

DEAR ACTIVE MEMBERS AND RETIREES:

The Board of Trustees of the Policemen and Firemen Retirement System of the City of Detroit is pleased to submit to you the comprehensive annual financial report for the fiscal year ended June 30, 2000.

FINANCIAL RESULTS

The past year was another highly challenging and demanding period in the financial markets. The stock market, as measured by the Dow Jones Industrial Average, declined 3.3% while the returns from bonds, as measured by the Lehman Brothers Aggregate Bond Index were a relatively lackluster 4.6%. Despite this, the Board's long term asset allocation plan coupled with active investment management delivered an overall return on invested assets of 14.6%. The Board's investment performance for the past year would rank in the top 10% of all public employee pension funds in the United States.

The fiscal year ended June 30, 2000 was the sixth consecutive year of double-digit total fund investment return. The Board's significant financial results achieved during this past year included:

1. The assets of the System passed the \$4 billion mark. At June 30, 2000 the market value of the assets of the System were \$4,175,946,568
2. The System paid \$170 million in benefits, an increase of \$12 million over the prior year.
3. The assets of the System increased by \$368 million after having paid out \$170 million in benefits to retirees and \$26.5 million in lump sum defined contribution plan (annuity) benefits.
4. The funded status of the System increased to 118.6% making the System one of the financially strongest public employee pension funds in the country.
5. The System's funded value surplus increased by \$173 million to \$622 million.
6. The investment income recognized by the System was \$521 million.
7. The overall return on the assets of the System was 14.6% which was 1.9 times the System's actuarially assumed rate of return of 7.8%.
8. The administrative expenses of the system continued to be less than one tenth of one percent of the assets

of the System, one of the lowest expense ratios for public employee pension funds in the country. Administrative expenses were paid wholly through investment income.

OTHER ACCOMPLISHMENTS

In addition to the financial results achieved, other significant accomplishments of the Board of Trustees during this past year included:

1. The System's computers were fully Year 2000 (Y2K) compliant on January 1, 2000. There were no system failures as a result of the changeover which occurred.
2. The System continued publishing its newsletter twice per year, expanding its scope and content.
3. The System's internet web site (www.rscd.org) was enhanced to provide a benefit estimate function which can be accessed by members of the System.
4. Further enhancements to the System's state-of-the-art computer systems were implemented to support the System's internet web site as well as provide quicker access to member files.

5. The System continued to provide a toll-free telephone number (1-800-339-8344).

At June 30, 2000 the System had approximately 5,481 active employee members and 8,079 retirees and beneficiaries, a slight increase over the prior year.

This is a consolidated report of the Defined Benefit Plan and the Defined Contribution Plan of the Retirement System. The report consists of six (6) sections:

- I **INTRODUCTORY SECTION** contains the Board of Trustees letter of transmittal, 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 Policemen and Firemen Retirement System.
- IV **INVESTMENT SECTION** summarizes investment activities and identifies the System's advisors and consultants.

BOARD OF TRUSTEES LETTER CON'T

V **SPECIAL INFORMATION SECTION** contains the “Safe Harbor Explanation” provided to recipients of distributions from qualified plans in order to satisfy section 402(f) of the Internal Revenue Code.

VI **QUESTION & ANSWER SECTION** contains commonly asked Retirement System related questions.

ACCOUNTING SYSTEM AND REPORTS

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to governmental units. Effective with the 1994-95 fiscal year, in accordance with standards promulgated by the Governmental Accounting Standards Board (GASB), the Board of Trustees adopted the Market Value basis of reporting for investments, replacing book value reporting. Accordingly, all schedules presented in this report reflect the 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 contribu-

tions for the 1999-2000 fiscal year totaled \$19,972,058 and employee contributions were \$8,670,002. Net investment income for the fiscal year was \$521 million resulting in an Defined Contribution Plan accounts (annuity) interest rate for the 2001-2002 fiscal year of 14.6%.

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 and the cost of administering the System comprise the total expenses. Administrative expenses are funded *entirely* from investment income.

Benefits disbursed during the 1999-2000 fiscal year totaled \$190.8 million, an increase of \$10.5 million from the prior year. Of this amount \$164.3 million was paid to fulfill the System's obligation to its retirants, an increase of \$6.4 million or 4.0% from the prior year. Defined Contribution Plan refunds were \$26.5 million, an increase of \$4.1 million or 18.3% from the prior year.

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 the primary objective of the Board of Trustees.

As of June 30, 2000, the fund balances of the assets of the Retirement System totaled \$3.964 billion and the actuarial accrued liabilities were \$3.342 billion resulting in a funding surplus (excess of assets over liabilities) of \$632 million or 18.6% of the assets of the System. If the full market value of the assets were recognized in the fund balances, the assets of the Retirement System would be \$4.176 billion and the funding surplus would be \$948 million or 23% of the assets of the System.

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 responsibilities for providing all promised retirement benefits. The Board of Trustees 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. The portfolio is diversified to provide the highest possible total return on the System's assets with the least exposure to risk. The income and capital gains realized from the investment portfolio was \$521 million during the 1999-2000 fiscal year.

ACKNOWLEDGMENTS

The preparation of this report reflects the combined efforts of the Retirement System's 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 Policemen and Firemen Retirement System of the City of Detroit. This report is being distributed to all active members and retirees plus other interested parties.

Respectfully submitted,
Board of Trustees
Policemen and Firemen
Retirement System
of the City of Detroit

ELECTED EMPLOYEE MEMBERS:

GEORGE ORZECH
Fire Sergeant,
Fire Department
Term expires June 30, 2000

DERRICK ROYAL
Police Officer,
Police Department
Term expires June 30, 2000

MICHAEL V. NEVIN
Fire Fighter,
Fire Department
Term expires June 30, 2001

RONALD J. STEMPIN
Sergeant, Police Department
Term expires June 30, 2001

WILLIAM L. FAIRWEATHER
Fire Captain,
Fire Department
Term expires June 30, 2002

LAURA ISOM
Inspector,
Police Department
Term expires June 30, 2002

EX-OFFICIO MEMBERS:

DENNIS W. ARCHER
Mayor

GIL HILL
Council Designate,
City Council

SHAFTER TERRY III
Treasurer

BENNY NAPOLEON
Chief of Police

CHARLES E. WILSON
Fire Commissioner

OFFICERS:

J. EDWARD HANNAN
Finance Director
Ex-officio Secretary

NICHOLAS DEGEL
Executive Secretary

WALTER STAMPOR
Assistant Secretary

ACTUARY:

GABRIEL, ROEDER,
SMITH & CO.

MEDICAL DIRECTOR:

REGINALD E. O'NEAL, D.O.

PERFORMANCE EVALUATION:

SMITH BARNEY

LEGAL ADVISOR:

RONALD ZAJAC

REAL ESTATE CONSULTANT:

THE TOWNSEND GROUP

MASTER CUSTODIAN:

STATE STREET CORPORATION

FULL SERVICE CONSULTANT:

GRAY & COMPANY

SUMMARY OF PLAN BENEFIT PROVISIONS

AGE AND SERVICE RETIREMENT

ELIGIBILITY – 25 years of service regardless of age.

ANNUAL AMOUNT – An annuity equal to the actuarial equivalent of the member’s accumulated contribution account plus a defined benefit, which, when added to the annuity will provide the following:

- **Pre-1969 Members** 2.5% of AFC times the first 25 years of service, with a maximum allowance of 15/22 of a police officer’s or firefighter’s annual rate of compensation.
- **1969 Plan Members** 2.5% of AFC times the first 25 years of service plus 2.1% of AFC times each of the next 10 years of service.

Members may elect to receive their accumulated contribution account in a lump sum after 25 years of service. The defined benefit at retirement is then reduced by the actuarial equivalent of the amount of principal withdrawn. No reduction is made with regard to the interest portion of the withdrawal.

Pre-1969 plan members may elect 1969 plan benefits at the time of retirement.

TYPE OF AVERAGE FINAL COMPENSATION (AFC) – Average of the current compensation for the ranks held in each of last 5 years plus longevity. Pension benefits for non-union employees may not be diminished due to a reduction in compensation because of fiscal emergency. AFC includes prior longevity distributions during the averaging period in accordance with the following schedule: 1% of compensation after 5 years of service, 2% after 11 years, 3% after 16 years and 4% after 21 years.

DEFERRED RETIREMENT VESTED BENEFIT)

ELIGIBILITY – Age 40 with 8 years of service.

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

BENEFIT COMMENCEMENT – Members hired prior to 7/1/85: Unreduced benefit begins at the age when the member would have first been eligible for regular retirement had the member continued in City service. **Members hired after 6/30/85:** Unreduced benefit begins at age 62. All members may elect a reduced benefit payable immediately.

DUTY DISABILITY RETIREMENT

ELIGIBILITY – No age or service requirements.

ANNUAL AMOUNT – A basic benefit of 50% of final compensation and a supplemental benefit of 16 2/3% of final compensation. After 24 months, members disabled from any occupation continue to receive both benefits, otherwise, members receive only the 50% benefit. Upon attaining twenty-five years of service, members receive only the basic benefit of 50%. Members convert to regular retirement at age 65. Workers Compensation payments are offset.

Members who filed for duty disability retirement prior to July 1, 1995 for DPOA members and fire equivalents or prior to June 30, 1998 for all others receive 66 2/3% of final compensation payable to the eligibility date for regular retirement. After the eligibility date for regular retirement, benefit is computed as a regular retirement benefit. Workers Compensation payments are offset.

SUMMARY OF PLAN BENEFIT PROVISIONS CONT'D

6

NON-DUTY DISABILITY RETIREMENT

ELIGIBILITY – 5 years of service.
ANNUAL AMOUNT – Computed as a regular retirement benefit, but based on average final compensation and credited service at the time of disability. Minimum benefit is 20% of average final compensation.

DUTY DEATH BEFORE RETIREMENT

ELIGIBILITY – No age or service requirement.
ANNUAL AMOUNT – Widow receives 5/11 of a patrolman's or fireman's compensation and each child under age 18 receives 1/10 of such compensation with a maximum total of 7/33 of such compensation. If there is no widow, each child receives 1/4 of such compensation with a maximum total of 1/2 of such compensation. If there is no widow or children, each dependent parent receives 1/6 of such compensation. Worker's compensation payments are offset.

NON-DUTY DEATH BEFORE RETIREMENT

ELIGIBILITY – No age or service requirement.
ANNUAL AMOUNT – Same as regular retirement benefit to a widow or dependent widower, but reduced in accordance with a 100% joint and survivor option election. Minimum benefit is 20% of average final compensation. Each child under 18 receives 1/7 of a patrolman's or fireman's compensation with a maximum total of 2/7 of such compensation. If there is no spouse or children, each dependent parent receives 1/7 of such compensation.

POST RETIREMENT COST-OF-LIVING ADJUSTMENTS

PRE-1969 PLAN MEMBERS: Allowances increase in proportion to active member compensation for the corresponding rank.
1969 PLAN MEMBERS: Pensions increase by 2.25% of the **original** pension amount each July 1.

MEMBER CONTRIBUTIONS

5% of covered compensation payable until first eligible for regular retirement.