

**MINUTES OF THE RETIREMENT BOARD**  
**Thursday, July 27, 2017**

A meeting of the Retirement Board was held on Thursday, July 27, 2017 at 8:30 a.m., in the Administration Building, 9<sup>th</sup> Floor Committee Room, located at 1 South Main Street, Mount Clemens, Michigan. The following members were present:

Present:

Mark Deldin, Gary Cutler, Carol Grant, Larry Rocca, Bryan Santo, Bob Smith

Excused:

Matthew Murphy, George Brumbaugh

Also Present:

Stephen Smigiel, Stephanie Dobson, John Schapka, Joe Biondo, Larry Lee, Tom Michaud, Erik Burger, Brian Brice, Karen Bathanti

**1. Call to Order**

There being a quorum of the Board present, the meeting was called to order at 8:30 a.m. by Chair Deldin.

**2. Adoption of Agenda**

*A motion was made by Trustee Santo, supported by Trustee Grant to approve the agenda as presented. The motion carried.*

**3. Approval of Minutes – July 13, 2017**

*A motion was made by Trustee Smith, supported by Trustee Rocca to approve the minutes of July 13, 2017 as presented. The motion carried.*

**4. Approval of Invoices**

*A motion was made by Vice-Chair Cutler, supported by Trustee Santo to approve the invoices as presented. The motion carried.*

**5. Public Participation**

None

**6. Retirement Administrator Report**

Ms. Dobson provided the Activity Report with the numbers through the end of June. She had been asked previously whether the individuals counted within the DROP number included

those that are past the five year mark. Of the 302 currently in the DROP, 37 of those individuals are beyond the five year mark.

Ms. Dobson also advised the Board that Mr. Tim Bowen from Conduent will be present for the meeting on August 24<sup>th</sup> to present the 2016 valuation. Conduent plans to provide a draft to Ms. Dobson and Mr. Smigiel in early August for their review prior to the presentation to the Board.

The 2017 Annual Signature Verifications are still rolling in and approximately 2,200 have been returned at this point. This leaves about 400 outstanding. A second notice will be sent out to all those not received back by August 11<sup>th</sup>. They are continuing with the notary process through the end of this year and will switch to the “witness” signature requirement for 2018.

Trustee Rocca inquired what the rule is for those beyond the five year mark in the DROP. She responded that there really is no “rule” per se. Contractually, there is nothing in the majority of the Collective Bargaining Agreements (CBAs) that prohibit individuals from working beyond the five year mark. Those individuals continue to earn interest, but do not receive the DROP deposits into their account. There are just two CBAs within law enforcement that have a five year maximum and require individuals to leave at that point.

Chair Deldin asked if Ms. Dobson could add two additional sets of numbers to her monthly Activity Report. He would also like to see the number of active employees in the Defined Benefit (DB) plan as well as the number of active employees in the Defined Contribution (DC) plan. Ms. Dobson indicated she could work with the Information Technology (IT) Department to create a report that would allow her to pull that information and will include it going forward.

**a. Ulliance – Senior Coaching proposal**

Ms. Dobson reminded the Board that Mr. Kent Sharkey from Ulliance was in attendance at the last meeting and provided a presentation on the Senior Coaching services offered by his company. She indicated that Mr. Herppich had spoken to Mr. Smigiel to determine whether there was funding in the line item for the existing Employee Assistance Program (EAP) and it was discovered that there are no additional funds to support the addition of the Senior Coaching program. Ms. Dobson added this item to the agenda today for a discussion on whether it would be appropriate for the Retirement System to pay for this program to be offered to the retirees. The Board’s packet for today’s meeting includes a three-year rate quote for the Senior Coaching services.

Chair Deldin supports this proposal and thinks this would be a valuable program to offer to the retirees. He stated that while there may not currently be money in the EAP line item to pay for this additional program, he believed it would be possible to build it into future years budgets. He wonders, however, if this is an appropriate expense for the Retirement System to bear. Mr. Michaud has a question from a legal perspective regarding whether or not this would be considered a “benefit” and possibly not a proper plan expense.

Trustee Grant questioned how many people actually utilize the EAP offered currently and since this was not put out for bid, she is concerned that the Board really has nothing to compare the proposal to.

*A motion was made by Trustee Grant, supported by Trustee Rocca to postpone further discussion related to the Senior Coaching services proposal from Ulliance until September to allow time for Mr. Michaud to draft an opinion on whether this is a proper plan expense for the Retirement System to bear. The motion carried.*

## **7. Private Real Estate Interviews**

Mr. Burger provided a brief introduction of the two firms doing presentations on private real estate today. They are still working on terms with Metropolitan Real Estate and he is confident that those details will be sorted out soon. At that point, they will be able to come in for a presentation. He reminded the Board members that there is \$20 million (2%) available for allocation and that can be split across managers if the Board chooses to do so.

### **a. ValStone Partners**

Mr. Glenn Murray and Mr. Brian McAlpine joined the meeting on behalf of ValStone for their presentation to the Board. Mr. Murray provided some background on their firm. They are working on their sixth fund and have over 20 years of experience. They have 19 people on the investment team including the three founding partners who make up the investment committee.

Mr. McAlpine covered ValStone's investment profile and indicated they are heavily invested in senior housing. He discussed the firm's track record and their investment philosophy. He also reviewed a case study to illustrate their consistent strategy.

Mr. McAlpine stated that the target size of fund six is \$300 million and they are in the process of raising those funds. The management fee would be 1.50%. Mr. Michaud inquired about liquidity and Mr. McAlpine responded that there is no liquidity provision in the fund as it is a closed end fund.

*A motion was made by Trustee Smith, supported by Trustee Santo to receive and file the presentation by ValStone Partners. The motion carried.*

### **b. American Core Realty Fund**

Mr. Austin Maddux and Mr. Todd Fowler joined the meeting on behalf of American Core Realty Fund for their presentation to the Board. Mr. Fowler provided some background on their firm. They have approximately \$8 billion in assets under management (AUM) and 498 institutional accounts as of March 31, 2017. They have been in business for 28 years and have 10 offices across the United States.

Mr. Maddux discussed their investment process and the liquidity of the fund. He reviewed some of the other highlights of the fund and their investment objectives. Mr. Maddux also covered performance history and the composition of the portfolio (including geographic and sector diversification). He also provided some details on investment activity with examples of both acquisitions and dispositions. Mr. Fowler then covered the terms including the management fee of 1.10%.

*A motion was made by Trustee Rocca, supported by Trustee Smith to receive and file the presentation by American Core Realty Fund. The motion carried.*

## **8. Update on Retiree Health Care case**

Mr. Schapka provided the Board with an update on the on-going Retiree Health Care case. The class-action case is in its fifth year and is not close to being resolved. The lawsuit stems from a change in the carrier for retiree health care (from Blue Cross Blue Shield to another provider). The services provided by the new carrier were very similar to those provided by Blue Cross Blue Shield (BCBS) with the exception of a few increases in prescription co-pays. Retiree health care was not terminated and it was not substantially changed, there was merely a change in carrier. The retirees reacted very negatively to this change and filed suit for breach of contract. The claim is that the individual employees' labor contracts (as they existed on the day that they retired) were breached.

A small handful of named plaintiffs applied for class certification and they prevailed at the trial court. The County appealed (Appeal #1) and was defeated. The court began settlement discussions and there were a number of parts to the settlement being discussed (cash/money damages, whether the County had any flexibility to go to another carrier, etc.). The retirees were adamant that there was no flexibility allowed to the County and that the provider must be BCBS. There was a tentative agreement for damages, but never an agreement on flexibility. The trial court judge decided the case was settled and the County disagreed. Plaintiffs moved to enforce the settlement and the motion was granted. The County appealed (Appeal #2) and the appeal languished in the Court of Appeals for a very long period of time. At this point, the County had to change attorneys due to a retirement and dissolution of the firm that had been representing them. The new attorneys prevailed in Appeal #2 and the Appeals court agreed there was no settlement and the case was returned to the trial court. The trial court stated that no further pursuit of a settlement would be conducted and directed discovery to begin.

Discovery began with two of the named class representatives being deposed and it was revealed that one of the individuals said they were not out of pocket anything as a result of the change in insurance carrier. The other individual did not have receipts but claimed that they believed some of their prescription costs had been higher. The plaintiff's attorney filed a motion to bifurcate the case at this point in order to deal with just liability and not damages. The County objected and did not prevail. Liability went through discovery and the County filed a motion to dismiss because there was no breach and they should have the authority to "shop" the market and have flexibility to choose the insurance provider.

The court sided with the County and agreed there was no breach, but stated that retiree health care benefits were a “vested right”. The plaintiffs did not agree with the first half of that statement and the County did not agree with the second half. Plaintiffs appealed (Appeal #3) the determination that there was no breach. Since the matter was already in the Appellate Court, the County counter-appealed the determination that retiree health care benefits were a vested right. Approximately a year later, the Appeals Court ruled completely against the County and determined there was a breach and the benefits were a vested right.

The County has now sought a petition for an appeal to the Supreme Court. If granted, that will be Appeal #4. Mr. Schapka stated it is important to note that damages have not even been addressed yet. If the County’s petition for appeal to the Supreme Court is not granted, the case comes back to the trial court for discovery on damages. If the County is successful on their petition, but is not successful on their appeal with the Supreme Court, the case also comes back to the trial court for discovery on damages. If the County is successful on their petition and prevails in their appeal with the Supreme Court, the case is essentially over. He expects that they are a year to a year-and-a-half away from any resolution.

*A motion was made by Trustee Rocca, supported by Trustee Santo to receive and file the update on the Retiree Health Care case. The motion carried.*

**9. Unfinished Business**

None

**10. New Business**

None

**11. Adjournment**

*There being no further business before the Board, a motion was made by Trustee Rocca, supported by Trustee Smith to adjourn the meeting at 10:08 a.m. The motion carried.*