Board of Trustees Letter

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

Ronald Gracia
Chairman
Board of Trustees

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 2003 – 2004 fiscal year ended June 30, 2004. 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 Retirement System is in sound actuarial condition. 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, 30, and 31 and summarized on page 32. The Board's asset allocation is built upon the foundation that the obligations of the Retirement System to pay the benefits promised to its members and retirants are very long term obligations. Accordingly, the Board of Trustees must make investment decisions which it believes will be the most beneficial to the Retirement System over many years, not just one or two years.

The Retirement System and its assets exist to pay the benefits which its members have earned. The fund balance of the Retirement System on June 30, 2004 was $2.5 billion. During the fiscal year ended June 30, 2004 the Retirement System paid $156,921,199 in benefits to retirants and beneficiaries, plus $98,292,960 in lump sum defined contribution plan benefits

After four consecutive very difficult years in the financial markets, this year was exceptionally good, especially for stocks. The US stock market as measured by the S&P 500 stock index posted a 19.1% gain for the year.

This was a relatively good result compared to the negative returns which the stock market posted in each of the three prior years. Bonds, as measured by the Lehman Aggregate Bond Index returned 0.3% and high yield bonds returned 10.3%. Real estate, as measured by the NCREIF Property Index delivered a 7.5% return for the year.

Board of Trustees Letter Con't

The Board's asset allocation delivered an overall market value rate of return for the year, net of all expenses, equal to 14.8% which is nearly twice the System's actuarial rate of 7.9%. In 1996 the Board adopted the policy of computing the recognized rate of return by using a "smoothing" formula to average the market value rate of return over three years. For the current year the recognized rate of return was 2.7% which reflects the averaging of much lower returns achieved in the prior two years which were carried over to the current year. Superior returns from the Board's allocation to stocks and real estate propped up the meager but positive returns from bonds.

Your Board of Trustees is confident that its long term asset allocation will continue to deliver the historically superior returns to its members. The System is on pace to earn in excess of its actuarial rate for the next fiscal year.

Looking back over longer periods of time we can see that the Board's asset allocation plan has been successful in realizing strong returns for the benefit of the Retirement System, its active members and retirants. For the sixteen (16) years ended June 30, 2004 the rate of return for the Retirement System was 8.6% which exceeds the System's long term rate of return objective of 7.9% despite the difficult financial markets which have held back total fund performance for four of the past five years.

All of 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 very favorably against other such plans as measured by its solvency and ability to meet all future retirement obligations to its members.

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

- Published a newsletter every six months.
- Serviced over 12,000 telephone requests and personal visits from active members and retirees
- Upgraded the Retirement Systems internet web site (**www.rscd.org**) which is available for member access which has been accessed over 40,000 times to date to include enhancements to the pension benefit estimator
- Enhanced its computer systems to improve response time to member inquiries.
- Continued to provide an 800 toll free telephone number (1-800-339-8344).

These accomplishments reflect the continued hard work and dedication of the Board of Trustees, advisors, consultants and staff of the Retirement System. 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 its 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 2004 – 2005 Annual Report, please send them to the Annual Report Committee at 908 Coleman A. Young Municipal Center, Detroit, Michigan 48226.

Sincerely,

Ronald Gracia

Ronald Gracia
Chairman
Board of Trustees

Nicholas Degel
Executive Secretary

I am pleased to submit to you the annual report of the General Retirement System of the City of Detroit. This report was prepared to communicate to all active and retired members of the Retirement System the financial position and the results of operations of the System for the fiscal year ended June 30, 2004. At June 30, 2004 the Retirement System had 11,791 active members and 11,311 retirees and beneficiaries. This is a consolidated report of the Defined Benefit Plan and the Defined Contribution Plan of the Retirement System. This annual report consists of four (4) sections:

I **Introductory Section** contains the introductory letter from the Board of Trustees, the transmittal letter from the Executive Secretary, a summary of the asset allocation strategy, the officers and members of the Board of Trustees, and summary of plan benefit provisions.

II **Financial Section** contains the report of the independent auditors and the financial statements of the Retirement System.

III **Actuarial & Statistical Section** contains the results of the annual valuation and statistical tables prepared by the System's actuaries.

IV **Investment Section** contains the summary of the investment activity, the audited summary of detail analysis of investments and related income, and list of investment managers along with a brief description of their investment objectives.

Telephone numbers for the Retirement System and its key departments may be found on the last page of this annual report.

Accounting System and Reports: The financial statements contained herein have been prepared in accordance with generally accepted accounting principles applicable to governmental units applied on a consistent basis. Effective with the 1996 – 1997 fiscal year commencing July 1, 1996 the Retirement System adopted the Market Value basis of reporting for investments, replacing the Historical Cost basis. This was done in accordance with standards promulgated by the Governmental Accounting Standards Board (GASB). Accordingly, all schedules presented in this report reflect changes in market value for all assets of the Retirement System.

Revenues: The sources of funds utilized to pay retirement benefits consist of employer and employee contributions to the System plus income from investments. For the fiscal year ended June 30, 2004 employer contributions were $95,876,076 employee contributions were $24,290,278 and recognized investment income was a negative $71,485,335.

Expenses: The expenses incurred by the Retirement System include payment of retirement benefits from the Defined Benefit Plan and the Defined Contribution Plan and the cost of administering the System. Administrative expenses are funded solely through investment income. For the fiscal year ended June 30, 2004 retirement benefits, refunds and administrative expenses totaled $259 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 retirants 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 a primary objective of the Board of Trustees.

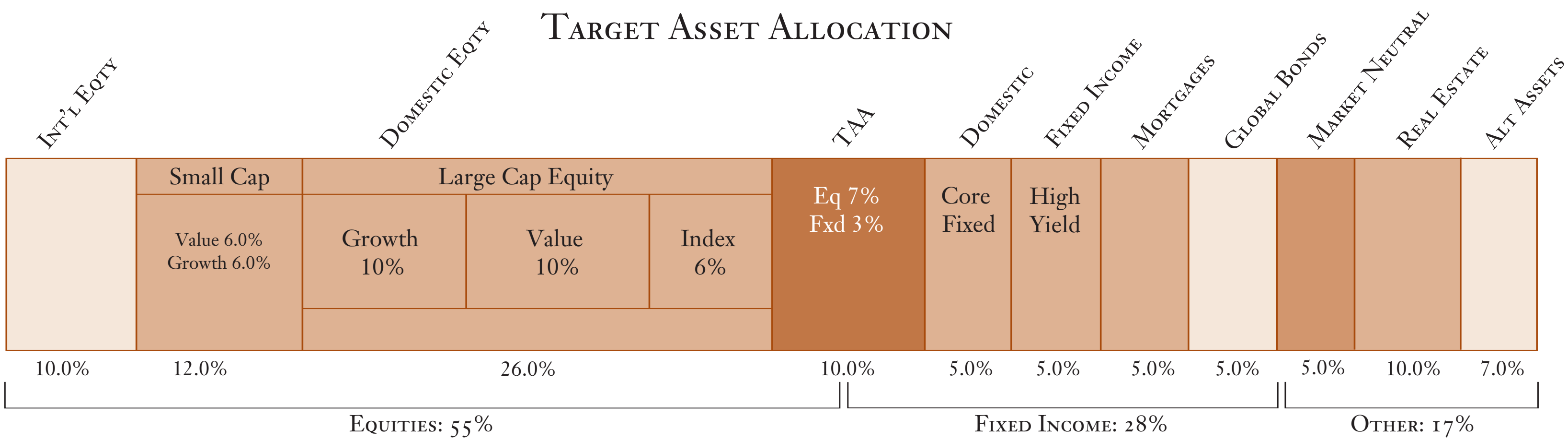
As of June 30, 2004 the funds of the Retirement System totaled $2.5 billion. The actuarial valuation as of June 30, 2004 reflects an unfunded actuarial accrued liability of $914 million. This is the difference between the net assets available for benefits and the actuarial liability calculated for the Retirement System. 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 primary objective of the System's investment policy is to assure that the System meets its responsibility for providing retirement benefits. The System's portfolio of investments is diversified to provide the highest possible total return on assets with the least exposure to risk.

Acknowledgments: The preparation of this annual report reflects the combined efforts of the staff of the Retirement System under the direction of the Board of Trustees. The annual report is intended to provide complete and reliable information to the Trustees 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 active members, retirees and other interested parties.

Very truly yours,

Nicholas Degel
Executive Secretary


Target Asset Allocation
Int'l Eqty
Domestic Eqty
TAA
Domestic
Fixed Income
Mortgages
Global Bonds
Market Neutral
Real Estate
Alt Assets
Small Cap
Value 6.0%
Growth 6.0%
Large Cap Equity
Growth 10%
Value 10%
Index 6%
Eq 7%
Fxd 3%
Core Fixed
High Yield
10.0%
12.0%
26.0%
10.0%
5.0%
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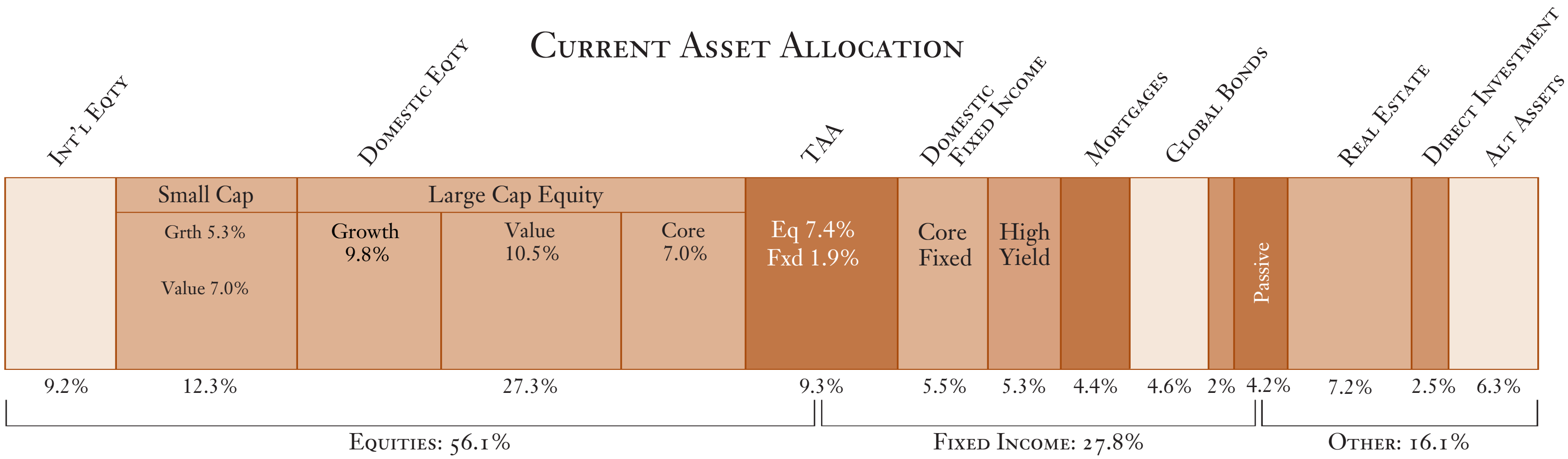
5.0%
10.0%
7.0%
Equities: 55%
Fixed Income: 28%
Other: 17%


Current Asset Allocation
Int'l Eqty
Domestic Eqty
TAA
Domestic
Fixed Income
Mortgages
Global Bonds
Real Estate
Direct Investment
Alt Assets
Small Cap
Grth 5.3%
Value 7.0%
Large Cap Equity
Growth 9.8%
Value 10.5%
Core 7.0%
Eq 7.4%
Fxd 1.9%
Core Fixed
High Yield
Passive
9.2%
12.3%
27.3%
9.3%
5.5%
5.3%
4.4%
4.6%
2%
4.2%
7.2%
2.5%
6.3%
Equities: 56.1%
Fixed Income: 27.8%
Other: 16.1%

June 30, 2004 Board Of Trustees

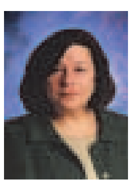
Elected Employee Members:

Sandra Studzinski
Business Administrator
Municipal Parking Department
Term expires June 30, 2004

Thomas Kneeshaw
Principal Social Planning & Development Assistant
Planning and Development Department
Term expires June 30, 2005

Ronald Gracia
Senior D.P. Prog. Analyst
Water & Sewerage Department
Term expires June 30, 2007

David C. Clark
Mechanical Inspector
Buildings & Safety Engineering Department
Term expires June 30, 2008



Susan Glaser
Senior Government Analyst
Employee & Training Department
Term expires June 30, 2009

Ex-Officio Members:

Kwame M. Kilpatrick
Mayor

Kenneth V. Cockrel Jr.
Council Designate,
City Council

Clarence Williams
Treasurer

Elected Retirant Member:

John Kanters
Term expires June 30, 2005

Appointed Citizen Member:

Rev. Wendell Anthony
Term expires June 30, 2006

Officers:

Sean K. Werdlow
CFO/Finance Director
Ex-Officio Secretary

Nicholas Degel
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*

** Fees paid through commission recapture program*

Legal Advisor:

Ronald Zajac

Real Estate Consultant:

The Townsend Group

Master Custodian:

State Street Corporation

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 1.6% of AFC, plus 1.8% of AFC for each year of service greater than 10 years up to 20 years, plus 2.0% of AFC for each year of service greater than 20 years up to 25 years, plus 2.2% of AFC for each year of service greater than 25 years, plus (c) an annuity which is the actuarial equivalent of the member's accumulated contributions at retirement.

Members who retired or vested their pension after July 1, 1992, and prior to July 1, 1998 – 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 1.63% 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.

July 1, 1992 – June 30, 1998 – Highest 4 consecutive years out of the last 10 including longevity.

July 1, 1998 or After – Highest 3 consecutive years out of the last 10 including longevity.

July 1, 1999 or After – Member has the option of adding the value of 25% of unused accrued sick leave to the earnings used in computing the AFC.

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 – January, 1980: 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, factors 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. Effective January 1, 1999, the maximum annual pension is $9,000. 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,

**APTE effective July 1, 1988*

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.

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. Effective January 1, 1999, the maximum annual pension to age 60 is $6,000. 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 $9,000 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: $9,000 payable to age 19 of the youngest child or for life if child is physically or mentally impaired.

ELIGIBILITY – Death in service at any age with at least 15 years of service but less than 20 years of service.

ANNUAL AMOUNT – To Surviving Spouse: Computed as a regular retirement benefit but reduced in accordance with a 50% joint and survivor election. To Dependent Children if no Surviving Spouse: $6,000 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.