



General Retirement System City of Detroit

Pension Perspectives

Winter 2009

Volume 9, Issue 1

General Retirement System

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Dear Members:

On behalf of the Board of Trustees of the General Retirement System of the City of Detroit (GRSD), I am pleased to offer you the latest edition of our Pension Perspectives newsletter.

We have reinitiated these newsletters because we understand how important it is that you – our members – receive timely updates and because as a Board, we believe that openness, accountability and transparency are critical elements when serving as stewards of trust funds. To that end, we will strive to provide you with the most current pension updates and information that is critical to your understanding of how your pension money is being managed.

We want you to know that given the seriously depressed economy in the United States – most especially in Michigan – we are proud of the fact that as of the period ending June 30, 2009, the General Retirement System of the City of Detroit posted better investment results than 88 percent of public funds with assets over \$1 billion in the United States. It is also important to note that as of our last actuarial report, the GRSD was 104 percent funded.

I hope that you find the information enclosed, including articles on the construction of our new building, the Defined Contribution Plan and the Annuity Loan Program useful.

Sincerely,

Sheila W. Kneeshaw
Chair
General Retirement System of the City of Detroit

June 17, 2009

Board of Trustees
City of Detroit General Retirement System
2 Woodward Avenue, Suite 908
Detroit, MI 48226

Re: Financial Position of the Retirement System

Dear Board Members:

As of June 30, 2008, the ratio of recognized assets to accrued liabilities was 101% - a higher funded ratio than is found in the majority of public sector retirement systems. Naturally, because of the difficult market environment since June 30, it is expected that we will see a lower funded ratio as of June 30, 2009 and contribution rate increases are very likely, as they will be in most other public sector plans as well.

With the expected decrease in the System's funded ratio, we have been asked to comment on the benefit security of both active and retired members. Benefits are fully secure provided that required City contributions are made to the system on a timely basis in future years. What is the assurance that such contributions will be made? Under Michigan Public Act 314 of 1965 as amended, public sector plan sponsors are required to annually contribute an amount at least equal to the employer normal cost plus a 30 year amortization of any unfunded accrued liabilities. Contributions to maintain financial strength are also required by Article 9, Section 24 of the state constitution. Public sector plans are working their way through the most challenging financial times in their history. However, there have been challenging times in the past and it is our understanding that the City has made necessary contributions in all such periods. Therefore, there is every expectation that they will do so in the future.

Sincerely,



Norman L. Jones, Actuary

NLJ:bd

cc: Walter Stampor, City of Detroit
Myron Terrell, City of Detroit
Judith Kermans, GRS
Kenneth Alberts, GRS

GRSD to Launch Annuity Savings Loan Program

The launch of the 1973 Defined Contribution Loan Program (Annuity Savings) is one step closer. In September, the General Retirement System of the City of Detroit (GRSD) contracted with First Independence Bank to serve as our third-party administrator for the loan program, which is scheduled to launch in January 2010.

While this is important news, it is also important to remember that the decision to borrow from your annuity savings should be weighed very carefully.

The following Q & A provides the basics you will want to consider.

Who is eligible?

Any active general city employee (coded active and paid on City payroll) who is or has been a participant in the 1973 Defined Contribution Plan (Annuity Savings) and who has an account balance of \$2,000 or more at the time of application.

Additionally, you must be a non-union employee or a member of a union that has formally adopted the provisions of the loan program and provided GRSD and Labor Relations with written notification of acceptance of the program.

How much can I borrow?

Minimum amount: \$1,000.

Maximum amount: One-half (50%) of your account value or \$10,000, whichever is less.

How is the interest rate determined?

Interest rates will be based on the actuarial assumed rate (base interest rate you are paid in your annuity) plus 1% for loan administration.

The loan rate is fixed for the life of the loan.

What is the current calculated interest rate?

The current rate is 8.9%.

What are the loan initiation and processing fees?

\$75 loan initiation fee (deducted from the approved loan amount)

\$2.50 per payment processing fee (to cover the third-party administrator fees)

What are the terms of the loan?

There are two loan options:

General Purpose Loan

Can be used for any purpose

Does not require a reason for the loan

Has a repayment period of 1 to 5 years

Resident Loan

Can only be used for the purchase or construction of a primary residence

Proof of purchase or a construction agreement is required

Has a repayment period of 1 to 15 years

What are the loan repayment rules?

Loans must be repaid in full. They are due and payable upon the expiration of the loan term or your severance from employment with the City, whichever occurs first.

Repayments will be automatically deducted from your paycheck on a bi-weekly basis beginning the month after you receive the loan.

What if I fail to make a payment?

A loan is considered delinquent if payment is not made by the due date and the Plan Administrator does not receive the payment by the last day of the calendar quarter in which it was due.

Continued on page 5

Update on the 1998 Defined Contribution Plan

The General Retirement System of the City of Detroit (GRSD) has made significant progress toward implementing the new 1998 Defined Contribution Plan (DC Plan) for its members.

The Plan received City Council approval, and a favorable determination by the Internal Revenue Service which cleared the way for pre-tax contributions to the plan to qualify for deferred tax status.

In addition, the Board of Trustees' has in place its plan education coordinator, Publish Now, Inc, which has worked closely with the GRSD staff to develop comprehensive informational "toolkits" for members. The toolkit provides information about both the Defined Benefit Plan and the new 1998 Defined Contribution Plan and is intended to assist members in their decision as to which plan is best for them.

Great-West, an industry-leader in retirement savings plans, handles the record keeping and investment opportunities for members who choose the 1998 Defined Contribution Plan.

The project is largely complete and has been for some time. However, there remain a number of functional issues related to the automation process that are outstanding. Until these are resolved, the DC Plan cannot move forward.

Two outstanding functional issues require City Council action. They are:

- Enactment of a Companion Ordinance to ensure that current and future retiree health benefits are the same as in the Defined Benefit Plan.
- An amendment to City Ordinance 47-3-4(b) requiring the City to make after-tax contributions for active members in the 1998 DC Plan. This is in accordance with the statute that created the 1998 DC Plan. Additionally, the City of Detroit must resolve a budgetary issue that will result from the immediate sick pay payout for terminated members once the DC Plan is in place.

On the taxation side, a determination must be made whether employer "pick-up" contributions are pre- or post-FICA.

There are also logistical issues to address before the DC Plan is implemented, such as resolving differences between collective bargaining agreements and the ordinance for sick pay payout. However, these issues are dependent on the resolution of the functional issues. It is hoped that the latter issues are addressed as soon as possible.

The Board is committed to providing you with regular updates. Additionally, we want to remind you that there are excellent tools in place to ensure that you fully understand both the Defined Benefit Plan and the Defined Contribution Plan. The following resources are available

- www.detroitretirement.info
- Email info@detroitretirement.info
- Decision Helpline (866) 843-0986
- Great West (800) 537-2033
- www.greatwest.com



RSD To Build New Headquarters on Jefferson Avenue

Every year, thousands of active and retired members of the Retirement Systems of the City of Detroit visit the pension offices at the Coleman A. Young Municipal Center.

The Boards of the General Retirement and Police and Fire Retirement Systems of the City of Detroit are acutely aware of the challenges facing those who visit our current location – limited access to the building, expensive and limited parking, and long lines at security processing. To address these challenges and to provide for adequate space to conduct pension business, we are working to build our permanent headquarters on Jefferson Avenue.

The Boards carefully considered all options including leasing, acquisition of existing building or construction of a new building. Not only will the new

Continued on page 6

Loan Program Launch (continued from page 3)

The Plan Administrator will send a Loan Late Letter notifying you of the delinquency and instructing you to submit the amount due via bank check or money order directly to the Plan Administrator by the date set forth in the letter to avoid default.

What happens if I default on my loan?

The entire outstanding balance of the loan, including accrued but unpaid interest, up to the date of default will be a taxable distribution and reported to the Internal Revenue Service on Form 1099-R. In addition, if you are under the age of 59½, you also may owe a penalty to the IRS for premature withdrawal.

Interest will continue to accrue on the defaulted loan until it is fully repaid or the participant reaches a distributable event (such as reaching age 59½).

You may not apply for any additional loans from your 1973 Defined Contribution Plan, even if the defaulted loan is paid in full.

Do I still have to pay back the loan after a default? Do loan charges continue?

Yes. The monies are still owed to the fund and interest charges continue to accrue after you have defaulted and been sent a 1099R.

For example, if you defaulted owing \$9,000 and made no payments for five years, you would owe in excess of \$14,000. However, you would not owe any new taxes on the amount on the 1099-R you received when you defaulted.

How many loans can I take?

You may take only one loan at a time. Once it has been paid in full, you may request another loan of the same type after a 60-day waiting period.

You may not borrow funds if you have defaulted on a previous loan from your 1973 Defined Contribution Plan.

How do I estimate a loan repayment amount?

You can estimate about \$10 biweekly for every

\$1,000 borrowed for a 5-year General Purpose Loan.

For a Residential Loan, the estimate is \$5 biweekly for each \$1,000 borrowed for a 15-year term.

An additional \$2.50 fee is added to each biweekly loan repayment.

The minimum payment is \$20 biweekly regardless of the amount borrowed.

If the loan repayment amount exceeds 25% of your net pay, the loan amount will be reduced until the payment is below that threshold.

It's my money. Why do I have to pay it back?

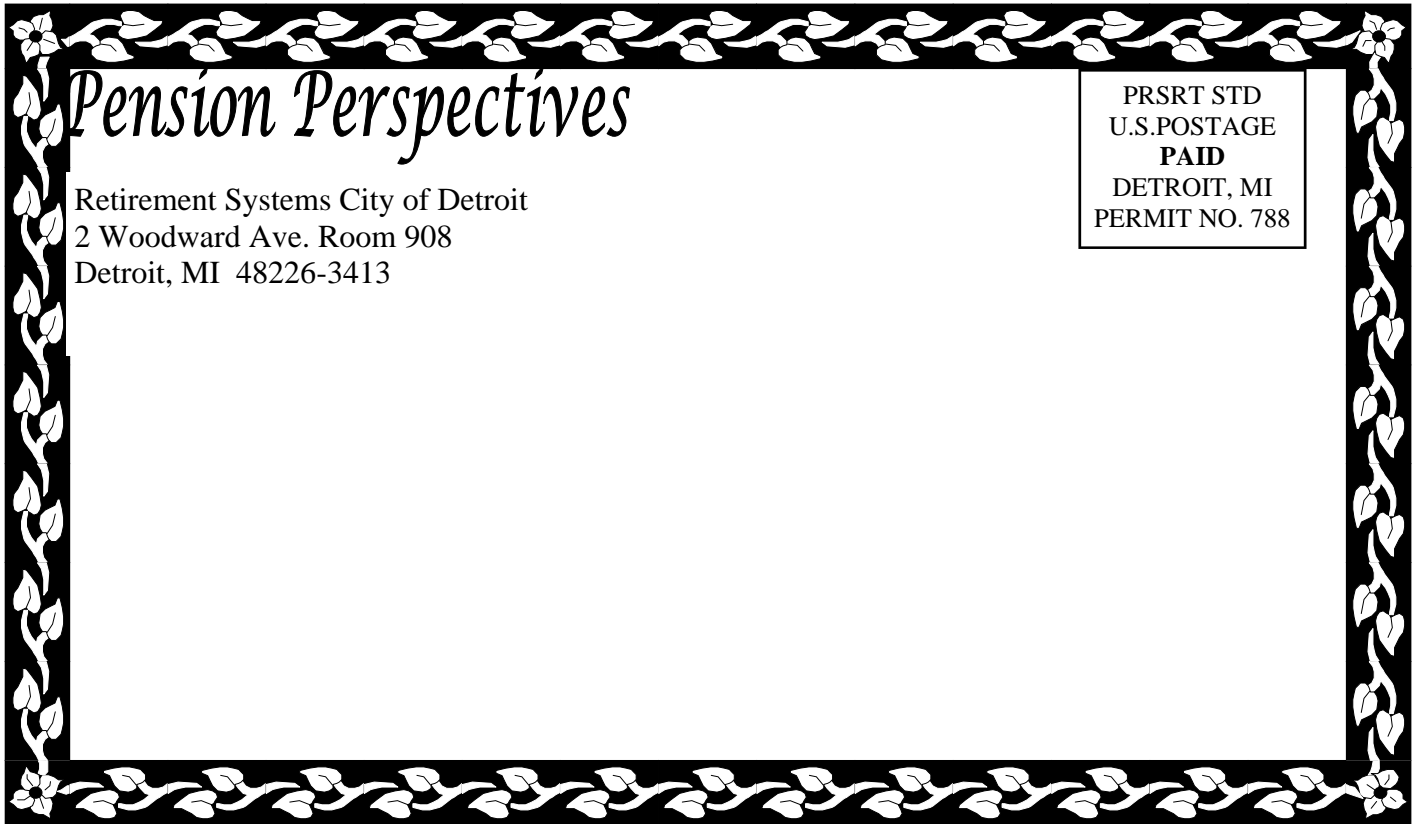
This money is for your retirement; you have not paid taxes on the earnings. The government wants to ensure that the funds YOU have set aside for your retirement are there when you retire. It is the same reason that they charge a premature distribution fee for taking refunds out of your plan before you reach retirement age.

In other words, the IRS rules require you to repay the loan.

How do I apply?

This program is scheduled to launch next year. At that time, loan applications will be available on line and through the Plan's Administrative Office.

The GRS supports programs such as the Annuity Loan Program. However, it is essential that you fully understand how such a loan can affect your retirement savings and future account balance. It is advisable to consult with an independent financial advisor before you borrow from your Defined Contribution Plan.



Pension Perspectives

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New Headquarters on Jefferson Avenue (continued from page 4)

location be more accommodating to visitors, it also will offer a long-term savings to the Retirement Systems. After the initial cost of construction, we expect to accrue yearly savings which will benefit our members.

It is our intent to build our new headquarters on property purchased by the Retirement Systems, adjacent to the UAW Solidarity House. It is the right decision not just for active and retired members, but for the community in which the building will be located. It is also still beneficial to the City of Detroit because, as property owners, the Retirement Systems will pay property taxes to the city.

Benefits:

Financial: The Detroit Retirement Systems will be in existence in perpetuity. Rather than continue to rent space, ownership of a property allows us to capture that rent in property value and appreciation. The building is an investment; leasing space brings no residual value to pensioners.

Access: The new stand-alone building will

provide much better access for pensioners and visitors including parking at no cost, a local bus route along Jefferson Avenue and no long security lines.

Community: The new building will clean up a long vacant site along the riverfront which will bring further stability to the area, as well as to the adjacent communities. In addition, if the Detroit RiverWalk extends to this site, the pension boards will ensure unobstructed access by granting an easement along the riverfront.

Jobs: It is estimated that approximately 150 jobs will be created surrounding the design and construction of the new building.

Environment: The building will be a LEED Certified "Green Building" which will emphasize energy savings and sustainability.

Future Use: The pension building will take up the portion of the site nearest Jefferson Avenue to provide easy access to pensioners. The remaining site along the riverfront can be utilized in the future for high-rise residential or other uses.