

A regular meeting of the State of Michigan Retirement Board was held at 1:30 p.m. on Thursday, March 2, 2017, in the Board Room, First Floor of the Stevens T. Mason Building, 530 W. Allegan Street, Lansing, Michigan.

Members Present: Mark T. Boonstra, representing the General Public  
 Matthew Fedorchuk, representing State Employee & Retiree members  
 John Gnodtke, representing State Personnel Director  
 Laurie Hill, representing State Employee and Retiree members  
 Molly Jason, representing the Attorney General  
 Craig Murray, representing the Auditor General  
 David H. Sawyer, representing retired JRS members  
 Ann Marie Storberg, representing the State Treasurer  
 LTC John Wojcik, representing the Military

Staff Present: Laurie Mitchell, Executive Secretary  
 Marcy Best, Recording Secretary

Others Present: June Morse from SERA; Jim Walkowicz from UAW Local 6000, Gregory J. Parker of the Bureau of Investments, Woodrow Tyler of the Bureau of Investments; Cara Dubie of Capitol Services, Inc.; Kathy Markman of the Attorney General's Office; Patrick Fitzgerald of the Attorney General's Office; Kerrie Vanden Bosch and Brian Hurtekant from Office of Retirement Services.

### **Call to Order**

Chair Laurie Hill called the meeting to order at 1:30 p.m.

### **Approval of Agenda**

John Gnodtke moved, Matthew Fedorchuk supported, to approve the Agenda as presented. The motion carried unanimously.

### **Approval of Minutes**

John Gnodtke moved, Anne Marie Storberg supported, to approve the minutes as presented with two changes noted on page 729 by Mark Boonstra 1) Boonsta be corrected to Boonstra and under Board Comments corrected to read 2) Mark Boonstra asked when the board will consider a discount rate and prefunding judges' health care. The motion carried unanimously.

### **New Pension Recipients**

Informational payroll statistics lists were provided to the Board. There was no discussion on these items.

## Special Reports

Gregory J. Parker, Director of Investments – Public Markets of the Bureau of Investments in the Department of Treasury, presented the Annual Investment Report to Board members and answered questions.

## New Business

Kerrie Vanden Bosch, Director of Office of Retirement Services, presented the report on Lowering the Assumed Rate of Investment Return for the State of Michigan Retirement Systems to the Board members and answered questions.

The board discussed lowering the assumed rate of investment return.

Craig Murray moved, John Gnodtke supported that the Board based on the information provided by Office of Retirement Services and our actuary that we adopt the 7.5% AROR for the State Employees' Retirement System and the Military Retirement Provision's beginning with September 30, 2016 and following pension and other post-employment benefit actuary valuations, and for the Judges Retirement System beginning with September 30, 2017 and following pension and other post-employment benefit actuary valuations.

Mark Boonstra presented his thoughts.

I may be prepared to vote for this proposal (to reduce the rate from 8% to 7.5%), although I want to hear the discussion today, but I have the following comments:

- It's a step in the right direction; hence my support.
- But I don't think it is where we ultimately need to be; I think it needs to be lower. And it concerns me that, absent a supplemental appropriation in the coming year, it's won't even take effect for SERS and the military for another 1 ½ years.
- As I have noted in the past, economists as opposed to actuaries generally believe that pension plans typically are using a rate that's too high, and that they believe the rate should reflect not an assumed or expected rate of return, but rather a rate that reflects the certainty of the pension plan's obligations.
- My understanding is and have also communicated previously, that the SOM, when negotiating a discount rate with the pension funds of the City of Detroit in connection with the City's recent bankruptcy, agreed to a rate of 6.75% (and economists would argue for an even lower rate).
- My understanding is that since the plans were closed in 1997, they have employed a rate of 8%, and during the same time period the funding ratios have dropped from nearly fully funded (if not more than fully funded – JRS) to 64% for SERS, which is a significant decline that demonstrates that the rate was not responsive to what was happening in the market, and proved to be considerably too aggressive.

- Because we have (over the years) in my perspective dug ourselves into a hole, that means to me, that the rate we employ should do more than meet the expected return on investment, but should begin gradually, to dig us out of the hole we're now in. That is, we should do more than simply stay afloat at our current funding level, but should instead begin working our way back to a level of full funding over time.
- I fully appreciate the political pressures that are inherent in a reduction of the discount rate – because it means that additional monies will have to be paid in today, and be budgeted for by the legislature and administration.
- It seems to me that those political pressures are primarily the concerns of the politicians, not of this Board.
- It seems to me that our job today is complicated by the fact that DTMB has already approved the proposed rate of 7.5%. So, we either agree to that, or we send everyone back to the drawing table.
- I take little comfort from the fact that the “median” discount rate (of public pension plans) is currently 7.55%. Many public pension plans e.g., Illinois like David mentioned and California are in far worse shape than we are. So, I'm afraid that the median is skewed by the worse and in some cases the horrible experience of other states, and without more information, I don't know that the “median” itself be a good comparator.
- All of that being said, I appreciate, as I said at the outset, that a reduction to 7.5% is a step in the right direction. I hope that the legislature and the administration will in fact provide a supplemental appropriation for this coming fiscal year, so that it can effectively be implemented this year.
- And, lastly, I take ORS at its word that the intent is to reduce the rate even farther in future years, and I would encourage us to continue to look to do so.

The motion carried unanimously.

Nominating committee selection for officer elections.

Craig Murray and Ann Marie Storberg volunteered to be on the committee.

Resolution for Board Consideration and Approval

Mark Boonstra moved, David Sawyer supported that the Board adopt the Resolution honoring Robert Brackenbury as presented. The motion carried unanimously

### **Old Business**

Laurie Mitchell advised that beginning in fiscal year 2017 (10/1/17), assuming that the legislative proposal that is included in the Governor's budget is approved, we will begin to prefund the judges' retiree healthcare.

## **Administrative Hearings**

### Proposal for Decision – Docket 2016-008308-ORS

The Board considered the case material. John Gnodtke moved, John Wojcik supported, with the correction on page 3 of the PFD that the Petitioner's date of birth is April 7, 1973 that the Board adopt as its own the recommendations of the Presiding Officer in the December 5, 2016 Proposal for Decision, including the proposed Findings of Fact and Conclusions of Law, and deny Petitioner's application for duty disability retirement under MCL 38.21 and MCL 38.67a. The motion carried unanimously.

### Proposal for Decision – Docket 2016-009555-ORS

The Board considered the case materials. John Gnodtke moved, Ann Marie Storberg supported, that the Board adopt as its own the recommendations of the Presiding Officer in the November 23, 2016 Proposal for Decision, including the proposed Findings of Fact and Conclusions of Law, and deny Petitioner's application for non-duty disability retirement under MCL 38.24. The motion carried.

### Proposal for Decision – Docket 2016-008848-ORS

The Board considered the case materials. John Gnodtke moved, John Wojcik supported, with a correction in the PFD of the Petitioner's place of employment changed to Michigan State Police, that the Board adopt as its own the recommendations of the Presiding Officer in the December 19, 2016 Proposal for Decision, including the proposed Findings of Fact and Conclusions of Law, and deny Petitioner's application for non-duty disability retirement under MCL 38.24. The motion carried unanimously.

## **Legislative Report**

A report was provided for the Board's information.

## **Executive Secretary Comments**

Laurie Mitchell thanked the Board for their valuable input on the AROR.

## **Board Comments**

No board comments.

## **Public Comments**

No public comments

**Adjournment**

John Gnodtke moved, David Sawyer supported, that the meeting be adjourned. The motion carried unanimously. The Chair adjourned the meeting at 2:55 p.m.

## OFFICIAL MINUTES

Signature on File  
Chair

Signature on File  
Executive Secretary