



# Police & Fire Retirement System City of Detroit



## **Pension Perspectives**

Winter 2009

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### Police & Fire Retirement System

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### Police and Fire Retirement System of the City of Detroit announces investment results for the quarter ended September 30, 2009

On October 21, 2009, the Police and Fire Retirement System of the City of Detroit (DPFRS) announced its investment results and total market value of assets as of September 30, 2009. For the quarter ended September 30, 2009 DPFRS earned a 10.2 % rate of return. Total market value of assets was \$3.4 billion.

DPFRS reported that as of June 30, 2008 the fund had \$3.8 billion of assets. From July 1, 2008 through September 30, 2009 the system paid out just under \$400 million in benefits to its 9,000 plus retirees and beneficiaries. As of September 30, 2009 the system had \$3.4 billion of assets. The low point in assets came in February when total assets dipped to \$2.8 billion.

“DPFRS has weathered the economic downturn relatively well and continues to be in sound financial condition” according to Jeffrey Pegg, Chairman of the Board of DPFRS. Pegg added “strong investment results have erased all of the losses incurred during the difficult economic environment we have been enduring since June 30, 2008. We are pleased that during this same period DPFRS was able to tread water while the stock market, as measured by the S&P 500 index was down 16%.

The system compares very favorably with its peer group of other large funds. For the most recent fiscal year ended June 30, 2009 the System outperformed 73% of similar large (more than \$1 billion in assets) funds. DPFRS is in the process of completing its audited financial statements and comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2009. Management expects to release the completed CAFR shortly.

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## Letter from the Chairman:

During this time of unprecedented financial and economic crisis at the local, regional, national, and global levels, we believe that providing accurate information to our constituents is vitally important, therefore, we look forward to providing our members with the Pension Perspectives which contains updated news and information that pertains to our members.

Despite the recent market experience and the handful of short term losses, the long term returns of the Retirement System are in excess of their actuarial assumptions, and the Retirement System maintains levels of funding that are above average for municipal plans in the United States. The last year has presented the most severe economic challenges since the Great Depression. The impact of the global financial meltdown on the entire financial system cannot be underestimated. Wall Street, as we knew it, no longer exists. The efficacy of the tools that the Board uses to provide adequate returns on the assets under our stewardship has been significantly reduced, making our work significantly more difficult. Nearly every pension fund, public or private, felt the impact of the 2008 global financial meltdown. In fact, California's Public Employees Retirement System, the nation's largest public pension system, recently reported an all-time historical decline in its assets due to the 2008 global financial meltdown.

Overall, the asset allocation structure of the Police and Fire Retirement System is well diversified and the system participates in most major markets. This reduces the risk of large losses and minimizes exposure to any one particular market. A recent study by the Michigan Center for Research, a non-partisan organization, revealed that the Police and Fire Retirement System is one of the better funded systems in the State. In fact, the Police and Fire Retirement System experienced overfunding during the past few years. This report also shows that despite the losses experienced in 2008, the Police and Fire Retirement System will maintain a solid funding level relative to other plans around the State. As the nation emerges from the recent recession and markets return to normal, the Police and Fire Retirement System is recapturing much of the lost market value while fully honoring its commitments to its members and retirees, meeting all benefits obligations with no liquidity concerns. Since the October 2008 global economic meltdown, the system has paid out over \$250 million in benefits and its portfolio has gained over \$400 million in assets. The Board's asset allocation plan is long term in nature and is designed to withstand the challenges that occur within the financial markets. The Board's actuary has opined that the system is actuarially sound and extremely competitive with its peers with respect to funding levels.

Jeffrey Pegg



Chairman  
Board of Trustees of the Police and Fire Retirement System of the City of Detroit

## **DROP Plan Implemented**

### **What is the Deferred Retirement Option Plan (“DROP”)?**

The DROP is a voluntary election by you to freeze your System pension benefit at the time of your DROP election, and to have an amount equal to System pension otherwise payable to you, as if you had then retired, instead allocated to a separate DROP Account earning interest until you actually retire. At retirement you are entitled to your frozen System pension as of your DROP election and your DROP account balance.

### **Who is eligible to participate in the DROP?**

Eligible members are System members in the following groups:

- Detroit Police Officers Association (DPOA)
- Detroit Police Lieutenants and Sergeants Association (LSA)
- Detroit Police Command Officers Association (DPCOA)
- Detroit Fire Fighters Association (DFFA)
- Non-Union Executives of the Police and Fire Departments

and who are immediately eligible for a 25 year service retirement (or such other DROP eligible service retirement requirement as provided in the applicable collective bargaining agreement).

### **When will participation in the DROP begin?**

If you are otherwise eligible, you may now begin to make DROP elections.

### **Is there a minimum or a maximum period that I must stay in the DROP?**

No. However, you will remain in the DROP as long as your employment as a police officer or fire fighter with the City continues. You may choose to

cease active employment anytime after entering the DROP. Then you will begin receiving your frozen pension amount plus whatever amounts have accumulated in your individual DROP account.

### **What happens if I die or become disabled during the DROP Program?**

If you die while in the DROP and before termination of employment as a police officer or fire fighter with the City, your System benefit will revert to your regular, pre-DROP “frozen pension”, plus applicable adjustments, and it will be payable in accordance with your System benefit election on file and which was made in connection with your DROP election. Your named beneficiary, or if none then your estate, will be entitled to the amounts remaining in your DROP account.

If you become disabled while an employee in the DROP and your employment as an active police officer or firefighter with the City is terminated because you are disabled, you shall immediately be retired and commence the form of System retirement selected at DROP commencement plus applicable pension improvement increases. You are also entitled to your DROP account. You will not be entitled to disability retirement benefits.

### **If I elect the DROP, does my employment status change?**

If you elect the DROP, to the System’s knowledge, you will have the same rights and privileges as other active employees of the City. However, you will accrue no additional System defined benefit pension plan and defined contribution plan benefits, and you will have DROP allocations made to your DROP account.

### **What happens with my sick pay if I elect the DROP?**

If you elect the DROP, the System understands that the City’s position is that you have two choices regarding your sick pay, as follows:

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## **DROP Plan Implemented**

You can cash out 100% or 85% (as applicable) of your sick pay at the time you elect the DROP. Your sick pay will be paid to you within the time required by your collective bargaining agreement in accordance with your rate of pay in effect at the time you elect the DROP. From your DROP election forward you will accumulate additional sick days as an employee. Any sick pay you accrued while participating in the DROP and which remains at termination of your employment will be paid to you after your termination based on your rate at termination; or

You can, coincident with your DROP election, elect to have the applicable percentage of your sick pay pursuant to your collective bargaining agreement (e.g., 25%) used in the computation of AFC for pension (and DROP) purposes. 100% or 85%, as applicable, of any unused sick pay as of your DROP election can either:

- be paid to you, within the time required by your collective bargaining agreement, after you DROP based on your pay rate in effect at the time you elected the DROP; or
- The balance of your unpaid sick pay is payable at the rate in effect when you terminate employment.

After you elect the DROP, you will accrue additional sick days while employed and participating in the DROP. When you terminate, those “post-DROP” sick days accumulated while you participated in the DROP will be paid out based on your compensation rate in effect when you terminate employment.

**If there are increases to the System’s benefit formula made while I am in the DROP Program, will they apply to my frozen benefit?**

No, unless the benefits are specifically made retroactive to cover prior years of service before your DROP election.

**If I am promoted while I am participating in the DROP, will my System pension change when I retire?**

No. Upon your DROP election your System pension freezes and will not change (except for applicable escalators).

**How may I take distributions from my DROP account?**

You can take distributions in any form that you wish as long as it is permitted by the IRS. You can withdraw all your amounts in a lump sum (which may be rolled over to an IRA), take periodic distributions, purchase an annuity or any combination of the above. You may also refrain from taking immediate distributions and leave your account to accumulate until you are required to take distributions at age 70-1/2. Again, you may rollover all or a part of your DROP account into an IRA or a qualified plan that accepts such rollovers.

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## **Trustee Elections**

Paul Stewart was elected as a Police Trustee for the Policemen & Firemen Retirement System for a 3 year term which began July 1, 2009 and ends June 30, 2012.

Sean Neary was elected as a Fire Trustee for the Policemen & Firemen Retirement System for a 3 year term which began on July 1, 2009 and ends June 30, 2012.

The Board of Trustees of the Police and Fire Retirement System of the City of Detroit extends its sincere appreciation and heartfelt thanks to George Orzech for his faithful and devoted interest and service to the members of the system during his tenure as a trustee from July 7, 1988 to June 30, 2009.

## **DROP Plan Implemented (continued from page 4)**

### **What are the tax consequences of taking distributions from my DROP account?**

Basically, DROP account distributions are subject to income tax when withdrawn unless rolled over to an IRA or another employer's plan. Additionally, there is a 10% penalty on distributions, or withdrawals taken before age 59-1/2 (unless rolled over). However, there are many exceptions to this rule. There is no penalty if:

- You separate from service (i.e., retire), and are age 55;
- You are any age and take withdrawals "on a periodic basis over your life, or joint life, expectancy" (like an annuity).
- If you die, become disabled, or have a severe medical necessity for yourself or your dependents.

### **Will my DROP account run out of money if I live longer than my life expectancy?**

Theoretically, this is possible. It should be noted that your DROP account is only one source of income that you are likely to have at retirement. Your defined benefit plan, Social Security, deferred compensation through any 457 Plan, IRAs, personal savings and perhaps even wages are other possible sources.

The longevity risk can be managed in at least two ways:

- By taking slightly smaller monthly withdrawals designed to last longer than your normal life expectancy; and
- By purchasing a guaranteed life annuity with a portion of your DROP balance.

### **Is there a guarantee that my DROP account will never decrease?**

The DROP is currently investing in a stable value group annuity contract with ING providing an

annual credited rate which can not be less than zero. Also, at distribution the DROP provides for a distribution of at least your DROP allocations.

### **Am I able to take a loan from my DROP account?**

No.

### **What if I am in the process of getting divorced, or I get divorced in the future ?**

DROP assets, like other forms of pension benefits, may be considered marital property subject to division in a divorce proceeding. While DROP assets are not subject to distribution until a member terminates active employment as a police officer or fire fighter with the City, pursuant to a domestic relations order a court can award all or part of your DROP account to a former spouse in the same manner as it can assign other retirement payments to a former spouse.

### **What if I am divorced, there is a domestic relations order in effect, and I want to elect to DROP?**

If you are eligible to make a DROP election, you are divorced, and your System pension is subject to a domestic relations order currently in effect, you are strongly advised to review the specific terms of the domestic relations order that is in effect. You may also want to seek assistance from your attorney. With respect to those DROP eligible members whose benefits are subject to a domestic relations order, if they elect to DROP the System plans to review such orders on a case by case basis to determine if the order affects the amount of their DROP election or assigns all or part of their DROP account.

### **Can I withdraw my defined contribution plan contributions in a lump sum, and still participate in the DROP program?**

Yes.

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# Pension Perspectives

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## **DROP Plan Implemented (continued from page 5)**

### **Can I find out more about how the DROP is invested?**

ING Life Insurance and Annuity Company, the designated administrator and investment provider for the DROP Plan will conduct thorough group and individual education sessions concerning all aspects of the DROP investment vehicle.

The decision is left to you whether to DROP.

**You are urged to also consult with your personal financial advisor.**

### **How can I get more information?**

Entering the DROP is a big decision. Once a decision is made to enter and approved, it is FINAL.

Before entering the DROP you are encouraged to contact your Union representative with your questions about DROP procedures. If you have questions about your DROP account and how it is invested, contact: Mark J. Woolhiser of ING at (734) 207-8800. The DROP is a valuable benefit, but like anything, it does not meet everyone's needs in the same way. Before you elect to participate in the DROP, be sure of your rights and make careful plans for your future. It would be wise to consult with your own financial advisor concerning the choices that are most advantageous for your specific circumstances.