

The Center for Local, State, and Urban Policy

Gerald R. Ford School of Public Policy >> University of Michigan

Michigan Public
Policy Survey February 2011

Local government leaders say most employees are not overpaid, though some benefits may be too generous

This report presents Michigan local government leaders' assessments of their jurisdictions' current employee compensation levels (pay and benefits), as well as retiree pension and benefit obligations. It is intended to inform policy discussions in Lansing as well as in local communities statewide, as debate intensifies on restructuring public sector employee compensation in Michigan. Findings in the report are based on statewide surveys in the Spring 2010 wave of the Michigan Public Policy Survey (MPPS).

>> The **Michigan Public Policy Survey (MPPS)** is conducted by the **Center for Local, State, and Urban Policy (CLOSUP)** at the University of Michigan in partnership with the **Michigan Association of Counties, Michigan Municipal League, and Michigan Townships Association**. The MPPS takes place twice each year and investigates local officials' opinions and perspectives on a variety of important public policy issues. Respondents for the MPPS include county administrators and board chairs, city mayors and managers, village presidents and managers, and township supervisors, clerks, and managers from over 1,300 jurisdictions across the state.

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Key Findings

A local government fiscal crisis is spreading across the state, increasingly affecting communities of all sizes, in all regions of Michigan. Personnel costs are a major component of local government budgets and are the focus of increasing scrutiny and calls for reform to cut pay and fringe benefits. A recent Michigan Public Policy Survey on the opinions of Michigan's local government leaders finds:

Current compensation issues

- Overall, only 6% of Michigan's local government leaders think their jurisdictions' employee pay rates are too high, while 25% think they are too low, and 65% think they are about right.
- Overall, 32% of Michigan's local governments report that they do not provide fringe benefits to employees at all (this primarily includes smaller jurisdictions with fewer than 5,000 residents). Meanwhile, among jurisdictions that do provide fringe benefits to their employees, 27% of local leaders think their jurisdictions' employee benefits are too generous, while 8% think they are not generous enough, and 62% think they are about right. Leaders in large jurisdictions are more likely to say these benefits are too generous.
 - » Among local governments that provide employee health care benefits, 38% of local leaders think their jurisdictions' employees don't contribute enough to those health care costs. This increases to 68% of leaders from the state's largest jurisdictions.

Future obligations

- Among jurisdictions that provide retirement benefits, 35% of local leaders think their pension obligations present fiscal problems for their jurisdictions, and 43% think future health care obligations pose similar fiscal problems. Among the state's largest jurisdictions, these percentages rise to 82% and 78%, respectively.

Local government actions

- Local governments report taking a wide variety of actions to deal with these fiscal challenges, including:
 - » reducing the number of employees in their jurisdictions
 - » instituting employee furloughs
 - » having employees pay more toward their health care benefit costs
 - » having employees pay more toward their retirement plans
 - » moving retirement packages from defined-benefit packages (i.e., traditional pensions) to defined-contribution plans (i.e., 401k type plans).

The growing fiscal crisis and a focus on public employee compensation

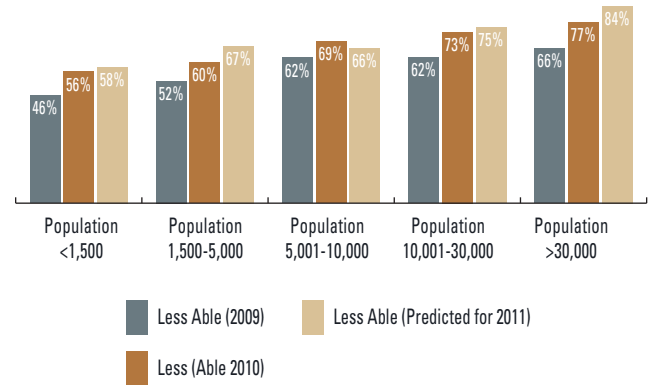
Over the last two years the Michigan Public Policy Survey (MPPS) has documented a fiscal crisis spreading across the state, increasingly affecting communities of all sizes, in all regions of Michigan.¹ Due to decreasing local tax revenues and state revenue sharing as well as increasing costs to provide public services, more local governments are now less able to meet their financial needs compared to last year. A still higher percentage expects to be even worse off next year. For instance, 66% of the state's largest communities reported declining ability to meet fiscal needs in 2009 compared to 2008; 77% reported further decline in 2010 compared to 2009; and 84% predict still further decline in 2011 (see *Figure 1*). This general trend is not limited to Michigan, but is also affecting local governments around the nation.²

Meanwhile, a growing policy discussion has begun to focus on public sector employee compensation levels, including pay rates and fringe benefit packages. According to a recent report, public sector compensation accounts for about half of all state and local government spending nationwide.³ Thus, employee pay and benefits are natural targets for budget cuts given the need in so many jurisdictions to find large-scale cost savings.

In addition, future pension and health care obligations for retired public employees represent extraordinarily large fiscal liabilities for many state and local governments. A widely-cited November 2009 report from the U.S. Government Accountability Office reported that unfunded liabilities for health care and other post-employment benefits (OPEB) for the 50 states and the nation's 39 largest local governments exceeds \$530 billion.⁴ Meanwhile, a 2010 analysis by the Pew Center for the States reported an unfunded liability of \$1 trillion for pensions and OPEB for just the 50 states, not including any local governments.⁵ State and local governments are under pressure to more fully fund these future fiscal obligations using today's revenues. These enormous financial obligations are also focusing attention on public sector compensation, including retirement benefits such as pensions and health care coverage.

Finally, public employee compensation is under scrutiny because of the perception that government employees are compensated more generously than are their private sector peers. The facts supporting

Figure 1
Percentage of local officials reporting they are less able to meet their jurisdictions' financial needs compared to previous year



this view, however, are in dispute. On one hand, a January 2010 report from the CATO Institute argues that public sector employees are both overpaid, and have better fringe benefit and retirement packages than private sector employees.⁶ On the other hand, an April 2010 report from the Center for State and Local Government Excellence and the National Institute on Retirement Security argues that public sector employees are not over-compensated. In fact, this latter report finds that “on average, total compensation is 6.8 percent lower for state employees, and 7.4 percent lower for local workers, compared with comparable private sector employees.”⁷

In order to help inform policy debate on public sector compensation in Michigan, the MPPS asked Michigan's local government leaders a series of questions to get their views on these issues from the frontlines of the fiscal crisis. Opinions were gathered from local government leaders such as county administrators and board chairs, city mayors and managers, village presidents and managers, and township supervisors, clerks, and managers.



Figure 2
Local officials' assessments of employee pay rates, by population size

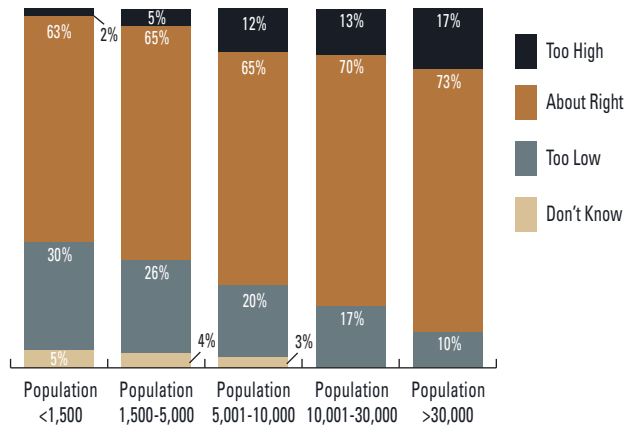
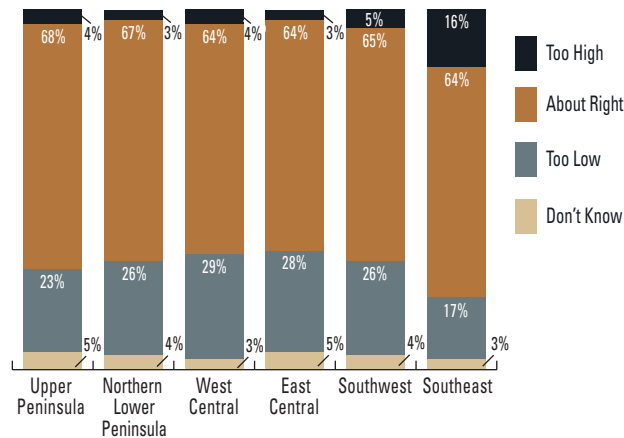


Figure 3
Local officials' assessments of employee pay rates, by region



Most local officials think their employees are not overpaid

The MPPS asked local government leaders whether, in general, they think their jurisdictions' employee pay rates are too high, too low, or about right. The general perception among Michigan officials is that their employees' pay is not too high. Overall, only 6% of Michigan's local government leaders think their jurisdictions' employee pay rates are too high, while 25% think they are too low, and 65% think they are about right.

When examined in more detail, there are significant differences in these views based on jurisdiction size and region (see *Figures 2 and 3*). For instance, officials in the state's largest jurisdictions (those with more than 30,000 residents) and those in Southeast Michigan are more likely than others to believe their employees are overpaid (17% and 16%, respectively), but this still represents fewer than one in five officials from those communities.

Officials from smaller jurisdictions are more likely to believe that their employees' pay rates are too low. For example, 30% of officials from the state's smallest communities (those with fewer than 1,500 residents) think their jurisdictions' pay rates are too low, while only 10% of officials from the state's largest communities feel this way. Clearly, most local officials across the state do not feel their jurisdictions' employees are overpaid.

[*Note: Additional breakdowns of these and other items on employee compensation are available online in the MPPS data tables on CLOSUP's website: www.closup.umich.edu.*]

More officials think their employees' fringe benefits are too generous

While few local officials think their employees are overpaid, a substantially larger portion of these local leaders do believe their jurisdictions' employee fringe benefits are too generous. Again, there are significant differences in these views based on jurisdiction size and region.

First, it is important to note that approximately 32% of all Michigan jurisdictions report that they do not offer fringe benefit packages to their employees at all. The smaller the community size, the less likely it is that the local government provides these benefits to its employees. In fact, among the state's smallest communities, approximately 45% report that they do not offer any fringe benefits to current employees.

When looking at only the subset of jurisdictions that *do* offer fringe benefits, 27% of officials think the benefits are too generous, while 8% think they are not generous enough, and 62% think they are at about the right levels. This is essentially a mirror image of local officials' perceptions of their employees' pay rates, where 6% think they are too high, and 25% think they are too low. Again, there is a strong correlation with jurisdiction size. Among the largest communities, 53% of officials believe their jurisdictions' benefits are too generous, compared to only 18% of officials from the smallest communities. There are also regional differences in these views, with, for instance, 45% of officials in Southeast Michigan saying their jurisdictions' benefits are too generous, compared with only 16% of officials in the Northern Lower Peninsula (see *Figures 4 and 5*).

Figure 4
Local officials' assessments of employee fringe benefits (among those that offer benefits), by population size

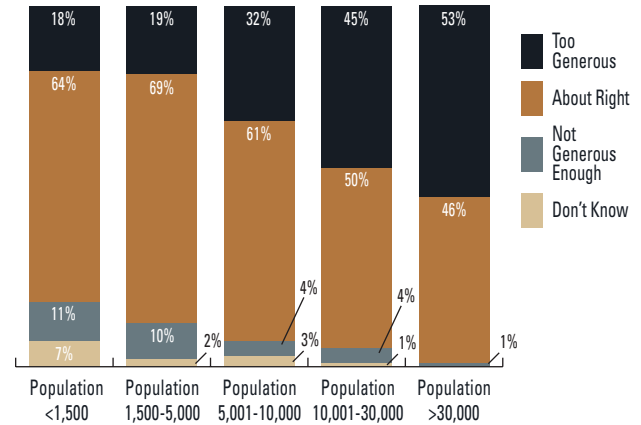


Figure 5
Local officials' assessments of employee fringe benefits (among those that offer benefits), by region

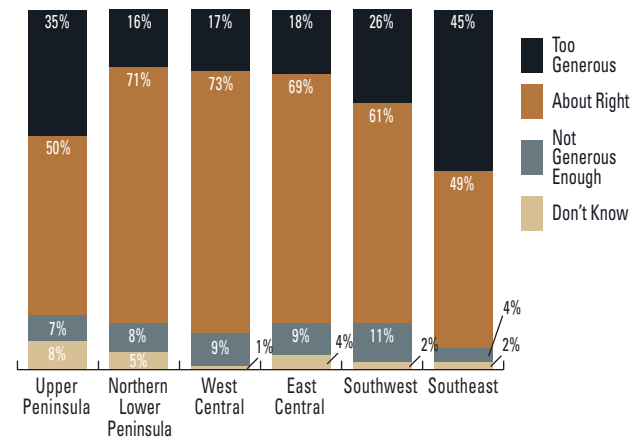
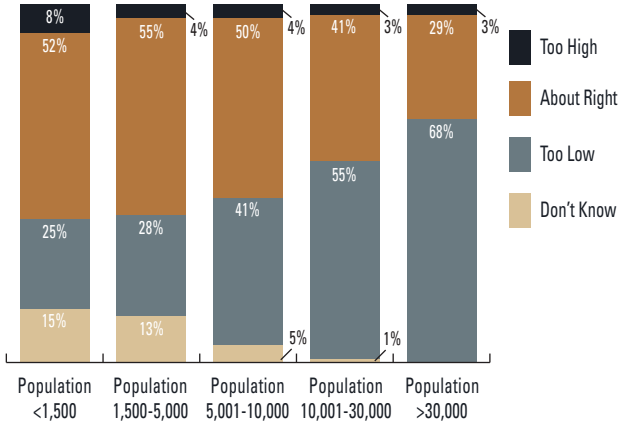


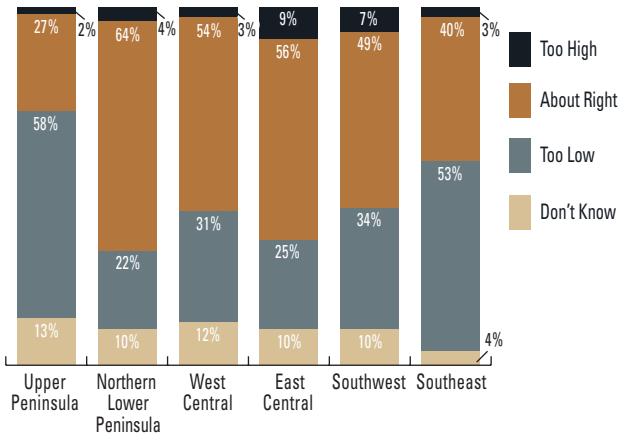


Figure 6
Local officials' assessments of employee health care contributions (among those that offer benefits), by population size



Local leaders were also asked about their impressions of the financial contributions their employees make toward their own health care benefits, such as their share of co-pays, premiums, and deductibles. Among those jurisdictions that provide health care benefits, about 38% of officials believe their employees' contributions are too low, while 5% think they are too high, and 49% think they are at about the right levels. In the state's largest communities, 68% of officials feel their employees' financial contributions are too low, compared to only 25% of officials in the smallest communities. By region, officials in the Upper Peninsula (58%) are most likely to believe their employees' contributions are too low, while those in the Northern Lower Peninsula (22%) are least likely (see Figures 6 and 7).

Figure 7
Local officials' assessments of employee health care contributions (among those that offer benefits), by region



Local officials are worried about future pension and retiree health care obligations

As described above, many local governments across the country face significant problems in terms of unfunded pension and retiree health care obligations. Overall, about 31% of Michigan’s local governments report that they do not offer retirement packages to former employees (including 43% of the state’s smallest jurisdictions), and so these jurisdictions do not have future pension and retiree health care obligations to worry about. However, leaders of many other jurisdictions in the state indeed express concern about these financial obligations and the problems they pose to their jurisdictions’ fiscal health.

Among jurisdictions that do provide retirement benefits, about 35% of Michigan’s local leaders feel these pension obligations present somewhat of a problem or a significant problem for their jurisdictions’ fiscal health. Once again, there are significant differences by jurisdiction size. While only 15% of the smallest jurisdictions that provide retirement benefits say pension obligations present fiscal problems, 82% of the largest jurisdictions say they face these problems. The *severity* of the problems is also correlated with community size: only 3% of the smallest jurisdictions say pension obligations present *significant* problems, compared to 33% of the largest jurisdictions. In addition, there is variation based on region: jurisdictions in Southeast Michigan (59%) are most likely to report concern over these problems, while those in the Northern Lower Peninsula (20%) are least likely (see *Figures 8 and 9*).

Figure 8
Local officials’ assessments of fiscal problems posed by pension obligations (among those that offer benefits), by population size

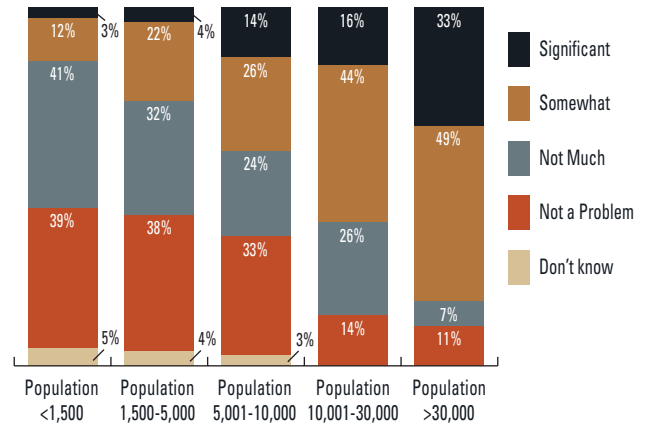


Figure 9
Local officials’ assessments of fiscal problems posed by pension obligations (among those that offer benefits), by region

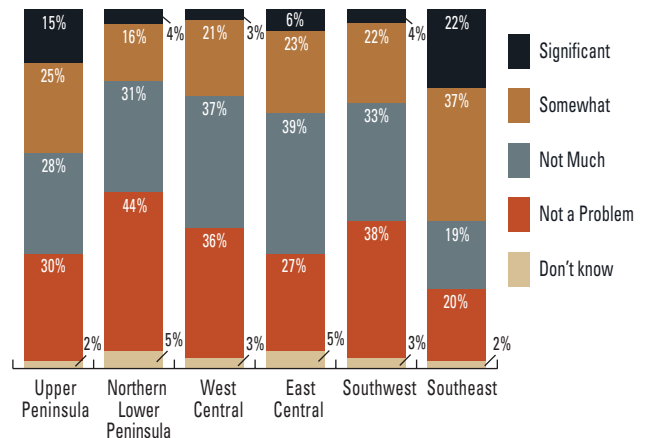
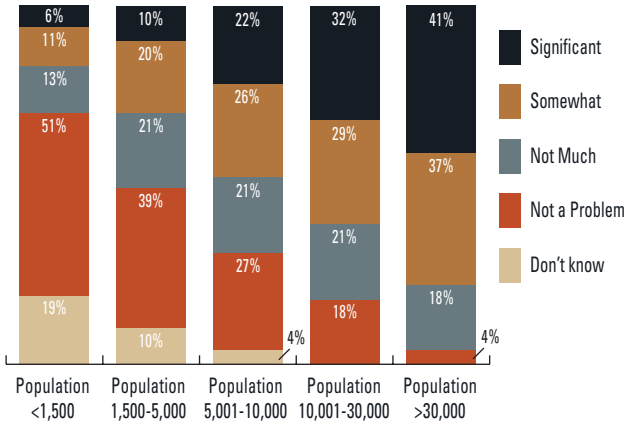


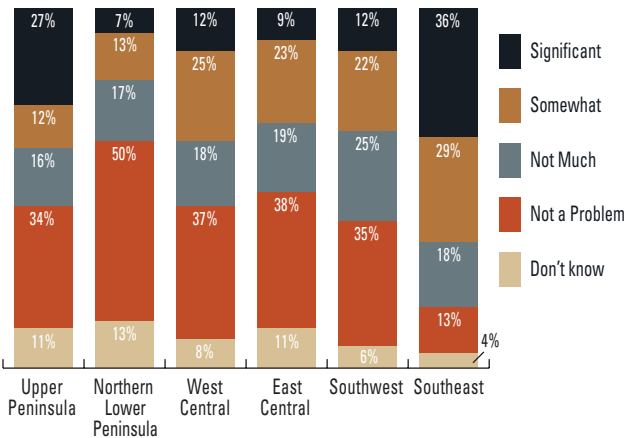


Figure 10
Local officials' assessments of fiscal problems posed by retiree health care obligations (among those that offer benefits), by population size



The picture is similar regarding retiree health care obligations (see *Figures 10 and 11*). First, since many small jurisdictions do not offer such benefits, they do not face these financial problems. But among those local governments that do offer such benefits, about 43% of officials overall say their retiree health care obligations pose fiscal problems for their jurisdictions. Again, the problems are strongly correlated with community size: only 17% of the smallest jurisdictions that offer benefits say retiree health care obligations pose fiscal problems, compared to 78% of the largest jurisdictions. As with the pension problems, there is also regional variation regarding problems from retiree health care obligations. Jurisdictions in Southeast Michigan (65%) are most likely to indicate they face these problems, while those in the Northern Lower Peninsula (20%) are least likely.

Figure 11
Local officials' assessments of fiscal problems posed by retiree health care obligations (among those that offer benefits), by region



What are local governments doing about these problems?

Local officials report that their governments are taking a wide variety of actions to address the financial problems they face in relation to their personnel costs, for both current employees and retirees (see *Table 1*). Regarding current employee costs, many jurisdictions report they are shrinking the size of their workforce through multiple measures: 23% say they are increasingly leaving vacant positions unfilled (including 68% of the largest jurisdictions), 22% report decreasing their levels of hiring overall (including 79% of the largest jurisdictions), and 14% report increasing outright workforce layoffs (including 55% of the largest jurisdictions). In addition, 12% of all local governments in Michigan say they expect to utilize employee furloughs to cut costs this year (including 47% of the largest jurisdictions).

In terms of current employee health care costs, 33% of Michigan’s local governments plan to increase the share of health care premiums, co-pays, and deductibles paid by their employees. Among the state’s largest jurisdictions this increases to 71%. It is worth repeating here that approximately 45% of the state’s smallest jurisdictions report on the MPPS that they don’t offer such fringe benefits to their current employees in the first place, so they have no such costs to shift to employees.

In regard to retirement plans, 15% of all jurisdictions say they expect to increase the share of retirement plan contributions paid by their current employees (this increases to 38% of the state’s largest jurisdictions). And again, it is worth noting that approximately 31% of Michigan’s local governments report that they do not provide retirement packages to their former employees at all (including 43% of Michigan’s smallest jurisdictions).

Table 1
Percentage of jurisdictions planning changes in employment policies in the coming year

	Population <1,500	Population 1,501-5,000	Population 5,001-10,000	Population 10,001-30,000	Population >30,000	Total
Increasing employees’ share of health benefit costs	20%	25%	47%	57%	71%	33%
Increasing the number of vacant positions unfilled	8%	16%	37%	56%	68%	23%
Decreasing hiring	11%	13%	31%	47%	79%	22%
Increasing employees’ share of retirement contributions	6%	11%	21%	29%	38%	15%
Increasing layoffs	5%	7%	21%	40%	55%	14%
Continuing or introducing furloughs in the coming year	5%	7%	17%	26%	47%	12%



Some local governments are looking to change their approach to retirement benefits

Retirement plans offered by Michigan's local governments include a variety of defined benefit plans (i.e., traditional pensions which provide regular monthly payments to retirees for life), defined contribution plans (i.e., "401k" type plans where the retiree is responsible for making investment decisions on the funds in his or her account, in lieu of ongoing pension payments from the local government), and hybrid plans that combine features of both defined benefit and defined contribution plans.⁸ Individual local governments can have a variety of plans in place for different types of employees, as well as different plans for current employees compared to those for new hires. This variety makes it difficult to neatly account for the full set of retirement packages offered by local governments. However, as seen in the first row of *Table 2*, overall 26% of Michigan's jurisdictions report that they currently provide only defined benefit plans (i.e. traditional pensions). By population size, Michigan's mid-sized jurisdictions (those with community population size between 5,001 and 10,000 residents) are the most likely to offer only defined benefit plans (40%), while the state's smaller communities are the least likely (22%).

Since defined benefit plans require the local government to guarantee future payments to retirees, the local government assumes significant financial risk to ensure these future payments. A recent report using pre-recession data from 1982 to 2005 found that almost 64% of the revenues used to fund government pensions came from investment returns, while employee contributions accounted for 12% and the employer-provided (i.e. taxpayers') portion was roughly 24%.⁹ Thus, if the stock market performs poorly, or if the local government did not previously keep up with necessary annual cash infusions into these retirement fund pools, then the local government faces increased pressure to invest more cash in order to bring its pension funding up to an appropriate level. In response to these fiscal pressures, and in order to lower or avoid the ongoing financial risk and obligations associated with defined benefit plans, more local governments are considering lowering the benefits being offered or introducing defined contribution plans. The second and third rows in *Table 2* show that, among those jurisdictions which report offering only defined benefit plans today, a sizeable portion of local governments say it is somewhat or very likely they will introduce defined contribution plans within the next 12 months, including 21% of the smallest jurisdictions and 37% of the largest.

Table 2
Percentage of jurisdictions offering only defined benefit plans currently, and among them, percentage planning changes in next 12 months

	Population <1,500	Population 1,501-5,000	Population 5,001-10,000	Population 10,001-30,000	Population >30,000	Total
Jurisdictions that report offering only a 'defined benefit' plan*	22%	22%	40%	35%	33%	26%
Somewhat likely to introduce a 'defined contribution' plan in next 12 months**	14%	11%	19%	20%	20%	15%
Very likely to introduce a 'defined contribution' plan in next 12 months**	7%	10%	9%	6%	17%	9%

* Percentages calculated among all jurisdictions

** Percentages calculated among those jurisdictions offering only defined benefit plans currently

Local governments are using various means to address their retiree health care liabilities

Finally, local governments also report taking a variety of actions regarding their obligations for future retiree health care and other post-employment benefits (OPEB), as shown in *Table 3*. Since so many of Michigan’s smaller jurisdictions don’t offer post-employment benefits at all, they have no OPEB liabilities, and so their percentages in *Table 3* are particularly small. Meanwhile, the most common action governments say they have taken so far to deal with OPEB obligations is conducting actuarial studies to determine and quantify the jurisdictions’ liabilities. Fifteen percent of Michigan’s local governments overall report taking this action so far, including 61% of the state’s largest jurisdictions. The next most common step taken is negotiating with labor unions to change benefit levels (13% of all jurisdictions including 54% of the largest jurisdictions report taking this action). Fewer jurisdictions report having increased retirees’ shares of benefit premiums, co-pays and deductibles, reduced benefits for non-union retirees, increased the years of service required to receive retirement benefits, increased the retirement age, or financed their liabilities through bond sales (only a handful of jurisdictions report taking this step).

Table 3
Percentage of jurisdictions that report taking specific actions to address OPEB liabilities

	Population <1,500	Population 1,501-5,000	Population 5,001-10,000	Population 10,001-30,000	Population >30,000	Total
In the process of or have completed actuarial study to determine/quantify liability	2%	7%	23%	47%	61%	15%
Negotiated with unions to change benefits	2%	7%	23%	38%	54%	13%
Increased cost-sharing for retirees (e.g., higher premiums, co-payments, and/or deductibles)	2%	4%	15%	20%	25%	7%
Reduced benefits for non-union retirees	1%	2%	8%	13%	23%	5%
Increased the years of service required to receive retirement benefits	0%	2%	4%	10%	12%	3%
Increased the age at which retirement benefits are available	0%	1%	1%	11%	9%	2%
Financed liability through bonds	0%	0%	1%	1%	0%	0%



Unfortunately, a number of local governments with concerns about their future retiree obligations state that they have not yet undertaken actuarial studies to determine or quantify those obligations (though it is possible they have conducted less formal studies to estimate their obligations). As seen in *Table 4*, among those jurisdictions whose leaders say future retiree OPEB obligations present significant fiscal problems, approximately 36% report that they have not yet conducted actuarial studies. And among jurisdictions whose leaders say future OPEB obligations present somewhat of a fiscal problem, about 51% report not yet having conducted these studies. (It should be noted that jurisdictions with fewer than 100 people covered by OPEB benefit plans are allowed to conduct less formal estimates of their liabilities. However, *Table 4* includes numerous large jurisdictions.)

Ensuring that local governments with OPEB liabilities have a thorough understanding of those obligations should be a high priority going forward.

Table 4

Percentage of jurisdictions that have or have not conducted actuarial studies (among those concerned about OPEB liabilities)

	Jurisdiction has conducted actuarial study	Jurisdiction has not conducted actuarial study
Retiree health care obligations reported as a significant problem	64%	36%
Retiree health care obligations reported as somewhat of a problem	49%	51%

Conclusion

Findings from the MPPS underscore the hard reality that local governments in Michigan face a growing fiscal crisis due to falling revenues and rising costs. Given the increasingly common perception that public employees are often over-compensated (whether true or not), as well as the fact that current employee costs represent such a large portion of local government budgets, and that retiree pension and health care obligations present fiscal problems for many jurisdictions, pressure is growing for local governments to find cost savings related to personnel.

As debate intensifies on restructuring public sector employee compensation in Michigan, this report is intended to inform policy discussions in Lansing as well as in local communities around the state by identifying the opinions and concerns of Michigan's local government leaders, as well as identifying actions their jurisdictions are taking to deal with personnel-related costs.

The MPPS finds that while very few of Michigan's local leaders think their jurisdictions' employees are overpaid, more leaders do in fact believe that their jurisdictions' fringe benefits are too generous and that employees don't pay enough toward their own health care costs. However, there are significant differences in these views, often based on the size of the jurisdiction and its region within the state. In particular, officials from the state's largest jurisdictions are more likely than others to think their employees are overpaid and have benefits that are too generous.

Many local leaders are also concerned about the threat to their jurisdictions' fiscal health due to retiree obligations, in terms of both pensions and other post-employment benefits.

In response to all of these fiscal challenges, the MPPS finds that many local governments are taking a variety of steps to cut personnel costs and to better position their jurisdictions regarding retiree obligations. These steps include: employee furloughs; employee layoffs; raising employees' shares of health care costs and retirement benefit costs; moving toward defined contribution retirement plans; and negotiating with their unions for reduced retirement benefits.

As local governments around the state begin crafting budget plans for the upcoming fiscal year, these survey findings can help them better understand how their peer jurisdictions are handling these increasingly common fiscal challenges. And as state policymakers debate additional steps to encourage or mandate personnel-related cost savings at the local government level, these findings can inform them of both the views and concerns from the frontlines, as well as the actions local governments are taking today to address their fiscal challenges. State policymakers should understand that there is wide variation across the state in terms of personnel-related fiscal challenges at the local level. Reports from local leaders indicate that some jurisdictions (particularly the state's larger communities) face very significant problems, while others are in relatively good shape still.

One area that should be a high priority for both state and local policymakers is ensuring that all local governments that have OPEB obligations have a thorough understanding of the magnitude of those obligations, as a first step in addressing these challenges.



Notes

- 1 Center for Local, State, and Urban Policy (CLOSUP). “Local governments struggle to cope with fiscal, service, and staffing pressures.” August 2010. <http://closup.umich.edu/michigan-public-policy-survey/mpps.php>.
- 2 McFarland, Christiana. “State of America’s Cities Survey on Jobs and the Economy” National League of Cities Research Brief on America’s Cities. May 2010. http://www.nlc.org/ASSETS/2814803215F44BE08B60E35203944BA6/RB_JobsEconomy_10.pdf.
- 3 Edwards, Chris. “Employee Compensation in State and Local Governments.” Cato Institute Tax and Budget Bulletin. January 2010. <http://www.cato.org/pubs/tbb/tbb-59.pdf>.
- 4 United States General Accountability Office. “State and Local Government Retiree Health Benefits: Liabilities Are Largely Unfunded, but Some Governments Are Taking Action.” November 2009. <http://www.gao.gov/new.items/d1061.pdf>.
- 5 The Pew Center on the States. “Trillion Dollar Gap.” November 2010. http://www.pewcenteronthestates.org/trends_detail.aspx?id=58297.
- 6 Edwards, Chris. “Employee Compensation in State and Local Governments.” Cato Institute Tax and Budget Bulletin. January 2010. <http://www.cato.org/pubs/tbb/tbb-59.pdf>.
- 7 Munnell, Alicia H., Jean-Pierre Aubry, and Laura Quinby. “Out of Balance: Comparing Public and Private Sector Compensation over 20 Years.” The Center for State and Local Government Excellence. April 2010. http://www.nirsonline.org/storage/nirs/documents/final_out_of_balance_report_april_2010.pdf.
- 8 NASRA and Employee Benefits Research Institute. “Hybrid and Defined Contribution Plans as the Primary or Optional State Retirement Benefit.” November 2010. <http://www.nasra.org/resources/hybriddc.pdf>.
- 9 United States General Accountability Office. “State and Local Government Retiree Health Benefits: Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs.” September 2007. <http://www.gao.gov/new.items/d071156.pdf>.

Survey background and methodology

The MPPS is a biannual survey of each of Michigan’s 1,856 units of general purpose local government. Surveys were sent via the Internet and hardcopy to top elected and appointed officials in all 83 counties, 274 cities, 259 villages, and 1,240 townships. A total of 1,305 jurisdictions in the Spring 2010 wave returned valid surveys, resulting in a 70% response rate by unit. The key relationships discussed in the above report are statistically significant at the $p > .05$ level or above, unless otherwise specified.

Missing responses are not included in the tabulations, unless otherwise specified. Data are weighted to account for non-response.

Regional breakdowns definitions used in this report are available online at the MPPS homepage: www.closup.umich.edu/mpps.php.

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The **Center for Local, State, and Urban Policy (CLOSUP)**, housed at the University of Michigan's Gerald R. Ford School of Public Policy, conducts and supports applied policy research designed to inform state, local, and urban policy issues. Through integrated research, teaching, and outreach involving academic researchers, students, policymakers and practitioners, CLOSUP seeks to foster understanding of today's state and local policy problems, and to find effective solutions to those problems.

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