



# Police & Fire Retirement System City of Detroit



## ***Pension Perspectives***

Fall 2010

Volume 10, Issue 1

### **Police & Fire Retirement System**

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### **Fight Against Proposed Pension Takeover Legislation**

The Retirement System of the City of Detroit continues an aggressive fight against the proposed pension takeover legislation that was introduced in the Michigan House and Senate in late March. Highlighted below are a few points of why this proposed legislation is bad for Detroit.

Transfer of the Detroit Retirement Systems to the Municipal Employees Retirement System would unnecessarily transfer \$6 billion of the Detroit Pension Funds' assets to a poorer-performing statewide entity over which the Boards of Trustees of Detroit's two pension funds would have no control.

Transfer of the Detroit Pension Funds assets would bring no economic benefit to Detroit – in fact, it would likely have a detrimental economic impact on the City.

The Detroit Retirement Systems have managed the assets of the funds remarkably well in turbulent times, and have performed in the top 20 percent for municipal funds nationwide.

The Detroit Retirement Systems have outperformed MERS returns in most recent years. The Detroit Retirement Systems have had substantially higher funding levels in recent years as well. Moreover, MERS administrative expenses are more than double the level of the Detroit Retirement Systems. In 2008 MERS lost over \$1.6 billion -- 25% of its value.

The pension transfer legislation presents financial dangers as well as significant constitutional, statutory and charter problems that are not addressed in the legislation, and which will likely result in expensive litigation.

Transfer of the Detroit Retirement Systems would violate the will of the people of the City of Detroit, who created the Systems in the Detroit City

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## Fight Against Proposed Pension Takeover Legislation (continued from page 1)

Charter and specified that the Systems would be locally controlled pension funds directed by City officers and employee leaders elected by the people and employees of the City of Detroit. The City of Detroit has negotiated in collective bargaining agreements to have local control of trust funds by Detroit trustees.

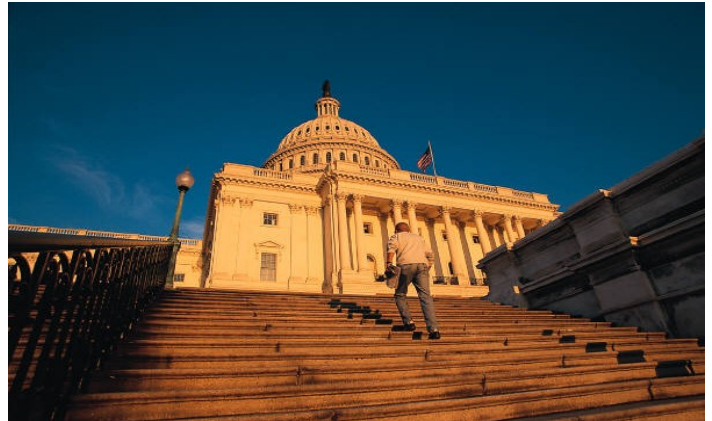
The Detroit Retirement Systems' investment strategies have helped to grow Detroit's economy, create jobs, and create wealth in the community because they invest in the City of Detroit, are staffed by Detroit employees, and rely on the expertise of many Detroit-based financial managers and consultants.

Under the proposed legislation, the decision to transfer \$6 billion in Detroit's wealth to MERS would not be subject to appeal by the Detroit City Council, or any other entity.

A transfer of the city pension funds to MERS will not reduce the city's legally required employer contributions to the funds, consisting of (1) current service (known as "normal cost") and (2) any unfunded accrued liability (none exists for June 30, 2008 actuarial valuations).

The proposed temporary savings that proponents of the legislation promise are just that – temporary and proposed. There is no guarantee that there will be any savings, and any savings would be temporary at best, because Detroit's liability for retirees' pensions is expressly protected by the Michigan constitution. Smaller contributions today mean bigger contributions in the future.

MERS's assumed actuarial rate (what they



believe they can earn on their investments over the year) is 8%. The General Retirement Systems' assumed actuarial rate is 7.9 %, and the Police and Fire Retirement System's is 7.5%. Throughout the entire US, pension plans with 8% and higher assumption rates are being pressured to reduce them due to the "new normal" being experienced in the capital markets. It would not be surprising if MERS reduced its assumption after taking control of the Detroit assets. The proposed temporary savings would be greatly reduced or eliminated if that happens.

If MERS does not meet its projections, the City will actually owe more because the funding deficiency will be added to its City's employer contribution requirement.

As of 12/31/08 MERS was 78% funded. As of 6/30/08 (the last approved audit for both the GRS & PFRS) the GRS was 101% funded and the PFRS was 107% funded.

Unlike the Detroit Pension Funds, MERS charges penalties on late payments. Given the City's long-standing record of late payments, this could further increase the amount the city owes – again

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## State of the Fund

The Police and Fire Retirement System of the City of Detroit recently concluded its fiscal year end as of June 30, 2010. The Board is pleased to report to you that despite the tough economic times and difficult market conditions the System achieved solid performance results and added significantly to its asset base. This was achieved despite paying out almost \$300 million in benefits to its members.

For the year ended June 30, 2010 the System earned 10.02% which is 133% of its actuarial assumed rate of 7.5%. This strong return was driven primarily by the Board's asset allocation which favors stocks and bonds over real estate and alternatives. The Board has adopted asset allocation policies which are designed to meet all current and future obligations to pay the benefits which the members have earned. The resulting portfolio of investments is well diversified and is designed to provide the liquidity to pay benefits plus remain relatively stable in the face of the inevitable ups and downs of the financial markets. The following is a summary of the Board's asset allocation policy as of September 30, 2009.

Stocks	56.0%
Bonds	27.5%
Real Estate	7.0%
Alternatives	8.0%
Cash	1.5%

When the stock market, as measured by the Dow Jones Industrial Average, fell from 11,000 in June 2008 to its near term low of 6,626 in March 2009, many investors panicked and sold out. Your board did not. At June 30 the market was just below 9,800 which represents a gain of nearly 50% from the March 2009 lows. For the year the System's equity portfolio delivered a 17.91% return.

The System's bond portfolio delivered a return of



11.83% for the year. While many police and fire pension systems invest a large fraction of their bond assets in US Treasury securities, your board has for many years sought out fixed income assets which can deliver much higher returns with relatively small risk. The system has never had an allocation to sub-prime mortgages.

The System's cash holdings returned 4.02% for the year. The system runs its own money market fund which is similar to the interest bearing checking account which many of you have at your bank. Excess earnings of the money market fund over bank interest bearing checking are more than enough to cover the administrative expenses of the system.

The System's real estate portfolio lost 5.06% for the year. This portfolio consists primarily of office buildings and multifamily residential assets. Alternative investments lost 7.76% for the year.

The Police and Fire Retirement System has weathered the economic downturn relatively well and continues to be in sound financial condition. As of June 30, 2008 the fund had \$3.8 billion of assets. From July 1, 2008 through June 30, 2010 the system paid out \$600 million in benefits. As of June 30, 2010 the system had \$3.2 billion of assets. The decline in assets of the system during this period net of benefits paid was essentially ZERO. During this same period the stock market, as measured by the S&P 500 index was down 10%.

**Pension Perspectives**

**City of Detroit’s Schedule of Installed Payments to the Pension Fund**

The Board of Trustees, as it did last year, approved a monthly payment plan for the City of Detroit to make its annual contribution. Below is the scheduled payment plan. August thru October payments have been paid into the system.

<b>Date</b>	<b>Principal Payment</b>	<b>7.5% Accrued Interest</b>	<b>Balance</b>	<b>Total Payment</b>
<b>July 31, 2010</b>			32,808,484.53	0.00
<b>August 31, 2010</b>	3,800,000.00	410,106.06	29,008,484.53	4,210,106.06
<b>September 30, 2010</b>	3,800,000.00	181,303.03	25,208,484.53	3,981,303.03
<b>October 30, 2010</b>	3,800,000.00	157,553.03	21,408,484.53	3,957,553.03
<b>November 29, 2010</b>	3,800,000.00	133,803.03	17,608,484.53	3,933,803.03
<b>December 29, 2010</b>	3,800,000.00	110,053.03	13,808,484.53	3,910,053.03
<b>January 28, 2011</b>	3,800,000.00	86,303.03	10,008,484.53	3,886,303.03
<b>February 27, 2011</b>	3,800,000.00	62,553.03	6,208,484.53	3,862,553.03
<b>March 29, 2011</b>	3,800,000.00	38,803.03	2,408,484.53	3,838,803.03
<b>April 28, 2011</b>	2,408,484.53	15,053.03	0.00	2,423,537.56
<b>May 31, 2011</b>			0.00	0.00
<b>June 30, 2011</b>			0.00	0.00
	32,808,484.53	1,195,530.28	0.00	34,004,014.81



**Important Numbers:**

Blue Cross/Blue Shield Traditional  
(800) 951-BLUE

Blue Care Network  
(800) 662-6667

Blue Cross Preferred Plan  
(313) 225-0843

Health Alliance Plan  
(800) 422-4641

Total Health Care  
(313) 871-7812

Social Security Administration  
(800) 772-1213

Spectera  
(800) 638-3120

US Health Plan Traditional  
(800) 225-9674

Co-Op Optical  
(800) 368-5160

Heritage Eye Care  
(800) 252-2053

Police & Fire  
Retired Association  
(586) 795-1734

Benefits Division  
Human Resources Dept.  
1300 Rosa Parks Blvd.  
Detroit, MI 48216  
(313) 224-2742, 224-4809 or  
(888) 288-2684

## Mailing of the Annual Report now Optional

The Retirement System of the City of Detroit has decided to make the mailing of the Police & Fire Annual Report optional. Members can notify the Retirement System in writing if they no longer wish to receive a mailed copy of the report. The current year's report, as well as prior year's reports back to 2004, is available on the web at [www.rscd.org](http://www.rscd.org). In addition, if a member wishes to receive an electronic copy via email, they simply must provide an email address to the Retirement System and a copy will be sent.

By default, the Retirement System will continue to mail a copy of the Annual Report to members. If you wish to opt out of the mailing, you must notify the Retirement System in writing that you no longer wish to receive a mailed copy. You must provide an email address in writing if you wish to receive a copy electronically.

To opt out of the mailing of the Annual Report, provide in writing your name, pension number or social security number and a simple statement telling us you no longer want to receive the Annual Report via mail. If you wish to receive an electronic version, include your email address.

Mail your response to:

Police and Fire Retirement System  
2 Woodward Ave., Room 908  
Detroit, MI 48226  
Attn: Bridgett Hardy

## Termination of Annuity Deductions on Twenty-Fifth Anniversary

The provisions of the Policemen and Firemen Retirement System require that all members must contribute five percent (5%) of their base pay into a Defined Contribution (Annuity) Account until the member has completed twenty-five years of creditable service.

It is **required** that deductions into the Defined Contribution Account be stopped once the member has completed twenty-five years of creditable service.

Police personnel **must** file either a Blue Slip Form DPD31 or a Form DPD568 with your payroll department when you reach your twenty-fifth anniversary date.

Fire personnel should have their deduction stopped automatically by their payroll department. It is highly recommended that you contact the Fire payroll department to verify that the deduction has been stopped upon your 25th anniversary.



## Board of Trustees election results

Matthew Gnatek was elected to the Board of Trustees for a three year term beginning July 1, 2010 through June 30, 2013.

Jeffrey Pegg was re-elected to the Board of Trustees for a three year term beginning July 1, 2010 through June 30, 2013.

The Board extends its appreciation and thanks to Marty Bandemer for his service to the members of the Police and Fire Retirement System during his tenure as a trustee from July 1, 2004 to June 30, 2010.



# Pension Perspectives

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Pension Perspectives

## Fight Against Proposed Pension Takeover Legislation (continued from page 2)

reducing any perceived cost savings. Moreover, MERS can unilaterally report the City's failure to make contributions to the State Treasurer to begin the state takeover process under the Local Government Fiscal Responsibility Act. This happened in 2007 to one nearby Michigan city.

It would be unwise for the state legislature to consider taking control away from such a well-funded local pension plan (whose primary losses were caused by the world-wide economic downturn) and turn it over to a statewide pension plan whose performance does not exceed the Detroit Retirement Systems' performance, opening the City up to increased risk of contribution liability and the potential for a state takeover of the City's finances.

It is also noteworthy that the proposed legislation

provides that one condition of a "distressed pension" is if the city itself chooses not to make its legally required employee contribution. This gives the Mayor unilateral control over the fate of the Detroit Retirement Systems.

The conditions for involuntary transfer of a local retirement system to MERS primarily relate to the distressed finances of the municipality, so it would be more appropriate (and realistic) to call it the Distressed Municipality Act.

The Detroit Retirement Systems' investment strategies have helped to grow Detroit's economy, **create jobs**, and **create wealth** in the community because they invest in the City of Detroit, are staffed by Detroit employees, and rely on the expertise of many Detroit-based financial managers and consultants.