CRC Notes

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The Health Care Obligations of Michigan Counties

In Brief

County governments, like many local governments in Michigan, face rapidly escalating health care costs for active and retired employees. At the same time that economic factors are restricting growth in county revenues and a generation of Baby Boomers is reaching retirement age, health care costs are growing at rates that exceed the rate of inflation for general consumer goods. This paper identifies the ongoing cost of employee health care benefits to counties, puts those numbers in perspective relative to the size of each county's workforce and budget, and shows what counties are doing to fund their burdens and manage their costs.

Since 1970, health care spending has escalated 2.4 percentage points faster than the gross domestic product. The result for health care consumers and employers providing health care benefits is less affordable health care. Private sector employers have reacted to the rapidly increasing health care costs by reducing or eliminating employee benefits, but little is known about how local governments have reacted. This paper presents new findings about the impact of growing health care costs on Michigan county governments. The total actuarial accrued liability of other post-employment benefits for just 50 counties of Michigan's 83 counties, is $4 billion, almost $3 billion of which is unfunded. While some counties are taking aggressive steps to address their liabilities, others have yet to respond.

With more than 1,800 general purpose units of government and more than 800 traditional (K-12), intermediate and charter school districts in Michigan, the prospect of quantifying health care costs for local government is daunting. In an effort to tackle a digestible portion of that total, this paper focuses solely on county governments. While it is know that other types of local governments in Michigan are experiencing trends similar to counties, it is not known the magnitude of financial stress that the health care costs are creating for those governments.

Michigan has 83 counties, ranging in population from just 2,300 in Keweenaw County to more than 1.9 million in Wayne County. In 2007, Michigan counties employed a total of 56,134 people, which was 34 percent of non-school local government employment and just 1.3 percent of total employment in Michigan.[1] Michigan's county governments serve as the administrative arms of the State; provide criminal justice, health care and infrastructure services; and offer other services on a voluntary basis. County clerks record births, deaths and marriages. County registers of deeds record real estate transactions. County sheriffs provide police protection, predominantly in the unincorporated areas of each county. County prosecuting attorneys prosecute the laws in the trial courts. Additionally, county courts (district, circuit and probate), drain commissions, road commissions and mental health boards provide services to county residents.

Although counties use an array of funds to account for the varied nature of these services and the dedicated revenue streams that fund some of them, every county has a general fund through which most county services are funded. The general fund budget is the portion of the total county budget for which revenues are not restricted for specific activities. This is important because restricted revenues generally cannot be used to pay for the general other post-employment benefit liabilities of each county. For purposes of this study, and to the greatest extent possible, CRC has gathered information about em-

[1] 2007 Census of Governments, U.S. Bureau of Census, www.census.gov/govs/cog/.

ployees and retirees funded through county general funds.

Several events have elevated counties' health care benefits as a key budgetary consideration in recent times. First, the prolonged economic recession in Michigan has severely impacted government revenues that finance county services. With declining revenues and increasing expenses, many Michigan counties are struggling to balance their budgets. The information provided in this paper show that a significant share of counties' budgets are going to pay for benefits provided to retirees for services provided years ago. Second, escalating health care costs and an increasing number of retirees are ballooning employers' health care bills. Finally, recent Governmental Accounting Standards Board (GASB) guidelines for the reporting of other post-employment employment benefits have drawn attention to the accrued health care liabilities of governments.

Challenging Financial Circumstances

The revenues from Michigan local governments' two primary sources, property taxes and state revenue sharing, have fallen sharply in recent years. Declines in property values were among the causes of the recession and are among the leading causes of the fiscal distress for local governments. Property tax revenues, which declined by more than three percent for all counties from 2008 to 2009, are expected to continue to decline for several years.

When real estate markets rebound, property tax limitations in the Michigan Constitution will restrict the growth of revenues. The Headlee Amendment of 1978 caps the increase in a county's property tax base to rate of inflation. If the property tax base (not including new development) grows faster than the rate of inflation, the government levying the tax must reduce the rate such that the growth in revenues does not exceed the rate of inflation. Headlee applies on a jurisdiction-wide basis, so even after implementation of this amendment property values for individual parcels could still outpace inflation. In 1994, Proposal A amended the Constitution to limit the growth in the taxable value of individual parcels. Under Proposal A, the taxable value of a parcel cannot increase faster than the rate of inflation or five percent, whichever is smaller. However, Proposal A allows the taxable value of a parcel to reset to the assessed state equalized value when ownership of the property transfers.

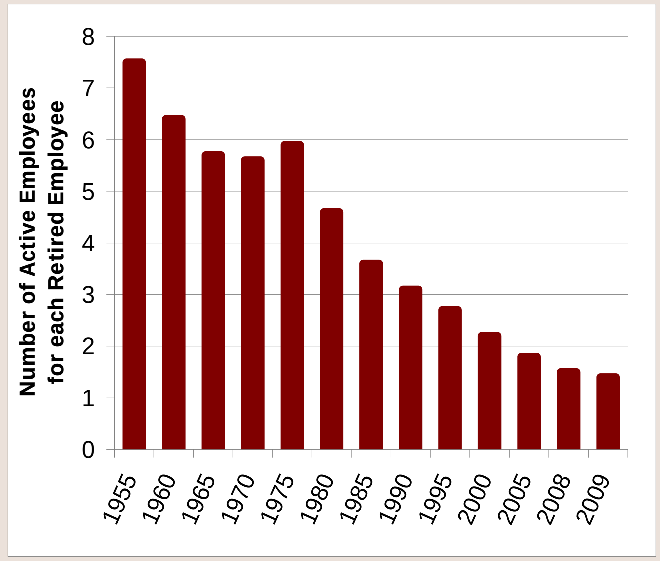
Because both limitations are based on the rate of inflation, it might seem that Proposal A should have made the Headlee limitations moot. However, Proposal A was implemented to interact with Headlee, allowing transfers in ownership to trigger property tax rate rollbacks. This happens when individual property taxable values "pop up" to the state equalized value and, in aggregate, cause the government's tax revenues to grow faster than the rate of inflation. The result of this interaction is revenue growth below rate of inflation for many local governments.

Over a period of three years, from 2004 to 2006, collections of county property taxes were shifted from winter to summer tax bills at the same time that the state halted statutory state revenue sharing to counties. Because of the shift in the timing of tax collections, counties collected taxes twice in fiscal years 2005 and 2006. In 2007, counties returned to one tax collection each year, just in summer rather than winter. The change created for each county a pool of money that the county could tap to replace state revenue sharing for several years, until that county exhausted its pool. As long as each county's pool contains funds, that county is required to draw its "revenue sharing" payments from that pool in an amount that increased each year by the rate of increase in inflation. Many counties have recently exhausted or will soon exhaust their pools, at a time when the state is again dealing with structural budget problems and has little funding available for revenue sharing. Statutory state revenue sharing to cities, villages and townships has been severely cut, and it is not clear that funds will continue to be available for state revenue sharing to counties. Without relief from customary revenue sources, increasing health care costs will further strain counties' budgets.

The shift of tax collections from winter to summer tax bills created additional cash flow problems for the 20 counties that operate on an October to September fiscal year. The fiscal years begin in October, but taxes are not levied until the following July and taxpayers generally remit payments to counties in August or September. With revenues from a primary source received 11 to 12 months into the fiscal year, these counties often have to rely on tax anticipation notes.

The increasing number of retirees eligible to receive benefits is compounding the financial challenge created by the growth in health care costs. Because there is not a single source to track active and retired county or municipal employees across the state, for purposes of illustration CRC used as a proxy data on membership in the Municipal Employees Retirement System (MERS), a retirement system used by 699 Michigan local governments. MERS membership data indicate that in 2009 there were more than five times as many retired municipal employees per municipal participant in the MERS program as there was in 1955. At the same time, the number of active employees per municipal participant in the MERS program has decline to nearly two-thirds the level that existed in 1955. The ratio of active to retired employees of all local governments in the MERS program has substantially decreased: from 7.5 in 1955 to 1.4 in 2009 (See **Chart 1**).[2]

Chart 1
Ratio of Active to Retired Employees in MERS, 1955 - 2009



Source: Data drawn from "The Evolution of MERS since Its Creation in 1945" Revised September, 2010, by Michael Moquin. Revised April 2010.

It is likely that the ratio of active to retired county employees eligible for retiree health care benefits has similarly decreased since 1955 and may soon reach the point when there are more retired than active county employees eligible for health care benefits. This is already the case for some counties. This phenomenon magnifies increasing health care costs as counties incur higher costs for a larger number of retirees, individuals who currently provide no services to the county and yet for which the county must pay costs. Moreover, managing the cost for retirees creates unique challenges because of promises made during employment (e.g. lower pay in exchange for more generous benefits upon retirement) and because retirees may be covered under a variety of contracts. As a result, employers tend to approach health insurance cost containment differently for active employees compared to retired employees.

[2] Data from "The Evolution of MERS Since Its Creation in 1945," Revised September, 2010, by Michael J. Moquin, Chief General Counsel, www.mersofmich.com/images/stories/Forms/legal/mers_evolution.pdf. CRC calculations.

Pay-As-You-Go a No-Go

Other post-employment benefits (OPEB) are benefits, such as health, vision, dental and life insurance, granted to an employee upon retirement that are provided in addition to a pension or 401(k) retirement benefit. Unlike pensions, the Michigan Constitution does not consider OPEB contractual obligations, meaning that the Constitution does not prohibit governments from changing the OPEB they provide, after negotiating expectations with active and retired employees.[3]

When employers began offering health care as a post-employment benefit, the cost was relatively insignificant compared to counties' general fund budgets. As such, state and local governments historically have funded OPEB on a pay-as-you-go basis, recording expenses for retiree benefits only after employees have retired and begun using the benefits. However, in 2004, GASB issued Statements 43 (for single employer plans) and 45 (for agent multiple-employer plans), creating guidelines for governments to account for OPEB while employees are working and earning the benefits.

As is required for pension accounting, projecting the future cost of these benefits requires an actuarial calculation, commonly called the **actuarial accrued liability** (AAL). If state and local governments are pre-funding OPEB, Statements 43 and 45 also direct governments to compare their AAL to the **actuarial value of assets**, which is the money set aside to fund the AAL. The difference between the actuarial value of assets and the AAL is the **unfunded actuarial accrued liability** (UAAL).[4]

GASB authorized a three-year implementation of statements 43 and 45 based on the size of a government's total annual revenues (See **Table 1**). The statements took effect in 2006 for the largest governments, such as Oakland and Saginaw Counties and applied to smaller local governments in 2007 and 2008.

GASB Statements 43 and 45 did not change the OPEB that governments provide or the amount that governments pay for OPEB, nor did they require pre-funding the UAAL. Despite this, the statements drew attention to OPEB funding and shed light on the fact that many governments have large liabilities on their books because they have not set aside sufficient reserves to fund obligations that will become payable in the future. The upside is that governmental accounting of OPEB is more transparent and, arguably, more accurate, which means better informed governmental fiscal decision making. Additionally, having a large UAAL on the financial statements functions as an incentive for governments to fund the liability. By funding the liability, governments are more likely to have the funds to pay for the OPEB when current employees retire and begin accessing those benefits.

To fund their AALs, governments must pay their **annual required contribution** (ARC). The ARC comprises the cost of the OPEB that all of a government's active employees earned in the current year and the amortization of the UAAL, which is the UAAL divided by a maximum of thirty years. The ARC is recalculated regularly to ensure that, if a government pays all of its ARC annually and the actuarial assumptions hold true, the government will fully fund its AAL by the end of the amortization period. While paying the ARC would ensure funds are available to cover OPEB, for many governments the challenge of paying the ARC in full is that most current resources are already legally or politically committed to other functions and services. The increased attention to pre-funding OPEB leaves governments with the difficult choice of decreasing current services to free up funds to set aside for these costs or raising taxes to bring in new resources for that purpose.

Table 1
Implementation Time-Line for GASB Statements Related to OPEB

Government Revenue	GASB 43	GASB 45
$100 million or more	June 30, 2007	June 30, 2008
$10-$100 million	June 30, 2008	June 30, 2009
Less than $10 million	June 30, 2009	June 30, 2010

[3] Article IX, Section 24 of the 1963 Michigan Constitution.

[4] Studier v MPSERS, 472 Mich 642.

The Data

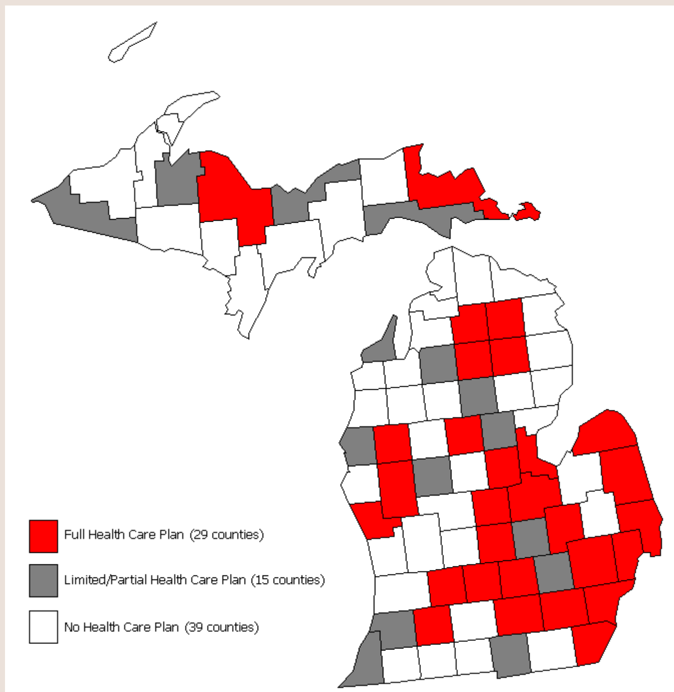
To gather information about Michigan counties' OPEB liabilities, the CRC surveyed the counties about their budgets; retiree health care plans; and their OPEB AALs, actuarial values of assets and ARCs. The data was cross checked and, at times, supplemented with data found in the counties' comprehensive annual financial reports (CAFRs), documents prepared by independent auditors. The OPEB figures are based on the most recent OPEB actuarial valuations, which were completed between 2007 and 2010, depending on the county.

Despite the effort to obtain a complete data set, holes remain for counties that did not respond to the survey or responded with missing or incomplete information. The tables presented below omit counties for which CRC has insufficient information.

Survey Findings

A recent survey of Michigan counties identified 29 counties that provide health care benefits to retirees; 15 counties that provide limited retiree health care benefits; and 39 counties that provide no retiree health care benefits (See **Map 1**). Differentiation between full and limited retiree health insurance was based on the number of employees covered (e.g. limited if only a subgroup, such as retired sheriff employees, are covered) or the period of time for which retirees are insured. The list of counties that are characterized as providing no retiree health insurance includes counties that either currently offer no post-employment health insurance to new hires or allow retirees to buy into an employee plan at 100 percent of the cost, which does not create a direct cost to the counties.

Map 1
Retiree Health Care Offered in Michigan Counties



As a long-term cost saving strategy, many Michigan counties have switched from providing full or limited retiree health care benefits to not providing retiree health care benefits to newly hired employees. Seventeen county respondents, or about a third, have closed their retiree health care plans to new hires (See **Table 2**). However, closing retiree health care plans to new hires only generates short-term savings for counties that pre-fund their OPEB liabilities, and even then short-term savings may be minimal. Most counties are not hiring many new employees right now, so closing retiree health care plans to new hires is not likely to generate significant short-term cost savings. Counties may find greater short-term cost savings by altering copays or deductibles for retirees receiving health care benefits.

Because of the difficulty of securing sufficient political support for reducing employee benefits, one option for ensuring some long-term savings is to close retiree health care plans to new employees on a staggered schedule. Crawford County successfully closed all of its various retiree health care plans at different times. Many counties reported that they planned to pursue a similar phasing out of retiree health care benefits.

Table 2
Counties with Closed Retiree Health Care Plans

County	Date Closed	Active Employees in Closed Plan
Charlevoix	1993	20
Chippewa	2007 for union, 2008 for non-union	102
Crawford	1998 G, 2001 S, 2000 O	
Dickinson	1996	21
Eaton	2006 G, 2007 S and O	96
Gogebic	2010	
Livingston	2003	11
Mackinac	2003	
Marquette	2004	166
Mecosta		
Midland		25
Monroe	2003	546
Muskegon	2007-2010 for various work groups	101
Newaygo	2008	104
Oakland	2006	2,835
Otsego	2008 G, 2007 S, varied O	32
Roscommon	2010	1
Saginaw	2006	260

*G: general employees, S: Sheriff's uniformed employees, O: other employees

Source: County Respondents, County CAFRs

The other 33 counties for which CRC gained information continue to provide full (15 counties) or partial (18 counties) health care benefits.

Table 3 provides a snapshot of counties' current and future retiree health care plan beneficiaries. Active employees comprise all county employees who currently are working and have vested to be eligible for retiree health care benefits upon retirement. Retired employees are former employees who currently receive retiree health care benefits, which is not necessarily all retired county employees. The ratio provides a measure of the distribution of retiree health care beneficiaries between active and retired. There appears to be no correlation between size of government and ratio of active to retired employees. The average ratio of active to retired employees is 4.6:1.

Table 3
Eligibility for and Membership in Retiree Health Care Plans in 2009

County	Active Employees Eligible for Retiree Health Care	Retired Employees Receiving Retiree Health Care	Ratio of Active to Retired Employees
Full Health Care Benefits			
Bay	967	430	2.2:1
Berrien	856	324	2.6:1
Clare	106	15	7.1:1
Clinton	184	37	5.0:1
Ingham	1,054	443	2.4:1
Kalamazoo	955	346	2.8:1
Kent	1,759	428	4.1:1
Lake	153	7	21.9:1
Montmorency	48	18	2.7:1
Muskegon	1,100	443	2.5:1
Partial/Limited Health Care Benefits			
Calhoun	449	59	7.6:1
Gladwin	81	15	5.4:1
Huron	111	67	1.7:1
Jackson	482	397	1.2:1
Kalkaska	94	11	8.5:1
Macomb	2,142	1,834	1.2:1
Mason	92	56	1.6:1
Oceana	6	8	0.8:1
Oscoda	62	6	10.3:1
Shiawassee	14	44*	0.3:1
No Health Care Benefits			
Charlevoix	50	20	2.5:1
Chippewa	102	35	2.9:1
Crawford	1	15	0.1:1
Dickinson	21	38	0.6:1
Eaton	276	101	2.7:1
Houghton	0	1	0.0:1
Livingston	105	89	1.2:1
Marquette	246	174	1.4:1
Midland	102	139	0.7:1
Monroe	546	408	1.3:1
Newaygo	191	36	5.3:1
Oakland	3,101	2,026	1.5:1
Otsego	32	26	1.2:1
Roscommon	137	3	45.7:1
Saginaw	370	437	0.8:1

Source: For counties with populations more than 17,400, 2006-2008 American Community Survey; For counties with populations less than 17,400, 2000 Census data; County Respondents, County CAFRs

*13 additional employees are eligible but pay the full cost of the benefit

Table 4 compares the counties' 2009 health care expenses for active and retired employees. For every Michigan county that reported their expenses, the expense for active employees' health care benefits exceeded the expense for retired employees' health care benefits. Based on the reported numbers, the average expense for active employees' health care as a percent of the general fund is eleven percent as compared to three percent for retired employees. Lake, Ingham, and Berrien counties are paying the greatest proportions of their general fund budgets for active employee health care costs. Saginaw county is paying the greatest proportion of its general fund budget for retiree health care expenses.

Table 4
Counties' 2009 Health Care Expenses

County	Expense for Active Employees	Active Employees as Percent of General Fund	Expense for Retired Employees	Retired Employees as Percent of General Fund
Full Health Care Benefits				
Berrien	$5,463,491	10.7%	$2,142,905	4.2%
Clare	$1,081,729	9.2%	$15,498	0.1%
Clinton	$1,812,514	8.5%	$204,191	1.0%
Ingham	$8,878,032	11.1%	$2,043,543	2.6%
Kalamazoo	$6,185,109	9.6%	$3,010,461	4.7%
Kent	$619,156	0.4%	$1,494,202	0.9%
Lake	$1,091,561	21.7%	$15,136	0.3%
Montmorency	$329,400	7.2%	$81,334	1.8%
Muskegon	$3,518,184	7.8%	$887,591	2.0%
Partial/Limited Health Care Benefits				
Calhoun	$5,371,889	13.3%	$288,289	0.7%
Mason	$1,456,325	13.8%	$305,641	2.9%
Oceana	$1,114,542	11.8%	$35,845	0.4%
Oscoda	$522,165	13.3%	$7,200	0.2%
Shiawasee	$2,032,662	12.4%	$113,532	0.7%
No Health Care Benefits				
Chippewa	$156,543	1.3%	$301,669*	2.6%
Crawford	$924,107	17.1%	$113,500	2.1%
Dickinson	$962,450	11.0%	$557,019	6.4%
Eaton	$3,944,333	12.3%	$1,027,442	3.2%
Houghton	$0	0.0%	$2,400	
Jackson	$4,654,654	11.2%	$3,183,000	7.6%
Livingston	$4,815,557	11.3%	$864,811	2.0%
Mackinac	460,774	7.4%	$12,329	0.2%
Marquette	$2,332,385	10.6%	$1,638,368	7.5%
Mecosta	$901,000	8.5%		
Midland	$2,628,483	14.9%	$1,182,895	6.7%
Newaygo	$1,705,053	13.4%	$231,023	1.8%
Oakland	$34,200,000	8.3%	$21,800,000	5.3%
Otsego	$889,638	11.6%	$104,978	1.4%
Roscommon	$1,119,592	11.1%	$14,068	0.1%
Saginaw	$7,160,555	16.3%	$4,396,757	10.0%

*FY2009

Source: County Respondents, County CAFRs

Similarly, **Tables 5** and **6** outline active and retired employees' contributions to their health care costs in 2009. On average, retired employees pay 12 percent of their health care costs and active employees pay 17 percent, but only in Berrien and Kent Counties did the retired employees contribute more in terms of total dollars than active employees. However, there appears to be no clear explanation for the Berrien and Kent County cases, as they are not outliers in any other metric.

Counties continue to pay the majority of health care costs both for active and retirees. Ingham and Chippewa counties appear to have taken actions to shift a greater share of health care costs to active employees. Clare, Ingham, Kent, Lake, Oscoda, Shiawassee and Mackinac counties have taken actions to shift the costs of health care to retirees.

Table 5
2009 Contributions for Active Employees' Health Care Costs

County	County Contribution	Active Employees' Contributions	Percent of Cost Paid by the County
Full Health Care Benefits			
Berrien	$5,463,491	$806,538	87.1%
Clare	$1,081,729	$118,940	90.1%
Clinton	$1,812,514	$168,508	91.5%
Ingham	$7,534,385	$1,343,647	84.9%
Kalamazoo	$6,185,109	$643,832	90.6%
Kent	$619,156	$0	100.0%
Lake	$1,091,561	$146,938	88.1%
Montmorency	$329,400	$0	100.0%
Muskegon	$12,126,136	$632,660	94.8%
Partial/Limited Health Care Benefits			
Calhoun	$5,371,889	$723,510	88.1%
Jackson	$4,654,654	$404,000	92.0%
Mason	$1,456,325	$89,764	94.2%
Oceana	$1,114,542	$0	100.0%
Oscoda	$522,165	$0	100.0%
Shiawassee	$2,032,662	$390,016	83.9%
No Health Care Benefits			
Chippewa	$156,543	$2,253,217	6.9%
Crawford	$924,107	5% of total costs	95.0%
Dickinson	$962,450	$24,319	97.5%
Eaton	$3,944,333	$285,615	93.2%
Livingston	$4,815,557	$491,421	90.7%
Mackinac	$460,774	$0	100.0%
Marquette	$2,332,385	$0	100.0%
Mecosta	$901,000	$104,600	89.6%
Midland	$2,628,483	$128,439	95.3%
Newaygo	$1,705,053	$119,605	93.4%
Oakland	$34,200,000	$3,600,000	90.5%
Otsego	$889,638	$109,032	89.1%
Roscommon	$1,119,592	$70,089	94.1%
Saginaw	$7,160,555	$707,349	91.0%

Source: County Respondents, County CAFRs

Table 6
2009 Contributions for Retired Employees' Health Care Costs

County	County Contribution	Retired Employees' Contributions	Percent of Cost Paid by the County
Full Health Care Benefits			
Berrien	$2,142,905	$911,692	70.2%
Clare	$15,498	$77,861	16.6%
Clinton	$204,191	$82,731	71.2%
Ingham	$1,495,170	$548,373*	73.2%
Kalamazoo	$3,010,461	$292,470	91.1%
Kent	$1,494,202	$1,214,003	55.2%
Lake	$15,136	$22,156	40.6%
Montmorency	$81,334	$0	100.0%
Muskegon	$3,187,893	$379,430	89.4%
Partial/Limited Health Care Benefits			
Calhoun	$288,289	$130,971	68.8%
Jackson	$3,183,000	$17,000	99.5%
Mason	$305,641	$0	100.0%
Oceana	$35,845	$16,790	68.1%
Oscoda	$7,200	$8,698	45.3%
Shiawassee	$113,532	$169,318	40.1%
No Health Care Benefits			
Chippewa	$301,669	$0	100.0%
Crawford	$113,500	$0	100.0%
Dickinson	$557,019	$0	100.0%
Eaton	$1,027,442	$0	100.0%
Livingston	$864,811	$157,872	84.6%
Mackinac	$12,329	$32,673	27.4%
Marquette	$1,638,368	$0	100.0%
Midland	$1,182,368	$74,348	94.1%
Newaygo	$231,023	$87,779	72.5%
Oakland	$21,800,000	$105,265	99.5%
Otsego	$104,978	$28,162	78.8%
Roscommon	$14,068	$0	100.0%
Saginaw	$4,396,757	$207,686	95.5%

* Retiree contribution for Ingham County includes 100% reimbursement for Spouses.

Source: County Respondents, County CAFRs

Table 7 indicates both the point at which the respective Michigan county employees begin receiving retiree health care benefits and the point at which the cost of those benefits significantly decrease for the county, when the federal government shoulders a large portion of the cost through Medicare.

The point at which an employee begins receiving retiree health care benefits varies widely among Michigan counties. Thirty-one of the 37 county respondents, 86 percent, require both a threshold number of years of employment and a threshold age of retirement for an employee to be eligibility for the retiree health care plan. For example, in Newaygo County, if an employee has served the county for at least ten years, he/she must retiree at age 60 or older to be eligible for retiree health care benefits; if he/she has served for 25 years or more, the age of retirement drops to 55.

Similarly, the majority of Michigan counties coordinate benefits

Table 7
Retiree Health Care Plans' Vesting Requirements

County	Enforced Medicare Coordination?	Minimum Years of Service	Minimum Age of Retirement
Full Health Care Benefits			
Barry	Yes	10	60-65
Bay		8 G, 25/30 S, 30 O	60 G, 55/0 S, 55 O
Berrien	Yes	5 G and S, 10 O	60
Clare	Yes	8	
Clinton	Yes	20	60 G and O, 55 S
Ingham	Yes	Varies by union G and O, 25 S	55 G and O, 0 S
Kalamazoo	Yes	8 G and O, 10 S	55 if hired before 2009, 60 if hired after 2009
Kent	Yes	5	0
Lake	Yes	6 G, 10 S and O	55 G and O, 50 S
Montmorency	Yes	15	55
Muskegon	Yes	10 G and 25 S	60 G and 55 S
Oscoda	Yes	10/15 G, 15 union employees	60/55 G, 0 union employees
St. Clair	Yes	8/25	60/55 G and O, 50 S
Wayne	Yes		
Partial/Limited Health Care Benefits			
Antrim	Yes		
Baraga	Yes	14	62
Calhoun	Yes	10	50 and total of 75
Gladwin	No		
Gratiot	Yes	10/25	60/55
Huron	Yes	10-25	55-60
Jackson	Yes	21	
Kalkaska	Yes	15/25	60/55 G and O, 60/0 S
Mason	Yes	15 G, 10 S	55 G, 55/60 S
Montcalm	Yes	10/25	60/55
Oceana	Yes	20	55
Ogemaw	No		
Shiawassee	Yes	0	60-65 G and O, 55 S
Van Buren	No		
Washtenaw	Yes		
No Health Care Benefits			
Charlevoix	Yes	10/20	60/0
Chippewa	Yes	20	55
Crawford	Yes	20 G, 15 S and O	55
Dickinson	No	Varies by department	Varies by department
Eaton	Yes	25	55
Gogebic		8/30	60/55
Livingston	Yes	10	60 G, 50 S
Mackinac	No	15	0
Marquette	Yes	15 G and S, 20 O	50
Mecosta	Yes		
Midland	Yes	10	60 or total of 85
Newaygo	Yes	10/25	60/55 G, 60/50 S, 62/55 O
Oakland	Yes	25	55/60 G, 0 S
Otsego	Yes	10	60
Ottawa	Yes		
Roscommon	No	8	62-65
Saginaw	Yes	10	55-60

Source: County Respondents, County CAFRs

with Medicare. Forty-four of the 54 county respondents that provide retiree health care benefits reported that they coordinate the types of benefits they offer with Medicare. Of these 44 counties, 86 percent coordinate benefits with age 65, the minimum age at which an individual can participate in Medicare. This means that the county changes the benefits offered to retirees starting at age 65. The change could be completely eliminating benefits, decreasing benefits or simply shifting the type of coverage to be based on Medicare copays and deductibles.

To better illustrate the magnitude of many counties' OPEB unfunded actuarial accrued liabilities, **Table 8** provides each county's annual required contribution (ARC) as a percent of its budget. The total county budget reflects the county's total fiscal year 2010 budgeted revenue. As mentioned, the general fund budget is the portion of the total county budget for which revenues are not restricted for specific activities. Restricted revenues generally cannot be used to pay the ARC for all county employees. **Table 8** demonstrates the challenge of paying for retiree health care costs in the face of difficult financial conditions. If they were fully funding their ARCs, Macomb, Marquette, Midland and Saginaw would each pay roughly one of every five dollars of their general fund budgets for retiree health care. On average for the responding counties, the ARC is eight percent of a county's general fund.

Table 8
OPEB Annual Required Contribution vs. Budget

County	Annual Required Contribution	Total Budget	ARC as percent of Total Budget	General Fund Budget	ARC as Percent of General Fund Budget
Full Health Care Benefits					
Barry	$72,953	$61,331,293	0.1%	$14,177,029	0.5%
Berrien	$4,305,885	$116,096,190	3.7%	$51,094,205	8.4%
Clare	$62,128	$30,157,493	0.2%	$11,811,720	0.5%
Clinton	$318,336	$37,776,154	0.8%	$21,317,551	1.5%
Grand Traverse	$272,319	$147,928,348	0.2%	$39,421,398	0.7%
Ingham	$6,309,871	$204,355,275	3.1%	$79,845,957	7.9%
Kalamazoo	$5,497,891	$85,598,700	6.4%	$64,219,400	8.7%
Kent	$2,895,141	$307,272,851	0.8%	$167,869,433	1.7%
Lake	$355,750	$17,173,807	2.1%	$5,021,936	7.1%
Montmorency	$501,531			$4,544,232	11.0%
Muskegon	$6,818,000	$280,241,896	2.4%	$46,351,943	16.5%
St. Clair	$7,886,028	$87,935,767	9.0%	$56,417,136	14.0%
Wayne	$57,868,000	$2,108,680,982	2.7%	$550,385,862	10.5%
Partial/Limited Health Care Benefits					
Antrim	$37,241			$14,153,646*	0.3%
Calhoun	$1,049,964	$81,655,680	1.3%	$40,284,703	2.6%
Genesee	$12,992,638	$180,365,543	7.2%	$92,710,211	14.0%
Gratiot	$829,312	$28,168,669**	2.9%	$9,470,679**	8.8%
Jackson	$5,124,605	$66,819,430	7.7%	$41,618,961	12.3%
Macomb	$40,559,324	$469,694,527	8.6%	$205,816,038	19.7%
Mason	$623,040	$28,544,160	2.2%	$10,578,000	5.9%
Montcalm	$29,162	$25,184,024	0.1%	$15,087,204	0.2%
Oceana	$57,392	$42,839,435	0.0%	$9,449,345	6.1%
Oscoda	$64,627	$10,675,600	0.6%	$3,933,700	1.6%
Shiawassee	$344,753	$23,556,360	1.5%	$16,426,095	2.1%
Washtenaw	$10,807,274	$213,973,231	5.1%	$99,192,709	10.9%
No Health Care Benefits					
Chippewa	$729,259	$27,088,492	2.7%	$11,628,327	6.3%
Crawford	$674,035	$10,552,937	6.4%	$5,407,077	12.5%
Dickinson	$869,682	$8,765,198	9.9%	$8,765,198	9.9%
Eaton	$2,607,540	$64,386,379	4.1%	$32,010,608	8.1%
Livingston	$1,461,736	$42,634,619	3.4%	$41,298,561	3.5%
Mackinac	$241,979	$9,313,344	2.6%	$6,260,619	3.9%
Marquette	$4,865,272	$46,831,386	10.4%	$21,906,523	22.2%
Midland	$3,689,109	$27,729,155	13.3%	$17,593,690	21.0%
Monroe	$7,788,155			$43,986,678	17.7%
Newaygo	$556,762	$54,377,281	1.0%	$12,740,464	4.4%
Oakland	$61,900,000	$819,689,481	7.6%	$409,835,938	15.1%
Otsego	$446,240	$30,830,022	1.4%	$7,674,510	5.8%
Ottawa	$880,814	$62,295,973***	1.4%	$58,139,337***	1.5%
Roscommon	$197,447	$25,315,908	0.8%	$10,110,026	2.0%
Saginaw	$9,074,989	$151,873,921	6.0%	$44,003,719	20.6%

*FY 2009 Proposed Budget

**FY 2010 Amended Budget

***FY 2010 Proposed Budget

Source: County Respondents, County CAFRs

Because of the size of most counties' ARCs, many counties do not pay their ARCs in full (See **Table 9**). Twenty-four of the 38 reporting counties pre-fund at least some of their OPEB. In 2009, the average county funded 61 percent of its liability. Given the increasing fiscal stress that many Michigan counties face, it is likely that both the number of counties that pre-fund their OPEB and the average pre-funding will likely be lower for 2010 and 2011.

The counties that pre-fund their OPEB on an intermittent basis, normally do so with whatever

Table 9
Counties Attempts to Pre-Fund OPEB

County	Pre-Funds OPEB?	Pre-Funding Basis	Percent of ARC Funded in 2009
Full Health Care Benefits			
Barry	No		0%
Bay	Yes	Regular	37%
Berrien	Yes	Regular	123%
Clare	No		0%
Clinton	Yes	Regular	100%
Ingham	Yes	Regular	6%
Kalamazoo	Yes	Regular	75%
Kent	Yes	Regular	100%
Lake	No		0%
Montmorency	No		0%
Muskegon	Yes	Regular	122%
Wayne	No		0%
Partial/Limited Health Care Benefits			
Antrim	No		0%
Calhoun	No		0%
Genesee	Yes	Regular	23%
Gladwin	No		0%
Gratiot	No		0%
Huron	Yes		
Jackson	No		73%
Mason	Yes	Regular	100%
Oceana	Yes	Regular	100%
Oscoda	Yes	Intermittent	11%
Shiawassee	No		0%
Washtenaw	Yes	Regular	95%
No Health Care Benefits			
Charlevoix	No		0%
Chippewa	Yes	Intermittent	0%
Crawford	Yes	Intermittent	15%
Dickinson	Yes	Intermittent	64%
Eaton	Yes	Regular	48%
Livingston	Yes	Regular	100%
Mackinac	Yes		98%
Marquette	Yes	Intermittent	41%
Midland	Yes	Regular	33%
Monroe	Yes	Regular	62%
Newaygo	Yes	Regular	100%
Oakland	Yes	Regular	100%
Roscommon	No		0%
Saginaw	No		50%

Source: County Respondents, County CAFRs

general budget surplus may be available at the end of their fiscal years. Most counties that pre-fund their OPEB, do so on a regular basis. However a county pre-funds its OPEB, those that do so on a regular basis are more likely to fully fund their ARCs.

Table 10 presents counties' OPEB actuarial values of assets as compared to their AALs. Among the responding counties, only Oakland County has a sufficient actuarial value of assets to cover its AAL. Clinton County is in the next best position to cover its AAL, but still has only 53 percent of the assets necessary to do so.

Table 10
Actuarial Value of Assets vs. Actuarial Accrued Liability

County	Actuarial Value of Assets	Actuarial Accrued Liability	Actuarial Value of Assets as a percent of the Actuarial Accrued Liability
Full Health Care Benefits			
Barry	$0	$824,444	0.0%
Bay	$22,302,000	$145,746,000	15.3%
Berrien	$15,414,989	$40,224,901	38.3%
Clare	$0	$1,003,589	0.0%
Clinton	$3,647,447	$6,830,539	53.4%
Grand Traverse	$0	$3,835,158	0.0%
Ingham	$5,100,000	$79,274,189	6.4%
Kalamazoo	$3,071,475	$64,557,503	4.8%
Kent	$6,467,528	$39,171,891	16.5%
Lake	$0	$2,126,704	0.0%
Montmorency	$0	$3,754,471	0.0%
Muskegon	$19,886,261	$91,103,381	21.8%
St. Clair	$38,496,962	$214,789,128	17.9%
Wayne	$0	$838,141,000	0.0%
Partial/Limited Health Care Benefits			
Antrim	$0	$313,704	0.0%
Calhoun	$0	$11,145,479	0.0%
Genesee	$31,466,327	$192,786,118	16.3%
Gladwin	$0	$6,628,963	0.0%
Gratiot	$0	$829,312	0.0%
Hillsdale	$0	$3,954,168	0.0%
Huron	$0	$22,051,102	0.0%
Jackson	$2,955,983	$67,867,311	4.4%
Kalkaska	$0	$619,540	0.0%
Macomb	$77,353,942	$595,309,199	13.0%
Mason	$947,907	$6,913,625	13.7%
Montcalm	$0	$190,261	0.0%
Oceana	$95,607	$430,487	22.2%
Ogemaw	$0	$875,985	0.0%
Oscoda	$0	$353,080	0.0%
Shiawassee	$0	$4,656,103	0.0%
Van Buren	$0	$9,318,759	0.0%
Washtenaw	$48,980,535	$194,580,255	25.2%
No Health Care Benefits			
Charlevoix	$0	$12,158,895	0.0%
Chippewa	$0	$6,595,969	0.0%
Crawford	$0	$5,784,181	0.0%
Dickinson	$1,950,632	$14,183,352	13.8%
Eaton	$3,870,082	$36,472,265	10.6%
Gogebic	$307,007	$2,262,365	13.6%
Ionia	$0	$1,120,217	0.0%
Livingston	$8,702,085	$19,569,548	44.5%
Mackinac	$225,000	$2,265,137	9.9%
Marquette	$0	$74,999,443	0.0%
Midland	$15,585,217	$45,736,186	34.1%
Monroe	$26,350,668	$87,155,864	30.2%
Newaygo	$0	$5,952,886	0.0%
Oakland*	$926,500,000	$886,100,000	104.6%
Otsego	$0	$3,946,926	0.0%
Ottawa	$1,890,604	$7,618,482	12.5%
Roscommon	$3,647,447	$45,736,186	8.0%
Saginaw	$11,544,398	$98,501,429	11.7%

* Oakland County's assets include the sums in a voluntary employees' beneficiary association and intermediate retiree medical benefit trust. The liability is their total accrued liability.

Source: County Respondents, County CAFRs

Conclusion

The Michigan counties that responded to the CRC survey face a combined actuarial accrued liability of $4 billion, the vast majority of which is unfunded. Counties responses to this liability has been varied. While many counties are closing retiree health care plans to new hires, increasing their pre-funding, raising health care plan deductibles, increasing vesting requirements and shifting to defined contribution plans, some have yet to take action. And yet health care costs continue to grow, Baby Boomers are beginning to retire, and GASB statements 43 and 45 are drawing increasing attention to the problem. Michigan counties continue to struggle to fund OPEB. This paper provides policymakers a foundation for understanding Michigan counties' OPEB liabilities as they seek to address issues of employee benefits in the wake of challenging fiscal times.

A recent survey by The Center for Local, State, and Urban Policy in the Gerald R. Ford School of Public Policy at the University of Michigan reported that 32 percent of Michigan local governments say that they do not provide fringe benefits to their employees. These are primarily smaller jurisdictions with fewer than 5,000 residents.[5] This means that more than two-thirds of Michigan local governments offer fringe benefits to their employees, often including health care benefits. The general story told in this paper holds true for all of those governments: Michigan's prolonged recession has severely impacted government revenues; health care costs for active and retired employees is increasing; the number of employees eligible for retirement is increasing with the aging of the Baby Boomers; and the GASB standards are drawing increased attention to how local governments fund their OPEB liabilities. Extrapolating the finding of the CRC survey of counties to the other local governments reveals a government finance issue in need of attention.

[5] The Center for Local, State, and Urban Policy in the Gerald R. Ford School of Public Policy at the University of Michigan, http://closup.umich.edu/michigan-public-policy-survey/8/local-government-leaders-say-most-employees-are-not-overpaid-though-some-benefits-may-be-too-generous/