

During Covid-19 Crisis All Functions Are Working for you at the Police and Fire Retirement System

Retirement *focus*

Spotlight on Covid-19

The Police and Fire Retirement System is operational during this Covid-19 pandemic. We are pleased to provide you with this special edition newsletter to answer the many questions we are getting from our First Responder members and beneficiaries.

First of all we want to say thank you for your service to our City. We want you to know we are working hard to serve you now and well into the future. Our offices are operational, checks are being processed and the PFRS Board of Trustees and Investment Committee and essential staff are hard at work to fulfill our duties and commitment to you. We do so proudly.

For Retirees, a number of people have asked if there will be any interruption in monthly checks being processed. The answer is no, your checks will be issued as they normally are. We are, however, encouraging people to enroll in direct deposit to speed up payments directly into your bank account or credit union and avoid delays or potential losses from mailed checks. To enroll, please download the direct deposit form located at www.rscd.org, select the Police and Fire Retirement System, then select Member Resources and then select forms.

Another key question being asked is how is this crisis impacting the overall investments in the Pension Fund and will there be money in the future. The long answer is a little complex since the \$2.5 billion in assets are largely invested in the stock market and the markets are up and down on the pandemic rollercoaster. The PFRS Chief Investment Officer, Ryan Bigelow, reported to the Board at its last meeting that the Pension System has cash on hand to pay your benefits as normal. The system routinely sells assets to pay out approximately \$25 million each month in earned benefits to members. That's approximately \$300 million each year. We are optimistic that market forces will rebound along with our economy but that is entirely beyond anyone's control.

While the City of Detroit, like all institutions, has been heavily impacted by this crisis and is projecting a reduction in revenues of \$350 million due to the COVID-19 pandemic over the next two fiscal years— that will not directly or immediately impact the system. Under the Plan of Adjustment, the City is contributing funds into the new hybrid pension system but not the legacy program that is currently paying you. The City has established a Retiree Protection Trust Fund that is in the process of amassing \$335 million, plus investment earnings, to support the City's required annual contributions, which resume in 2024 under the Plan of Adjustment. That money is in an irrevocable trust and can only be used to fund pensions for the members of the Police & Fire and General Retirement Systems.

PFRS Chief Investment Officer Ryan Bigelow: “I want to remind you of three steps that we have taken, are taking, or will be taking to help us navigate these turbulent markets:

- 1) **Stay Informed:** We have been in contact daily with our consultants, investment managers, and many of our peers, and much of this memo has been informed if not paraphrased or adapted by those conversations and communications. Our goal as fiduciaries of the Plan is to consider the long-term investment objectives of the plan, and to manage the portfolio through whatever comes next.
- 2) **Stay Diversified:** What a difference a day - or a couple months - make!?! It was only a month or two ago when we were discussing diversification as a headwind to portfolio performance: In 2019, equities (S&P 500 Index) posted gains in excess of 30%. Investors with diversified portfolios (like us) felt like we left money on the table. We hold significant allocations to equities (and other growth assets like private equity and opportunistic credit) because of their attractive **long-term** return potential. However, in the **short-term**, the direction and path of returns for growth assets is unpredictable, and we know with high degree of confidence that there will be periods of significant drawdown. You cannot expect to harness the outsized returns of growth assets without accepting the unpredictable (and often painful) return pattern. This is the foundation of asset allocation. Stay the course.
- 3) **Rebalance to Target:** Establishing and adhering to prudent rebalancing guidelines is a crucial component of a successful investment strategy. The operating cash flow needs of the Plan often requires the liquidation of investment assets on a monthly basis. Liquidity is primarily drawn from asset classes that exceed their respective allocation targets to help move the Plan’s overall asset allocation closer to target allocations.

What’s next: Monitor the situation, revisit long-term projections, have a plan. Rebalancing with a mind to liquidity will help in the short-term. COVID-19 is likely to continue to wreak havoc on markets and the economy unless the spread of cases stabilizes and diminishes. We will continue to monitor the situation and discuss with our consulting and investment partners on potential courses of action in either scenario’.

The Office

The Retirement System has received several inquiries regarding current operations amid the Stay At Home Order issued by Governor Whitmer. The office is still open for business via website, email and phone. If members want to retire, they can complete the Retirement Application Packet which is accessible via our website at www.rscd.org, select Member Resources and then select Forms. All forms can be accessed via the website. The staff continues to respond to phone calls, process annuity loans and refunds and other requests as quickly as possible. If you have any questions, please contact our office at 313-224-3362. If no one is available to answer, your call will be returned as soon as possible. Thank you for your patience.

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Retirement System, City of Detroit

500 Woodward Ave, Ste 3000

Detroit, MI 48226

Phone: 313-224-3362

Fax: 313-224-9194

www.rscd.org