

Michigan legislature targets school employee pensions

Shannon Jones
8 December 2016

The Michigan legislature, meeting in lame duck session, has temporarily postponed consideration of a bill closing the Michigan Public School Employee Retirement System (MPSERS), freezing out new employees from receiving pensions. Republican legislators have delayed action but have pledged to pursue the measure during the next legislative session.

Currently, school employees in Michigan are under a so-called hybrid system, where part of their pensions is covered under a traditional defined benefit plan and a portion is in the form of a defined contribution 401(k)-style arrangement. The change to the hybrid plan was enacted in 2012.

The proposal to strip pensions from new school employees comes as MPSERS faces an unfunded pension liability of some \$26.7 billion. However, the closing of MPSERS to new employees will have the somewhat paradoxical short-term impact of increasing substantially the financial obligation of the state to the pension system with estimates of an additional cost ranging between \$1.6 billion and \$3.8 billion over the next five years. A significant portion of that cost, at least \$214 million, will be borne by cash-strapped local school districts.

Legislators are also reportedly looking at ways to get existing employees to freeze their pensions and switch over to a 401(k)-style plan.

In another regressive move, the Michigan Legislature is considering an attack on retiree health care for public employees. Under a proposed package of bills, local governments would be barred from paying more than 80 percent of the cost of retiree health care if its program is funded at less than 80 percent of outstanding liabilities. The proposal would apply to current employees and retirees.

New employees could not be offered retiree health care benefits at all. Instead, local governments could contribute an amount up to 2 percent of employees' pay to a tax-deferred health savings account that could be used upon retirement.

Republican legislators decided to postpone action on the pension bill and retiree health care changes following

demonstrations by police and firefighter unions. In addition, Republican Governor Rick Snyder had indicated that he would veto the pension legislation, citing its short-term costs.

For their part, public employees' unions, including the Michigan Education Association (MEA) and the American Federation of Teachers, are saying they are open to so-called reforms, merely opposing hasty action. For the union executives, workers' pension funds are a source of income and investment opportunities. They are in favor of measures to preserve these funds, even if it means cuts to retirees. Indeed, at every stage, the unions, in exchange for a seat at the table, have offered their services to both Republican and Democratic administrations to dismantle public education and gut the wages and benefits of teachers.

Indicating his general agreement with the need for pension cuts, Mark Docherty, president of the Michigan Professional Firefighters union, said, "The issue of liabilities needs to be dealt with, but in the proper way, and that was not in lame duck," referring to the current session of the legislature.

"Tabling this discussion rather than ramming this legislation through is the right decision," said MEA President Steven Cook in a press release Tuesday. In fact, the MEA supported pension "reform" legislation in 2012 shifting teachers to the hybrid pension scheme, a step toward eliminating defined benefit pension entirely.

The current changes are being backed by extreme right-wing forces around the Michigan Freedom Fund, which is in part financed by the DeVos family based in western Michigan. Amway heiress Betsy DeVos has been picked by President-elect Donald Trump to be education secretary in his administration. DeVos is a bitter opponent of public education and favors the introduction of a voucher system to siphon money out of the public schools into the coffers of for-profit school operators and religious institutions. Amway President Doug DeVos announced to attendees of the West Michigan Policy Forum in September that killing public employee pensions was his top priority.

In a statement published December 1, the Michigan

Freedom Fund called the pending pension legislation “a tremendous and important move to put Michigan’s fiscal house in order.”

Meanwhile, Americans for Prosperity, another extreme right-wing lobbying group backed by the Koch brothers, is also promoting the pension changes.

The moves by the Michigan Legislature have an inexorable logic. The cutting off of new employees entering and contributing to MSPERS will inevitably starve the system of funds, creating a budgetary crisis that could serve as the impetus to shut down the entire pension system.

Accounting changes pushed through by the Snyder administration now require local school districts to calculate their accrued pension liabilities and place them on their balance sheets. In some cases, these are truly alarming amounts. For example, the newly formed Detroit Community Schools has already accumulated unfunded obligations of more than \$100 million. Further, the spread of charter schools means that a declining number of teachers are paying into MSPERS.

Eric Lupher, president of the Citizen’s Research Council (CRC), spoke to the *World Socialist Web Site* about the proposed pension changes in Michigan. The CRC is a nonprofit public affairs research organization. Lupher said the proposed changes “front load the pension liability.” He continued, “When you close down a pension system, rather than have a slope that goes up over a long period of time it is spread out on an even basis over a long period of time.”

He called the present Michigan pension system “significantly underfunded.” He said the increased costs incurred by the state in closing down the pension system left “very few options.” He went on, “I don’t expect them to seek more taxes, that leaves them with cuts to education or other parts of the state budget.

“There is an overall pattern to follow the business model and close down defined benefit plans.”

The move to strip pensions from school employees in Michigan is part of an attack nationwide on public worker pensions. Everywhere, Democrats and Republicans alike insist that cuts are needed to “save” pension plans, even as trillions have been squandered on war, Wall Street bailouts, corporate tax cuts and debt repayments to the banks.

Last week, Illinois Republican Governor Bruce Rauner vetoed a spending bill passed by the state legislature providing \$215 million toward a required contribution of \$700 million by the Chicago Public Schools (CPS) to its pension fund. The money had been added to the budget as part of a supposed deal between the Chicago Teachers Union and the administration of Chicago Mayor Rahm Emanuel, which was aimed at blocking a teachers’ strike. The state funding had already been factored into the CPS budget, and

its loss will likely now force the district to impose massive layoffs.

Meanwhile, the California Supreme Court is set to review a ruling giving state and local governments broader authority to cut pensions. The state’s high court will decide on the merits of a lower-court decision that held that public pensions were not “immutable” and could be reduced under certain circumstances. The case could open the way for wholesale cuts to pensions across the state.

The California court had ruled that the legislature could change the pension formula for active employees and reduce their anticipated retirement benefits. Previously, the courts had held that pensions could be reduced only if offset by an equivalent benefit.

Over the last two decades, the percentage of private sector workers with defined pension plans has fallen from 35 percent to 18 percent. There is a bipartisan consensus to similarly loot the pension funds of public sector workers in order to funnel money to major bondholders and other investors. A major milestone in this attack was the Obama-backed 2013-2014 Detroit bankruptcy, which overturned the state constitution’s prohibition against “impairing” public sector worker pensions.

With the inauguration of the Trump administration in January, the assault on pensions will escalate. Trump is installing the most right-wing government in US history, pledged to dismantling public education, Medicare and whatever remains of New Deal and Great Society social reforms.



To contact the WSWS and the Socialist Equality Party visit:

[wsws.org/contact](https://www.wsws.org/contact)