

BOARD OF TRUSTEES LETTER

to all active members & retirees of the
general retirement system of the city of detroit

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John Kanters

DEAR MEMBERS:

On behalf of the Board of Trustees of the General Retirement System of the City of Detroit, I am pleased to present the annual report of the Retirement System for the 1997 - 1998 fiscal year ended June 30, 1998. This report will provide you with a summary of the plan benefit provisions, the financial condition of the Retirement System, assumptions used for actuarial valuations, and the Retirement System's investments.

Your Board of Trustees is pleased to report that the financial condition of the Retirement System is *excellent*. The Board invests all available funds in a diversified portfolio of investments with the objective of maximizing the overall long term appreciation of the Retirement System's assets

while generating sufficient current income to pay the benefits which the members of the System have earned. This diversified portfolio is built around the Board's asset allocation plan which is detailed on pages 29, and 30 and 31 and summarized on page 32.

The Board's asset allocation has been well-positioned to take advantage of the continued record-breaking performance of the financial markets during the past year. The significant accomplishments of the Board of Trustees and staff which are reflected in the financial statements of the Retirement System include:

- The fund balance of the Retirement System on June 30, 1998 was \$2,729,527,412 which represents an increase of \$207,903,637 over the prior 12 months.

- The income from investments was \$332,995,357 which represents an increase of 17% over the prior fiscal year's earnings.
- The composite rate of return achieved by the Retirement System was 16.3% which is more than double the System's actuarially assumed rate of 7.5%.

The foregoing confirm the fact that the General Retirement System is *stable and secure* and expects to meet all future retirement obligations to its members. When comparing the Retirement System with other public employee retirement plans, the Retirement System ranks in the top 10% of all such plans as measured by its solvency and ability to meet all future retirement obligations to its members.

BOARD OF TRUSTEES LETTER CON'T

As a result of the favorable performance of the investments of the Retirement System, the Board of Trustees was able to:

- Distribute an additional \$2,350 to all retirees.
- Credit an additional distribution to active employee annuity accounts of 17.35%.

With the objective of providing the active and retired members of the System with better service, the Retirement System:

- Started publishing a newsletter every six months.
- Began work on a Retirement Systems internet web site.
- Made further enhancements to its state-of-the-art computer systems to provide quicker access to members' files.

- Continued to provide an 800 toll free telephone number (1-800-339-8344).

- Expanded the capabilities of the telephone system to handle an ever increasing volume of calls.
- Assigned an additional staff member to answer calls from our members who would prefer not to utilize the voice mail system.

These accomplishments reflect the continued hard work and dedication of the Board of Trustees, advisors, consultants and staff of the Retirement Systems. We ask for your continued support so that we can maintain a strong and financially secure Retirement System for all participants.

The Board of Trustees and their staff welcome your suggestions regarding the Retirement System and encourage you to inform us how we might better serve you. If you have any suggestions for the 1998 - 1999 Annual Report, please send them to the Annual Report Committee at 908 City-County Building, Detroit, Michigan 48226.

Sincerely,

John Kanters
Chairman
Board of Trustees

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Thomas Zdrodowski
Executive Secretary

I am pleased to once again submit to you the annual financial report for the fiscal year ended June 30, 1998.

This report was prepared to communicate to all active members and retirees the current status of the Retirement System and its results for the fiscal year ended June 30, 1998. At June 30, 1998, the System had approximately 12,261 active employee members and approximately 11,593 retirees and beneficiaries.

This is a consolidated report of the Defined Benefit Plan and the Defined Contribution Plan of the Retirement System.

The report consists of four (4) sections:

- I **INTRODUCTORY SECTION** contains the Board of Trustees introductory letter, letter of transmittal from the Executive Secretary, lists Retirement Board members, and summarizes the Plan Benefit provisions.
- II **FINANCIAL SECTION** contains the Independent Auditors report and the financial statements of the System.
- III **ACTUARIAL & STATISTICAL SECTION** contains the results of the annual valuation and statistical tables which contain significant data pertaining to the General Retirement System.
- IV **INVESTMENT SECTION** summarizes investment activities and identifies the System's advisors and consultants.

ACCOUNTING SYSTEM AND REPORTS These financial statements have been prepared in accordance with generally accepted accounting principles applicable to governmental units. Effective with the 1996-97 fiscal year, in accordance with standards promulgated by the Governmental Accounting Standards Board (GASB), the Trustees adopted the Market Value basis of reporting for investments, replacing book value. Accordingly, all schedules presented in this report reflect changes in market value for all Retirement System assets.

REVENUES The reserves needed to fund retirement benefits are accumulated through the collection of employer and employee contributions and through income on investments. Employer contributions for 1997-98 totaled \$52,707,172 while employee contributions were \$20,988,330. Net investment income for the fiscal year was \$329,703,654.

EXPENSES Benefit payments are the primary disbursements of a Retirement System. Consequently, recurring benefit payments prescribed by the plan, refunds of contributions from the Defined Contribution Plan to terminated employees and the

cost of administering the system comprise the total expenses. Administrative expenses are funded wholly through investment income. Benefit disbursement for 1997-98 totaled \$195 million.

FUNDING AND RESERVES The trust funds consist of contributions and earnings that are accumulated by the Retirement System in order to meet current and future benefit obligations to retirees and beneficiaries. A higher level of funding and a larger accumulation of assets leads to a greater potential for higher investment income. Continuous improvement in the funding of the System is the trustees objective.

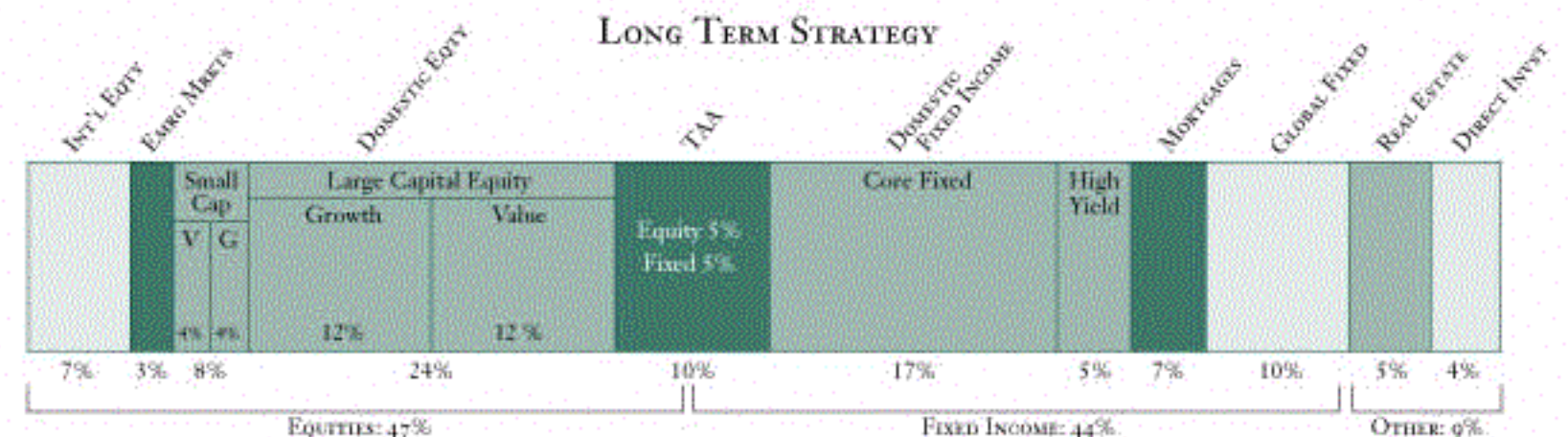
As of June 30, 1998 funds of the System totaled \$2.730 billion. The actuarial valuation dated July 1, 1998 reflects an unfunded actuarial accrued liability of \$232.8 million. This is the difference between the net assets available for benefits and the actuarial calculated liability for the fund. These "unfunded actuarial accrued liabilities" are being amortized over future years.

INVESTMENTS The Retirement System invests all available funds in order to maximize both current income and long-term appreciation. The investment portfolio provided revenues of \$330 million for 1997-98. The primary objective of the System's investment policy is to assure that the System meet its responsibilities for providing retirement benefits. The portfolio is diversified to provide the highest possible total return on the System's assets with the least exposure to risk.

ACKNOWLEDGEMENTS The preparation of this report reflects the combined efforts of the Retirement Systems' staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and as a means of disseminating vital and pertinent information to all active and retired members of the General Retirement System of the City of Detroit. This report is being distributed to all active members, retirees and other interested parties.

Very truly yours,

Thomas Zdrodowski
Executive Secretary



JUNE 30, 1998 BOARD OF TRUSTEES

ELECTED EMPLOYEE MEMBERS:



SANDRA STUDZINSKI
Business Administrator
Municipal Parking Department
Term expires June 30, 1998



THOMAS KNEESHAW
Principal Social Planning &
Development Assistant
Planning and Development
Department
Term expires June 30, 1999



RONALD GRACIA
Senior D.P. Prog. Analyst
Water & Sewerage Department
Term expires June 30, 2001



DAVID C. CLARK
Mechanical Inspector
Buildings & Safety Engineering
Department
Term expires June 30, 2002



THOMAS SHEEHAN
Investment Agent
Finance Department
Term expires June 30, 2003

EX-OFFICIO MEMBERS:



DENNIS W. ARCHER
Mayor



CLYDE CLEVELAND
Council Designate,
City Council



SHAFTER TERRY III
Treasurer

ELECTED RETIRANT MEMBER:



JOHN KANTERS
Term expires June 30, 1999

APPOINTED CITIZEN MEMBER:



REV. WENDELL ANTHONY
Term expires June 30, 2000

OFFICERS:



VALERIE L. JOHNSON
Finance Director
Ex-Officio Secretary



THOMAS ZDRODOWSKI
Executive Secretary



JOSEPH GLANTON
Assistant Executive Secretary

ACTUARY:

GABRIEL, ROEDER,
SMITH & CO.

MEDICAL
DIRECTOR:

REGINALD E. O'NEAL, D.O.

PERFORMANCE
EVALUATION:
NEW ENGLAND PENSION
CONSULTANTS*

LEGAL ADVISOR:



RONALD ZAJAC

REAL ESTATE
CONSULTANT:
THE TOWNSEND GROUPMASTER
CUSTODIAN:
STATE STREET
BANK & TRUST

* Fee paid through union/retiree recipient program

SUMMARY OF PLAN BENEFIT PROVISIONS

AGE AND SERVICE
RETIREMENT

ELIGIBILITY - Any age with 30 years of service (Employees hired after January 1, 1996, age 55 with 30 years of service) age 60 with 10 years of service, or age 65 with 8 years of service.

ANNUAL AMOUNT - Sum of a) a basic pension of \$12 for each of the first 10 years of service, plus b) a pension equal to the first 10 years of service multiplied by 1.5% of AFC, plus 1.7% of AFC for each year of service greater than 10 years up to 20 years, plus 1.9% of AFC for each year of service over 20 years, plus c) an annuity which is the actuarial equivalent of the member's accumulated contributions at retirement.

Members who retired prior to July 1, 1992 and members who vested their pension prior to July 1, 1992, are computed at 1.5% of average final compensation times years of service.

AVERAGE FINAL
COMPENSATION (AFC)

Pre - July 1, 1992 - Highest 5 consecutive years out of the last 10 excluding longevity.

Post - July 1, 1992 - Highest 4 consecutive years out of the last 10 including longevity.

VALUE OF COMPENSATION
REDUCTIONS INCLUDED IN
PENSION COMPUTATION -

No member or former member will suffer a diminution of pension benefits computation due to reduction in compensation because of a fiscal emergency.

EARLY SERVICE
RETIREMENT

ELIGIBILITY - Any age with 25 or more years of service.

ANNUAL AMOUNT - Same as regular retirement but actuarially reduced.

DEFERRED
RETIREMENT
(VESTED BENEFIT)

ELIGIBILITY - Hired prior to 7-1-80: Age 40 with 8 years of service. Hired on or after 7-1-80: Any age with 10 years of service.

BENEFIT COMMENCEMENT - Non-Union, SAAA, and lawyers hired prior to June 30, 1986: Benefit begins at the age the member would have become eligible for regular retirement if service had continued. **Others:** Benefits based on service rendered by June 30, 1986 begin at the age the member would have become eligible for regular retirement. Benefits based on service rendered after July 1, 1986* begin at age 62.

ANNUAL AMOUNT - Same as regular retirement but based on average final compensation and service at the time of termination.

DUTY DISABILITY
RETIREMENT

ELIGIBILITY - Service related disability before age 60. No service requirement.

ANNUAL AMOUNT - An annuity which is the actuarial equivalent of the accumulated contributions at date of disability plus a pension of two-thirds of average final compensation at time of disability. The maximum annual pension is \$5,700. At age 60 or with 30 years, the annuity is recomputed assuming contributions would have continued at the employees elected contribution rate at the time of disability, a salary level equal to final compensation. The pension is recomputed with additional service credit granted from the date of disability to the conversion date with no maximum.

* APTC effective July 1, 1988

SUMMARY OF PLAN BENEFIT PROVISIONS CON'T

NON-DUTY
DISABILITY
RETIREMENT

ELIGIBILITY - Disability from any cause before age 60 with 10 or more years of service.

ANNUAL AMOUNT - Computed in the same manner as a regular retirement benefit. Maximum annual pension to age 60 is \$3,900. Benefit is recomputed at age 60 with no maximum.

DUTY DEATH
BEFORE
RETIREMENT

ELIGIBILITY - Death from service related causes. No age or service requirements.

ANNUAL AMOUNT - One-third of final compensation to the surviving spouse for life or until remarriage, plus an equal share of 1/4 of final compensation to each unmarried child under age 18. If there is no eligible spouse, eligible children each receive 1/4 of final compensation; if there are more than 2 such children, each child shares an equal part of 1/2 of final compensation. Maximum total amount for spouse and children is \$5,700 annually. If there is no eligible spouse or children, dependent parents each receive 1/6 of deceased's final compensation, to a total maximum of \$600 annually.

NON-DUTY DEATH
BEFORE
RETIREMENT

ELIGIBILITY - Death in service at any age with 20 years of service; or age 60 with 10 years of service, or age 65 with 8 years of service.

ANNUAL AMOUNT - To Surviving Spouse: Computed as a regular retirement benefit but reduced in accordance with a 100% joint and survivor election. To Dependent Children if no Surviving Spouse: \$5,700 payable to age 19 of the youngest child or for life if child is physically or mentally impaired.

POST-RETIREMENT
COST-OF-LIVING
ADJUSTMENTS

Benefit is increased annually by 2.25% of the **original** pension amount at retirement.

MEMBER
CONTRIBUTIONS

Members have the option of choosing one of four contribution amounts: (1) 0%; (2) 3.0% of compensation up to the Social Security wage base, plus 5.0% of compensation in excess of the Social Security wage base; (3) 5.0% of total compensation; or (4) 7.0% of total compensation.

INDEPENDENT AUDITORS'
REPORT

*to all active members & retirees of the
general retirement system of the city of detroit*

KPMG Peat Marwick LLP

Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

To the Board of Trustees - General
Retirement System of the City of Detroit:

We have audited, in accordance with generally accepted auditing standards, the Statement of Plan Net Assets and the related Statement of Changes in Plan Net Assets of the City of Detroit General Retirement System (the System) as of and for the year ended June 30, 1998; and in our report dated October 23, 1998, we qualified our opinion because sufficient audit evidence does not exist to support disclosures in the financial statements with respect to the Year 2000 issue which is required by Government Accounting Standards Board Technical Bulletin 98-1, *Disclosures About Year 2000 Issues*.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding Year 2000 disclosures, the information set forth in the accompanying condensed financial statements (condensed in that such statements do not contain footnote disclosures required by generally accepted accounting principles) is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

The accompanying Statement of Plan Net Assets and the related Statement of Changes in Plan Net Assets of the System as of and for the year ended June 30, 1997 were also audited by us and, in our report dated November 21, 1997, we expressed an unqualified opinion on those financial statements.

October 23, 1998

 KPMG
Member Firm of PricewaterhouseCoopers