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Public Pension Ban Comes With Significant Cost to Taxpayers

As lawmakers in Lansing get set to debate the “grand bargain” designed to pull Detroit out of bankruptcy, some lawmakers are trying to scuttle the deal by introducing legislation that will end public worker pensions and move firefighters, police officers, and other public workers into privatized, 401(k)-style retirement accounts.

In addition to imperiling the bankruptcy deal, such a move could cost taxpayers hundreds of millions of dollars.

In an interview with Michigan Information and Research Service (MiRS), former House Fiscal Agency Director and current Partner at the Great Lakes Economic Consulting Group Mitch Bean describes how previous efforts to convert defined benefit retirement systems to defined contribution plans cost hundreds of millions in upfront “transition” costs. Bean previously studied the impact of closing the Michigan Public School Employees' Retirement System (MPERS). He found the conversion would cost \$250 million in the first year, largely because new hires would no longer be paying into the system.

Bean comments come in the middle of a heated debate in Lansing over the future of the City of Detroit's public pension system and a legislative plan pushed by Speaker of the House Jase Bolger (R-Marshall) to ban public pensions for all future and even some current Detroit retirees.

"The City's pension fund isn't as big as MPERS, so short-term cost increases would be lower -- but significant," Bean said.

Proponents of the public pension ban concede that there will be significant costs associated with reform. Speaker Bolger has stated that the reform will mean some conversion costs, while failing to offer a plan to pay those costs.

"Pension expense of a frozen plan will tend to be front-loaded, as compared to an open plan that can spread these costs over a growing payroll base -- and the accounting costs will increase in the short term due to this front loading," Bean stated.

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