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Michigan is catching up on its biggest debts

Amount of unfunded pension liabilities shrinks

By James M. Hohman | June 2026

New reports from the state’s actuaries show that Michigan is \$3.6 billion closer to paying off its pension debts than the previous report showed. Unfunded liabilities for the state-managed school pension system decreased from \$28.0 billion in 2024 to \$25.1 billion in 2025, and unfunded liabilities for the state employee pension fund decreased from \$4.7 billion to \$4.1 billion. Both changes represent an improvement on a problem that the state should never have had to begin with.

Government employee pension funds don’t work like Social Security. In Social Security, Congress and the president set pay-in formulas and pay-out formulas. The system gets in trouble if there are too many people getting paid and too few people paying in. With government pension funds, in contrast, governments set aside money in a trust fund as employees are working. The money is saved, invested and used to pay for pensions when employees retire. The system can get in trouble if lawmakers

underestimate the savings needed to pay pensions; saving less than workers are due causes unfunded liabilities.

Government pension managers are not supposed to get into trouble. The state constitution requires that the pensions earned by workers be funded in the year they are earned. The costs are not supposed to be deferred to future taxpayers.

Yet, government pensions are the state’s biggest debt. Lawmakers have saved \$29.2 billion less than they need to pay for all pensions earned in their two largest retirement systems. In contrast, the state owes its bondholders — the people and financial institutions that willingly lent the state money for things such as roads — just \$23.1 billion, according to the latest state treasurer’s report.

Government employees and pensioners became the state’s largest creditors because lawmakers underfunded the employees’ pensions. Lawmakers used inaccurate assumptions about what employees

would earn in salary and pension benefits, how much investments would grow, and other factors. Even if their estimates were correct — and they weren't — they put in less than was needed to cover pension costs. They also selected debt payment plans that deferred pension payments and ensured that debts would grow.

Lawmakers noted the problems and have been fixing them. Changes during Gov. Rick Snyder's time in office used better assumptions, expedited payment plans, and moved to benefits that limit the underfunding risk.

Those changes are working. Total pension debts decreased from \$41.0 billion in 2022 to \$29.2 billion in 2025. The state saved enough to cover 65% of its pension liabilities in 2022 and by 2025 it could cover 75%.

To be sure, investment gains in recent years helped. But the state is using lower rates in its assumptions, and this makes it more likely for investment gains to meet or exceed expectations.

In addition, retiree health care costs — pensioners get medical insurance coverage — has been fully prefunded in both plans.

Prefunding retiree health care and paying down pension debts is worth noting because pension debt problems around the country are getting worse, not better. The path of least resistance for many elected officials is to pretend that the problems don't exist.

Michigan lawmakers have been different. They've worked to limit the state's ability to promise benefits now and pay for them later. They've also caught up on existing debts. The state shouldn't have been in this situation to begin with, and it's good that debts are down.

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