, 2012) A new paper authored by Gary Olson, a Senior Policy Fellow at Public Sector Consultants, details the state's risks should it fail to abide by standards created by the Governmental Accounting Standards Board (GASB) if a proposed switch to a defined contribution pension system is passed into law.

Last week, the Senate passed a version of Senate Bill 1040 that would force future school employees, hired after January 1, 2013, to be placed in a defined contribution pension system. This switch would effectively close out the defined benefit and hybrid systems for current public school employee and retirees. GASB standards state that when a public defined benefit system is closed, the governmental body should greatly increase contributions to the fund to offset the revenues lost from employees not entering the system (and the investment gains that those employee contributions would have created). The Office of Retirement Services estimated that closing the MPSERS pension system for school employees would cost \$400 million next year and \$1.4 billion over the next six years.

The Olson report addresses the fact that when the legislation passed the Michigan Senate, some argued that the state was under no requirement to comply with GASB standards, and thereby ignoring those standards the major up-front costs for switching to a defined contribution plan could be avoided. However, the paper states that,

Any decision by MPSERS to deviate from GASB accounting guidelines could result in short-term savings, but will likely have a negative impact on the credit rating of the state. Deviating from GASB accounting guidelines could result in a drop in Michigan's credit rating, which may increase borrowing costs for the State of Michigan and local units of government. Any deviation from GASB accounting standards will likely cost the State of Michigan more in the long run than might be gained in short-term cost savings.

The paper also concludes that the proposed defined contribution plan in the Senate version of the bill would actually be more expensive to school districts than the existing hybrid plan that was adopted in 2010. The Coalition for Secure Retirement continues to oppose a proposed switch to a defined contribution plan due to its increased overall cost, the potential downgrade to the state's credit rating should the Legislature choose to ignore GASB standards, and, most of all, the reduction of retirement security for future school employees.

Prior to joining Public Sector Consultants, Gary Olson was the Director of the Senate Fiscal Agency.