

# The Police and Fire Retirement System of the City of Detroit

Annual Actuarial Valuation of Component I  
June 30, 2017



May 31, 2018

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

**Re: The Police and Fire Retirement System of the City of Detroit Actuarial Valuation of Component I as of June 30, 2017**

Dear Board Members:

The results of the June 30, 2017 Annual Actuarial Valuation of **Component I** (Hybrid Plan) of the Police and Fire Retirement System of the City of Detroit (PFRS) are presented in this report. Component II (Legacy Plan) benefits are the subject of a separate report.

The required contribution rate shown on page 1 is in compliance with the Plan and the City's Plan of Adjustment (POA) as approved by the Bankruptcy Court and should not be considered a recommendation by the Actuary. While a recommended level of contributions is outside the scope of this engagement, we are currently working with the Board to assist them in establishing a funding policy. Users of this report should be aware that contributions made at the POA and Plan required rate do not guarantee benefit security.

The funding level and estimated costs of the Plan shown in this report are based on the actuarial assumptions disclosed in Section F. This report includes some risk metrics but does not include a more robust assessment of the risks of future experience not meeting the actuarial assumptions. Additional assessment of risks was outside the scope of this assignment. We encourage a review and assessment of investment and other significant risks that may have a material effect on the plan's financial condition.

This report was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the Retirement System only in its entirety and only with the permission of the Board. Authorized or unauthorized use of this report by parties other than the Board does not create a liability between Gabriel, Roeder, Smith & Company and the user of this report.

The purpose of the valuation is to measure the System's funding progress and to provide a five-year funding projection. The five-year projection is to assist the Board with its duties related to Section 9.5 of the Plan. This report should not be relied on for any purpose other than the purposes described herein. Determinations of financial results, associated with the benefits described in this report, for purposes other than those identified above may be significantly different.

The findings in this report are based on data and other information through June 30, 2017. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

This valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this Plan. A determination regarding whether or not the Plan sponsor is actually able to do so is outside our area of expertise, beyond the scope of the assignment and was not performed.

The valuation was based upon information furnished by the Retirement System staff, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal reasonability and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the Retirement System staff. More details are provided in the data section of this report.

This report was prepared using certain assumptions as described in Section F of this report entitled Methods and Assumptions. The actuarial cost method is the Entry Age Actuarial Cost Method as prescribed by Section 9.3(1) of the Combined PFRS Plan. The assumed rate of return is 6.75% for valuations through June 30, 2023 as prescribed by Section 1.18(3) of the Combined PFRS Plan. Except for the assumed rate of investment return, the actuarial assumptions used for the valuation are set by the Board based upon advice of the actuary and other parties. The actuarial cost method and assumed rate of investment return of 6.75% are prescribed methods and/or assumptions set by another party as discussed in Actuarial Standard of Practice No. 4. In our judgment, all of the actuarial assumptions used for the valuation are reasonable for purposes of the measurement being taken.

This report has been prepared by individuals who have substantial experience valuing public employee retirement systems. To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of Component I of the Police and Fire Retirement System of the City of Detroit as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices and with the Actuarial Standards of Practice issued by the Actuarial Standards Board.


David T. Kausch and Judith A. Kermans are Members of the American Academy of Actuaries. These actuaries meet the Academy's Qualification Standards to render the actuarial opinions contained herein.

The signing individuals are independent of the plan sponsor. Gabriel, Roeder, Smith & Company will be pleased to review this valuation report with the Board of Trustees and to answer any questions pertaining to the valuation.

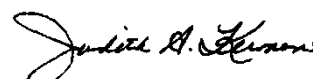
Respectfully submitted,



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Kenneth G. Alberts



Judith A. Kermans, EA, FCA, MAAA



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## **SECTION A**

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### **INTRODUCTION**

## Executive Summary

### (\$ in Millions)

Valuation Date	June 30, 2017	June 30, 2016
Contributions for Fiscal Year Ending	June 30, 2019	June 30, 2018
<b>Employer Contributions</b>		
Mandated Percentage of Covered Payroll	12.25%	12.25%
Estimated Annual Amount (Mandated Contributions Only)	\$ 17.6	\$ 16.4
<b>Membership</b>		
Active Members (Excluding DROP)	2,523	2,483
DROP Members	81	54
Retirees and Beneficiaries	64	44
Inactive, Nonretired Members	465	293
Total	3,133	2,874
Valuation Payroll *	\$ 141.2	\$ 128.8
<b>Assets</b>		
Market Value	\$ 93.4	\$ 42.3
Return on Market Value	9.66%	(8.28)%
<b>Actuarial Information (Assuming 0.5% VPIF)</b>		
Total Normal Cost Rate	17.31%	16.92%
Member Contribution Rate	6.77%	6.80%
Employer Normal Cost Rate	10.54%	10.12%
Actuarial Accrued Liability	\$ 93.3	\$ 72.2
Unfunded Actuarial Accrued Liability	\$ (0.1)	\$ 29.9
Funded Ratio	100.10%	58.50%
Equivalent Single Amortization Period	0	5
Employer Rate needed for 15-Year Amortization #	10.54%	10.69%
<b>Additional Funding Information (Assuming a full 1% VPIF)</b>		
Employer Normal Cost Rate	11.52%	11.06%
Equivalent Single Amortization Period	8	13
Employer Rate needed for 15-Year Amortization #	11.80%	12.06%
<b>Risk Metrics</b>		
Actuarial Accrued Liability Divided by Payroll	66.04%	56.06%
Market Value of Assets Divided by Payroll	66.10%	32.82%

\* Payroll shown is for non-DROP members.

# Based on prior Board policy to set the employer normal cost as the minimum contribution.

Note: AVA (Actuarial Value of Assets) is equal to MVA (Market Value of Assets)

**Please see pages 5 through 8 of the report for important comments regarding valuation results.**

An estimate of the probability of future contributions being made was outside the scope of this project, not required by Actuarial Standards, and, therefore, was not made.

## Normal Cost Rates

Valuation Date June 30	2017	2016
<b>Normal Cost for 0.5% VPIF (COLA)</b>		
Age & service allowances	11.49%	11.12%
Disability allowances	4.92%	4.88%
Death-in-service allowances	0.45%	0.45%
Administrative expenses	0.00%	0.00%
Refunds	0.45%	0.47%
<b>Total</b>	<b>17.31%</b>	<b>16.92%</b>
Members Current Contributions@	6.77%	6.80%
<b>Employer Normal Cost (0.5% VPIF)</b>	<b>10.54%</b>	<b>10.12%</b>
Additional Normal Cost for Full 1.0% VPIF (COLA)#	0.98%	0.94%
<b>Employer Normal Cost (1% VPIF)</b>	<b>11.52%</b>	<b>11.06%</b>
Fixed Employer Contribution Rate+	12.25%	12.25%
Amount available for UAAL% (0.5% VPIF)	1.71%	2.13%
Amount available for UAAL% (1.0% VPIF)	0.73%	1.19%

@ Member contributions expected to be paid are a weighted average of 6% for those hired before July 1, 2014 and 8% hired after June 30, 2014.

# Normal Cost Rates shown are based on benefits which includes a discretionary 1% compound Cost-of-Living Adjustment (COLA) beginning in the July 1, 2015 plan year. Plan provisions provide criteria for when a COLA can be paid. The current assumption is that on average over a members retirement years, they will receive the equivalent of a 0.5% COLA (or VPIF).

+ Employer contributions are set at 12.25% of covered compensation per year through plan year 2023.

## Development of Liabilities as of June 30, 2017

### Retirement System Totals

#### Valuation Assumptions (1/2% VPIF)

Present Value of Future Benefits	\$	289,517,405
Present Value of Future Normal Costs		196,247,982
Actuarial Accrued Liability		93,269,423
Accrued Assets		93,356,020
Unfunded Actuarial Accrued Liability (UAAL)	\$	(86,597)
Additional Amount for Full 1% COLA		5,184,224
UAAL with Full COLA	\$	5,097,627

The COLA or VPIF provided in the Plan is a discretionary 1.0% compound post retirement increase at the beginning of each plan year starting one year after retirement. However, Section 9.5 of the Plan imposes several limitations on when the COLA can be paid (or clawed back). Based on this section of the Plan, it is reasonable to assume that the average COLA a retired member will receive over their lifetime will be less than 1%. For purposes of this valuation we have assumed that the average COLA is equivalent to 0.5%. Future Plan experience, Board policy, and Plan interpretation regarding the administration of Section 9.5 may result in changes to this assumption. If the full 1% VPIF were assumed, the present value of future benefits would be \$305.9 million and the actuarial accrued liability would be \$98.5 million.

The Transition Cost is defined in Section G-2 of the Combined Plan as the accrued liability at plan inception due to vesting and eligibility service earned prior to the Component I effective date (7/1/2014). The Board has adopted a VPIF assumption of ½% for the Transition Cost. The Transition Cost is not currently directly used in the valuation. The Plan provides for a separate funding source for Transition Costs until FY 2024. Because of this separate funding source, it is reasonable to account for the Transition Cost in the projections called for in Section 9.5 of the Plan (the Fiscal Responsibility). As of June 30, 2017, the plan has a remaining Transition Cost of \$23.3 million. Since the plan has an unfunded actuarial accrued liability of \$(87,000) based on the ½% VPIF, the transition cost under the ½% VPIF assumption is currently funded. This could change in the future if experience losses result in a funded status less than 100%.

The funded status measure is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations. The funded status is appropriate for assessing the need for future UAAL contributions if all actuarial assumptions are met.



## Contributions Comparative Schedule

Valuation Date	Employee Contributions@	Employer Contributions for					Amount for Rate Stabilization*	Contributions Effective Plan Year	Employer Contribution Type#
		Normal Cost for 0.5% VPIF (COLA)	Additional Normal Cost for Full 1.0% VPIF (COLA)	Employer Contribution in Excess of Normal Cost	Amount for UAAL	Amount for Rate Stabilization*			
2014	6.20%	10.52%	0.94%	0.79%	0.79%	0.00%	2014/15	Mandated	
2014	6.36%	10.36%	0.94%	0.95%	0.95%	0.00%	2015/16	Mandated	
2015	6.65%	10.07%	0.95%	1.23%	1.23%	0.00%	2016/17	Mandated	
2016	6.80%	10.12%	0.94%	1.19%	1.19%	0.00%	2017/18	Mandated	
2017	6.77%	10.54%	0.98%	0.73%	TBD	TBD	2018/19	Mandated	

# "Mandated" (Section 9.3(2)) if specified by Plan document and POA; "Actuarially Determined" if determined by a valuation based on the Board's funding policy.

\* Rate Stabilization Contributions are determined by the City through 2024.

@ Members hired before June 30, 2014 contribute 6%, members hired after June 30, 2014 contribute 8%. Therefore, as new hires enter the Plan, the employer normal cost will decrease (in the absence of changes in the Plan or assumption changes).

# Comments

## COMMENT 1

### Experience

Overall, plan experience was more favorable than assumed. There was a net gain of \$10.2 million as shown on page 11. This gain is comprised of an \$8.3 million liability gain and a \$1.9 million investment gain. The main sources of liability gains were:

- More withdrawals than assumed
- Less disability retirements than assumed (see Comment 13)

## COMMENT 2

### Actuarial Assumption

The assumed rate of return prescribed by the POA is 6.75%, net of investment and administrative expenses. We have reviewed the reasonableness of this assumption based on the plan's investment policy and the capital market assumptions of eight nationally recognized investment consulting firms using GRS' Capital Market Assumption Modeler. The analysis depends on the underlying price inflation and the rate of administrative expenses. Based on our analysis, the prescribed 6.75% rate of return is reasonable for the purpose of the measurement being taken. If the Board would like, we can prepare a separate report of our analysis.

## COMMENT 3

### Post Retirement COLA

This Plan has a post retirement COLA feature known as the Variable Pension Improvement Factor or VPIF of a 1% compound COLA. It can be granted only if the five-year projection shows the Plan funded status at 90% or greater at the end of the projection period based upon 6.75% future investment return. Since there are conditions under which the VPIF cannot be paid (and even reduced) we have assumed that on average a VPIF of ½% will be paid in the development of the accrued liabilities and normal cost. We recommend that this assumption be reviewed in the next experience study. A 1% VPIF was granted on July 1, 2017. Actual versus expected VPIFs are treated as a gain or loss item for purposes of the valuation.

## COMMENT 4

Since members hired after June 30, 2014 will have a higher member contribution rate the employer normal cost is expected to decrease as new members enter the Plan (in the absence of changes in the plan or assumption changes).

# Comments

## COMMENT 5

### Transition Cost

Based on the funded status as of June 30, 2017, transition costs are fully funded. This could change in the future if there are experience losses. For purposes of the projections called for in Section 9.5 of the Plan, we are tracking the theoretical transition cost that would exist under a 9-year closed amortization (see page 13).

## COMMENT 6

### Funding and Transfers of Assets from Component II

Mandatory employee contributions are initially set to 6.0% (8.0% if hired after June 30, 2014) of compensation but can be increased, if necessary, to maintain funding levels at 90% or above. Employer contributions are set at 12.25% of payroll through June 30, 2023. Employer contributions are actuarially determined beginning in 2024 to be the amount necessary to fund the Plan on an actuarial basis. The 12.25% of payroll employer contribution rate exceeds the employer normal cost rate of 11.52% by 0.73% of payroll (when the normal cost rate is based on the full 1% VPIF).

The Plan requires that in the event that the rate of interest credited to the Annuity Savings Fund (ASF) of the Component II (Legacy) Plan is less than the rate earned by the Component II trust, a transfer of the difference in rates (applied to the Component II ASF balance) to the Component I trust may occur to fund the Transition Cost. If transition costs are fully funded, then 50% of the difference is transferred to Component I. Transfers cease after June 30, 2023. For purposes of this valuation, future transfers were not anticipated (assumed not to occur).

Based on the investment performance for Fiscal Year 2017, it is likely a transfer will occur in 2019. That transfer will be reflected in the valuation once it occurs.

## COMMENT 7

The number of inactive vested members increased this year from 293 to 465. We believe a large portion of the increase is due to the ongoing data audits performed by the System Staff. Details of the data provided and adjustments we made (after confirming with System Staff) are shown on page 18.

## COMMENT 8

It is our understanding that the amount of employer contributions credited to the Rate Stabilization Fund (RSF) is at the discretion of the Employer. We have been informed that the Employer has directed that none of the Employer contributions for FY 2015, FY 2016 and FY 2017 be credited to the RSF.

# Comments

## COMMENT 9

The determination of the Normal Cost is dependent on the replacement life normal cost Entry Age Normal Cost Method. Our understanding of the Plan's and City's objectives is to have a level total normal cost and a separately funded transition cost consistent with this method. Based on the current exposure draft of the Actuarial Standards of Practice, this method is appropriate for determining a Reasonable Actuarially Determined Contribution. If the final standard changes, we may need to review this method.

## COMMENT 10

Section 3.2(1) of the Combined PFRS Plan states that a member who elects to participate in the DROP program under Component I, Component II, or both shall not accrue a benefit under the Retirement System or make mandatory or voluntary member contributions. Therefore, we have excluded all members reported as in the Component II DROP as of June 30, 2014 from this valuation.

## COMMENT 11

Section 12.7(1) states that the DROP shall be effective only for as long as it is cost neutral to the City. Cost neutrality for this purpose is not defined. An assessment of the cost neutrality of the DROP was outside the scope of this valuation. We suggest the Board (or other appropriate party) define "cost neutral" for this purpose and establish a schedule for periodic review of the DROP plan meeting cost neutrality. We would be happy to work with the Board (or other appropriate party) to assist in this task.

## COMMENT 12

The results in this report assume an investment return rate of 6.75%, net of administrative expenses. We understand that the administrative expenses of the Retirement System are being split between Component I (roughly 37%) and Component II. Administrative expenses may put downward pressure on the Component I funded status in the short term. As an indication of the magnitude, the FY 2017 Component I administrative expenses were approximately 2.80% of the Component I market value of assets as of June 30, 2017. As the asset base grows, this rate is expected to diminish.

The computation of the rate of return net of administrative expenses will therefore be significantly lower than the gross rate of return and may differ from investment performance measures. This effect is expected to decline over time as the trust builds up assets. The total administrative expenses as a percent of the Combined Plan (Component I and Component II) assets was approximately 23 basis points.

# Comments

## COMMENT 13

The Police and Fire Retirement System Combined Plan provides disability benefits from both Component I and Component II. Our understanding of the Component II freeze as it relates to duty disability benefits was that the only benefit payable from Component II would be the frozen accrued benefit, payable at the time of conversion to normal retirement (for members becoming disabled after 6/30/2014) and that any benefits payable during the period of disability would be paid from Component I. Data reported for this valuation is not consistent with that understanding. In addition, assets reported for Component I do not appear to be consistent with that interpretation. We recommend the administration of the post-2014 duty disability benefits be reviewed.

## COMMENT 14

We are currently working with the Board to assist them in the development of a funding policy for this plan.

## COMMENT 15

The next experience study is scheduled to begin subsequent to the June 30, 2020 valuation.

## **SECTION B**

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### **FUNDING RESULTS**

## Actuarial Liabilities as of June 30, 2017

Actuarial Present Value of	Total Present Value	Portion Covered by Future Normal Cost Contributions	Actuarial Accrued Liabilities (1) – (2)
Age and service allowances based on total service likely to be rendered by present active members	\$ 206,473,563	\$ 124,338,119	\$ 82,135,444
Disability benefits likely to be paid to present active members	58,194,710	53,340,129	4,854,581
Death-in-service benefits likely to be paid on behalf of present active members	6,714,674	4,728,733	1,985,941
Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active members	9,888,961	13,841,001	(3,952,040)
Benefits attributed to voluntary member contributions	79,355	0	79,355
Benefits likely to be paid to vested inactive members	4,891,830	0	4,891,830
Benefits to be paid to members in the DROP, current retirees, beneficiaries, and future beneficiaries of current retirees.	3,274,312	0	3,274,312
<b>Total</b>	<b>\$ 289,517,405</b>	<b>\$ 196,247,982</b>	<b>\$ 93,269,423</b>
Actuarial Value of Assets	\$ 93,356,020	\$ 0	\$ 93,356,020
Liabilities to be covered by Future Contributions	\$ 196,161,385	\$ 196,247,982	\$ (86,597)
Additional Amount for Full 1% COLA	16,393,399	11,209,175	5,184,224
<b>Total with Full COLA</b>	<b>\$ 212,554,784</b>	<b>\$ 207,457,157</b>	<b>\$ 5,097,627</b>

# Actuarial Balance Sheet

## Assets and Present Value of Expected Future Contributions (1/2% VPIF)

<u>Valuation Date June 30:</u>	<u>2017</u>
A. Present Actuarial Value of Assets	
1. Net assets from System financial statements	\$ 93,356,020
2. Adjustment for Valuation Assets	<u>0</u>
3. Actuarial Value of Assets	93,356,020
B. Actuarial Present Value of Expected Future Employer Contributions	
1. For Normal Costs	120,211,969
2. For Unfunded Actuarial Accrued Liability	<u>(86,597)</u>
3. Total	120,125,372
C. Actuarial Present Value of Expected Future Member Contributions	<u>76,036,013</u>
D. Total Present and Expected Future Resources	<u>\$ 289,517,405</u>

## Present Value of Expected Future Benefit Payments

A. To DROP Members, Retirees and Beneficiaries	\$ 3,274,312
B. To Vested Terminated Members	4,891,830
C. To Present Active Members	
1. Allocated to service rendered prior to valuation date – Actuarial Accrued Liability	85,023,926
2. Allocated to service likely to be rendered after valuation date	<u>196,247,982</u>
3. Total	281,271,908
D. Voluntary Member Contributions	79,355
E. Total Actuarial Present Value of Expected Future Benefit Payments	<u>\$ 289,517,405</u>

The Actuarial Balance Sheet does not reflect Transition Cost (see Comment 5).



## Development of Actuarial Gain or Loss (1/2% VPIF)

	Actuarial Accrued Liability (AAL) (A)	Actuarial Value of Assets (B)	Unfunded Actuarial Accrued Liability (C) = (A) - (B)
(1) Beginning of Year (BOY)	\$ 72,221,263	\$ 42,283,763	\$ 29,937,500
(2) Total Normal Cost	23,929,459	N/A	23,929,459
(3) Total Contributions	N/A	45,046,333	(45,046,333)
(4) Benefit Payments and Refunds Interest	(223,826)	(223,826)	-
(5) $6.75\% \times (1) + 6.75\% \times [(2) + (3) + (4)] / 2$ Expected End of Year	<u>5,675,000</u>	<u>4,366,914</u>	<u>1,308,086</u>
(6) (1)+(2)+(3)+(4)+(5)	\$ 101,601,896	\$ 91,473,184	\$ 10,128,712
(7) Actual End of Year	<u>93,269,423</u>	<u>93,356,020</u>	<u>(86,597)</u>
(8) Gain or Loss (6)-(7)	\$ 8,332,473	\$ (1,882,836)	\$ 10,215,309
	Gain	Gain	Gain
(9) Percent of BOY AAL (8)/(1A)	11.54%	(2.61%)	14.14%

There was a gain on both assets and liabilities. The liability gain was mostly a result of more withdrawals than assumed and fewer than expected disabilities.

Type of Risk Area	Gain (Loss) in Period	
	Totals (\$ in millions)	Percent of Beginning of Year Liabilities #
<b>Data Improvements</b>	\$0.2	0.2 %
<b>Risks Related to Assumptions</b>		
<b>Economic Risk Areas:</b>		
Pay Increases **	0.2	0.2 %
Investment Return	1.9	2.6 %
VPIF	0.0	0.0 %
<b>Demographic Risk Areas:</b>		
Full and Reduced Service Retirements	(0.2)	(0.3)%
Death Benefits	0.4	0.6 %
Disability Benefits	4.1	5.7 %
Other Terminations	3.3	4.6 %
Post-Retirement Mortality	<u>0.3</u>	<u>0.4 %</u>
<b>Total Gain (or Loss) During Period</b>	<u>\$10.2</u>	<u>14.0 %</u>

# Beginning of year liabilities were \$72.2 million.

\* Results may be approximate due to limitations in the data.

\*\* Includes effect of payroll changes due to changes in group size, new hires and rehires.

## SECTION C

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### FIVE-YEAR FUNDED STATUS PROJECTION

Section 9.5, Fiscal Responsibility, of the Combined PFRS Plan contains several provisions for adjusting contributions and/or benefits to be determined based on a 5-year projection of the funded status of the Plan. This section calls for two different funded status projection tests:

- Section 9.5(1) test for the funded status falling below 90%
- Section 9.5(2) test for the funded status falling below 90% and remaining below 100%

Section 9.5(3) specifies the interest rate to be used in the projections. Other methods and assumptions used in the projections are to be adopted by the Board based on the recommendation of the Investment Committee.

**Projection Method:**

We have been directed to use the following methods and assumptions:

- Projections based on valuation assumptions (other than VPIF).
- VPIF assumption is ½%. This assumption will be reviewed and adjusted as experience emerges.
- Transition Cost is netted out of the Actuarial Accrued Liability.
- The Transition Cost is based on a 9-year level dollar amortization of the initial Transition Cost amount which is calculated using a ½% VPIF.
- Projected assets exclude the projected value of the Rate Stabilization Fund.
- All future Employer contributions go to the Pension Accumulation Fund (PAF).
- The June 30, 2015 valuation generates the first test.
- There is a 2-year delay between the valuation date and the VPIF determination date.
- The market value is projected using a 6.75% rate of return.
- Potential future arbitrage on the voluntary contribution reserve fund was not modeled. This assumption will be revisited if the voluntary contribution reserve fund becomes material.
- Each item in Section 9.5(2) will be added in the order listed until a threshold is reached.
- Projected contributions include an expected asset transfer from the Component II Annuity Savings Fund (ASF), equal to 1.50% of the projected ASF balances. This represents the difference between the assumed rate of return of 6.75% and the maximum interest rate that can be credited to the ASF accounts of 5.25%.
- 6% of payroll member contributions for members hired as of June 30, 2014. 8% for members hired after June 30, 2014.
- 12.25% of payroll employer contributions.
- Component II ASF balances were assumed to be withdrawn as a level dollar amount over the next 10 years.
- Voluntary contributions and interest are not reflected.

## Transition Cost

Under the current actuarial cost methods, members with past vesting service generate an initial liability as of June 30, 2014. This is the “Transition Cost” described in Section G-2(f) of the Combined PFRS Plan. A separate funding source was established for the Transition Cost through 2023. The projections on page 14 net the Transition Cost from the Actuarial Accrued Liability to determine projected funded status. Projected Transition Cost is based on the 9-year level dollar amortization of the initial Transition Cost amount. The initial Transition Cost amount is based on a ½% VPIF. An amortization schedule of the Transition Cost follows. Note, under this method any future gains or losses related to the Transition Cost are accounted for in the Actuarial Accrued Liability net of Transition Cost as they occur.

### Transition Cost Amortization Schedule For Projections on Page 14

**Financing Transition Cost**  
**Calculated Using A Level Dollar Amortization (mid-year payments)**  
**and an Investment Return Assumption of 6.75% Compounded Annually**  
**9-Year Closed Amortization**

Valuation Date June 30	Fiscal Year June 30	Transition Cost at Beginning of Year	Annual Contributions	
			During Fiscal Year Dollars	Transition Cost at End of Year
2014	2015	\$ 31,931,597	\$ 4,693,263	\$ 29,237,905
2015	2016	29,237,905	4,693,263	26,362,389
2016	2017	26,362,389	4,693,263	23,292,776
<b>2017</b>	<b>2018</b>	<b>23,292,776</b>	<b>4,693,263</b>	<b>20,015,963</b>
2018	2019	20,015,963	4,693,263	16,517,966
2019	2020	16,517,966	4,693,263	12,783,854
2020	2021	12,783,854	4,693,263	8,797,689
2021	2022	8,797,689	4,693,263	4,542,459
2022	2023	4,542,459	4,693,263	0

To the extent that actual funding of the Transition Cost differs from this schedule, gains and losses will accumulate in the Plan’s unfunded actuarial accrued liability.

## Projected Funded Status

### 5-Year Projection Assuming 6.75% Investment Return in all Future Years

		A	B	C = (A - B)	D	E = (D/C)
Valuation Date	Fiscal Year	Total AAL	Transition Cost	Net AAL	Assets	Net Funded Ratio
June 30	June 30					
2017	2018	\$ 93,269,423	\$ 23,292,776	\$ 69,976,647	\$ 93,276,665	133%
2018	2019	124,489,746	20,015,963	104,473,783	128,283,695	123%
2019	2020	157,358,900	16,517,966	140,840,934	165,375,803	117%
2020	2021	192,148,022	12,783,854	179,364,168	204,766,998	114%
2021	2022	229,124,011	8,797,689	220,326,321	246,772,146	112%
2022	2023	268,485,451	4,542,459	263,942,993	291,560,226	<b>110%</b>

**Comment 1:** Based on this projection, the Funded Status is above 90% by the end of the 5-year projection.

## History of Granted VPIF

Plan Year Ending	Actual	Assumed
June 30 of	(2)	(3)
(1)		
2014	N/A	N/A
2015	0.0%	0.5%
2016	0.0%	0.5%
2017	1.0%	0.5%

Section 9.5 in its entirety is shown below:

### **Sec 9.5. Fiscal Responsibility: Benefit Reductions and Increased Funding Obligations**

(1) To safeguard the long-term actuarial and financial integrity of the Retirement System, in the event the funding level of Component I of the Retirement System projected over a five-year period falls below ninety percent (90%), the Trustee may not award the variable Pension Improvement Factor (Escalator) described in Section 6.2 to any individual beginning with the Plan Year following the Plan Year in which such determination is made and continuing until the funding level is restored to not less than ninety percent (90%).

(2) In the event the funding level of the Retirement System projected over a five-year period falls below ninety percent (90%), the following remedial action shall be required in the order set forth below, beginning with the Plan Year following the Plan Year in which such determination is made and continuing until the funding level is projected to be one hundred percent (100%) on a market value basis within the next five years:

- (a) The remedial action required in Section 9.5(1) shall be implemented or continued;
- (b) All amounts credited to the Rate Stabilization Fund shall be transferred to the Pension Accumulation Fund for the purposes of funding benefits payable under the Retirement System;
- (c) Mandatory Employee Contributions for active and new employees shall be increased by one percent (1%) for up to the next following five Plan Years;
- (d) Mandatory Employee Contributions for active and new employees shall be increased by an additional one percent (1%) per year;
- (e) Mandatory Employee Contributions for active and new employees shall be increased by an additional one percent (1%) per year;
- (f) The Retirement Allowance payable to a Retiree shall not include the variable Pension Improvement Factor (Escalator) that was most recently paid to the Retiree on the date the funding level is projected to fall below ninety percent (90%);
- (g) The Retirement Allowance payable to a Retiree shall not include the variable Pension Improvement Factor (Escalator) that was most recently added to the Member's Retirement Allowance for the Plan Year preceding the Plan Year referenced in paragraph (f) above;
- (h) Mandatory Employee Contributions for active and new employees shall be increased by an additional one percent (1%) per year; and
- (i) Contributions made to the Retirement System by the City shall be increased, consistent with applicable actuarial principles and the *Public Employee Retirement System Investment Act, as amended, MCL 38.1132 et seq.*

(3) For purposes of this Section 9.5, the "funding level" shall mean the ratio of the market value of the assets of Component I of the Retirement System to the actuarial accrued liability of Component I of the Retirement System. The actuarial accrued liability shall be calculated by the Plan's Actuary utilizing an interest rate assumption of six and three-quarters percent (6.75%) and other reasonable assumptions as directed by the Board upon the recommendation of the Investment Committee. The market value of assets shall be determined on the basis of a three-year look back period of smoothed investment returns.

**SECTION D**

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**FUND ASSETS**

## Statement of Plan Assets (Assets at Market or Fair Value)

Item	June 30, 2017	June 30, 2016
A. Cash and Cash Equivalents (Operating Cash)	\$ 5,391,242	\$ 14,887,546
B. Receivables		
1. Accrued interest receivable	\$ 207,388	\$ 72,954
2. Receivables from investment sales	1,733,031	648,954
3. Contributions receivable	4,162,780	0
4. Prepaid expenditures and other assets	3,327	0
5. Other receivables	34,134	15,459
6. Total Receivables	<u>\$ 6,140,660</u>	<u>\$ 737,367</u>
C. Investments		
1. Global equities	\$ 43,675,035	\$ 12,769,332
2. Global fixed income	19,109,999	6,635,620
3. Real assets	14,148,246	5,685,346
4. Private equity	2,439,557	823,074
5. Diversifying strategies	4,854,939	1,497,874
6. Total Investments	<u>\$ 84,227,776</u>	<u>\$ 27,411,246</u>
D. Securities lending		
1. Cash and investments held as collateral for securities lending	\$ 6,578,244	\$ 2,079,579
E. Liabilities		
1. Claims payable to retirees and beneficiaries	\$ 19,633	\$ 19,554
2. Payables for investment purchases	1,951,965	737,707
3. Amount due to broker for securities lending	6,965,256	2,072,145
4. Other liabilities	45,048	2,569
5. Total Liabilities	<u>\$ 8,981,902</u>	<u>\$ 2,831,975</u>
F. Total Market Value of Assets Available for Benefits	\$ 93,356,020	\$ 42,283,763
G. Voluntary employee contribution fund	\$ 79,355	\$ 30,902
H. Market Value Net of Reserves	\$ 93,276,665	\$ 42,252,861
I. Allocation of Investments		
1. Short-term investments	9.78 %	36.31 %
2. Global equities	46.78 %	29.67 %
3. Global fixed income	20.47 %	15.42 %
4. Real assets	15.16 %	13.21 %
5. Private equity	2.61 %	1.91 %
6. Diversifying strategies	5.20 %	3.48 %
7. Total Investments	<u>100.00 %</u>	<u>100.00 %</u>



## Reconciliation of Plan Assets

Item	June 30, 2017	June 30, 2016
A. Market Value of Assets at Beginning of Year	\$ 42,283,763	\$ 21,327,464
B. Revenues and Expenditures		
1. Contributions		
a. Member Contributions	\$ 8,589,027	\$ 7,849,578
b. Employer Contributions	16,448,246	15,955,915
c. State Contributions	0	0
d. Purchased Service Credit	0	0
e. Total	<u>\$ 25,037,273</u>	<u>\$ 23,805,493</u>
2. Investment Income		
a. Interest, Dividends, and Other Income	\$ 8,897,790	\$ 252,426
b. Net Realized and Unrealized Gains/(Losses)	0	0
c. Investment Expenses	0	0
d. Net Investment Income	<u>\$ 8,897,790</u>	<u>\$ 252,426</u>
3. Benefits and Refunds		
a. Refunds	\$ 86,501	\$ 37,368
b. Regular Monthly Benefits	137,325	63,883
c. Partial Lump-Sum Benefits Paid	0	0
d. Other	0	0
e. Total	<u>\$ 223,826</u>	<u>\$ 101,251</u>
4. Administrative and Miscellaneous Expenses	\$ 2,648,040	\$ 3,000,369
5. Other	\$ 9,060	\$ 0
6. Transfers	\$ 20,000,000	\$ 0
C. Market Value of Assets at End of Year	\$ 93,356,020	\$ 42,283,763

## SECTION E

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### PARTICIPANT DATA

# Summary of Participant Data as of June 30, 2017

Active Members		Inactive Vested Members	
A) PF Count Reported in database	3,298	A) Number of records reported on data file	406
B) Hired after val date	(68)	B) In Legacy active file but not otherwise in database and not in Hybrid active file *	63
C) Non-active status	(20)	C) Valued as inactive in prior year and would not have otherwise been valued this year &	211
D) Non-eligible class code & bargaining unit #	(1)	D) Valued as a vested active member in prior year but not in this year's active file and would not have otherwise been valued this year	142
E) Also in retiree file (including DROP)	<u>(686)</u>	E) Non-eligible bargaining unit #	(7)
F) Number of records valued	2,523	F) In General file with Police and Fire Revenue Group	49
		G) In Police and Fire file with General Revenue Group	(18)
		H) Valued as Hybrid Retiree	-
		I) Other Changes	4
		J) Duplicate Records	(2)
		K) Less than 10 years of service ^	(102)
		L) Zero mandatory contribution balance @	(269)
		M) Terminated before 6/30/2014	<u>(12)</u>
		N) Number of records to value	465
<b>Retired Members and Beneficiaries</b>			
A) Number of records reported on data file	42,360		
B) Number of records not in P/F plan	(26,636)		
C) Records not currently in receipt of benefits	(6,709)		
D) Coded as Legacy records	(8,870)		
E) Records coded as DROP	<u>(81)</u>		
F) Number of records valued	64		
<b>DROP Members</b>			
A) Number of records reported on data file	42,360		
B) Number of records not in P/F plan	(26,636)		
C) Records not currently in receipt of benefits	(6,709)		
D) Coded as Legacy records	(8,870)		
E) Records not coded as DROP	<u>(64)</u>		
F) Number of records valued	81		

# For both this valuation and the prior valuation, we have received a separate list of Class Codes and Bargaining Units that are not eligible to receive benefits.

\* There were 273 records that appeared in the PF\_Benefits file but did not appear in the Police and Fire active Hybrid file. It was assumed that these members were no longer active in the Police and Fire plan. Of those 273 records: 83 appeared in the General active Hybrid file and 81 of those members were valued as General active members; 102 appeared as non-DROP retirees and were valued as retirees; 4 appeared as DROP retirees and were valued as DROP retirees; 4 appeared as General retirees and were valued as General retirees; 4 appeared on the retiree file but were not valued as retirees; 3 appeared on the GC\_Benefits\_Vested file; 6 were listed with a non-eligible bargaining unit; the remaining 67 records were added to the inactive file and valued as vested members if eligible (10 had a general revenue group and would have been valued as general members, if eligible).

& For the Legacy plan, several of these records would have been removed by Row H. Only includes records that appear in the database either this year or last year.

^ Service provided in the data file is benefit service. Since benefit service was frozen as of June 30, 2014 for members that terminated after June 30, 2014, vesting service was determined by adding service accrued after June 30, 2014 to the benefit service.

@ Assumed to have refunded and forfeited Hybrid defined benefit.

## Data Adjustments

The active data reported for Component I (Hybrid) came from a table titled PF\_Benefits and another file titled BENEFITSPCFL\_POA\_PP7\_AV\_FY201617.xls

Inactive vested members for Component I (Hybrid) have not been processed by Detroit staff. These members were valued in the following ways:

- If available, Component II deferred vested data was used;
- If Component II deferred vested data was not available, active data from prior years was used. In this case, it was assumed that members terminated at the end of the fiscal year.
- Benefit service was calculated by the time elapsed from June 30, 2014 to the termination date.
- The AFC that was used to calculate the benefit is the Component II (Legacy) amount. If unavailable, \$30,000 was used for the AFC.

In cases where the benefit is identified to be a joint and survivor benefit and a beneficiary is not listed in the data, it was assumed that male spouses were 3 years older than females. For non-equated members that elected a pop-up benefit, the pop-up amount is estimated based on the chosen option and benefit amounts provided in the data. Benefits for dependent children are assumed to cease at age 21.

We have been instructed by System Staff to use bargaining unit information to determine membership in DPLSA and DPCOA. As a result, class information was used from the 2014 valuation data to assign retirement probabilities since class code no longer has meaning under Component I. This information is used to determine DPLSA and DPCOA (and Fire equivalents) membership as defined in Component II as of June 30, 2014. In particular, for members older than 43 or with more than 17 years of service as of June 30, 2014, individuals with DPLSA and DPCOA (and Fire equivalent) class codes were assumed to be eligible for Component II 25 & Out retirement conditions and individuals with DPOA (and Fire equivalent) class codes were assumed to be eligible for Component II 20 & Out retirement conditions.

**Please see our 2017 data summary letter dated April 2, 2018 for additional details.**

## Active Members June 30, 2017 by Attained Age and Years of Eligibility Service

### Police Members

Attained Age	Years of Service to Valuation Date							No.	Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus		Valuation Payroll *
Under 20	8							8	\$ 305,671
20-24	180							180	7,209,723
25-29	267	21						288	12,478,165
30-34	89	70	16	1				176	8,944,601
35-39	33	46	44	112	3			238	13,772,813
40-44	11	24	27	241	66			369	22,674,694
45-49	7	18	12	227	127	4		395	25,555,975
50-54	1	7	6	92	51	6	4	167	10,413,656
55-59	1	3	1	26	15	2	1	49	3,034,951
60-64			1	4	3	2	2	12	815,548
65-69				1		1		2	116,199
<b>Totals</b>	<b>597</b>	<b>189</b>	<b>107</b>	<b>704</b>	<b>265</b>	<b>15</b>	<b>7</b>	<b>1,884</b>	<b>\$105,321,996</b>

### Fire Members

Attained Age	Years of Service to Valuation Date							No.	Totals
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus		Valuation Payroll *
Under 20	1							1	\$ 33,507
20-24	23							23	933,269
25-29	68	3	1					72	3,090,009
30-34	53	3	3	1				60	2,729,217
35-39	23	8	26	40	1			98	5,388,622
40-44	4	2	24	77	16			123	7,164,683
45-49	3	2	12	78	42	16		153	9,305,082
50-54		2	1	20	23	26	5	77	5,138,610
55-59			1	13	10	5	3	32	2,120,333
<b>Totals</b>	<b>175</b>	<b>20</b>	<b>68</b>	<b>229</b>	<b>92</b>	<b>47</b>	<b>8</b>	<b>639</b>	<b>\$35,903,332</b>

\* Excluding DROP members.

## Total Active Members June 30, 2017 by Attained Age and Years of Eligibility Service

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll *
Under 20	9							9	\$ 339,178
20-24	203							203	8,142,992
25-29	335	24	1					360	15,568,174
30-34	142	73	19	2				236	11,673,818
35-39	56	54	70	152	4			336	19,161,435
40-44	15	26	51	318	82			492	29,839,377
45-49	10	20	24	305	169	20		548	34,861,057
50-54	1	9	7	112	74	32	9	244	15,552,266
55-59	1	3	2	39	25	7	4	81	5,155,284
60-64			1	4	3	2	2	12	815,548
65-69				1		1		2	116,199
<b>Totals</b>	<b>772</b>	<b>209</b>	<b>175</b>	<b>933</b>	<b>357</b>	<b>62</b>	<b>15</b>	<b>2,523</b>	<b>\$141,225,328</b>

### Group Averages

	Police	Fire	Total
Age:	38.5 years	41.0 years	39.1 years
Benefit Service:	2.4 years	2.8 years	2.5 years
Eligibility Service:	12.0 years	14.2 years	12.5 years
Annual Pay:	\$55,903	\$56,187	\$55,975

\* Excluding DROP members.

## Historical Summary of Active Member Data

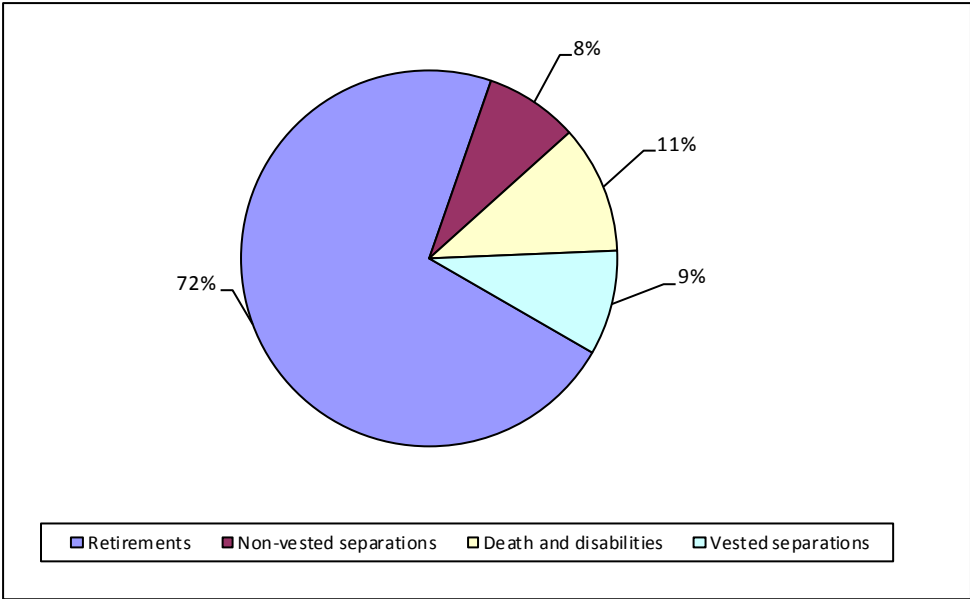
Valuation Date	Active Members		Covered Payroll		Average Salary		Average (in Years)		
	No.	% Increase	\$ Amount	% Increase	\$ Amount	% Increase	Age	Service	Entry Age
2014	2,608	N/A	\$ 132,566,687	N/A	\$ 50,831	N/A	41.0	14.2	26.8
2015	2,484	(4.8)%	131,695,469	(0.7)%	53,017	4.3%	41.0	14.2	26.8
2016	2,483	(0.0)%	128,837,649	(2.2)%	51,888	(2.1)%	40.6	13.8	26.8
2017	2,523	1.6%	141,225,328	9.6%	55,975	7.9%	39.1	12.5	26.6

## Summary of Membership Data by Category

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Active Members (Excluding DROP)</b>		
Number	2,523	2,483
Average age (years)	39.1	40.6
Average service (years)	12.5	13.8
Average salary	\$ 55,975	\$ 51,888
Total payroll supplied, annualized	\$ 141,225,328	\$ 128,837,649
<b>Members in DROP</b>		
Number	81	54
Average age (years)	52.8	52.4
Total annual benefits	\$ 132,663	\$ 45,739
Average annual benefit	\$ 1,638	\$ 847
<b>Vested Inactive Members</b>		
Number	465	293
Average age (years)	47.2	48.0
Total annual deferred benefits	\$ 963,559	\$ 460,214
Average annual deferred benefit	\$ 2,072	\$ 1,571
<b>Service Retirees</b>		
Number	63	44
Average age (years)	53.6	52.6
Total annual benefits	\$ 81,742	\$ 34,901
Average annual benefit	\$ 1,297	\$ 793
<b>Disability Retirees</b>		
Number	1	-
Average age (years)	57.7	N/A
Total annual benefits	\$ 35,491	\$ -
Average annual benefit	\$ 35,491	N/A
<b>Beneficiaries</b>		
Number	-	-
Average age (years)	N/A	N/A
Total annual benefits	\$ -	\$ -
Average annual benefit	N/A	N/A



# Expected Terminations from Active Employment for Current Active Members



The chart above shows the expected future development of the present population in simplified terms. The Retirement System presently covers 2,523 active members. Eventually, 199 members are expected to terminate covered employment prior to retirement and forfeit eligibility for an employer provided benefit. 2,046 members are expected to receive monthly retirement benefits either by retiring directly from active service (including DROP), or by retiring from vested deferred status. 278 members are expected to become eligible for death-in-service or disability benefits.

## **SECTION F**

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### **METHODS AND ASSUMPTIONS**

## Funding Methods

**The entry age actuarial cost method** was used in determining liabilities and normal cost as prescribed by Section 9.3(1) of the Combined PFRS Plan. Under this method, each individual's normal cost is determined as a level percent of pay based on a replacement life normal cost. The Normal Cost for each member is based on the Component I benefits and eligibilities applicable to that member and is determined to be the level percent of payroll from hire date to the age of last decrement or DROP necessary to fund the benefits. This method is based on the objective of the Plan to separately fund Transition Cost and future accruals. The application of this method differs for funding and accounting.

**Unfunded Actuarial Accrued Liabilities** - Actual employer contributions through June 30, 2023 are set at 12.25% of pay. Additional funding for Transition Costs may occur as a result of Component II ASF transfers. The amortization period and method after 2023 has not yet been established by the Board.

**Present assets** are set equal to the Market Value.

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**The data about persons now covered and about present assets** was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

# Summary of Assumptions Used for DPFRS Actuarial Valuation

All demographic assumptions are estimates of future experience except as noted. The rationale for the assumptions is based on the 2002-2007 Experience Study of the Component II plan unless noted otherwise. The Board has elected to defer the next experience study until a full five years of experience is available after the City's bankruptcy. The next study is anticipated to cover the period from July 1, 2015 through July 30, 2020.

## ECONOMIC ASSUMPTIONS

**The investment return rate** used in the valuation was 6.75% per year, compounded annually (net after investment and administrative expenses). This assumption is prescribed by the Eighth Amended Plan for the Adjustment of Debts of the City of Detroit (POA).

### Actuarial Assumptions

The assumptions and methods are those adopted by the Board with the exception of the discount rate. For purposes of plan funding, the discount rate is 6.75% as prescribed by Section 1.18(3) of the Combined PFRS Plan. This assumption is net of all expenses.

**Pay increase assumptions** for individual active members are shown on page 27. Part of the assumption for each age is for a merit and/or seniority increase, and the other recognizes wage inflation (as of June 30, 2014, assumed to be 2.00% for five years, 2.50% for the next five years after that and 3.00% thereafter). The rationale for this assumption is that it is consistent with expectations by the employer used during the plan design.

**Price inflation** is not directly used in the valuation. For purposes of assessing the reasonableness of the assumed rate of return we assumed price inflation of 2.50% per year.

## NON-ECONOMIC ASSUMPTIONS

**The mortality table** used to measure retired life mortality is the RP-2014 Blue Collar Annuitant Table for males and females. Tables were extended below age 50 with a cubic spline to the published Juvenile rates. Pre-retirement mortality is the RP-2014 Blue Collar Employee Tables for males and females. The tables are projected to be fully generational, based on the 2-dimensional, sex distinct mortality improvement scale MP-2014 (which was published and intended to be used with RP-2014). The rationale for the mortality assumption is based on the 2008-2013 Mortality Experience Study issued February 13, 2015.

**The probabilities of age/service retirement** for members eligible to retire are shown on pages 28 through 30. The rationale is based on the 2002-2007 Experience Study modified as necessary to account for the difference in eligibility of the Component I plan.

**The probabilities of separation** from service are shown for sample ages on page 31.

## Sample Salary Adjustment Rates

Salary Increase Assumptions for an Individual Member			
Service	Merit & Seniority	Base (Economic)*	Increase Next Year
5	5.20%	3.00%	8.20%
10	1.70%	3.00%	4.70%
15	1.00%	3.00%	4.00%
20	1.00%	3.00%	4.00%
25	1.00%	3.00%	4.00%
30	1.00%	3.00%	4.00%
35	1.00%	3.00%	4.00%

\* Ultimate rate shown. Base (Economic) salary increase rates as of June 30, 2014 are assumed to be 2.00% for five years, 2.50% for the next five years after that and 3.00% thereafter.

## Single Life Retirement Values Based on RP-2014 Blue Collar for Males and Females

Sample Attained Ages in 2017	Future Life Expectancy (years)	
	Males	Females
	45	39.48
50	34.50	37.77
55	29.71	32.85
60	25.14	28.08
65	20.80	23.48
70	16.75	19.11
75	13.05	15.08
80	9.77	11.48

## Probabilities of Service Retirement for Members Older Than Age 43 or with 17 or More Years of Credited Service (Including Prior Service) as of June 30, 2014

Service	Percent of Eligible Active Members Retiring or Entering DROP Within Next Year			
	Police		Fire	
	20 & Out	25 & Out	20 & Out	25 & Out
19	40%		40%	
20	40%		40%	
21	40%		40%	
22	40%		40%	
23	40%		40%	
24	100%	40%	100%	40%
25	100%	40%	100%	40%
26	100%	40%	100%	40%
27	100%	40%	100%	40%
28	100%	40%	100%	40%
29	100%	100%	100%	100%
30	100%	100%	100%	100%
31	100%	100%	100%	100%
32	100%	100%	100%	100%
33	100%	100%	100%	100%
34	100%	100%	100%	100%
35	100%	100%	100%	100%
36	100%	100%	100%	100%
37	100%	100%	100%	100%
38	100%	100%	100%	100%
39	100%	100%	100%	100%
40	100%	100%	100%	100%

The rationale for the retirement probabilities is the 2002-2007 Experience Study modified to account for the different eligibility in Component I and split to estimate which eligibility (Component I or Component II) would influence members based on the relative service under each component.

## Probabilities of Service Retirement for Members Older Than Age 43 or with 17 or More Years of Credited Service (Including Prior Service) as of June 30, 2014

### Percent of Eligible Active Members Retiring or Entering DROP Within Next Year

Age	Police	Fire
60	40%	100%
61	40%	100%
62	40%	100%
63	40%	100%
64	40%	100%
65	100%	100%
66	100%	100%
67	100%	100%
68	100%	100%
69	100%	100%
70	100%	100%

Members eligible for 20 & Out are assumed to be first eligible for normal retirement after 19 years of service due to their ability to purchase service. Members eligible for 25 & Out are assumed to be eligible for normal retirement after 24 years of service due to their ability to purchase service. Members are also eligible to retire at age 60 with no service requirement.

## Probabilities of Service Retirement for Members Age 43 or Younger and with Less Than 17 Years of Service on June 30, 2014

Age	Percent of Eligible Active Members Retiring or Entering DROP Within Next Year	
	Police	Fire
50	30%	20%
51	30%	20%
52	30%	20%
53	30%	20%
54	30%	20%
55	30%	20%
56	30%	20%
57	30%	20%
58	30%	20%
59	30%	20%
60	100%	100%

The rationale for the retirement probabilities is the 2002-2007 Experience Study modified to account for the different eligibility in Component I and split to estimate which eligibility (Component I or Component II) would influence members based on the relative service under each component.



## Probabilities of Separation

Sample Ages	Years of Service	% of Active Members Withdrawing within Next Year	
		Police	Fire
ALL	0	8.50%	5.00%
	1	7.50%	4.00%
	2	6.00%	3.00%
	3	5.00%	2.00%
	4	4.50%	2.00%
25	5 & Over	4.50%	1.96%
30		3.30%	1.62%
35		2.30%	1.11%
40		1.70%	0.77%
45		1.50%	0.60%
50		1.10%	0.51%
55		0.80%	0.51%
60	0.80%	0.51%	

Sample Ages	% of Active Members Becoming Disabled Within Next Year			
	Police		Fire	
	Ordinary	Duty	Ordinary	Duty
25	0.06%	0.13%	0.07%	0.34%
30	0.07%	0.19%	0.08%	0.52%
35	0.08%	0.34%	0.09%	0.90%
40	0.11%	0.49%	0.12%	1.30%
45	0.16%	0.73%	0.18%	1.92%
50	0.47%	1.16%	0.53%	3.06%
55	0.73%	1.96%	0.82%	5.18%
60	0.83%	2.82%	0.94%	7.47%

# Miscellaneous and Technical Assumptions

## June 30, 2017

<b>Marriage Assumption:</b>	100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. This assumption accounts for potential dependent children/dependent parent death benefits. No other assumption is made for surviving children/dependent parents. Male spouses are assumed to be three years older than female spouses.
<b>Pay Increase Timing:</b>	Beginning of (Fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ending the day of the valuation date.
<b>Decrement Timing:</b>	Decrements are assumed to occur mid-year.
<b>Eligibility Testing:</b>	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date of decrement.
<b>Decrement Operation:</b>	Disability and mortality decrements do not operate during the first 5 years of service. Disability and withdrawal do not operate during retirement eligibility.
<b>Longevity in AFC:</b>	None
<b>Unused Sick Leave Payout:</b>	None
<b>Disability Change Age:</b>	The duty disability benefit is assumed to change at the earlier of age 65 or the time the member would have had 25 years of credited service (including prior service). The benefit at change age was assumed to be 2.0% times final compensation times projected benefit service.
<b>DROP Assumption:</b>	Members are assumed to retire or DROP based on assumed rates. 60% of members leaving active service in accordance with the Ret/DROP rates are assumed to DROP/40% are assumed to retire. Members entering the DROP are assumed to retire 5 years after entering the DROP. Employer contributions are assumed not to be made on DROP payroll. DROP account balances are assumed to grow at 6.75% per year.

# Miscellaneous and Technical Assumptions

## June 30, 2017

### (Concluded)

<b>Service Credit Accruals:</b>	Service accruals for calculating benefits begin as of June 30, 2014 for Component I liabilities. However, service in Component II may be used to satisfy benefit eligibility requirements in Component I.
<b>Workers Compensation Offset:</b>	No Workers Compensation offsets are assumed for duty disability benefits.
<b>DROP Account:</b>	Members in the Component II DROP as of June 30, 2014 were excluded from this valuation.
<b>Class Codes/Bargaining Unit:</b>	For valuation purposes, members are categorized as DPOA, DFFA or LSA based on class codes and bargaining units provided by the Retirement System and are primarily used in the valuation to determine deferred retirement commencement.
<b>Form of Payment:</b>	No adjustment has been made for alternate forms of payment elections.
<b>Disability Load:</b>	Duty Disability benefits were increased by 2.0% to account for the Death While Disabled provision based on an analysis of the estimated impact for a sample set of individuals.
<b>IRC Section 415 Limit:</b>	We assumed that no benefits will be limited by IRC Section 415. The limit is assumed to grow with wage inflation.
<b>IRC Section 401(a)(17) Limit:</b>	All of the member salary provided falls below the current 401(a)(17) limit. The limit is assumed to grow with wage inflation.
<b>IRC Section 401(h) Limit:</b>	We did not test for the 401(h) limit on employer contributions for medical benefits. No employer contributions are anticipated in this valuation.
<b>COLA (VPIF):</b>	Unless stated otherwise, liabilities in this report are based on an assumed average 0.5% future VPIF. The rationale is that COLAs are not guaranteed. This assumption was set based on scenario analysis at Plan inception and will be revised as experience emerges and the Plan evolves.
<b>New Entrant Assumption:</b>	New entrants are assumed to replace the current workforce as members separate from service under current valuation assumptions. Total payroll is expected to grow with wage inflation.

## **SECTION G**

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### **PLAN PROVISION SUMMARY (AS APPROVED BY STAFF)**

# Summary of Benefit Provisions (July 1, 2017)

## ***Plan Year***

**The Plan Year** is the 12-month period commencing on July 1, and ending on June 30. The first plan year starts July 1, 2014.

## ***Plan Membership***

**Employee** means an employee of the City's Police Department who has taken an oath of office or a Firefighter providing services to the City, excluding individuals who are compensated on a contractual or fee basis, any person who is classified as a non-common law employee or an independent contractor for federal income tax and withholding, and also excluding the medical Director of the Retirement System.

**The membership** of the Retirement System shall consist of all employees of the Fire Department of the City of Detroit and of the Police Department of the City of Detroit who are employed as Firefighters or Police Officers according to the rules and regulations of the respective departments.

**Appointed Officials** of the Police Department or the Fire Department who are appointed from the membership are permitted to remain members. A Police Officer or Firefighter who is **killed or totally disabled prior to being confirmed**, shall be deemed to have been a member as of the date of his or her death. Any member who is **transferred to a civilian position** in his or her department shall continue as a member.

## ***Service Credit***

**Credited Service:** A member is credited with one month of Credited Service for each calendar month in which the individual performs 140 hours or more of service for the employer as a member. Credited Service is recorded from the later of July 1, 2014, or the date of employment with the City as a Police Officer or Firefighter. A member also receives 1 month of Credited Service for each month the member is eligible to receive duty disability benefits, until such time as the member has 25 years of credited service.

**Prior Service:** refers to service credit awarded to a member prior to July 1, 2014 under the terms of the Retirement System in effect on June 30, 2014.

**Vesting Service:** A member is credited with a year of vesting service for each Plan Year commencing on or after July 1, 2014 during which the member performs 1,000 or more hours of work for the employer. Prior Service, as defined above, is also Vesting Service.

**Military Service:** A member who enters the military while employed by the City and returns to employment with the City following military service receives service credit in the Retirement System for the military service time as though there had been no interruption of employment. In order to receive such service credit, the individual must pay contributions to the Retirement System for the military service time upon return to employment.

# Summary of Benefit Provisions (Continued)

## **Average Final Compensation**

**Compensation:** Compensation is base salary, excluding bonuses, overtime, sick leave, longevity pay, unused vacation time, etc. Compensation includes deferred compensation and “picked up” employee contributions to the Retirement System. Compensation is limited by IRC Section 401(a)(17).

**Average Final Compensation:** The average of the compensation received during the 5 consecutive years of Credited Service (including Prior Service) immediately preceding the date of the members last termination of City employment as a Police Officer or Firefighter. If the member has less than 5 years of Credited Service (including Prior Service), the Average Final Compensation is the average of the compensation received during all years of Credited Service.

**Final Compensation** means the annual compensation of a member at the time of last termination of employment.

## **Normal Retirement**

**Normal Retirement Age:** The Normal Retirement Age is 50 with 25 or more years of Credited Service (including prior service), with the following transition period.

<u>Fiscal Year</u>	<u>Age and Eligibility Service</u>
2015	43 and 20
2016	43 and 20
2017	44 and 21
2018	45 and 22
2019	46 and 23
2020	47 and 24
2021 and later	50 and 25

**Normal Retirement Amount:** The retirement allowance payable to a member who retires on or after the normal retirement age is 2.0% times Average Final Compensation times Credited Service (after June 30, 2014) measured to the nearest month.

## **Deferred Retirement (Vested Benefit)**

**Eligibility:** 10 years of Vesting Service.

**Benefit Commencement:** Age 55.

**Annual Amount:** Same as Normal Retirement but based on Average Final Compensation and Credited Service at the time of termination. An actuarial reduction from age 62 is applicable if benefits are taken prior to age 62 (*waived for DPLSA and DPCOA members*).

## Summary of Benefit Provisions (Continued)

### ***Duty Disability Retirement***

**Eligibility:** The individual must be totally disabled for duty by reason of illness, injury, or disease resulting from performance of duty.

**Amount:** For the first 24 months, the member shall receive a basic benefit equal to 50% of his or her final compensation plus a supplemental benefit equal to 16-2/3% of final compensation. After 24 months, if the Board finds that the member is disabled from any occupation the member shall continue to receive both the 50% and the 16-2/3% benefit until the member would have achieved 25 years of service. The 16-2/3% benefit ceases at the time the member would have had 25 years of service, or if the member is found not to be disabled from any occupation after the 24 month review. Duty disability benefits continue to be paid until age 65, unless the member is found not to be disabled prior to that date. Upon termination of disability, or the attainment of age 65, the member's benefit is reduced to the 50% basic benefit. Earned Income in any year acts to reduce the disability benefit in the following year, to the extent that earned income combined with the disability benefit exceeds the compensation at the time of disability (after adjustment for the Variable Improvement factor). Amounts payable from Worker's Comp or similar programs are offset against the amount otherwise payable.

### ***Non-Duty Disability Retirement***

**Eligibility:** Total and permanent disability that is not duty related but that occurred while in the employ of the City.

**Amount:** If the member has less than 5 years of Credited service, accumulated contributions are refunded or, at the members option, may be payable in the form of a cash refund annuity. No other benefits are payable. Members with 5 or more years of credited service at the time of disability may receive a benefit computed as a Normal Retirement benefit, but not less than 20% of Average Final Compensation. Earned Income in any year acts to reduce the disability benefit in the following year, to the extent that earned income combined with the disability benefit (after adjustment for the Variable Improvement factor) exceeds the compensation at the time of disability. Amounts payable from Worker's Comp or similar programs are offset against the amount otherwise payable.

### ***Accidental (Line of Duty) Death Before Retirement***

**Eligibility:** Death resulting directly from performance of Duty in the service of the employer or as a result of illness contracted or injuries received while in the service of the employer.

**Amount:** Accumulated Mandatory Employee Contributions are refunded. If there is a surviving spouse, the surviving spouse receives a lifetime pension of 5/11ths of the member's final compensation. Each surviving child under age 18 receives a pension of 1/10<sup>th</sup> of final compensation payable until age 18. If there are more than two surviving children, each receives an equal share of 7/33rds of final compensation, payable to age 18 and redistributed to the remaining children upon attainment of age 18.

## Summary of Benefit Provisions (Continued)

The sum of all benefits payable shall not exceed 2/3rds of the member's Final Compensation. If there is no surviving spouse, each surviving child under age 18 receives a pension of 1/4<sup>th</sup> of the member's final compensation, subject to a maximum total of ½ of final compensation. If there is neither surviving spouse nor surviving children under the age of 18, each dependent parent, if any, shall receive a pension of 1/6<sup>th</sup> of the member's Final Compensation.

### ***Ordinary (Other than Line of Duty) Death Before Retirement***

**Eligibility:** 10 or more years of Vesting Service. The individual must be employed by the employer at time of death.

**Amount:** The Surviving Spouse shall receive a retirement allowance computed as though the member had retired the day before death, notwithstanding that the death was prior to the Normal Retirement Date, elected the Joint and 100% Option in favor of the spouse, and then died.

### ***Refund of Mandatory Contributions***

A member who ceases to be an employee for reasons other than retirement, death, or disability, may elect to receive a refund of mandatory Accumulated Contributions (without interest) in lieu of any other Component I benefit payable. In the case of a member who dies while employed by the City, or following termination of employment with the City, if no Surviving Spouse benefit is payable, the accumulated mandatory Employee Contributions (without interest) are paid to the member's estate.

### ***Variable Pension Improvement Factor (VPIF Escalator)***

**Eligibility:** In receipt of a retirement allowance for at least 12 months as of the first day of the plan year.

**Amount:** Beginning July 1, 2015 and effective the first date of each Plan year thereafter, the Board may determine that the Component I Retirement Allowance shall be increased by 1% of the then current (i.e., compounded to include prior VPIF's) retirement allowance. The VPIF Escalator may not be awarded in the event that the funding level of Component I of the Retirement System projected over a 5-year period falls below 90%.

### ***Deferred Retirement Option Program "DROP"***

**Eligibility:** Eligible for immediate retirement under Component I and either a non-union executive or covered by a collective bargaining agreement permitting participation in the DROP.

**Amount:** Upon entry into the DROP, the member ceases to accrue additional retirement benefits and must elect the optional form under which the retirement allowance will ultimately be paid. 75% of that amount, including VPIF, is paid into the DROP account.



## Summary of Benefit Provisions (Continued)

**Investment:** ING is currently responsible for the administration and investment of the DROP accounts. As soon as possible after July 1, 2014, the Board shall determine whether or not it is feasible for the Board to administer and invest the DROP accounts, in which case DROP assets would be commingled with Retirement System assets for investment purposes.

**Earnings Credits:** If the Board administers and invests the accounts, earnings credits shall be 75% of actual net Retirement System earnings rates, but neither less than 0% nor more than 7.75%.

**Fees:** Fees associated with maintenance of the DROP accounts outside the Retirement System shall be charged directly to DROP participants by means of deductions from their accounts.

**Distribution:** Upon termination of employment for any reason (including disability), the member's DROP account may be distributed in the form of a lump sum or an annuity. Any such annuity shall be subject to market rates of interest and other market related assumptions. At the same time, the member's monthly retirement allowance shall commence in the amount that would have been paid at the time the member entered the DROP, together with any applicable VPIF increases.

**Death While in DROP:** In the case of a member who dies during DROP participation, the DROP account balance is paid either to the named beneficiary or to the estate. Further, the DROP election is then rescinded and 100% of the retirement allowance that would have been paid but for participation in the DROP is restored. Survivor benefits are then payable in accordance with the payment option elected by the deceased member at the time the member elected to participate in the DROP.

**Termination of DROP:** The DROP can be terminated if it is determined that it is not cost neutral and cannot be amended to make it so.

### Contributions

**Members:** Members who were active as of June 30, 2014 contribute 6% of Compensation. Members who are hired or rehired after that date contribute 8% of compensation. DROP participants do not make employee contributions. Member contributions are "picked up" in accordance with IRC 414(h).

**Employers:** 11.2% of compensation for members of the DPOA until October 3, 2014; 11.2% of Compensation of active employees who are members of the DFFA until November 6, 2014; 12.25% of Compensation of Active employees who are members of the DPCOA, DPLSA, and DPOA from and after October 3, 2014 until June 30, 2023; 12.25% of Compensation of DFFA members from and after November 6, 2014 until June 30, 2023, to be split between the Pension Accumulation Fund and the Rate Stabilization reserve. For Plan years 2024 and later, contributions shall be determined by an Actuary using reasonable and appropriate assumptions approved by the Board and the Investment Committee.

# Summary of Benefit Provisions (Continued)

## ***Voluntary Employee Contributions***

**Eligibility:** Coverage by a collective bargaining agreement that permits the Member to make Voluntary Employee Contributions to Component I. Cannot be a current participant in the DROP.

**Amount:** Not less than 1% of Compensation nor more than 10% of Compensation. DPOA members can elect to have a whole % of the amount the City pays him or her for accumulated sick leave in excess of 400 hours paid to the voluntary employee account. All voluntary employee contributions are made on an after tax basis.

**Earnings Crediting:** Each Plan year, accounts are credited with earnings at a rate equal to the net investment rate of return on Retirement System Assets for the second fiscal year immediately preceding the fiscal year in which earnings are to be credited. The earnings rate may not be less than 0% and may not exceed 5.25%.

**Distribution:** Upon termination of employment, accounts may be distributed in a lump sum, in equal monthly installments for a period not exceeding three years, or, at the option of the member, in the form of an actuarially equivalent life annuity payable in the same form as and added to the member's Retirement Allowance. The determination of actuarial equivalent for this purpose is based upon market rates of investment return and other market related assumptions. In case of a member who dies before receiving a distribution of his or her voluntary account, the value of the account is payable to the nominated beneficiary, or to the estate.

## ***Forms of Payment***

**Normal Form of Payment:** The normal form of payment is a straight life allowance with no death benefit, and, in particular, no residual refund of mandatory employee contributions. Until the date the first Retirement Allowance payment check is issued, any Member may elect to receive payment in either the Normal Form or in the Actuarial Equivalent of the Normal Form computed as of the effective date of retirement and payable in one of the forms described below.

**Option One. Modified Cash Refund Annuity:** If a Retiree who elected a Modified Cash Refund Annuity dies before payment has been received in an aggregate amount equal to, but not exceeding the Retiree's Accumulated Mandatory Employee Contributions at the time of retirement, the difference between said Accumulated Mandatory Employee Contributions and the aggregate amount of annuity payments already received, shall be paid in a single lump sum to a Beneficiary nominated by written designation duly executed by the Member and filed with the Board. If there are no such designated Beneficiaries surviving said Retiree, any such difference shall be paid to the Retiree's estate.

**Option Two. Joint and One Hundred Percent Survivor Allowance:** Upon the death of a Retiree who elected a Joint and One Hundred Percent Survivor Allowance, one hundred percent of the reduced Retirement Allowance shall be paid to and continued throughout the life of the Beneficiary nominated by written designation duly executed and filed with the Board prior to the date the first payment of the Retirement Allowance becomes due.

## Summary of Benefit Provisions (Continued)

**Option "A". Joint and Seventy-Five Percent Survivor Allowance:** Upon the death of a Retiree who elected a Joint and Seventy-Five Percent Survivor Allowance, seventy-five percent of the reduced Retirement Allowance shall be continued throughout the life of and paid to the Beneficiary nominated by written designation duly executed by the Member and filed with the Board prior to the date the first payment of the Retirement Allowance becomes due.

**Option Three. Joint and Fifty Percent Survivor Allowance:** Upon the death of a Retiree who elected a Joint and Fifty Percent Survivor Allowance, fifty percent of the reduced Retirement Allowance shall be continued throughout the life of and paid to the Beneficiary nominated by written designation duly executed by the Member and filed with the Board prior to the date the first payment of the Retirement Allowance becomes due.

**Option "B". Joint and Twenty-Five Percent Survivor Allowance:** Upon the death of a Retiree who elected a Joint and Twenty-Five Percent Survivor Allowance, twenty-five percent of the reduced Retirement Allowance shall be paid throughout the life of the Beneficiary nominated by written designation duly executed and filed with the Board prior to the date the first payment of the Retirement Allowance becomes due.

**Joint and Survivor Optional Forms of Payment:** The Joint and Survivor Optional Forms of Payment provided under the Retirement System shall be made available in either the standard form or the Pop-Up Form, as follows:

**Standard Form:** Under the Standard Form, the reduced Retirement Allowance shall be paid throughout the lifetime of the Retiree.

**Pop-Up Form:** Under the Pop-Up Form, the reduced Retirement Allowance shall be paid throughout the lifetime of the Retiree and the designated Beneficiary. In the event of the death of the designated Beneficiary during the lifetime of the Retiree, the amount of the Retirement Allowance shall be changed to the amount that would have been payable had the Retiree elected the Straight Life Retirement Allowance Form of Payment.

**Disposition of Residue:** If under a Joint and One Hundred Percent Survivor allowance, a Joint and Seventy-Five Percent Survivor allowance, a Joint and Fifty Percent Survivor allowance, or a Joint and Twenty-Five Percent Survivor allowance as provided above, both the Retiree and the Beneficiary die before they have received, in Retirement Allowance payments, an aggregate amount equal to the Retiree's Accumulated Mandatory Employee Contributions at the time of retirement, the difference between the said Accumulated Mandatory Employee Contributions and the aggregate amount of Retirement Allowances paid to the Retiree and Beneficiary, shall be paid in a single lump sum to such person or persons nominated by written designation of the Retiree duly executed and filed with the Board. If there are no such person or persons surviving the Retiree and the Beneficiary, any such difference shall be paid to the estate of the second to die of the Retiree or Beneficiary.

# Summary of Benefit Provisions (Concluded)

## ***Rehire Before or After Retirement***

**A former member who is vested** and is not a DROP participant and who later becomes a Police Officer or Firefighter (but not a Police Assistant) shall have his or her benefit pertaining to total Credited Service earned on and after July 1, 2014 calculated in accordance with the terms of Component I of the Retirement System in effect at the time of the last separation from service. If the former member has previously withdrawn mandatory accumulated contributions, and such withdrawn contributions are not repaid within two years of the rehire date, only the Credited Service earned on and after the rehire date shall be taken into consideration in determining the retirement allowance.

**Retirement benefits for a Retiree who returns to active full-time employment** other than as a Police Assistant shall be subject to the following provisions:

- A Retiree who returns to work will have the Retirement Allowance suspended upon re-employment. The variable pension improvement factor (escalator) shall not be added to the amount of the original Retirement Allowance during the Retiree's re-employment period.
- A Retiree who returns to work will be entitled to receive a second Retirement Allowance in accordance with the provisions of the Retirement System in effect during the re-employment period.
- A Retiree's Average Final Compensation for purposes of determining the second Retirement Allowance will be based upon the Compensation earned by the Retiree after the return to work.
- An individual who retires for a second time will not be allowed to change the payment option selected with respect to the original Retirement Allowance. However, the individual may select a separate payment option with respect to the second Retirement Allowance.

## **SECTION H**

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### **GLOSSARY**

## Glossary

<b><i>Accrued Service</i></b>	The service credited under the plan which was rendered before the date of the actuarial valuation.
<b><i>Actuarial Accrued Liability (AAL)</i></b>	The difference between the Actuarial Present Value of Future Benefits, and the Actuarial Present Value of Future Normal Costs.
<b><i>Actuarial Assumptions</i></b>	Assumptions about future plan experience that affect costs or liabilities, such as: mortality, withdrawal, disablement, and retirement; future increases in salary; future rates of investment earnings; future investment and administrative expenses; characteristics of members not specified in the data, such as marital status; characteristics of future members; future elections made by members; and other items.
<b><i>Actuarial Cost Method</i></b>	A procedure for allocating the Actuarial Present Value of Future Benefits between the Actuarial Present Value of future Normal Costs and the Actuarial Accrued Liability.
<b><i>Actuarially Determined Employer Contribution</i></b>	The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under the Plan's actuarial funding policy.
<b><i>Actuarial Equivalent</i></b>	Of equal Actuarial Present Value, determined as of a given date and based on a given set of Actuarial Assumptions.
<b><i>Actuarial Present Value (APV)</i></b>	The amount of funds required to provide a payment or series of payments in the future. It is determined by discounting the future payments with an assumed interest rate and with the assumed probability each payment will be made.
<b><i>Actuarial Present Value of Future Benefits (APVFB)</i></b>	The Actuarial Present Value of amounts which are expected to be paid at various future times to active members, retired members, beneficiaries receiving benefits, and inactive, non-retired members entitled to either a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would provide sufficient assets to pay all projected benefits and expenses when due.
<b><i>Actuarial Valuation</i></b>	The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial Valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB No. 25, such as the Funded Ratio and the Annual Required Contribution (ARC).
<b><i>Actuarial Value of Assets</i></b>	The value of the assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets or a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the actuarially required contribution (ARC).

## Glossary

<b>AFC</b>	Average Final Compensation.
<b>Amortization Method</b>	A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the rate at which total covered payroll of all active members is assumed to increase.
<b>Amortization Payment</b>	That portion of the plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.
<b>Amortization Period</b>	The period used in calculating the Amortization Payment.
<b>ARF</b>	Average Reserve Fund.
<b>ASF</b>	Annuity Savings Fund of the Component II (Legacy) Plan.
<b>Closed Amortization Period</b>	A specific number of years that is reduced by one each year, and declines to zero with the passage of time. For example if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc.
<b>COLA</b>	Cost-of-Living Adjustment.
<b>DFFA</b>	Detroit Fire Fighters Association.
<b>DPCOA</b>	Detroit Police Command Officers Association.
<b>DPOA</b>	Detroit Police Officers Association.
<b>DROP</b>	Deferred Retirement Option Program.
<b>Employer Normal Cost</b>	The portion of the Normal Cost to be paid by the employer. This is equal to the Normal Cost less expected member contributions.
<b>Equivalent Single Amortization Period</b>	For plans that do not establish separate amortization bases (separate components of the UAAL), this is the same as the Amortization Period. For plans that do establish separate amortization bases, this is the period over which the UAAL would be amortized if all amortization bases were combined upon the current UAAL payment.

## Glossary

<b><i>Experience Gain/Loss</i></b>	A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two actuarial valuations. To the extent that actual experience differs from that assumed, Unfunded Actuarial Accrued Liabilities emerge which may be larger or smaller than projected. Gains are due to favorable experience, e.g., the assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, losses are the result of unfavorable experience, i.e., actual results that produce Unfunded Actuarial Accrued Liabilities which are larger than projected.
<b><i>Funded Ratio</i></b>	The ratio of the Actuarial Value of Assets to the Actuarial Accrued Liability.
<b><i>GASB</i></b>	Governmental Accounting Standards Board.
<b><i>GASB No. 25 and GASB No. 27</i></b>	These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 68 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 27 sets the rules for the systems themselves.
<b><i>LSA</i></b>	Lieutenants and Sergeants Association.
<b><i>Normal Cost</i></b>	The annual cost assigned, under the Actuarial Cost Method, to the current plan year.
<b><i>Open Amortization Period</i></b>	An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.
<b><i>PAF</i></b>	Pension Accumulation Fund.
<b><i>POA</i></b>	The 8th Amended Plan for the Adjustment of the Debt of the City of Detroit.
<b><i>Reserve Account</i></b>	An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.
<b><i>Transition Cost</i></b>	Initial unfunded liability as described in Section E-16 of the Plan document.
<b><i>Unfunded Actuarial Accrued Liability</i></b>	The difference between the Actuarial Accrued Liability and Actuarial Value of Assets.



# Glossary

***Valuation Date***

The date as of which the Actuarial Present Value of Future Benefits are determined. The benefits expected to be paid in the future are discounted to this date.

***VPIF***

Variable Pension Improvement Factor. Discussed in Section 6.2 of the Plan Document.