PUTTING STATE PENSION COSTS IN CONTEXT:

MICHIGAN

2015 Normal Cost of Michigan Public Employee Pensions:	**$978,900,000**
2015 Cost of Michigan Subsidies and Corporate Tax Breaks:	**$2,249,882,325**
Percentage of Pension Costs to Subsidy Costs:	**43.5%**

In 1997, Michigan closed its pension plan for state employees. Since then, costs to Michigan taxpayers have increased while retirement security for state employees has decreased. This year, Republicans in Lansing pushed through legislation to close the public school employees' retirement system. New educators and school employees will have to choose between a hybrid defined benefit-defined contribution plan and a 401(k)-style system. A local task force has also been meeting to discuss potential changes to retirement benefits at the local level. All the while, major transportation and infrastructure needs go unfunded.

While many pension numbers are circulated in public discussion, the central issue is how much of an obligation is being taken on each year to provide benefits for current government employees such as teachers and first responders. The best way to measure this is to use an amount known as employer normal cost. Such costs can be found in the annual financial reports that each public pension plan has to produce. In the case of Michigan there are three main plans administered by the state: the Michigan State Employees' Retirement System (MSERS), the Michigan Public School Employees' Retirement System (MPSERS) and the Municipal Employees' Retirement System of Michigan (MERS). The most recent financial reports indicate annual employer normal costs of $28.4 for MSERS[1]; $307.6 million for MPSERS[2]; and $642.9 million for MERS.[3] The total is $980 million. These plans support the retirement benefits of approximately 250,000 Michigan workers.

How should this amount be viewed? One approach is to compare it to the financial costs incurred by the state in supporting business through economic development subsidies and other special tax provisions. While not providing an assessment of the effectiveness of any particular subsidy or provision at achieving targeted policy objectives, such as creating good paying jobs, this approach does provide an important perspective on public sector pensions.

During the past decade, Michigan has been one of the most aggressive states in terms of giving large subsidy packages to corporations. In the *Megadeals* report Good Jobs First published in June 2013, we found that Michigan accounted for more subsidy packages worth $75 million or more (29) than any other state.[4] Those deals had a total estimated cost of $7.1 billion.

Since taking office in 2011, Gov. Rick Snyder has de-emphasized big subsidy packages in favor of across-the-board tax cuts for business totaling $1.4 billion, accompanied by cuts in social safety net programs and education.[5] Yet the financial legacy of those large subsidy deals, as well as smaller ones, lives on. The cost of the Advanced Battery Credit for FY2016 is estimated at $218 million, while the state's MEGA tax credit, which was at the center of many of those packages, is reducing revenue by $578 million.[6] The cost of tax increment financing is put at $320 million and Brownfield Redevelopment Credits had a price tag of $25 million last year.

Michigan provides other lucrative tax breaks for business, such as an industrial facilities property tax break that costs $236 million a year and an exclusion for foreign dividends that costs $236 million.

Michigan is one of the states that allow corporations to apportion their taxable income by methods other than the traditional three-factor (payroll, property and sales) weighting. The Michigan tax expenditure report does not contain an estimate of the revenue impact of single sales factor.

Another major form of corporate tax avoidance that eats into state revenues is the use of offshore tax havens. In November 2016, the U.S. PIRG Education Fund published a report in which it calculated the impact of this practice on each state. For Michigan, the estimated cost is $448 million.[7] The state also lost $56 million by allowing federal bonus depreciation rules to also apply to corporate income tax returns filed in Michigan.

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amounts to more than $2.2 billion per year, as summarized in the following table.

Michigan’s Advanced Battery Credits	$217,500,000
Michigan Economic Growth Authority (MEGA) Tax Credits	$577,900,000
Tax Increment Financing	$320,000,000
Brownfield Redevelopment Credits	$25,000,000
Industrial Facilities Development Exemption	$235,700,000
Foreign dividends income exclusion	$236,000,000
MEGA Polycrystalline Silicon Manufacturing Credit	$28,800,000

Renaissance Zone Credit	$81,000,000
Neighborhood Enterprise Zones	$23,500,000
Single sales factor	unknown
Revenue loss from federal accelerated depreciation rules	$56,191,000
Revenue loss from corporate use of offshore tax havens	$448,291,325
TOTAL	$2,249,882,325

In other words, the annual taxpayer cost of funding the retirement benefits of current Michigan public employees belonging to the main state administered public pension systems is only 43.5 percent of the cost to the state of economic development subsidies and corporate tax breaks and loopholes.

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[1] Derived by multiplying the privately disclosed normal cost rate of 3.26% by the covered payroll found on page 50 of MSERS 2016 Comprehensive Annual Financial Report (CAFR) found here: https://audgen.michigan.gov/wp-content/uploads/2017/02/SERS_CAFR_2016_FINAL.pdf

[2] The normal rate found on page 14 of the MPSERS 2015 Actuarial Valuation report https://www.michigan.gov/documents/orsschools/MPSERS_-_Pension_2014_5.28.15_490296_7.pdf multiplied by the covered payroll figure on page 35 of the 2015 MPSERS Comprehensive Annual Financial Report (CAFR) http://www.michigan.gov/documents/orsschools/MPSERS_CAFR_2015_Final_510211_7.pdf

[3] MERS 2015 CAFR https://employerportal.mersofmich.com/SharePointFormsService/Default.aspx?Publication=CAFR_2015.pdf , p.52, 89.

[4]Megadeals (Good Jobs First , 2013 http://www.goodjobsfirst.org/megadeals

[5]"Michigan Slashes Business Subsidies While Cutting Corporate Taxes" (Good Jobs First, 6/7/2011) http://clawback.org/2011/06/17/michigan-slashes-corporate-subsidies-while-cutting-business-taxes-2/

[6] All figures in this paragraph and the next are from: Executive Budget Appendix on Tax Credits, Deductions and Exemptions Fiscal Years 2016 and 2017 (Michigan Dept. of Treasury) http://www.michigan.gov/documents/treasury/ExecBudgAppenTaxCreditsDedExempts_FY_20152016_476553_7.pdf

[7]U.S. PIRG Education Fund, *Picking Up the Tab: Small Businesses Bear the Burden for Offshore Tax Havens:* (November 2016); http://www.uspirg.org/sites/pirg/files/reports/USP%20PickTab%20Nov16%201.0.pdf