

Funding the Legacy

The Cost of Municipal Workers' Retirement Benefits to Michigan Communities

MSU Extension White Paper



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¹The authors would like to thank Traci Taylor and Christina Plerhoples, Ph.D.c., for their time and assistance with this research project.

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Introduction

Legacy costs are commitments made in the past that will be paid by future generations. Defined-benefit pensions and other postemployment benefits (OPEB), such as retiree healthcare, are examples of legacy costs. Traditionally, public employers have measured and funded pension obligations as employee service is rendered; this ensures that funds are available when it is time to pay those benefits. In contrast, very few local government employers fund the OPEB commitment during an employee's tenure. In fact, municipalities were not required to measure OPEB until an accounting standard was issued in 2004 with implementation beginning in 2007. Now that local governments have calculated OPEB, many local officials are faced with the overwhelming reality of a massive commitment. This issue becomes especially challenging when the liability is owed to those who are currently retired.

A review of Michigan cities facing severe fiscal stress revealed that each was confronted with a significant unfunded OPEB liability. Several questions followed: How many other local units face similar structural budget imbalances? To what extent does OPEB play a role in that scenario? What is the amount of unfunded local government OPEB in Michigan? How many public employees and retirees are affected by unfunded OPEB? What steps have

local governments taken to manage the OPEB liability? Are there statewide public policy implications of potentially unmanageable legacy costs?

To better understand these potential issues, we reviewed the fiscal year 2011 annual audit reports filed with the Michigan Department of Treasury for each city, village and township. OPEB, pension and related financial data were compiled and analyzed. This frequently asked questions (FAQ) publication presents key findings from that research. The primary purpose of this document is to create awareness of OPEB commitments and funding pressures. Further, this document and related materials are designed to foster proactive discussion among stakeholders, present a method for benchmarking OPEB across local units and identify opportunities that may lead to viable alternatives to the continuing erosion of local government services that will continue if the problem is not addressed.

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Disclaimer: *The following information is provided as a public service and is intended for research and educational purposes only. The following is not intended as legal advice or counsel, and it should not be construed as such to any of its readers. If you are in need of legal advice, you should contact a licensed attorney. In addition, this information is introductory and written to familiarize the reader with the issues surrounding employee benefits. Where clarification is needed, it may be useful to consult the original sources cited in this text.*

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What are the Key Findings?

Overall, it is clear that OPEB merits a cohesive discussion. Though a few local units have made significant effort in addressing OPEB, the aggregate total unfunded liability, regional concentration, fragmented efforts and inherent difficulty in predicting healthcare costs expose taxpayers and OPEB plan members to long-term financial risk. Key findings from the FY 2011 audited financial reports:

The scope of the OPEB liability

- ▶ Of 1,773 local units of government in Michigan, 311 (representing 67% of Michigan's population) were found to provide some level of OPEB at the end of FY 2011.
- ▶ The total OPEB liability for Michigan's cities, villages and townships is \$13.5 billion. This liability is funded at 6 percent, resulting in a net unfunded liability of \$12.7 billion.
- ▶ One city, Detroit, has an unfunded liability of \$4.9 billion on the basis of actuarial data from June 30, 2009. This equates to 39 percent of the total for all local units.
- ▶ The amount of net unfunded OPEB (\$12.7 billion) for local units is 1.6 times the combined amount of unfunded pension (\$3.1 billion) and governmental activities debt (\$4.7 billion) for the 284 units that provided complete data.
- ▶ Almost \$11 billion, or 86 percent, of the unfunded OPEB liability is attributable to local governments in southeastern Michigan – Genesee, Lapeer, Lenawee, Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw and Wayne counties.
- ▶ In some municipalities, OPEB liability is higher than unfunded pension and governmental bonded debt combined.
- ▶ Actuarial data lags behind fiscal year reporting. In FY 2011 reports, 42 percent of the units had relatively current information. The remaining valuations (58 percent) were dated 2009 or earlier or subject to calculation utilizing an alternate method.
- ▶ The number of units that have begun prefunding OPEB is 138, or 47 percent, of the 284 units studied. The majority of the units that have begun prefunding fall in the 30,001-200,000 population range.

- ▶ For the 98 units that provided total plan participant data, the average liability per member is \$136,854.

Budget impact

- ▶ Cities account for 63 percent of OPEB providers; townships, 29 percent; and villages, 8 percent.
- ▶ The annual required contribution (ARC) to fund OPEB is an average of 3.18 mills for all local units excluding Detroit. Detroit's OPEB ARC is equivalent to 35.6 mills, using 2010 taxable values for FY 2011.
- ▶ OPEB ARC equates to 15 percent of governmental entitywide revenues; pension ARC is 8 percent. The general fund bears more of the brunt of the cost burden, and OPEB ARC equates to 20 percent of general fund revenues; pension ARC is 10 percent. All amounts are based on aggregate totals.
- ▶ Very few entities fund the OPEB annual required contribution at 100 percent. In aggregate, the local units are funding the OPEB ARC at 58 percent; the pension ARC is funded at 103.5 percent.
- ▶ For the 73 units that provided current retiree participant data, the average annual benefit cost per current retiree is \$8,887.

Benefit plan design

- ▶ Twenty-two local units, or 7.7 percent, offer a retiree healthcare savings plan in combination with other plans or for employees hired after a certain date. Three local units were found to offer a defined-contribution plan as the *only* plan option for all employee groups.
- ▶ Eighty-five percent of the plans are open to new plan members. Of the remainder, 7 percent have closed the defined-benefit style of OPEB to new members, and 8 percent have closed OPEB to some employee groups but not all.
- ▶ Most employers (52 percent) do not require employee or retiree contributions for retirement healthcare benefits. The remaining 48 percent require retiree premium copayments, and some require employee contribution to a trust to fund future OPEB payments.

Part 1: Understanding Legacy Costs

This section of the FAQ provides a brief explanation of legacy cost terminology and concepts. The risk of a brief explanation is oversimplification. Readers who desire a more in-depth, technical explanation are encouraged to refer to the resources provided in the footnotes.

What is OPEB?

“Other postemployment benefits” (OPEB) is the term used to describe benefits promised to retirees and earned during their years of service. The most common benefit is healthcare for retiree and spouse. Some plans also include dental, life and other insurances. Though these benefits have been offered for decades, the majority of state and local governments did not calculate the respective liability until required to do so by accounting standards beginning in 2007.¹

Why is OPEB an important issue?

OPEB has become the single largest category of unfunded liability for many of the local units that provide these benefits. In some instances, the OPEB liability is higher than unfunded pension and governmental bonded debt *combined*. For municipalities experiencing severe fiscal stress, the magnitude of this liability has heightened the tension between providing services to current residents while upholding past commitments. For units with the most proactive financial management, OPEB continues to be a pressing budgetary issue. Traditionally, controlling the healthcare liability encompassed amending benefit levels, changing insurance carriers and implementing employee cost sharing. Those who did project their long-term cost commitments recognized that more drastic measures were necessary. In some cases, employers ceased to provide retiree healthcare.

The core issue in managing the healthcare liability, however, is that many of the variables that affect healthcare cost commitments are beyond a local government’s control. These include inflationary increases in healthcare costs, pressure to provide “comparable” benefits pursuant to labor

laws,² reduced revenues,³ and the relationship between increased longevity, chronic conditions and personal health choices.⁴

An added complexity for public employers is the number of years that retirement cycles span. It is not unusual for employees in physically demanding positions, such as law enforcement, firefighting and public works, to retire by age 55. This creates benefit plan design concerns including coverage for pre-Medicare retirees, Medicare coordination, portability of benefits to other states and dependent eligibility criteria. The OPEB calculation is subject to significant estimation risk because of the number of years in retirement. In some cases, the years in retirement exceed the retiree’s years of service.

What is meant by “defined contribution” and “defined benefit”?

In a **defined-contribution plan**, the employer agrees to contribute a **predetermined dollar amount during the employee’s active service to a trust account**. For example, an employer may agree to contribute 5 percent of biweekly pay into a trust fund such as a healthcare savings program (HCSP). The employer funds the account while the employee is actively employed. Once the employee retires, the funds in the trust account are available for the employee to use toward his/her medical costs in retirement. The **employer has no further financial commitment** once the employee retires.

In a **defined-benefit plan**, the employer agrees to **provide a predetermined benefit after the employee retires**. For

¹ The Governmental Accounting Standards Board (GASB) issued Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” in June 2004. Implementation of this standard was based upon level of total annual revenues: if \$100 million or more, effective for fiscal periods beginning after Dec. 15, 2006; if \$10 million or more but less than \$100 million, then effective for fiscal periods after Dec. 15, 2007; and, if less than \$10 million, then effective for fiscal periods beginning after Dec. 15, 2008. A full text version of GASB 45 is available online at <http://www.gasb.org>.

² State of Michigan’s Compulsory Arbitration of Labor Disputes in Police and Fire Departments is Act 312 of 1969 (423.231 - 423.247).

³ The Center for Local, State and Urban Policy surveyed top elected and appointed local officials in all counties, cities, villages and townships in Michigan. The response rate was 72 percent (or 1,329 jurisdictions). Sixty-four percent reported declines in revenue from property taxes, and 46 percent were affected by declining state aid. The “Michigan Public Policy Survey,” issued September 2012, is available online at <http://closup.umich.edu/files/mpps-fiscal-health-2012.pdf>.

⁴ A recent policy analysis pertaining to healthcare cost drivers, “What Is Driving U.S. Health Care Spending? America’s Unsustainable Health Care Cost Growth,” issued September 2012, is available from the Bipartisan Policy Center at <http://bipartisanpolicy.org/sites/default/files/BPC%20Health%20Care%20Cost%20Drivers%20Brief%20Sept%202012.pdf>. Specific to Michigan is an issue brief from the Center for Healthcare & Transformation, “Healthcare Cost Drivers: Chronic Disease, Comorbidity, and Health Risk Factors in the U.S. and Michigan,” issued July 2010. It is available at <http://www.chrt.org/publications/price-of-care/issue-brief-2010-08-health-care-cost-drivers/>.

example, an employer may agree to provide a particular health insurance plan to an employee retiring at age 55 until he/she reaches Medicare eligibility. The **employer's financial commitment becomes payable** once the employee retires.

How are OPEB and pensions similar? How are they different?

Other postemployment benefits (OPEB) represent commitments made to employees to provide a benefit after their employment ends. The prevalent OPEB commitment is retiree healthcare. Similarly, pensions also promise a benefit paid in the future for service provided today. In managing financial risk, there are many differences between the two types of benefits. It is helpful to begin with reviewing a simplified version of the benefit formula.

Pension

With a defined-benefit plan, the retiree's pension is determined by a three-part formula:

$$\text{Annual pension benefit} = \text{Years of service} \times \text{Final average compensation (FAC)} \times \text{Pension multiplier}$$

Years of service – Years of service is based on actual employee service (although sometimes the employee or employer may “buy” years of service at an actuarially determined cost).

Final average compensation (FAC) – The final average compensation is the average of wages or salary paid to the employee over a predetermined number of years. An FAC of three, for example, may be stated as the highest compensation for three (typically consecutive) of the final five years of service. FAC increases if other forms of compensation, such as vacation leave payout and overtime, are included in its definition.

Pension multiplier – The pension multiplier represents a percent of pay for each year of service. Assuming an employee has 20 years of service, an FAC of \$50,000, and a pension multiplier of 2.5, his/her annual pension benefit would be \$25,000 (20 years x \$50,000 x 2.5 percent).

Changes in any one of these variables during employment alter the pension benefit and, consequently, the related employer liability. Although these variables can be defined in numerous ways, which affect the benefit amount, the bottom line is that, when an employee terminates service, each of the three variables is known.

OPEB

The retiree's annual benefit for healthcare is often based on a two-part formula:

$$\text{Annual OPEB} = \text{Vesting percentage} \times \text{Annual cost of health insurance plan}$$

Vesting formula – Vesting occurs when employee rights to the OPEB accrue on the basis of the number of years of service or some other policy. For example, an employer's policy may state that employees become eligible for retiree healthcare when they have a minimum of 10 years of service and they accrue 4 percent vesting for each year of service. An employee who retires with 20 years of service receives a benefit of 80 percent (20 years at 4 percent). In that case, the employer typically pays the premium and invoices the retiree for the remaining 20 percent.

It should be noted that it is not unusual for employees to wait until they reach 100 percent before retiring or for the employer to provide 100 percent no matter how many years of service were provided.

Annual cost of health insurance plan – This represents the actual cost of the health insurance plan for any given year. Though this cost is known the year that the employee retires, future healthcare costs are unknown. The actuary must therefore predict those costs for multiple decades into the future.

Other key differences between pension and OPEB:

- 1. Documentation:** Pension plan commitments are well-documented. They are written in accordance with state and federal laws and regulations. Documentation for OPEB benefits – retiree healthcare, in particular – is not written consistently and is often vague. This presents challenges for the actuary in determining the benefit level and assigning a value.
- 2. Third party influence:** A pension is a financial calculation, but medical benefits are often subject to a plan designed by an outside provider. If a particular medical plan is no longer offered by an insurance carrier, many employers are committed to finding a substantially equal plan due to previously agreed upon labor contracts or other documents. This presents additional uncertainty because changes to healthcare plans are inevitable during the course of a person's retirement.
- 3. Commitment to funding:** Pensions have historically been funded in accordance with actuarially determined rates. This is commonly referred to as prefunding. The benefit of prefunding the plan is that, over time, the plan

has investment earnings that offset taxes and user fees that would otherwise be required to pay for the future benefits.⁵

4. Learning curve: Pension liabilities have been actuarially calculated and reported since their inception for many local units in the 20th century (or earlier).⁶ In general, the OPEB liability has only recently been calculated and disclosed as a result of governmental accounting standards beginning in 2007.⁷ The complexity of retiree healthcare has presented a learning curve for all parties involved.

5. Protection: Pensions are protected by constitutional provisions in many states, including Michigan.⁸ The enforceability of OPEB is untested in most states. Complicating the OPEB issue is the lack of documentation noted earlier.

6. History: There is no historical framework to assess OPEB liability. The U.S. Census Bureau has collected municipal pension data since 1957, but there has been no collection of OPEB data. Since 2006, only a few states have compiled aggregate OPEB data for their respective local governments.

What is an actuary and how can actuaries help?

An actuary is a “professional who analyzes the financial consequences of risk ... [using] mathematics, statistics and financial theory to study uncertain future events, especially those of concern to insurance and pension programs. They evaluate the likelihood of those events, design creative ways to reduce the likelihood and decrease the impact of adverse events that actually do occur.”⁹

Actuaries are a key resource in achieving OPEB sustainability. Actuaries are underutilized when local governments evaluate their OPEB plan design. In contrast, pension systems are more likely to consult with an actuary before a plan is changed. This is demonstrated by the administrative practice employed by the Michigan Municipal Employees Retirement Systems (MMERS) pension program. MMERS has had a long-standing policy

that no member municipality may change benefits unless a supplemental actuarial valuation is obtained. This builds in an element of fiscal responsibility by requiring the employer to identify the specific benefit and its related cost before making a long-term financial commitment.¹⁰ In contrast, municipalities rarely obtain actuarial valuations before implementing OPEB changes. Employers are often surprised that there is little change or perhaps an increase in the liability despite benefit reductions. Obtaining an actuarial valuation of potential plan design changes would increase the likelihood of well-informed decisions.

Municipal officials can benefit from the advice of an actuary in other ways. Actuaries can provide cash flow forecasts and “what if” analyses and aid in identifying cost-effective benefit plan design options.

What is the alternate method?

OPEB plans with fewer than 100 participants may calculate the OPEB liability using the alternate method as defined in detail in GASB 45.¹¹ Though the intent is that the alternate method could be performed by those with non-technical backgrounds, the risk of error definitely exists. It is a complex calculation that requires a certain level of administrative capacity and expertise that may not be available in many local units. In any situation there is a possibility of spreadsheet errors. The risk of under- or overstatement of the liability exists for the units that utilize the alternate method.

What is prefunding versus pay-as-you-go?

An actuarially sound prefunded public pension or OPEB plan relies on the following simplified equation.

$$\text{Required contribution} = \text{Benefits to be paid} + \text{Plan expenses} - \text{Investment income}$$

The actuary uses methods and assumptions to predict each of the variables in this equation. **If a plan is prefunded, assets are available to generate investment income, thereby reducing the contribution.** The greater the investment income, the lower the required contribution becomes. If there are no prefunded assets, then there is

⁵ Two state laws that govern the investment of funds are pertinent to this discussion: Public Employee Health Care Fund Investment Act, Act 149 of 1999, and Public Employee Retirement System Investment Act, Act 314 of 1965.

⁶ Arnold F. Shapiro, Pension Funding: A Historical Perspective, Society of Actuaries, 2005, available at www.soa.org.

⁷ Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.

⁸ See State of Michigan Constitution, article 9, section 24, at <http://www.legislature.mi.gov/documents/Publications/Constitution.pdf>.

⁹ This definition of an actuary was obtained from the Society of Actuaries at <http://www.soa.org/About/about-what-is-an-actuary.aspx>.

¹⁰ The entire Michigan Municipal Employees Retirement Systems plan document is available online at <http://www.mersofmich.com/MERS/About-MERS/Legal/Plan-Documents>.

¹¹ GASB 45 describes the alternate method in paragraphs 33 to 35 and provides an example at Appendix F, Illustration of Calculations Using the Alternative Measurement Method. Those wishing to gain a better understanding of the actuarial considerations in valuing OPEB may find reviewing these sections in GASB 45 beneficial. GASB 45 in its entirety is online at www.gasb.org.

no investment income and the plan is not considered actuarially sound.¹² In a pay-as-you go scenario, the required contribution is equal to the benefits paid plus plan expenses (there is no investment income).

A prefunded plan relies less than a pay-as-you-go plan on taxes and fees because investment income offsets a

¹² Philip Martin McCaulay, *Public Pension Plan Funding Policy*, Society of Actuaries, 2010, accessed online at www.soa.org.

portion of the contribution. Prefunding is a sound financial management practice to address adequate cash flow, economic fluctuations, benefit changes and other areas of risk in managing a long-term commitment.

The practice of prefunding also addresses the concern of intergenerational equity. Each generation of taxpayers pays for the cost of the services they receive without deferring the cost to future generations.

Part 2: Michigan Local Government OPEB

How big is the unfunded liability for U.S. local governments? No one knows, and very few states have begun to quantify the total liability for their local units.¹³ In Michigan, that data has not been collected and analyzed until now. Without quantifying the liability, the potential impact on taxpayers, local governments, public employees and retirees is unknown. For this reason, a team from the Michigan State University Department of Agricultural, Food and Resource Economics undertook the task to collect the data for the 1,773 cities, townships and villages in Michigan.

How was the data collected?

In Michigan, local governments with a population of 4,000 or more are required to obtain an annual audit. Those with a population of fewer than 4,000 must obtain an audit biennially.¹⁴ The required audit reports must be filed with the Department of Treasury within six months of the

entity's fiscal year end.¹⁵ For this study, 100 percent of the audited reports submitted by cities, townships and villages to the Department of Treasury for fiscal year 2011 were reviewed.

How many Michigan cities, townships and village provide OPEB?

Of the 1,773 local units in Michigan, 311 entities (17.6 percent) were found to provide OPEB. Though this may sound minor, it is important to note that 6.6 million people (or 67 percent of the state's total population) reside in those 311 local government jurisdictions.

Of those that provide OPEB, 284 had complete financial data and are the basis for this research as shown in **Figure 1**, Number of Local Governments that Provide OPEB and Related Population. Twenty-four local units were excluded because of missing data. The impact of those units in aggregate is deemed to be relatively small (their total population is 159,319, with the most populated at 32,421 and the least populated at 1,282). In addition, three units were excluded because they provide a defined-contribution (DC) plan exclusively. No OPEB liability exists for DC plans.

Audit reports indicated that 985 (55.6 percent) of Michigan's local units do not provide OPEB. No financial

¹³ In September 2011, the Rhode Island Office of the Auditor General compiled unfunded OPEB for 100 percent of that state's local governments. Minnesota conducted a survey in 2006 with a response rate of 84 percent. In other states, private research organizations have taken on the task of calculating unfunded legacy costs. Most recently, the Boston Business Journal released data for 254 local units in Massachusetts. The article and database are online at http://www.bizjournals.com/boston/blog/bbj_research_alert/2012/11/unfunded-promises-what-mass-cities.html?appSession=140241766914750. Other states, such as Ohio and Oregon, have statewide systems that encompass many of their local units of government. In those states, the total liability is known but not the amount attributable to each local unit.

¹⁴ State of Michigan Uniform Budgeting and Accounting Act 2 of 1968 (MCL 141.421 - 141.440a).

¹⁵ Michigan local unit audit reports may be found online at http://www.michigan.gov/treasury/0,1607,7-121-1751_31038---,00.html.

Local Unit Type	Provides OPEB?					Total Local Units
	Yes, included in analysis	Yes, but excluded due to missing financial data	Provides a defined contribution plan exclusively	No	No financial report filed for 2011	
City	183	10	2	80	2	277
Township	80	10	1	730	419	1,240
Village	21	4	0	175	56	256
Total Units	284	24	3	985	477	1,773
Percent of Local Units	16.0%	1.4%	0.2%	55.6%	26.9%	100.0%
Percent of Michigan Population Served	65.3%	1.6%	0.4%	27.5%	5.2%	100.0%

Figure 1. Number of Local Governments that Provide OPEB and Related Population.

report was filed for the remaining 477 units (26.9 percent) primarily because of the biennial audit allowance for units with populations below 4,000.

What about counties, school districts and other types of local units?

In addition to the 1,773 cities, villages and townships in Michigan, there are 83 counties and 1,201 school and other special districts, such as libraries and fire authorities.¹⁶ This document addresses cities, villages and townships. To better understand county OPEB challenges, the Citizens Research Council (CRC) surveyed all county governments

¹⁶ U.S. Census Bureau, 2012 Census of Governments, Table 2. Local Governments by Type and State: 2012.

in Michigan. In 2011, the CRC reported that “Michigan counties that responded to the CRC survey face a combined actuarial accrued liability of \$4 billion, the vast majority of which is unfunded.”¹⁷ Most public school employees are members of the Michigan Public School Employees’ Retirement System. As reported in its September 30, 2011, annual financial report, the unfunded actuarial liability is \$27.6 billion (net of actuarial value of assets of \$999.3 million).¹⁸

¹⁷ Citizens Research Council, *The Health Care Obligations of Michigan Counties*, February 2011, available at <http://www.crcmich.org/PUBLICAT/2010s/2011/note201101.pdf>.

¹⁸ Michigan Public School Employees’ Retirement System, *Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2011*, available at http://www.michigan.gov/documents/orsschools/Public_Schools-2011_CAFR_375806_7.pdf.

Part 3: The Scope of the OPEB Liability

In this section we quantify the OPEB liability, compare it to key financial measures and identify issues that merit further consideration.

What is the amount of the unfunded liability?

The total OPEB liability, based on FY 2011 audited financial reports for Michigan cities, villages and townships, is \$13.5 billion. This liability is funded at 6 percent, resulting in a net unfunded OPEB liability of \$12.7 billion. Michigan’s largest city, Detroit, accounts for 39 percent of the total statewide unfunded liability with an amount approaching \$5 billion.

To describe the magnitude of that liability, the amount of unfunded OPEB was compared to governmental activities debt plus unfunded pension as shown in **Figure 2**, *Unfunded OPEB Liability in Relation to Other Long-term Liabilities*. Governmental activities debt includes bonds and notes for municipal purposes (in contrast to debt issued for fee-based business-type activities such as water and sewer bonds). In total, **the unfunded OPEB liability equates to 1.6 times the sum of the other two other major liability categories** (62 percent of OPEB versus 23 percent of governmental activities debt plus 15 percent unfunded pension). This overall relationship remains the same whether Detroit, the local unit with the most significant unfunded OPEB liability, is included or not.

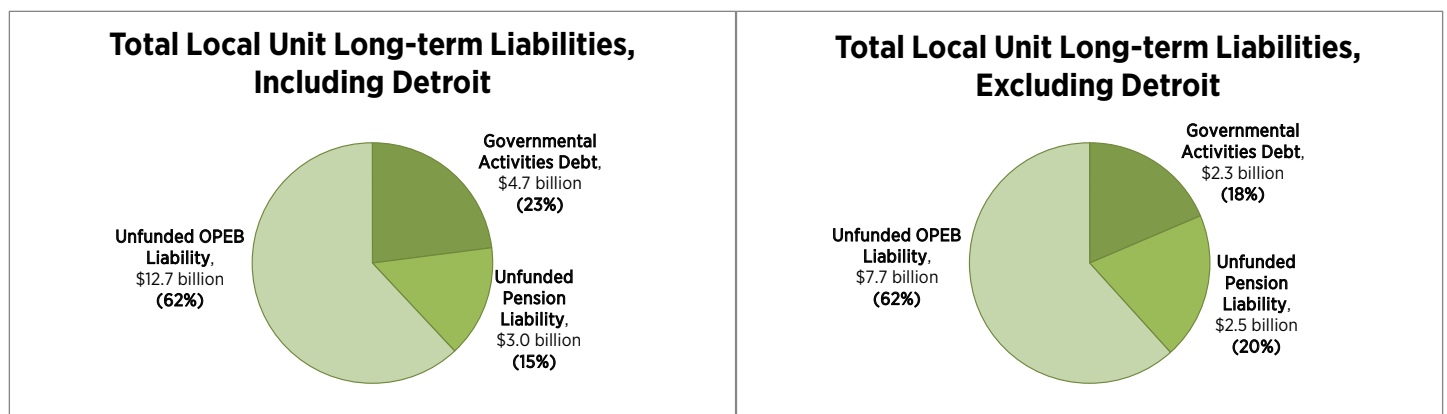


Figure 2. Unfunded OPEB Liability in Relation to Other Long-term Liabilities.

Local Unit Type	Number of Local Units with OPEB		Unfunded OPEB Liability	
	Count	%	\$ Amount	%
City	183	65%	\$ 11,772,271,094	92.5%
Township	80	28%	918,649,556	7.2%
Village	21	7%	40,477,052	0.3%
Total	284	100%	\$ 12,731,397,702	100%

Figure 3. Unfunded OPEB Liability by Local Unit Type.

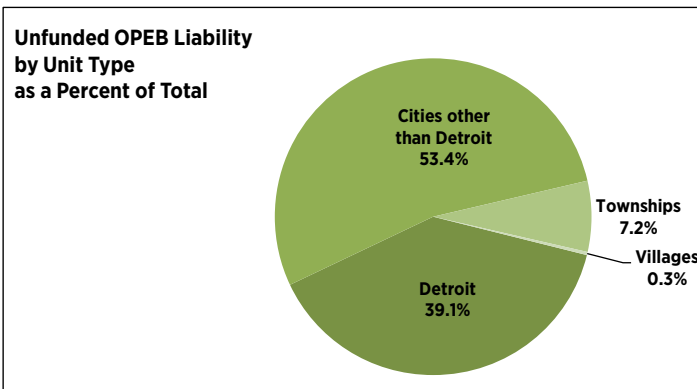


Figure 4. Allocation of Unfunded OPEB Liability by Unit Type.

Region	\$ Amount	%
Southeast	\$ 10,962,957,298	86.1%
Southwest	871,489,516	6.9%
East Central	411,921,512	3.2%
West Central	406,295,612	3.2%
Upper Peninsula	53,112,284	0.4%
Northern Lower Peninsula	25,621,480	0.2%
Total	\$ 12,731,397,702	100.0%

Figure 5. Unfunded OPEB Liability by Region.

How is unfunded OPEB allocated among the types of local government units?

Of the local units that provide OPEB, 65 percent are cities. They account for 92.5 percent of the unfunded OPEB liability as shown in **Figure 3** (Unfunded OPEB Liability by Local Unit Type). It is expected that cities would have a larger portion of OPEB because of the historically mature nature of services provided by cities versus the more recent growth and expansion of services by townships. Consequently, townships represent 28 percent of the units with a lower aggregate liability equal to 7.2 percent.

The “city” category includes Detroit, with the single largest unfunded OPEB of \$4.9 billion. The remaining cities have unfunded liabilities equal to 53.4 percent of the statewide liability as shown in **Figure 4: Allocation of Unfunded OPEB Liability by Unit Type**. This means that confronting unfunded OPEB is not an issue that is exclusive to Detroit’s leaders.

How does the OPEB liability vary by region of the state?

The unfunded OPEB is significantly concentrated in southeastern Michigan. Almost \$11 billion – 86 percent – of the unfunded OPEB liability is attributable to local governments in the southeast region as shown in **Figure 5, Unfunded OPEB Liability by Region**. That region consists of Genesee, Lapeer, Lenawee, Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw and Wayne counties. (Definition of the six regions for this analysis is provided in **Appendix A.**)

The amount of the liability is relatively consistent among the three types of local government (cities, villages and townships) among regions of the state as shown in **Figure 6, Unfunded OPEB Liability by Region and Local Unit Type**. Again, the concentration is in southeastern Michigan, which accounts for 86 percent of the cities’ unfunded liabilities, 92 percent of townships’, 65 percent of villages’ and 86 percent of the total unfunded OPEB liability.

Region/Local Unit Type	Region Most Concentrated							Total
	Southeast	Percent	Southwest	East Central	West Central	Upper Peninsula	Northern Lower Peninsula	
City	\$ 10,092,225,743	86%	\$ 829,667,038	\$ 390,906,413	\$ 389,656,806	\$ 51,136,726	\$ 18,678,368	\$ 11,772,271,094
Township	844,359,276	92%	40,354,749	18,455,570	15,112,430	-	367,531	918,649,556
Village	26,372,279	65%	1,467,729	2,559,529	1,526,376	1,975,558	6,575,581	40,477,052
Total	\$ 10,962,957,298	86%	\$ 871,489,516	\$ 411,921,512	\$ 406,295,612	\$ 53,112,284	\$ 25,621,480	\$ 12,731,397,702

Figure 6. Unfunded OPEB Liability by Region and Local Unit Type.

Local Unit Population	Unfunded OPEB Liability	2010 Population	Unfunded OPEB per Capita
Less than 1,500	\$ 12,398,114	11,583	\$ 1,070
1,501 - 5,000	163,043,651	226,634	719
5,001 - 10,000	455,506,483	426,292	1,069
10,001 - 30,000	1,603,698,719	1,529,558	1,048
30,001 - 200,000	5,525,514,454	3,544,376	1,559
More than 200,000	4,971,236,281	713,777	6,965
Total	\$ 12,731,397,702	6,452,220	\$ 1,973

Figure 7. Unfunded OPEB Liability per Capita.

Region/ Population Category	Number of Local Units	Unfunded OPEB Liability	Population	Unfunded OPEB per Capita
East Central	26	\$ 411,921,512	299,398	\$ 1,376
Less than 1,500	3	1,876,615	3,310	567
1,501 - 5,000	12	24,386,805	37,784	645
5,001 - 10,000	4	9,517,077	37,437	254
10,001 - 30,000	3	1,866,378	51,724	36
30,001 - 200,000	4	374,274,637	169,143	2,213
Northern Lower Peninsula	15	\$ 25,621,480	88,619	\$ 289
Less than 1,500	3	2,713,330	3,286	826
1,501 - 5,000	6	9,644,078	19,233	501
5,001 - 10,000	2	303,377	14,332	21
10,001 - 30,000	4	12,960,695	51,768	250
Southeast	160	\$ 10,962,957,298	4,592,672	\$ 2,387
Less than 1,500	2	2,834,824	1,455	1,948
1,501 - 5,000	27	91,071,735	91,382	997
5,001 - 10,000	32	357,550,343	241,926	1,478
10,001 - 30,000	59	1,460,959,391	1,057,218	1,382
30,001 - 200,000	39	4,079,304,724	2,486,914	1,640
More than 200,000	1	4,971,236,281	713,777	6,965
Southwest	34	\$ 871,489,516	706,584	\$ 1,233
Less than 1,500	1	176,402	1,206	146
1,501 - 5,000	5	6,547,327	13,545	483
5,001 - 10,000	10	46,058,065	73,106	630
10,001 - 30,000	10	42,087,060	177,320	237
30,001 - 200,000	8	776,620,662	441,407	1,759
Upper Peninsula	10	\$ 53,112,284	54,893	\$ 968
Less than 1,500	1	3,954,968	1,469	2,692
1,501 - 5,000	6	13,109,787	16,737	783
5,001 - 10,000	2	23,962,848	15,332	1,563
10,001 - 30,000	1	12,084,681	21,355	566
West Central	39	\$ 406,295,612	710,054	\$ 572
Less than 1,500	1	841,975	857	982
1,501 - 5,000	14	18,283,919	47,953	381
5,001 - 10,000	6	18,114,773	44,159	410
10,001 - 30,000	11	73,740,514	170,173	433
30,001 - 200,000	7	295,314,431	446,912	661
Total	284	\$ 12,731,397,702	6,452,220	\$ 1,973

Figure 8. Unfunded OPEB Liability per Capita by Region.

			Actuarial Accrued Liability		
Example:	Prior Valuation	New Valuation			
Wayne County	Date	Date	Prior	2011	Increase
Township A	2008	2010	\$ 56,325,080	\$ 74,581,241	24%
City B	2009	2011	46,230,599	104,164,324	56%
City C	2006	2009	6,921,083	9,319,881	26%
City D	2009	2011	30,693,743	47,287,476	35%
City E	2008	2010	35,500,009	54,633,594	35%
City F	2007	2009	32,275,721	48,005,400	33%
Total			\$ 207,946,235	\$ 337,991,916	38%

Figure 9. Observations of Significant Increases in OPEB Liability Valuations.

How does the unfunded OPEB liability compare on a per capita basis by size of local unit?

2010 U.S. Census data were used to analyze six categories of population¹⁹. Three population categories reflect an unfunded OPEB per capita within a narrow range (\$1,048 to \$1,070 per capita) as shown in **Figure 7**: Unfunded OPEB Liability per Capita. Only one city – Detroit – is in the population category of more than 200,000. Detroit has an unfunded OPEB per capita of \$6,965, which is five times more than the average of the other local units – \$1,352 – that provide OPEB.

How does the unfunded OPEB liability per capita compare across regions?

Looking at the data on liability by region on a per capita basis makes one issue abundantly clear: **there is significant variability in the liability among local units**. For example, as shown in **Figure 8**, Unfunded OPEB Liability per Capita by Region, the northern Lower Peninsula has one category as low as \$21 per capita in the 5001-10,000 population category; that same population category in the southwest region is \$630, and in the southeast region, \$1,478.

The purpose of these examples is to demonstrate the challenges in searching for a one-size-fits-all solution. Economic factors such as labor market demands, inflation, cost of medical care and insurance premiums vary by

geographic region within the state. To some extent, that explains why the per capita rates in southeastern Michigan are higher than those of other regions of the state. The financial statement disclosures indicate additional causes of variability: benefit levels, eligibility criteria, levels of prefunding, and, to a lesser extent, actuarial assumptions. The financial statement disclosures do not give, and are not required to provide, additional detail that could further explain these differences.

How current are the actuarial valuations that measure the unfunded liability?

Timeliness of the actuarial valuation is an important disclaimer to this analysis and others related to local government OPEB liabilities. The amounts reported in the audited financial reports are two or more years old. Even the state’s largest city, Detroit, utilized a 2009 valuation for the FY 2011 financial report (which we are now analyzing in early 2013). In the data verification phase of this project, it was found that many cities were experiencing significant increases in the unfunded liability from one actuarial valuation to the next. A sample of those observations is in **Figure 9**, Observations of Significant Increases in OPEB Liability Valuations.

Possible explanations for these increases are: actuarial assumptions based on prefunding the benefit when no such funding occurred; revisions to the actual and projected cost of retiree healthcare; and changes to the benefit plan. The latter is unlikely, given the economic climate and concessionary labor agreements during this period. The financial reports provided no explanations for the significant increases in the liability.

¹⁹ The population categories for this analysis were selected for consistency with the Michigan Public Policy Survey conducted by the Center for Local, State and Urban Policy at the University of Michigan (<http://closup.umich.edu/michigan-public-policy-survey/>).

Local Unit Type	2011	2010	2009	2008	2007	Alternate Method	Not Stated	Total
City	34	48	44	22	8	26	1	183
Township	20	13	18	9	4	16	-	80
Village	1	4	5	1	1	9	-	21
Total	55	65	67	32	13	51	1	284
	19%	23%	24%	11%	5%	18%	0%	100%
			58%					

Figure 10. OPEB Valuation Age.

Looking at the entire population for the FY 2011 financial reports (Figure 10, OPEB Valuation Age) shows that 19 percent of the actuarial valuation reports were dated 2011, and 23 percent were dated 2010.²⁰ The remaining valuations (58 percent) were dated 2009 or earlier, or subject to calculation utilizing the alternate method. Given the significant fluctuations noted earlier, modifying the criteria and/or practice of obtaining updated actuarial data should be explored. This is especially true for units in fiscal stress that have lower fund balance reserves to weather unexpected expenditure fluctuations.

²⁰ GASB 45 requires an actuarial valuation at least every two years for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more. For plans with fewer than 200 members, an actuarial valuation is required at least every three years. The alternate method may be used for plans with less than 100 members.

How many local units prefund OPEB?

As shown in Figure 11, OPEB Funding Level, the majority of local units have not begun prefunding; out of 284 units, 151 (or 53 percent) are at 0 percent. Conversely, it may sound somewhat promising that 47 percent of the units have made an effort toward prefunding, given the general concern about a lack of OPEB funding throughout the United States.

Units that have begun prefunding still have a long way to go. Only 11 of the units, or 4 percent, have funded more than 75 percent.

What causes some units to prefund the OPEB liability?

The majority of OPEB assets (\$674 million, or 83 percent of the total) are attributable to local governments in the 30,001-200,000 population category (see Figure 12, Funded Status of OPEB Plans).

OPEB Funding Level	0%	1% to 25%	26% -50%	51% - 75%	76% - 100%	Total
City	98	61	14	5	5	183
Township	39	28	6	2	5	80
Village	14	5	1	0	1	21
Total	151	94	21	7	11	284
<i>Percent of Total</i>	53%	33%	7%	2%	4%	100%

Figure 11. OPEB Funding Level.

Population Category	Number of Units with Prefunding	OPEB Assets	OPEB Liability	Funded Status
Less than 1,500	2	\$ 55,606	\$ 12,453,720	0.0%
1,501 - 5,000	19	4,179,059	167,243,910	0.0%
5,001 - 10,000	26	24,411,008	480,162,522	0.2%
10,001 - 30,000	45	107,292,749	1,710,991,468	0.8%
30,001 - 200,000	46	674,142,543	6,199,656,997	5.0%
More than 200,000		-	4,971,236,281	0.0%
Total	138	\$ 810,080,965	\$ 13,541,744,898	6.0%

Figure 12. Funded Status of OPEB Plans.

Characteristics of the 10 local units with highest funded status in the 30,001-200,000 population category are shown in **Figure 13**, Characteristics of 10 Local Units with the Highest Funded OPEB Plans in the 30,001-200,000 Population Category.

These units demonstrate progressive efforts to confront the OPEB liability: closing the plan to new hires, introducing employee and/or retiree cost participation, implementing a healthcare savings plan (HCSP), and benefitting from investment earnings on plan assets. Though this cursory analysis doesn't explain why these units began prefunding,

the overall characteristics indicate strong management and oversight.

How does OPEB prefunding compare to defined-benefit pension funding?

Pensions are a natural benchmark for OPEB because of the similarities noted earlier. Pensions in the cities that also provide OPEB are funded overall at 86 percent (see **Figure 14**, Funded Status of Pension Plans). Of the 284 local units in this OPEB analysis, 247 provide a defined benefit pension plan.

Local Unit Name	County	OPEB Liability	OPEB Liability Funded Status	OPEB DB Plan Status	Some Level of OPEB Cost Participation Disclosed?	Offers HCSP?	Administrator?
Kentwood	Kent	\$ 1,708,613	109%	Open	yes		no
Portage	Kalamazoo	4,138,629	107%	Open	no		yes
Troy	Oakland	89,952,000	67%	Open	yes		yes
Macomb Township	Macomb	16,794,869	64%	Open	no		no
Farmington Hills	Oakland	74,937,594	59%	Open	yes		yes
Rochester Hills	Oakland	3,475,690	59%	Closed	no	yes	yes
Muskegon	Muskegon	24,024,000	55%	Open	no		yes
Novi	Oakland	19,936,733	46%	Both	yes	yes	yes
West Bloomfield Charter Township	Oakland	54,464,291	41%	Both	no		no
Livonia	Wayne	153,223,000	39%	Both	yes	yes	yes

Figure 13. Characteristics of 10 Local Units with the Highest Funded OPEB Plans in the 30,001-200,000 Population Category.

Population Category	Number of Local Units With Pension	Pension Assets	Pension Liability	Funded Status
Less than 1,500	10	\$ 19,555,279	\$ 28,173,131	69%
1,501 - 5,000	62	300,860,111	408,551,597	74%
5,001 - 10,000	47	583,145,242	793,293,261	74%
10,001 - 30,000	73	2,094,698,616	2,671,812,895	78%
30,001 - 200,000	54	8,472,763,396	10,048,031,048	84%
More than 200,000	1	7,091,409,934	7,707,110,966	92%
Total	247	\$ 18,562,432,578	\$ 21,656,972,898	86%

Figure 14. Funded Status of Pension Plans.

Part 4: The Impact of the OPEB Commitment on Municipal Budgets

The funded status of the OPEB liability, as discussed in the previous section of this analysis, is the direct outcome of resource allocation decisions made through the annual budgetary process. The majority of local governments are paying the annual, actuarially determined pension contribution. The same is not true for OPEB. The outcome is that OPEB is beginning to consume a growing portion of municipal resources.

How does OPEB relate to municipal budgets?

Three concepts are associated with the annual budgetary cycle: annual required contribution, cost and actual contribution. These concepts apply in a similar manner to defined-benefit pension plans for purposes of this analysis.²¹

First, the annual required contribution (ARC) is the employer’s required contribution, based upon an actuarial analysis, to fund the normal cost for services currently provided by employees *plus* a component for amortization of the total unfunded actuarial accrued liabilities.

$$\text{Annual Required Contribution} = \text{Normal Cost} + \text{Amortization of Unfunded Liability}$$

²¹ Government Accounting Standards Board Statement 67 will require major changes in government pension accounting

“Cost” is an accounting concept that is based on the ARC plus or minus adjustments to reflect past under- or over-contributions. The **contribution** is the actual amount paid to the benefit plan. For employers that are not prefunding the OPEB plan, the contribution will equal the amount paid for current retiree benefits.

How much of the annual required contribution is funded for OPEB? For Pension?

Figure 15 Annual Required Contribution (ARC) for OPEB and Pension, highlights two key points. First, in total, the pension ARC is funded at 100 percent; OPEB ARC is funded at 58 percent. Second, the significant level of annual budgetary pressure to fund OPEB ARC becomes evident. OPEB ARC is almost double that of pension ARC – \$918 million for OPEB compared with \$459 million for pension.

How does the ARC relate to property tax millage?

The primary source of revenue for most local governments in Michigan is property tax. The tax is levied by local units on the basis of a millage rate. A “mill” is equal to \$1 of tax revenue for each \$1,000 of taxable value. The millage rate is set by local officials to pay for local services through the annual budget process. During budget deliberations, requests are sometimes viewed as a millage equivalent to sort out budget priorities. To better understand the

Local Unit Population	OPEB		Pension	
	Annual Required Contribution (ARC)	Percent of ARC Funded	Annual Required Contribution (ARC)	Percent of ARC Funded
Less than 1,500	\$ 976,272	60%	\$ 804,449	100%
1,501 - 5,000	14,348,200	42%	11,252,388	106%
5,001 - 10,000	34,318,598	50%	23,921,728	104%
10,001 - 30,000	126,947,247	55%	68,194,073	100%
30,001 - 200,000	417,783,083	65%	221,722,513	101%
More than 200,000	324,362,936	51%	133,382,816	101%
Total	\$ 918,736,336	58%	\$ 459,277,967	101%

Figure 15. Annual Required Contribution for OPEB and Pension.

resources required to fully fund OPEB, see **Figure 16**, OPEB Annual Required Contribution as a Millage Equivalent. For the smallest population unit, OPEB ARC is roughly equal to one-half mill (i.e., 0.56). For the largest, Detroit, 35.6 mills would be required to fully fund the OPEB ARC on the basis of the 2009 actuarial valuation. **Figure 16** also shows how the OPEB ARC as a millage rate increases with the size of the population. The numerous variables that account for that are beyond the scope of this document.

How does OPEB affect overall fiscal health?

Local governments cannot accumulate debt and other liabilities without realizing a strain on presumably scarce resources. If the annual minimum payments continue to rise, then liabilities will also rise. To demonstrate the impact of OPEB on overall fiscal health, the pension funding level for units that provide OPEB and a defined-benefit

pension were compared with the local units that do not provide OPEB (FY 2011 data). (See **Figure 17**, Pension Liability Funding Status for Units that Provide OPEB vs. Units that do not Provide OPEB.) The 269 local units that provide OPEB have a lower pension funding than the 134 municipalities that do not provide OPEB. In total, the units that do not provide OPEB have an overall higher average pension funding – 86 percent – than those that must also fund OPEB obligations – 76 percent.

How do legacy costs compare with government-wide revenues?

Government-wide revenues (GWR) represent program revenues plus general revenues, such as taxes, state shared revenue and investment income.²² The annual required

²² For purposes of this analysis, capital grant activity and business-type activities, such as water and sewers, were excluded.

Local Unit Population	OPEB Annual		
	2010 Taxable Value	Required Contribution (ARC)	OPEB ARC as a Millage
Less than 1,500	\$ 1,747,749,200	\$ 976,272	0.56
1,501 - 5,000	9,406,981,616	14,348,200	1.53
5,001 - 10,000	15,141,365,887	34,318,598	2.27
10,001 - 30,000	54,252,525,981	126,947,247	2.34
30,001 - 200,000	118,545,135,449	417,783,083	3.52
More than 200,000	9,111,881,179	324,362,936	35.60
Total	\$ 208,205,639,312	\$ 918,736,336	4.41

Figure 16. OPEB Annual Required Contribution as a Millage Equivalent.

Pension Funded Range	Provides OPEB		Does not Provide OPEB	
	Number of Local Units	Average of Pension Funded Status within Range	Number of Local Units	Average of Pension Funded Status within Range
More than 100%	15	117%	25	135%
76% - 100%	115	85%	55	87%
51% - 75%	131	66%	46	67%
26% - 50%	6	43%	6	46%
1% - 25%	1	23%	2	11%
0%	1	0%		
Total	269	76%	134	86%

Figure 17. Pension Liability Funding Status for Units that Provide OPEB vs. Units that do not Provide OPEB.

contribution as a percent of government-wide revenue is higher for OPEB than for pensions. For example, pension ARC equates to 8 percent of GWR and OPEB equates to 15 percent of GWR for local units with a population of 30,001 to 200,000. This relationship is highlighted in **Figure 18**, Annual Required Contribution as a Percent of Government-wide Revenue. With OPEB ARC equating to 15 percent of GWR and pension ARC at 8 percent of GWR, the total legacy cost ARC is 23 percent of GWR.

All local units are not currently funding the ARC, so a likely question is how the actual contributions compare for FY 2011. As shown in **Figure 19**, Actual Contribution as a Percent of Governmentwide Revenue, FY 2011 data indicate that local units pay a greater amount for OPEB (\$530.5 million) than for pension (\$463.9 million).

How do legacy costs compare with general fund revenues?

The OPEB liability, owed to employees and retirees, is a general obligation of the local unit.²³ This means that the responsibility reverts to the general resources of the local government to fund, irrespective of the program or activity that consumed personnel expenditures. For this reason, it is worthwhile to evaluate the ARC in relation to general fund revenues.²⁴

²⁴ There may be exceptions for special authorities or districts. Counties tend to have more complex arrangements than municipalities, but they are not included in the scope of this paper. No such instances of this were noted in financial statements reviewed for the local units included in this analysis.

²⁵ Cities typically record police and fire activities in the general fund. Townships often have a separate fund for police and fire millages. To achieve greater consistency among all types of local units and tax structures, police and fire operating fund revenue was added to the general fund revenue here.

Local Unit Population	Number of Local Units	Government Wide Revenue (GWR)	OPEB		Pension	
			Annual Required Contribution	Percent of Government Wide Revenue	Annual Required Contribution	Percent of Government Wide Revenue
Less than 1,500	11	\$ 14,545,672	\$ 976,272	7%	\$ 804,449	6%
1,501 - 5,000	70	197,194,194	14,348,200	7%	11,067,216	6%
5,001 - 10,000	56	329,850,410	34,318,598	10%	23,664,880	7%
10,001 - 30,000	88	998,123,176	126,947,247	13%	68,194,073	7%
30,001 - 200,000	58	2,808,905,425	417,783,083	15%	221,722,513	8%
More than 200,000	1	1,633,290,000	324,362,936	20%	133,382,816	8%
Total	284	\$ 5,981,908,877	\$ 918,736,336	15%	\$ 458,835,947	8%

Figure 18. Annual Required Contribution as a Percent of Government-wide Revenue.

Local Unit Population	Number of Local Units	Government Wide Revenue (GWR)	OPEB		Pension	
			Actual Contribution	Percent of Government Wide Revenue	Actual Contribution	Percent of Government Wide Revenue
Less than 1,500	11	\$ 14,545,672	\$ 588,392	4%	\$ 804,449	6%
1,501 - 5,000	70	197,194,194	5,949,159	3%	11,713,778	6%
5,001 - 10,000	56	329,850,410	17,079,763	5%	24,657,212	7%
10,001 - 30,000	88	998,123,176	69,956,448	7%	68,391,335	7%
30,001 - 200,000	58	2,808,905,425	270,787,718	10%	224,271,729	8%
More than 200,000	1	1,633,290,000	166,181,745	10%	134,068,201	8%
Total	284	\$ 5,981,908,877	\$ 530,543,224	9%	\$ 463,906,704	8%

Figure 19. Actual Contribution as a Percent of Government-wide Revenue.

Local Unit Population	Number of Local Units	General Fund Revenue	OPEB		Pension	
			Annual Required Contribution	Percent of General Fund Revenue	Annual Required Contribution	Percent of General Fund Revenue
Less than 1,500	11	\$ 11,575,599	\$ 976,272	8%	\$ 804,449	7%
1,501 - 5,000	70	156,404,517	14,348,200	9%	11,067,216	7%
5,001 - 10,000	56	263,964,983	34,318,598	13%	23,664,880	9%
10,001 - 30,000	88	818,568,481	126,947,247	16%	68,194,073	8%
30,001 - 200,000	58	2,055,224,234	417,783,083	20%	221,722,513	11%
More than 200,000	1	1,220,258,093	324,362,936	27%	133,382,816	11%
Total	284	\$ 4,525,995,907	\$ 918,736,336	20%	\$ 458,835,947	10%

Figure 20. Annual Required Contribution as a Percent of General Fund Revenue.

As expected on the basis of the previous analyses, the OPEB annual required contribution is higher than that for pensions as a percent of general fund revenue: total pension ARC equates to 10 percent and OPEB, 20 percent. Stated another way, the annual required contribution for legacy costs approximates 30 percent of general fund revenue. This critical relationship is highlighted in **Figure 20**, Annual Required Contribution as a Percent of General Fund Revenue.

How are legacy costs allocated among funds and activities?

Some local units allocate the expenditure on the basis of a labor distribution rate, some record the total contribution in the general fund, and others utilize a hybrid of the two methods. Accounting standards do not require disclosure of this information.

Part 5: OPEB as Debt

Though OPEB is a long-term liability, it does not have the same legal standing as bonds or notes. In addition, OPEB does not have the legal protections that are applicable to pensions. Nevertheless, the commitments exist, and the ability of a public employer to significantly reduce or eliminate OPEB has not been tested on a large scale outside of a Chapter 9 municipal bankruptcy filing. For these reasons, this analysis takes a conservative approach to evaluating the OPEB liability in a manner consistent with other debt and pensions.

Part 5 presents rating agency perspectives on OPEB and an analysis that aligns OPEB, pension and debt.

How do rating agencies view OPEB?

The role of OPEB has become increasingly important in evaluation of a local unit’s overall fiscal health. The three primary credit rating agencies have varying perspectives on evaluating OPEB, though they do have two key themes in common: an overriding emphasis on proactively managing the liability, including incremental steps to reduce the magnitude of the financial commitment; and the

development of a financial plan to address the budgetary impact for the long term.

The varying perspectives with similar themes are evident in recently issued ratings reports. Fitch Ratings addresses the combined total annual carrying costs for debt service, pension and OPEB costs as a percent of combined expenses. It also states the unfunded liability as a percent of market value of property. Moody’s connects financial data with management’s approach to addressing OPEB. Standard and Poor’s reports comment on pension and OPEB as a percentage of total governmental expenditures. The combined effect of the relatively recent implementation of GASB 45, the recession’s long-term impact on local government revenues, escalating legacy costs and the implementation of new pension accounting standards may alter rating methodologies in the future.²⁵

²⁵ Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, has an effective date for fiscal years beginning after June 15, 2014. The new standards significantly change pension accounting and reporting by state and local governments.

Fitch Ratings: At the time of GASB 45 implementation (March 2007), Fitch Ratings stated:

*“Fitch believes that the looming OPEB liability for many governments, if not confronted over a reasonable period of time, will eventually manifest itself as a very real and monumental budget challenge. Various actions, including more moderate and gradual measures, implemented over the near term, will prevent the need for more drastic solutions and problems over the long run. Over the next few years, our credit analysis and ratings will consider how an individual government is acting to develop and implement plans for OPEB funding and cost control, and the impact these measures are having on the total liability and overall financial condition.”*²⁶

Six years later, in early 2013, Fitch Ratings identified three credit analysis factors as related to OPEB: overly optimistic postemployment benefit assumptions, large OPEB liability with no plan for addressing funding or benefit levels, and high, increasing fixed cost burden for debt, pension and OPEB.²⁷

Moody’s Investors Service: In October 2009, Moody’s addressed OPEB in describing the firm’s rating methodology for local government general obligation bonds:

*“Moody’s analysis of a municipality’s debt profile includes an assessment of the degree to which other non-debt long term commitments, such as pension obligations and other post-employment benefits (OPEB), primarily retiree health benefits, impact the entity’s long term flexibility. Moody’s views both OPEB and pension obligations as having debt-like characteristics, however, they tend to allow some flexibility to alter the terms of the obligation, such as benefit eligibility requirements.... When assessing the credit impact of an unfunded OPEB liability, Moody’s analysts will also consider assumptions regarding medical costs, as well as issuers’ flexibility under relevant statutes or contracts to modify their post-employment health benefit offerings. In either case, a trend of declining funding levels and/or failure to make recommended annual payments would be viewed as negative credit factors.”*²⁸

It should be noted, however, that Moody’s announced in January 2011 that it will combine debt and pension liabilities for credit analyses of state governments. Note Moody’s perspective that OPEB commitments are less binding than pension obligations:

“Treating pension liabilities as a form of debt, and combining the unfunded amount with outstanding indebtedness, improves transparency by providing a more complete comparison of states based on their total long-term obligations as a portion of available revenue and taxing

*capacity. ... Once accrued, public pension benefits are protected, contractual obligations, sometimes shielded by specific pension provisions in state constitutions. In this respect, pension benefits differ from other post-employment benefits (or OPEB, primarily health insurance), which are typically easier for states to alter. In this respect, pension liabilities therefore have an irrevocable, long-term nature that resembles bonded debt. ... While we do include OPEB liabilities in our analysis of states, we have not included them in the current report because they are less binding under state law.”*²⁹

Standard & Poor’s Rating Services: In commenting on the OPEB burden at the state level, Standard & Poor’s stated in September 2011:

*“We will continue to incorporate government liability management into our rating analysis. The flexibility and willingness of a state to address these liabilities will be key credit considerations.”*³⁰

And, more recently, in July 2012, Standard & Poor’s wrote:

*“In particular, Standard & Poor’s views pension and other postemployment benefit obligations as long-term liabilities. ... While the funding schedule for pension and OPEB can be more flexible than that for a fixed-debt repayment, it can also be more volatile and may cause fiscal stress if not managed, in our opinion. The size of the unfunded liabilities and the annual costs associated with funding them, relative to the budget, are important credit factors in our review of state and local governments. Currently, pension systems are undergoing the most significant level of reform in decades, which we view as a credit positive and highlights the importance of managing these liabilities. We will continue to differentiate credits where these long-term liabilities are large and growing, contributions are less than required, and there has been limited action on reform initiatives.”*³¹

How does OPEB compare to total debt?

The authority given to local governments to issue debt is not granted lightly. Numerous state laws and regulations govern the nature, amount, method, purpose and process to issue debt in a highly transparent manner.³² In addition, market forces mandate timing, terms and source of repayment. Although OPEB commitments are subject to approval of labor contracts and personnel policies by the local elected body, there is no actuarial analysis of the long-term costs or how it will be paid. This very common, long-standing approach to OPEB commitments has led to the

²⁷ Fitch Ratings, “12 Habits of Highly Successful Finance Officers: Management’s Impact on Municipal Credit Ratings,” March 29, 2007, available at http://www.gfoa.org/downloads/MakingtheCase_Raphael.pdf.

²⁸ Amy Laskey, Managing Director, Fitch Ratings, Presentation to the CFA Society of Austin, Signs of Municipal Credit Distress, January 10, 2013, available at http://www.cfasyarakat.org/austin/Lists/Events%20Calendar/Attachments/102/Luncheon_2012_Laskey.pdf.

²⁹ Moody’s Investor Service, Rating Methodology: General Obligation Bonds Issued by U.S. Local Governments, October 2009.

³⁰ Moody’s Investor Service, Special Comment: Combining Debt and Pension Liabilities of U.S. States Enhances Comparability, January 24, 2011.

³¹ Standard & Poor’s, The OPEB Burden Varies Widely among U.S. States, September 22, 2011.

³² Standard & Poor’s, The Top 10 Management Characteristics of Highly Rated U.S. Public Finance Issuers, July 23, 2012, available at http://www.standardandpoors.com/spf/upload/Ratings_US/Top_10_MGMT.pdf.

³³ A succinct discussion of Michigan local government debt options is provided in the Michigan Municipal League’s Handbook for Municipal Officials (see page 113, Financing Capital Improvements), updated July 2004, available at <http://www.mml.org/resources/publications/index.html>.

current concern about the sustainability of OPEB in both the public and private sectors.

To foster discussion about approaching OPEB in a sustainable manner, it is suggested that the transparent, regulated debt obligation be compared with the less structured OPEB commitment. **Figure 21**, Unfunded OPEB Liability to Governmental Debt,³³ demonstrates that, in total, the unfunded OPEB liability is 2.7 times that of structured governmental debt. Local government officials can easily relate to the hurdles to issuing debt for even the most desirable public improvements. It is a very conscious process that is often the result of public discussion and subject to referendum. Of course, municipalities are largely service organizations, so personnel costs are inherently a large share of the budget. But the issue at hand is the affordability and sustainability of OPEB promises in light of limited resources.

³⁴ Debt includes governmental activities bonds, notes and loans as reported in the audited financial report of each local unit. The following were excluded: long-term employee liabilities, pension obligations, capital leases, long-term advances, judgments, claims and amortizable bond issuance costs.

It should be noted that Detroit is unique in that almost 50 percent of its governmental debt is related to pension obligation certificates.

How does OPEB fit into the larger analysis of financial condition?

As noted earlier, one ratio utilized by a rating agency compares long-term liabilities to market value. For purposes of this analysis, taxable value is used because that is the basis for generating revenue for Michigan municipalities (see **Figure 22**, Long-term Liabilities as a Percent of Taxable Value). As a whole, as the size of the population increases, the burden on revenue resources also increases (from 2 percent to 87 percent). The most dramatic ratio belongs to that of Detroit (population 713,777). The cumulative dollar amount of unfunded OPEB, unfunded pension and governmental debt equates to 87 percent of taxable value. Despite the fact that a large city such as Detroit has other significant revenue sources, this ratio clearly indicates that long-term commitments are not sustainable.

Figure 21. Unfunded OPEB Liability to Governmental Debt.

Local Unit Population	Number of Local Units	Unfunded OPEB Liability	Governmental Debt	Ratio of Unfunded OPEB to Governmental Debt (in total)
Less than 1,500	11	\$ 12,398,114	\$ 6,656,473	1.86
1,501 - 5,000	70	163,043,651	110,204,801	1.48
5,001 - 10,000	56	455,506,483	238,153,010	1.91
10,001 - 30,000	88	1,603,698,719	609,899,296	2.63
30,001 - 200,000	58	5,525,514,454	1,372,197,117	4.03
More than 200,000*	1	4,971,236,281	2,382,637,946	2.09
Total	284	\$ 12,731,397,702	\$ 4,719,748,643	2.70

* Debt includes pension obligation certificates of \$1,194,003,260, net of that amount the ratio is 4.18.

Local Unit Population	Long-term Liabilities				2010 Taxable Value	Long-term Liabilities as a Percent of Taxable Value (in total)
	Number of Local Units	Unfunded OPEB Liability	Unfunded Pension Liability	Governmental Debt		
Less than 1,500	11	\$ 12,398,114	\$ 8,617,852	\$ 6,656,473	\$ 1,747,749,200	2%
1,501 - 5,000	70	163,043,651	107,691,486	110,204,801	9,406,981,616	4%
5,001 - 10,000	56	455,506,483	210,148,019	238,153,010	15,141,365,887	6%
10,001 - 30,000	88	1,603,698,719	577,114,279	609,899,296	54,252,525,981	5%
30,001 - 200,000	58	5,525,514,454	1,575,267,652	1,372,197,117	118,545,135,449	7%
More than 200,000	1	4,971,236,281	615,701,032	2,382,637,946	9,111,881,179	87%
Total	284	\$ 12,731,397,702	\$ 3,094,540,320	\$ 4,719,748,643	\$ 208,205,639,312	10%

Figure 22. Long-term Liabilities as a Percent of Taxable Value.

Part 6: Participant Data

Some local units voluntarily report the number of plan members in the financial statement disclosures. The plan participant data falls into two categories: number of current retirees and beneficiaries receiving benefits, and total number of plan members (includes current retirees and beneficiaries plus employees in active service and terminated employees eligible for accumulated benefits who are not yet receiving them). Plan member data is especially helpful for benchmarking OPEB costs and liabilities.

The financial statements also include some basic information about the plan design, such as eligibility for benefits, cost participation and vesting. The description of plan design information varies significantly among the local units.

What do we know about the contribution per current retiree and beneficiary?

The annual OPEB contribution per retiree and beneficiaries can be determined for local units that disclose the number of current retirees and beneficiaries, and in cases where we can discern that the contribution disclosed is for that specific group of plan members. Seventy-three local units met these criteria. This benchmarking data can be used to find preferred practices and identify areas for improvement.

Size of local unit (using population) can affect plan contributions because small employers have less opportunity than larger ones to control medical plan costs. Often they must purchase a fully insured plan because their ability to manage claims risk is low. Large employers, on the other hand, have an opportunity to manage their risk (and costs) by utilizing a self-insured plan design. As noted earlier, geographic location affects the cost of healthcare

as well. For these reasons, the contribution per retiree is presented on the basis of population (**Figure 23**) and region (**Figure 24**).

Despite the potential for economies of scale in larger local units of government, **Figure 23**, Average Annual OPEB Contribution per Current Participant (based on population), reveals that 22 larger local units have an average plan contribution that exceeds \$10,000 per participant per year. Units with a population of 30,000 to 200,000 have an average annual contribution of \$11,542, and those in the 10,001 to 30,000 range have an average annual contribution of \$10,506. Both of those are significantly above the average of all 73 units of \$8,887. This relationship could potentially be explained by the regions where the local units are located.

As expected, the local units in the southeastern region of the state have a higher annual contribution – \$11,946 per current participant (see **Figure 24**, Average Annual OPEB Contribution per Current Participant [based on region]). In addition, local units in the northern Lower Peninsula are at \$9,186 per participant, which is above the average of all units of \$8,887. The latter may be misleading because of the relatively small number of units for comparison.

It should be noted that the values of the OPEB contribution per current participant ranged from \$0 to \$22,054 (FY 2011 data). The standard deviation for this population is \$5,046 with a mean of \$8,887 for the 73 local units with data.

What do we know about the total liability per plan member?

Recall that plan members are current retirees and beneficiaries, employees in active service and terminated

Local Unit Population	Number of Local Units	Average Annual OPEB Contribution per Current Participant
30,001 - 200,000	4	\$11,542
10,001 - 30,000	18	10,506
5,001 - 10,000*	14	8,587
More than 200,000	1	8,548
Less than 1,500	3	8,380
1,501 - 5,000	33	7,865
Average - All Units	73	\$8,887

* Excludes one outlier.

Figure 23. Average Annual OPEB Contribution per Current Participant (based on population).

Region	Number of Local Units	Average Annual OPEB Contribution per Current Participant
Southeast*	32	\$11,946
Northern Lower Peninsula	3	9,186
Southwest	12	7,587
Upper Peninsula	8	6,993
West Central	9	5,948
East Central	9	4,263
Average - All Units	73	\$8,887

* Excludes one outlier.

Figure 24. Average Annual OPEB Contribution per Current Participant (based on region).

employees eligible for accumulated benefits who are not yet receiving them.

Ninety-eight local government units provided the total number of plan members. The result is a significant disparity among values. The values for OPEB liability ranged from \$0 to \$457,928 (FY 2011 data). The standard deviation for this population is \$100,139, with a mean of \$136,854 for the 98 local units with data.

As shown in **Figure 25**, Average OPEB Liability per Member, the largest portion of the local units (34 out of 98) have an OPEB liability per member between \$100,000 and \$200,000. Further analysis of this data reveals that the majority of the liability valuations were performed by an actuary (85 local units) rather than the alternate method (13 local units).

What is the concern with plan maturity?

Plan maturity relates to the life stage of a plan. One aspect of plan maturity is the number of active versus retired members. A greater percentage of retired members indicates that the plan is more mature. Local governments that are faced with a potentially unsustainable OPEB plan find that the list of viable options decreases as the number of retired participants increases. Despite the legal stance that OPEB is not a protected obligation, the reality of amending a plan for existing retirees is difficult. A higher percentage of retirees makes effecting significant plan changes more difficult. Many local units have reduced or eliminated retiree healthcare for new hires and rolled back OPEB for existing employees. If these moves are not sufficient, employers will need to find viable plan design options for existing retirees.

Thirty-one of the local unit audit reports reviewed provided both the number of retired members and the total number of plan members. As shown in **Figure 26**, Percent of Plan Members that are Retired, approximately one-third of the units (12 of 31) have a relatively low number of retirees (less than 25 percent

of members are retired). On the opposite end of the spectrum, another third (9 of 31 units) have more than 50 percent retired. Maturing of the plan membership is another reason why concern about OPEB increases with the passage of time.

It is important to understand that labor unions represent active employees – they cannot negotiate changes that affect retirees. The exception is if the retiree terminated employment with a labor contract that indexed a benefit in the future to be the same as that of “then active employees.” In large cities, it is not unusual for there to be an organization formed by retirees to pool resources in order to better represent their common interests.

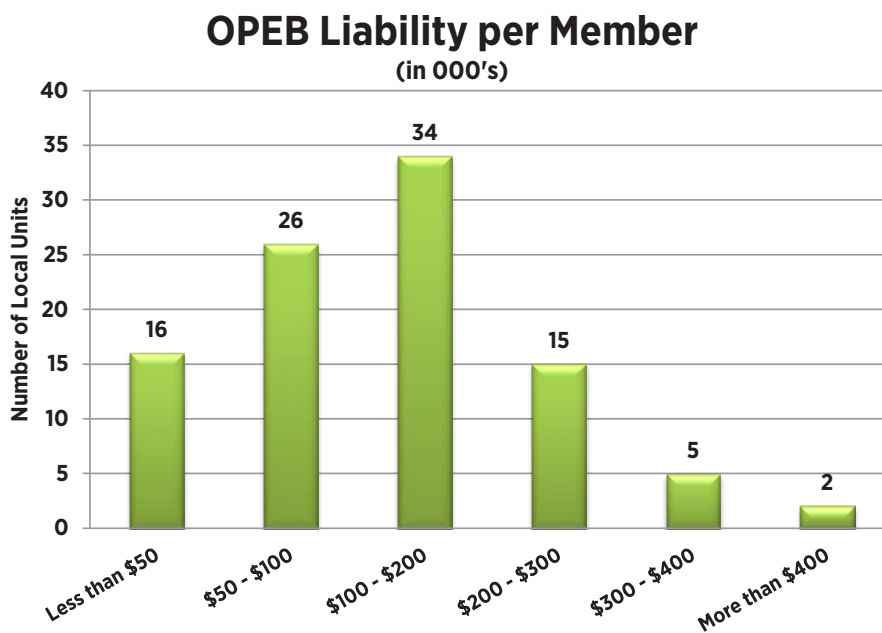


Figure 25. Average OPEB Liability per Member.

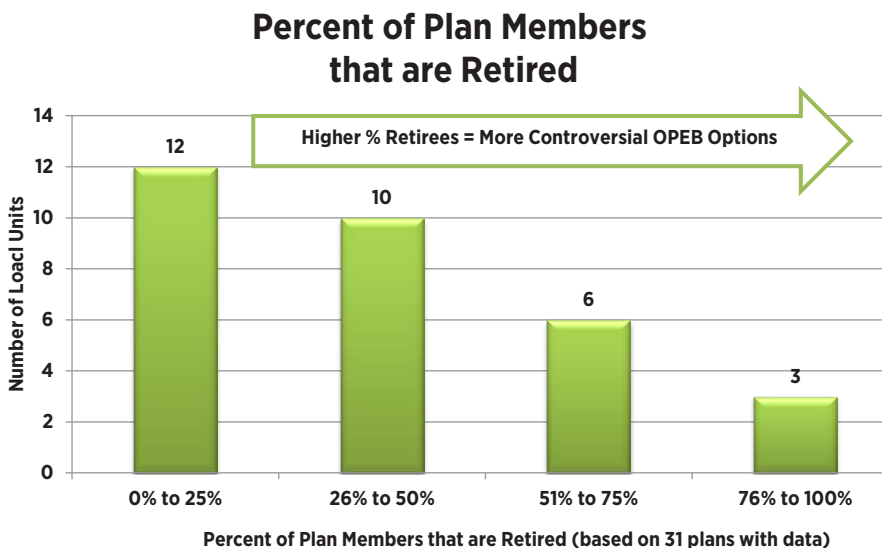


Figure 26. Percent of Plan Members that are Retired.

Part 7: Benefit Plan Design

Benefit plan design encompasses type of plan (defined-contribution or defined-benefit, or whether to offer a plan at all), assessment of long-term needs of employees and employer, participant eligibility, service delivery methods, cost-control measures, quality and flexibility. The data gathered provides some insight into the design of Michigan local government plans.

How many OPEB plans are closed to new hires?

Of the 311 units that were found to provide OPEB, 260 local government plans (84 percent) were open to new hires, 26 units (8 percent) had closed their plans to new hires, 22 units (7 percent) had a blend of open and closed plans, and three units (1 percent) did not offer any form of defined-benefit type OPEB plan but instead offered a defined-contribution style OPEB plan. These plan design characteristics are presented in **Figure 27**, OPEB Plan Status.

How many employers require cost participation?

Of the 308 local government units with defined-benefit OPEB plans, 153 require some level of cost participation, and 155 do not (see **Figure 28**, Level of Cost Participation).

Figure 27.
OPEB Plan Status.

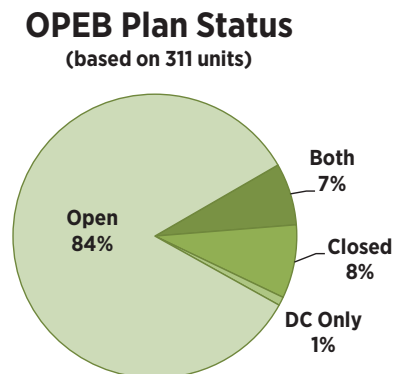
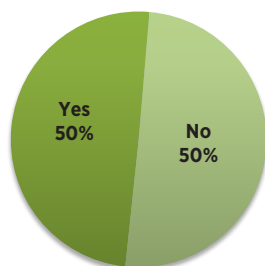


Figure 28.
Level of Cost Participation.

Some Level of Cost Participation?
(based on 308 units)



Local governments and their employee groups have been especially creative in this area. Cost participation policies vary significantly across local units. In some units, active employees contribute to a plan. In most units, the retiree is responsible for some form of premium copayment. In a few units, both active employees and retirees participate in the cost. The variability in the cost participation made it difficult to categorize.

What efforts have municipalities utilized to control OPEB?

The level and disclosure of cost-control efforts varied, but it is evident that many local units have employed one or more tactics to address OPEB. The following list, adapted from the Government Finance Officers Association, identifies many of them:³⁴

1. Strategic effort in implementing healthcare cost-containment measures.
2. Coordination with Medicare benefits.
3. Implementing vesting rules that provide levels of benefits based on years of service.
4. Establishing eligibility rules to eliminate paying for coverage if the retiree, dependents and/or spouses are otherwise insured.
5. Implementing a tiered system of benefits based on hiring dates.
6. Replacing a defined-benefit design with a defined-contribution or hybrid model.
7. Evaluating the blended versus common premium charged for both retirees and active employees. GASB 45 and actuarial standards refer to this as the implicit rate subsidy.
8. Limiting annual increases in plan costs to an index other than medical cost inflation.
9. Amending the age or years of service eligibility for OPEB.
10. Offering a fixed subsidy or service-based subsidy for the retiree's healthcare premiums.
11. Coordinating OPEB eligibility with the local unit's normal retirement date as defined by the pension plan.
12. Structuring the plan to recognize the different needs and cost structure for pre-Medicare versus Medicare-eligible retirees.

³⁴ Government Finance Officers Association, *Ensuring the Sustainability of Other Postemployment Benefits* (2007 & 2012), available at http://www.gfoa.org/index.php?option=com_content&task=view&id=1610.

Part 8: Where do we go from here?

The overriding concern is the likelihood of persistent increases in the OPEB liability despite efforts to align expenditures with revenues. Many Michigan municipalities have taken incremental steps to reduce the OPEB liability, but the local governments with the greatest amount of fiscal stress will need more drastic measures.

What can we learn from other states and local governments?

The nature of this analysis is to create awareness and foster discussion. Some lessons found from across the United States may provide insight.

Chicago, Illinois: In January 2013, Mayor Rahm Emmanuel was presented with a report by the Retiree Health Benefits Commission. Despite an OPEB plan with significant cost-sharing features, the commission has determined that the level of benefit provided is not financially sustainable. One avenue being explored is directing pre-Medicare retirees to the insurance exchange under the Affordable Care Act.³⁵

Boston, Massachusetts: The city was able to reduce its OPEB liability by \$772 million by negotiating with a coalition of labor unions and current retirees in 2011. Benefit plan amendments included cost-sharing, coordination with Medicare and other plan design changes.³⁶

Statewide systems: Some statewide systems include local governments and have begun prefunding the OPEB commitment. States include Ohio³⁷ and Oregon.³⁸

What level of administrative support exists in the local units that provide OPEB?

Managing a benefit program is a complex task. Many local governments do not have dedicated staffing for this

Provides OPEB (by local unit type)	Local Units that Provide OPEB	Local Units with an Administrator	Percent of Units Providing OPEB that have an Administrator
City	195	176	90%
Township	91	17	19%
Village	25	25	100%
Total	311	218	70%

Figure 29. Local Units that Provide OPEB and Employ Administrators.

purpose. They rely instead on generalists who search for meaningful solutions using a strong network of local officials, professionals and consultants. As shown in **Figure 29**, Local Units that Provide OPEB and Employ Administrators, 90 percent of cities with OPEB employ administrators, but only 19 percent of townships that provide OPEB do so. Any efforts to address OPEB should include both elected and appointed officials in the communications plan.

A survey of local officials demonstrated concern with OPEB costs. As noted in the spring 2012 Michigan Public Policy Survey conducted by the Center for State, Local and Urban Policy:

“Health care costs continue to present challenges, though some jurisdictions report easing. Although down slightly for some jurisdictions from levels reported in 2011, increases in employee and retiree health care costs remain another major source of fiscal stress for many local governments. ... Meanwhile, among those jurisdictions that say they offer some kind of fringe benefits to employees, 66% report that health care costs for current employees increased this year, including 49% reporting that costs increased ‘somewhat’ and 17% reporting that costs increased ‘greatly.’”³⁹

Resources: where can we find out more?

Michigan State University Extension provides this FAQ document and other resources at http://msue.anr.msu.edu/topic/info/fiscal_management.

For more information

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Phone: (517) 353-9460
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Web: www.msue.msu.edu

³⁹ University of Michigan’s Ford School of Public Policy: Center for State, Local and Urban Policy, Michigan Public Policy Survey, Spring 2012, available at <http://closup.umich.edu/michigan-public-policy-survey/18/fiscal-stress-continues-for-hundreds-of-michigan-jurisdictions-but-conditions-trend-in-positive-direction-overall/>.

³⁵ Amer Ahmed, *Retiree Healthcare Benefits Commission: Report to the Mayor’s Office on the State of Retiree Healthcare*, January 11, 2013, Chicago, Ill. Available at http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/RHBC/ReportToMayor/RHBC_Report_to_the_Mayor.pdf.

³⁶ Agreement between the City of Boston and the Boston Public Employee Committee. Available at http://www.cityofboston.gov/Images_Documents/Coalition%20Agreement%20Update%20-%20Executed%20Agreement%20April%202011_tcm3-27595.pdf. The City of Boston Actuarial Valuation and Review of Other Post Employment Benefits as of June 30, 2011, is available at http://www.cityofboston.gov/Images_Documents/Actuarial%20Valuation%20%26%20Review%20of%20OPEB%20June%2030%202011_tcm3-31110.pdf.

³⁷ Ohio Public Employee Retirement System, 2011 Comprehensive Annual Financial Report, available at <https://www.opers.org/pubs-archive/investments/cafr/2011-CAFR.pdf>.

³⁸ Oregon Public Employees Retirement System, Comprehensive Annual Financial Report, 2011, available at http://www.sos.state.or.us/audits/pages/state_audits/full/2012/2012-02.pdf.

Appendix A – Regions

The regions used for this analysis are consistent with those used by the Michigan State University State of the State Survey, administered by the Institute for Public Policy and Social Research Office for Survey Research (<http://ippsr.msu.edu/soos/>). The Michigan Public Policy Survey conducted by the Center for Local, State and Urban Policy at the University of Michigan utilizes the same region definition (<http://closup.umich.edu/michigan-public-policy-survey/mpps-regions.php>).

East Central	West Central	Southeast	Upper Peninsula	Northern Lower Peninsula	Southwest
▶ Arenac	▶ Allegan	▶ Genesee	▶ Alger	▶ Alcona	▶ Berrien
▶ Bay	▶ Barry	▶ Lapeer	▶ Baraga	▶ Alpena	▶ Branch
▶ Clare	▶ Ionia	▶ Lenawee	▶ Chippewa	▶ Antrim	▶ Calhoun
▶ Clinton	▶ Kent	▶ Livingston	▶ Delta	▶ Benzie	▶ Cass
▶ Gladwin	▶ Lake	▶ Macomb	▶ Dickinson	▶ Charlevoix	▶ Eaton
▶ Gratiot	▶ Manistee	▶ Monroe	▶ Gogebic	▶ Cheboygan	▶ Hillsdale
▶ Huron	▶ Mason	▶ Oakland	▶ Houghton	▶ Crawford	▶ Ingham
▶ Isabella	▶ Mecosta	▶ St. Clair	▶ Iron	▶ Emmet	▶ Jackson
▶ Midland	▶ Montcalm	▶ Washtenaw	▶ Keweenaw	▶ Grand Traverse	▶ Kalamazoo
▶ Saginaw	▶ Muskegon	▶ Wayne	▶ Luce	▶ Iosco	▶ St. Joseph
▶ Sanilac	▶ Newaygo		▶ Mackinac	▶ Kalkaska	▶ Van Buren
▶ Shiawassee	▶ Oceana		▶ Marquette	▶ Leelanau	
▶ Tuscola	▶ Osceola		▶ Menominee	▶ Missaukee	
	▶ Ottawa		▶ Ontonagon	▶ Montmorency	
			▶ Schoolcraft	▶ Ogemaw	
				▶ Oscoda	
				▶ Otsego	
				▶ Presque Isle	
				▶ Roscommon	
				▶ Wexford	

