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City of Lansing Announces Reforms to Unfunded Liabilities, \$8 Million Savings Annually and Support for Low Income Retirees

(LANSING) – The City of Lansing announced today that it will save approximately \$8 million annually by making reforms to retiree healthcare plans. Lansing’s unfunded pension and retiree healthcare liability is currently \$736.6 million.

Effective January 1, 2021, the retiree healthcare plan will be modified to mirror the active plans as closely as possible. Pre-Medicare retirees will maintain coverage with either BCBSM or PHP. Medicare retirees will migrate coverage to Humana. In order to alleviate any financial impact to low income retirees, the City will provide a hardship fund to retirees who qualify.

“One of the biggest financial challenges that our city faces, along with many others across the country, is the unfunded financial liability related to retiree healthcare and pension obligations. While my administration and our employees have taken steps through collective bargaining to lessen the obligations in the future, the City must also address immediate needs. The Financial Health Team and Chief Strategy Officer Judy Kehler have researched and provided several recommendations on how Lansing can reduce unfunded legacy costs, which are some of the highest in the state. It is my priority to ensure the financial security of our city so we can afford the services residents need and fulfill the pension commitments made to retirees and future retirees. Adjusting retiree benefits to match current employee benefits, like making generic copays \$10 and doctor visits \$30, while providing a hardship fund for those that can’t afford the small copay increases, will save the City of Lansing \$8 million per year while still ensuring that retirees have these medical benefits and keeping our promise,” said Mayor Andy Schor.

In 2012, the City of Lansing established a Financial Health Team (FHT) and tasked the group to make recommendations to help reduce the \$736.6 million in the unfunded pension and retiree healthcare liability. Since Mayor Schor has taken office, he has worked with the FHT to hire a Chief Strategy Officer (CSO), charged with addressing the City’s short-term expenditures and long-term debts.

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“Most municipalities in Michigan have had to make tough decisions concerning how to pay for public services, retiree pension and retirement plans, and wages. Lansing’s unfunded pension and healthcare retiree liability is one of the largest in the State of Michigan, and it continues to grow. Ignoring this problem is no longer an option. These changes must be a part of a comprehensive strategy to restore Lansing’s reserve fund, achieve fiscal and operational efficiencies, all while providing acceptable wages for our employees and excellent services for our residents,” said Judy Kehler, Chief Strategy Officer.

In late 2019, the City put out a Request for Proposals for a healthcare consultant to support the City with strategic planning, collective bargaining, retiree legacy costs and financial analysis. Manquen Vance, a strategic benefits consulting firm that specializes in municipal finance, was selected to do this important work with the input of Lansing’s Financial Health Team.

“The Financial Health Team (FHT) commends Mayor Schor for the actions he announced today to help manage the increasingly burdensome costs of retiree healthcare, and to begin the fundamental reforms necessary to address Lansing’s significant unfunded liabilities,” said Ben Bakken, Chair of the FHT. “We recognize that this was not an easy decision, but as a result of the severe impact that COVID-19 will continue to have on municipal finance, it was simply a necessity at this time. These looming unfunded liabilities threaten both the City’s ability to provide continued pension benefits to retirees and active employees, as well as basic and essential services to all its citizens,” Bakken added. “Mayor Schor’s actions will help strengthen Lansing’s financial position while still maintaining basic healthcare benefits for retirees and are in line with recommendations the FHT has made to the City.”

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