



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
LANSING

JOHN E. NIXON, CPA
DIRECTOR

January 16, 2014

Steve Harry
3125 Tecumseh River Rd
Lansing, MI 48906

Dear Mr. Harry:

Your letter of November 24th 2013 has been referred to me for response. You have asked for assurances that no Supplemental Payment (as provided in Section 104a, Act 300, P.A. 1980), more commonly known as a "13th check, will be paid this year. Please be advised there will be no Supplemental Payment made this year.

The vast majority of retired public school employees and state employees are eligible for annual post retirement increases. The value of those annual post retirement increases are cumulatively compared to Supplemental Payment calculations and deducted from any potential payment. For the current year, the value of the annual post retirement increases are far in excess of the calculation of the Supplemental Check.

Even for the extremely small portion of retirees not eligible for annual post retirement increases, there will be no Supplemental Payment this year based upon the calculation formula. This should not come as a surprise for the tiny fraction of eligible retirees. The underlying basis for the Supplemental Payment is a distribution of "excess funding." The effectiveness of the Supplemental Payment as a post-retirement payment is limited by the Retirement System's long-term goal of charging the schools sufficiently to properly fund the obligations of the Plan, yet not overcharging them. In other words, if all predictive assumptions used in the calculation of Plan funding requirements are accurate, there would theoretically be no "excess funding/ over-charging of funding requirements to the schools. In reality, no predictive model is perfect and there, in fact, have been some years with and some without Supplemental Payments. It is noteworthy, however, that there has not been a Supplemental Payment for retired school employees since 2002, nor for retired state employees since 2001.

Also, as you are probably aware, the investment returns (losses) in 2008 and 2009 were some of the worst since the Great Depression in the 1930's. While the years since 2009 have been much better on the whole, the pension system's long term funding requirements have not yet recovered from these losses.

Thank you for your continued interest in the security of the funding of retirement payments to retired state and public school retirees.

Sincerely,

Steve Crippen, Business Process Owner
Office of Retirement Services, Benefit Plan Design