Michigan Association of Retired School Personnel
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Public school retirees urge caution on proposed road funding schemes

Lawmakers in Lansing should carefully consider the long term impact to the foundation of the public school employees' retirement system, as they try to craft a funding plan to improve Michigan's infrastructure.

"During the past decade, the state has forged a solid plan to reduce the "unfunded liabilities" of the Michigan Public School Employees Retirement System (MPSERS) pension fund," explains Royce Humm, MARSP executive director. "The funding concepts under discussion would reverse the recent momentum that has put the state-administered pension fund on firmer ground. Michigan can't afford such a risky maneuver."

Under the current, fiscally-responsible plan, MPSERS' debt is on track to be paid off in 2038.

"We need to stay on that course, not veer off into road funding plans that are financially risky or inefficient," Humm explains, "such as proposals to borrow $10 billion by selling bonds to prefund the pension plan, or extending the pension liability debt repayment well beyond 2038."

According to the Government Finance Officers Association (GFOA), Pension Obligation Bonds (POBs) are taxable bonds that some state and local governments have issued as part of an overall strategy to fund the unfunded portion of their pension liabilities by created debt.

""POBs involve considerable investment risk, making this goal very speculative," says GFOA. "In recent years, local jurisdictions across the country have faced increased financial stress as a result of their reliance on POBs, demonstrating the significant risks associated with these instruments for both large and small governments." https://www.gfoa.org/pension-obligation-bonds

A second road-funding proposal that also would center on the pension fund is analogous to refinancing a home mortgage with only 20 years remaining to a new one with a 30-year term instead. It would simply extend the schedule for repaying MPSERS' unfunded liabilities by five or 10 years. In the short term, it frees up cash flow, but over the long run, it leads to higher costs.

"Delaying the MPSERS repayment schedule merely kicks the proverbial can down the road," Humm points out, "which is one factor in how the existing pension fund debt accumulated in the first place."

MARSP agrees that providing much-needed upgrades to Michigan's roads and bridges is a serious and pressing matter, but one that also requires serious funding solutions.

"We urge lawmakers to resist relying on risky funding gimmicks that will take us off the current fiscally-prudent course and potentially cost taxpayers more in the long run," says Humm.

MARSP is an independent, non-partisan state association which represents nearly 40,000 retired public school employees. MARSP advocates exclusively for retired public school employees' pension and health care benefits.

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