

# **Pension Plan of the General Retirement System of the City of Detroit**

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**Financial Report  
with Supplemental Information  
June 30, 2011**

# **Pension Plan of the General Retirement System of the City of Detroit**

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## **Contents**

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-6
<b>Basic Financial Statements</b>	
Statement of Plan Net Assets	7
Statement of Changes in Plan Net Assets	8
Notes to Financial Statements	9-22
<b>Required Supplemental Information</b>	23
Schedule of Analysis of Funding Progress	24
Schedule of Employer Contributions	25
<b>Other Supplemental Information</b>	26
Description of Funds	27
Statement of Changes in Plan Net Assets by Fund	28-29

## Independent Auditor's Report

To the Board of Trustees  
General Retirement System  
of the City of Detroit

We have audited the accompanying statement of plan net assets of the Pension Plan of the General Retirement System of the City of Detroit (the "Plan") as of June 30, 2011 and 2010 and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the year ended June 30, 2010, we were unable to obtain sufficient evidence supporting approximately \$113,000,000 of the Plan's alternative investments held at June 30, 2010, mostly related to private placement and real estate investments.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient audit evidence supporting the above-mentioned investments at June 30, 2010, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Pension Plan of the General Retirement System of the City of Detroit as of June 30, 2011 and 2010 and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees  
General Retirement System  
of the City of Detroit

As explained in Note 1, the financial statements include investments valued at approximately \$753,000,000 (representing approximately 31 percent of net assets) as of June 30, 2011 and \$710,000,000 as of June 30, 2010, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the investment managers, periodic appraisal, real estate advisors, general partners, or other means.

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the Pension Plan of the General Retirement System of the City of Detroit's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statements included in other supplemental information have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

December 8, 2011

# Pension Plan of the General Retirement System of the City of Detroit

## Management's Discussion and Analysis

### Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) basic financial statements, and (3) required and other supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by sections of required and other supplemental information that further explain and support the information in the financial statements.

### Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the two prior years:

	Fiscal Year Ended		
	June 30, 2011	June 30, 2010	June 30, 2009
Total assets	\$ 2,615,258,027	\$ 2,445,348,440	\$ 2,713,519,544
Total liabilities	193,691,071	198,835,751	326,383,009
Assets held in trust for pension benefits	<b>\$ 2,421,566,956</b>	<b>\$ 2,246,512,689</b>	<b>\$ 2,387,136,535</b>
Net investment income (loss)	\$ 440,868,661	\$ 124,929,111	\$ (794,692,915)
Contributions:			
Employee	18,104,402	19,043,434	21,135,924
Employer	55,138,044	37,338,960	41,395,719
Total contributions	73,242,446	56,382,394	62,531,643
Benefits paid to members and retirees:			
Retirees' pension and annuity benefits	221,498,249	214,110,830	205,136,206
Member annuity refunds and withdrawals	112,728,838	101,705,630	86,979,096
Total benefits paid	334,227,087	315,816,460	292,115,302
Benefits paid in excess of contributions	(260,984,641)	(259,434,066)	(229,583,659)
Ratio of benefits paid to contributions	4.6	5.6	4.7
Other expenses	4,829,753	6,118,891	5,354,617
Net increase (decrease) in net assets	<b>\$ 175,054,267</b>	<b>\$ (140,623,846)</b>	<b>\$ (1,029,631,191)</b>

# **Pension Plan of the General Retirement System of the City of Detroit**

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## **Management's Discussion and Analysis (Continued)**

### **Overall Fund Structure and Objectives**

The Pension Plan of the General Retirement System of the City of Detroit (DGRS or the "Plan") is a defined benefit pension plan and defined contribution plan. DGRS exists to pay benefits to its members. Members of the Plan include active employees, retirees, and beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Retirees and beneficiaries are those members currently receiving benefits.

DGRS is a relatively mature plan in that there are more members receiving current benefits than active members. As of June 30, 2011, there were 7,910 active members, 11,535 members receiving benefits, and 2,074 terminated plan members entitled to, but not yet receiving, benefits.

DGRS is governed by a 10-member board of trustees (the "Board"). Five members of the Board are elected by the active membership to serve six-year terms. One member is elected by the retiree membership to serve a two-year term. One member is appointed by the mayor of the City of Detroit from the citizens of the City of Detroit to serve a six-year term. Three members serve ex-officio, these members being the mayor of the City of Detroit (or designee), the city treasurer, and one representative from the Detroit City Council. Expirations of terms of elected trustees are staggered.

### **Contributions to the Plan**

The City of Detroit (employer) makes regular contributions to the Plan. The required contributions are determined by the Plan's actuaries using the entry age normal cost method. Basic pension and disability benefits are funded through employer contributions plus investment earnings on those contributions.

Active employees may voluntarily contribute 0 percent, 3 percent, 5 percent, or 7 percent of gross pay to the Plan. Employee contributions are maintained in separate accounts in the defined contribution plan (annuity savings fund) solely for the benefit of the contributing employee. After 25 years of service, an active employee may elect to withdraw his or her accumulated contributions plus investment earnings. Upon retirement, an employee may elect to annuitize some or his of her annuity savings fund balance, resulting in a greater monthly retirement benefit. Any portion of an employee's annuity savings fund balance which is not annuitized upon retirement is refunded in a lump sum.

# Pension Plan of the General Retirement System of the City of Detroit

## Management's Discussion and Analysis (Continued)

### Benefit Payments

Benefits are paid monthly. DGRS paid out \$334 million in benefits during the year consisting of \$221 million in benefits to retirees and beneficiaries plus \$113 million in refunds of annuity savings fund balances. This represents approximately 14 percent of the net assets of the Plan at year end. Employer and employee contributions were \$73 million or 2.5 percent of the net assets of the Plan. The excess of benefits over contributions (\$261 million) is funded through investment income. The public capital markets represent the primary source of opportunities to earn investment income.

### Asset Allocation

The Board believes that the principal determinant of total fund investment performance over long periods of time is asset allocation. The DGRS asset allocation is built upon the foundation that the obligations of the Plan to pay the benefits promised to its members are very long-term obligations. Accordingly, the Board must make investment decisions that it believes will be the most beneficial to the Plan over many years, not just one or two years. The Board must also balance the desire to achieve long-term gains with the requirements of having to raise the cash to fund significant benefit payments every month.

State statutes impose limitations on what fraction of the total assets of the Plan may be invested in assets other than government bonds, investment grade bonds, and certain mortgages. Additional restrictions are imposed on what fraction of the total assets of the Plan may be invested in foreign securities. The Board's asset allocation policies comply with applicable state statutes.

The Board has established asset allocation policies which are expected to deliver more than enough investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the Plan. The following is a summary of the DGRS asset allocation policy as of June 30, 2011:

Equities	50%
Tactical asset allocation	8%
Fixed income	21%
Real estate	10%
Alternative investments	9%
Market neutral	2%

### Investment Results

Returns presented herein have been determined using the AIMR-compliant, time-weighted, GIPS method unless explicitly stated to the contrary. All returns for periods of one year or greater have been annualized.

# **Pension Plan of the General Retirement System of the City of Detroit**

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## **Management's Discussion and Analysis (Continued)**

### **Total Fund Composite**

The total fund composite for the year was 18.7 percent. The financial markets have continued their recovery from the severe economic downturn that accompanied the 2008-2009 credit crises. As a result, the System continues to recover its investment values during the recession and is showing positive returns for a second straight year. Total plan returns for the recent prior fiscal years ended June 30 are shown below:

2010	8%
2009	-18.8%
2008	-4.3%
2007	18.9%
2006	11.3%

### **Contacting the Pension Plan of the General Retirement System's Management**

This financial report is intended to provide a general overview of the Plan's finances and investment results in relation to actuarial projections. It shows the Plan's accountability for the money it receives from employer and employee contributions. If you have questions about this report or need additional information, we welcome you to contact the Plan's office.

# Pension Plan of the General Retirement System of the City of Detroit

## Statement of Plan Net Assets June 30, 2011 and June 30, 2010

	2011	2010
<b>Assets</b>		
Cash (Note 3)	\$ 5,827,721	\$ 10,726,257
Investments - At fair value (Note 3):		
Short-term investments	84,647,332	75,203,694
Stocks	895,439,842	793,534,187
Commingled equity funds	521,606,935	496,160,442
Bonds	171,392,146	166,081,579
Mortgage-backed securities	21,396,438	14,502,806
Pooled investments	33,549,000	30,936,000
Equity interest in real estate	279,991,189	281,578,838
Private placements	361,251,019	296,850,440
Mortgage and construction loans	78,186,668	100,500,312
Accrued investment income	5,519,804	6,679,560
Contributions receivable	15,133,397	8,131,716
Receivables from investment sales	8,894,101	23,213,005
Notes receivable from participants	19,160,652	21,977,110
Other accounts receivable	1,067,992	108,626
Capital assets (Note 1)	1,283,118	1,237,754
Cash and investments held as collateral for securities lending (Note 3):		
Asset-backed securities	14,507,298	11,550,133
Certificates of deposit	7,300,755	6,000,162
Commercial paper	12,845,037	-
Repurchase agreements	24,074,936	-
Money market	293	80,499,219
Corporate floating rate	52,182,354	19,876,600
Total assets	<u>2,615,258,027</u>	<u>2,445,348,440</u>
<b>Liabilities</b>		
Payables for investment purchases	28,241,569	21,368,470
Claims payable to retirees and beneficiaries	-	2,605,147
Due to the City of Detroit	2,753,157	1,354,035
Other liabilities	26,402,934	27,944,497
Amounts due broker under securities lending agreement	136,293,411	145,563,602
Total liabilities	<u>193,691,071</u>	<u>198,835,751</u>
<b>Net Assets Held in Trust for Pension Benefits</b>		
(a schedule of analysis of funding progress is presented in the required supplemental information)	<u>\$ 2,421,566,956</u>	<u>\$ 2,246,512,689</u>

# Pension Plan of the General Retirement System of the City of Detroit

## Statement of Changes in Plan Net Assets Years Ended June 30, 2011 and June 30, 2010

	2011	2010
<b>Additions</b>		
Investment income:		
Interest and dividend income	\$ 38,045,858	\$ 34,927,154
Net appreciation in fair value	413,327,439	88,075,473
Investment expense	(15,008,752)	(15,592,697)
Securities lending income	325,305	656,893
Net gain on collateralized securities	2,254,750	7,686,333
Other income	1,924,061	9,004,267
Net investment income	440,868,661	124,757,423
Contributions:		
Employee	18,104,402	19,215,122
Employer	55,138,044	37,338,960
Total additions - Net	514,111,107	181,311,505
<b>Deductions</b>		
Retirees' pension and annuity benefits	221,498,249	212,463,813
Member refunds and withdrawals	112,728,838	103,352,647
General and administrative expenses	4,731,602	6,029,721
Depreciation expense	98,151	89,170
Total deductions	339,056,840	321,935,351
<b>Net Increase (Decrease) in Net Assets Held in Trust for Pension Benefits</b>	175,054,267	(140,623,846)
<b>Net Assets Held in Trust for Pension Benefits - Beginning of year</b>	2,246,512,689	2,387,136,535
<b>Net Assets Held in Trust for Pension Benefits - End of year</b>	<b>\$ 2,421,566,956</b>	<b>\$ 2,246,512,689</b>

# Pension Plan of the General Retirement System of the City of Detroit

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## Notes to Financial Statements June 30, 2011 and 2010

### Note 1 - Summary of Significant Accounting Policies

The City of Detroit (the "City") sponsors the Pension Plan of the General Retirement System of the City of Detroit (the "Plan"), which is a contributory single-employer retirement plan. The Plan, which is administered by the Plan's board of trustees, is comprised of a defined benefit plan and a defined contribution plan. The Plan provides retirement, disability, and survivor benefits to plan members and beneficiaries.

The Pension Plan of the General Retirement System of the City of Detroit is an independent trust qualified under applicable provisions of the Internal Revenue Code and is an independent entity (separate and distinct from the employer/plan sponsor) as required by (1) state law and (2) Internal Revenue Code provisions setting forth qualified plan status. The trustees of the Plan have fiduciary obligations and legal liability for any violations of fiduciary duties as independent trustees.

**Reporting Entity** - The financial statements of the Plan are also included in the combined financial statements of the City of Detroit as a Pension Trust Fund. The assets of the Pension Trust Fund include no securities of or loans to the City or any other related party.

**Plan Sponsor Financial Condition** - The City of Detroit (the plan sponsor) is experiencing significant financial difficulty. In recent weeks, the mayor has announced that the City is facing a budget deficit and would need to implement severe cuts in order to balance the budget. Recently, the Department of Treasury has indicated that it will initiate a preliminary financial review of the City of Detroit's finances in accordance with Public Act 4 of 2011. Based on these facts, there is uncertainty regarding the City's ability to meet all of its future financial obligations.

**Basis of Accounting** - The Pension Plan of the General Retirement System of the City of Detroit's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

# Pension Plan of the General Retirement System of the City of Detroit

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## Notes to Financial Statements June 30, 2011 and 2010

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Methods Used to Value Investments** - Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments. The fair value of real estate investments is based on periodic appraisals as well as the judgment of independent real estate advisors and management. Investments that do not have an established market value are reported at estimated fair value as determined by the Plan's management. Approximately 31 percent of the Plan's assets are not publicly traded and therefore do not have a readily determinable market value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

**Capital Assets** - Capital assets for the Plan include land, office equipment, and furniture. Depreciation expense is calculated by allocating the net cost of the assets over their estimated useful lives.

**Notes Receivable from Participants** - In fiscal year 2010, the Plan adopted the employee loan program. Any active general employee who is or has been a participant in the 1973 defined contribution plan (annuity savings fund) may be eligible. The minimum amount of the loan was established at \$1,000. The maximum loan is the lesser of 50 percent of the member's account balance in the annuity savings fund or \$10,000. Members can borrow as either a general purpose loan payable in 1 to 5 years or a residential loan payable in 1 to 15 years. A member can have only one outstanding loan. The balance of these loans for the years ended June 30, 2011 and 2010 was \$19,160,652 and \$22,052,110, respectively, measured at the unpaid principal balance plus any accrued but unpaid interest. Participant notes receivable are written off when deemed uncollectible. To date, no write-offs have occurred.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure. Actual results could differ from those estimates.

# Pension Plan of the General Retirement System of the City of Detroit

## Notes to Financial Statements June 30, 2011 and 2010

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Comparative Data/Reclassifications** - Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

### Note 2 - Plan Description and Contribution Information

At June 30, 2011, the membership of the defined benefit plan and the defined contribution plan consisted of the following:

	Defined Benefit Plan	Defined Contribution Plan
Retirees and beneficiaries receiving pension benefits	11,535	1,449
Terminated plan members entitled to but not yet receiving benefits	2,074	322
Active plan members	7,910	6,812

**Plan Description** - The Plan provides retirement benefits, as well as survivor and disability benefits. Employees may receive cost of living adjustments as a percentage of their base amount, pursuant to the collective bargaining agreement in effect at their date of retirement. The obligation to contribute to and maintain the Plan was established by City Charter and negotiation with the employees' collective bargaining units.

**Contributions** - The City's policy is to fund normal costs and the amortization of prior service costs. The City is required to contribute at an actuarially determined rate. Administrative costs are financed through investment earnings. The weighted average contribution rate for 2010-2011 and 2009-2010 was 15.38 percent and 9.56 percent, respectively. Contributions from the employer for the years ended June 30, 2011 and 2010 totaled \$55,138,044 and \$37,338,960, respectively.

Employees may also elect to contribute (a) 0 percent, (b) 3 percent of annual compensation up to the Social Security wage base and 5 percent of any excess over that, (c) 5 percent, or (d) 7 percent toward annuity savings. Contributions from employees during the years ended June 30, 2011 and 2010 totaled \$18,104,402 and \$19,215,122, respectively.

# Pension Plan of the General Retirement System of the City of Detroit

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## Notes to Financial Statements June 30, 2011 and 2010

### Note 2 - Plan Description and Contribution Information (Continued)

The contribution requirements of plan members and the City of Detroit are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions.

**Annual Pension Costs** - The annual contribution for the year ended June 30, 2011 was \$55,138,044. The annual contribution was determined as part of an actuarial valuation at June 30, 2009, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.9 percent investment rate of return, (b) projected salary increases of 4.0 percent per year, (c) additional salary increases of 0 percent to 4.9 percent per year based on merit and/or longevity, and (d) cost-of-living adjustments of 2.25 percent per year. Both (a) and (b) are determined to be using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level of percent of payroll on an open basis. The remaining amortization period is 30 years.

Per the actuarial report dated June 30, 2010, all assumptions have remained consistent except the change in smoothing the effects of short-term volatility from a five-year period to a seven-year period first effective with the June 30, 2010 valuation which will impact the FY 2012 employer contribution.

**Funded Status and Funding Progress** - As of June 30, 2010, the most recent actuarial valuation date, the Plan was 87.1 percent funded on an actuarial basis. The actuarial accrued liability for benefits was \$3,719,586,762 and the actuarial value of assets was \$3,238,130,553, resulting in an actuarial accrued liability of \$481,456,209. The covered payroll (annual payroll for active employees covered by the Plan) was \$334,343,506 and the ratio for the unfunded AAL to the covered payroll was 144.0 percent.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan net assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

# Pension Plan of the General Retirement System of the City of Detroit

## Notes to Financial Statements June 30, 2011 and 2010

### Note 2 - Plan Description and Contribution Information (Continued)

Three-year trend information as of June 30 is as follows:

	Fiscal Year Ended June 30		
	2009	2010	2011
Annual pension costs (APC)	\$ 41,395,719	\$ 37,338,960	\$ 55,138,044
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

See Note 4 for disclosure of required reserves.

### Note 3 - Deposits and Investments

The Plan is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized the investments according to Michigan Public Act 314. The Plan's deposits and investment policies are in accordance with statutory authority other than investments in Michigan-based small businesses under Section 20(a). The Plan is in excess of statutory limits by approximately 1 percent.

**Subsequent Declines in Investment Values** - Subsequent to year end, the fair value of the Plan's non-alternative investment portfolio, at October 31, 2011, had declined by approximately \$148,000,000, or 9 percent, due to general market fluctuations. Because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate risks, market, credit risks, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported on the statement of changes in plan net assets.

The Plan's cash and investments are subject to several types of risk, which are examined in more detail below:

# Pension Plan of the General Retirement System of the City of Detroit

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank's failure, the Plan's deposits may not be returned to it. The Plan does not have a deposit policy for custodial credit risk. At June 30, 2011 and 2010, the Plan had \$0 and approximately \$1,400,000, respectively, of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Plan believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Plan evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Plan's investment policy does not restrict investment maturities. At June 30, 2011, the average maturities of investments broken down by years are as follows:

Investment Type	Investment Maturities (in years)				
	Fair Value (in thousands)	Less than 1	1-5	6-10	More than 10
U.S. government	\$ 46,237	\$ 2,110	\$ 14,257	\$ 12,075	\$ 17,795
Mortgage backed	21,457	-	127	3,978	17,352
Treasuries*	14,820	14,820	-	-	-
Corporate	109,537	305	42,567	45,019	21,646
Other fixed income	15,757	210	3,176	657	11,714
Convertible stocks	857	-	857	-	-
Convertible bonds	36	-	36	-	-
Pooled and mutual funds*	85,483	-	-	-	-
State and local obligations	969	-	-	-	969
Commingled bond funds*	293	-	-	-	-
Mortgages	67,553	47,935	19,618	-	-
Construction loans	10,533	6,897	3,636	-	-
Total	<u>\$ 373,532</u>	<u>\$ 72,277</u>	<u>\$ 84,274</u>	<u>\$ 61,729</u>	<u>\$ 69,476</u>

\* Not all pooled and mutual funds and commingled funds are subject to interest rate risk.

# Pension Plan of the General Retirement System of the City of Detroit

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

At June 30, 2010, the average maturities of investments broken down by years are as follows:

Investment Type	Investment Maturities (in years)				
	Fair Value (in thousands)	Less than 1	1-5	6-10	More than 10
U.S. government	\$ 48,104	\$ 3,557	\$ 17,851	\$ 11,951	\$ 14,745
Mortgage backed	14,078	-	17	5,418	8,643
Treasuries*	16,736	6,239	-	-	-
Corporate	105,801	627	49,806	31,804	23,564
Other fixed income	7,529	655	3,932	1,100	1,842
Convertible stocks	942	-	-	942	-
Convertible bonds	1,548	-	492	193	864
Pooled and mutual funds*	73,069	-	-	-	-
State and local obligations	1,157	-	-	-	1,157
Commingled bond funds*	3,834	-	-	-	-
Mortgages	93,021	48,488	2,546	41,987	-
Construction loans	7,478	5,489	1,989	-	-
<b>Total</b>	<b>\$ 373,297</b>	<b>\$ 65,055</b>	<b>\$ 76,633</b>	<b>\$ 93,395</b>	<b>\$ 50,815</b>

\* Not all pooled and mutual funds and commingled funds are subject to interest rate risk.

### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Plan has no investment policy that would further limit its investment choices. As of June 30, 2011, the credit quality ratings of debt securities (other than those guaranteed by the U.S. government) as rated by S&P are as follows:

Investment Type and Fair Value (\$000)	AAA	AA	A	BBB	BB
U.S. government	\$ 10,680	\$ 424	\$ 7,516	\$ 1,140	\$ 139
Mortgage backed	-	-	-	279	-
Corporate	5,632	3,663	9,893	13,734	11,251
Other fixed income	-	364	1,423	2,087	109
Pooled and mutual funds	2,042	-	-	-	-
State and local obligations	-	-	619	-	-
Commingled bond funds	294	-	-	-	-
<b>Total</b>	<b>\$ 18,648</b>	<b>\$ 4,451</b>	<b>\$ 19,451</b>	<b>\$ 17,240</b>	<b>\$ 11,499</b>

# Pension Plan of the General Retirement System of the City of Detroit

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

Investment Type and Fair Value (\$000)	CCC and		
	B	Below	NR
U.S. government	\$ -	\$ -	\$ 7,152
Mortgage backed	1,080	1,277	-
Corporate	28,954	8,935	27,473
Other fixed income	-	393	11,380
Convertible bonds	36	-	-
Convertible stocks	-	-	857
Pooled and mutual funds	-	-	83,442
State and local obligations	-	-	350
Mortgages	-	-	67,533
Construction loans	-	-	10,633
Total	<u>\$ 30,070</u>	<u>\$ 10,605</u>	<u>\$ 208,820</u>

As of June 30, 2010, the credit quality ratings of debt securities (other than those guaranteed by the U.S. government) as rated by S&P are as follows:

Investment Type and Fair Value (\$000)	AAA	AA	A	BBB	BB
U.S. government	\$ 34,223	\$ -	\$ 6,253	\$ -	\$ 319
Mortgage backed	1,118	428	333	-	303
Treasuries	1,893	1,949	-	-	-
Corporate	4,521	-	10,114	14,657	10,603
Other fixed income	-	652	3,045	2,319	296
State and local obligations	-	-	628	-	-
Commingled bond funds	3,834	-	-	-	-
Total	<u>\$ 45,589</u>	<u>\$ 3,029</u>	<u>\$ 20,373</u>	<u>\$ 16,976</u>	<u>\$ 11,521</u>

Investment Type and Fair Value (\$000)	CCC and		
	B	Below	NR
U.S. government	\$ -	\$ -	\$ 6,909
Mortgage backed	-	651	2,436
Treasuries	-	-	10,498
Corporate	26,740	11,408	25,808
Other fixed income	266	276	676
Convertible bonds	574	110	864
Convertible stocks	942	-	-
Pooled and mutual funds	-	-	71,176
State and local obligations	-	-	530
Mortgages	-	-	93,021
Construction loans	-	-	7,478
Total	<u>\$ 28,522</u>	<u>\$ 12,445</u>	<u>\$ 219,396</u>

# Pension Plan of the General Retirement System of the City of Detroit

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

#### Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The Plan does not restrict the amount of investments in foreign currency. For the year ended June 30, 2011, the following deposits and securities are subject to foreign currency risk (in \$000):

	Fixed Income	Equity	Cash	Forward Contracts
Australian dollar	\$ 4,423	\$ 8,513	\$ 429	\$ (3,383)
Brazilian real	2,608	719	-	(1,521)
British pound sterling	5,084	34,531	376	2,285
Bulgarian lev	-	295	-	-
Canadian dollar	2,484	5,883	43	-
Czech koruna	-	650	-	-
Danish krone	-	3,351	175	(615)
Euro currency	9,654	49,567	3,801	(19,508)
Hong Kong dollar	-	10,587	579	163
Hryvnia	-	105	4	-
Hungarian forint	1,140	-	-	-
Indonesian rupiah	2,226	-	-	-
Israeli shekel	-	-	20	657
Japanese yen	-	29,998	178	(2,114)
Malaysian ringgit	2,009	-	-	-
Mexican nuevo peso	2,042	358	-	1,171
New Taiwan dollar	-	2,041	332	-
New Zealand dollar	1,502	-	1	(1,385)
Norwegian krone	1,761	235	112	6,992
New Turkish lira	-	-	-	1,747
Polish zloty	2,733	50	4	-
Renminbi yuan	-	1,051	-	1,717
Russian new ruble	-	-	29	-
Singapore dollar	-	957	297	1,024
South African rand	1,329	466	-	-
Sount Korean won	1,984	1,758	-	-
Swedish krona	-	2,614	6	1,977
Swiss franc	-	9,567	(38)	2,035
Thai baht	-	61	(60)	-
Ghana cedi	348	-	45	-
	<u>41,327</u>	<u>163,357</u>	<u>6,333</u>	<u>(8,758)</u>
Total	<u>\$ 41,327</u>	<u>\$ 163,357</u>	<u>\$ 6,333</u>	<u>\$ (8,758)</u>

# Pension Plan of the General Retirement System of the City of Detroit

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

For the year ended June 30, 2010, the following deposits and securities are subject to foreign currency risk (in \$000):

	Fixed Income	Equity	Cash Equivalent	Cash	Forward Contracts
Australian dollar	\$ 4,015	\$ 6,938	\$ -	\$ 375	\$ (26,716)
Brazilian real	2,420	1,386	-	-	-
British pound sterling	2,888	41,299	(23)	102	5,650
Bulgarian lev	-	167	-	-	-
Canadian dollar	559	8,038	-	362	4,412
Czech koruna	-	863	-	-	(819)
Danish krone	-	1,665	-	27	-
Euro currency	6,495	48,852	22	6,485	(31,552)
Hong Kong dollar	-	4,335	-	110	-
Hryvnia	-	395	-	4	-
Hungarian forint	-	484	-	-	(393)
Indonesian rupiah	2,248	127	-	-	-
Israeli shekel	-	-	-	14	(3,144)
Japanese yen	-	39,392	-	727	(23,640)
Malaysian ringgit	2,215	-	-	-	-
Mexican nuevo peso	1,671	267	-	-	(175)
New Taiwan dollar	-	2,297	-	552	-
New Zealand dollar	1,514	-	-	1	(5,856)
Norwegian krone	1,783	2,661	-	32	9,310
New Turkish lira	-	-	-	-	1,568
Polish zloty	2,583	1,387	-	8	(507)
Renminbi yuan	-	177	-	-	924
Russian new ruble	-	361	-	1	-
Singapore dollar	-	1,701	-	230	1,318
South African rand	566	1,544	-	-	(2,793)
South Korean won	1,999	2,265	-	-	-
Swedish krona	1,952	1,540	-	30	12,916
Swiss franc	-	9,228	-	39	(22,309)
Ghana cedi	221	-	-	9	-
Total	<u>\$ 33,129</u>	<u>\$ 177,369</u>	<u>\$ (1)</u>	<u>\$ 9,108</u>	<u>\$ (81,806)</u>

# Pension Plan of the General Retirement System of the City of Detroit

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the Plan lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Plan's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. The custodial bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. Borrowers are required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned securities.

The Plan did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The Plan and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a separate account with the cash collateral of other lenders in an investment pool. The average duration of this investment pool as of June 30, 2011 was 25 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2011, the Plan had no credit risk exposure to borrowers. The collateral received (at cost) and the fair market value of the underlying securities on loan for the Plan as of June 30, 2011 were \$136,293,411 and \$133,155,256, respectively.

Securities Lent	Underlying Securities
U.S. government and agencies	\$ 16,271,100
U.S. corporate fixed income	13,180,767
U.S. equities	97,456,538
Non-U.S. governments	2,687,041
Non-U.S. corporate fixed income	817,376
Non-U.S. equities	<u>2,742,434</u>
Total	<u>\$ 133,155,256</u>

# Pension Plan of the General Retirement System of the City of Detroit

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

The fair market value of collateral of the securities lending pool at June 30, 2011 was \$110,910,673. The investments were in asset-backed securities, certificates of deposit, commercial paper, repurchase agreements, money market, and U.S. corporate securities (floating rate). Approximately 51 percent of these securities had a duration less than a year, 43 percent had a duration from 1-5 years, and 6 percent had a duration over 15 years.

The credit ratings of the securities lending collateral pool held at June 30, 2011 as rated by S&P are as follows:

<u>Ratings</u>	<u>Amount</u>
AAA	\$ 12,598,861
AA	23,834,496
A	16,964,448
A-1	20,145,792
B	1,249,925
CCC	3,958,862
D	1,345,560
NR	<u>30,812,729</u>
Total	<u>\$ 110,910,673</u>

At June 30, 2010, the collateral received (at cost) and the fair market value of the underlying securities on loan for the Plan were \$145,563,602 and \$140,192,772, respectively.

<u>Securities Lent</u>	<u>Underlying Securities</u>
U.S. government and agencies	\$ 25,932,761
U.S. corporate fixed income	17,089,350
U.S. equities	92,720,918
Non-U.S. governments	557,348
Non-U.S. equities	<u>3,892,396</u>
Total	<u>\$ 140,192,773</u>

# Pension Plan of the General Retirement System of the City of Detroit

## Notes to Financial Statements June 30, 2011 and 2010

### Note 3 - Deposits and Investments (Continued)

The fair market value of collateral of the securities lending at June 30, 2010 was \$117,926,115. The investments were in asset-backed securities, bank notes, certificates of deposit (floating rate), mutual funds, and U.S. corporate securities (floating rate). Of these security lending investments, approximately 92 percent had a duration less than a year and the remaining 8 percent had a duration over 15 years.

The credit ratings of the securities lending collateral pool held at June 30, 2010 as rated by S&P is as follows:

<u>Ratings</u>	<u>Amount</u>
AA	\$ 6,208,500
A	11,653,492
A-1	6,000,162
B	3,851,602
CCC	4,838,140
NR	<u>85,374,219</u>
Total	<u>\$ 117,926,115</u>

### Note 4 - Reserves

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of June 30, 2011, these reserves were more than the net assets of the Plan.

	<u>2011</u>	<u>2010</u>
Reserved for employee contributions	\$ 596,048,582	\$ 649,554,738
Reserved for retired employees	2,059,139,737	1,949,468,510

A statement of changes in plan net assets by fund is included in the other supplemental information.

# **Pension Plan of the General Retirement System of the City of Detroit**

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## **Notes to Financial Statements June 30, 2011 and 2010**

### **Note 5 - Pension Obligation Certificates**

In June 2005, the City of Detroit issued \$1,440,000,000 of pension obligation certificates to provide funding for the unfunded actuarially accrued liability (UAAL) of both the General Retirement Plan of the City of Detroit and the Police and Fire Retirement Plan of the City of Detroit. The pension obligation certificate proceeds were used to fund the combined liability of both plans that existed at June 30, 2003. Any future UAAL that may arise will continue to be paid by the City, as well as the annual normal cost. The proceeds of the pension obligation certificates were deposited into the Plan and are accounted for in the Accrued Liability Reserve Fund (pension obligation certificate). Approximately \$740,000,000 was deposited into the General Retirement Plan of the City of Detroit and approximately \$630,000,000 was deposited into the Police and Fire Retirement Plan of the City of Detroit, net of issuance costs and premiums. On an annual basis, funds will be transferred from the Accrued Liability Reserve Fund to the pension accumulation reserve based on a computation performed by the City of Detroit. The Accrued Liability Reserve Fund was credited with investment earnings commensurate with the overall earnings of the Plan.

### **Note 6 - Credit Enhancement Agreements and Funding Commitments**

The Plan had credit enhancement agreements totaling \$16,000,000 and \$17,500,000 during 2011 and 2010, respectively. In exchange for the credit enhancement, the Plan receives fees from the companies to which the enhancement agreements have been given.

When the Plan enters into various investments, it may not completely fund the entire investment at the beginning. Rather, it enters into commitments to fund remaining capital amounts at certain points in time. At June 30, 2011 and 2010, the remaining capital funding commitment for the Plan is approximately \$138 million and \$100 million, respectively.

## **Required Supplemental Information**

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# Pension Plan of the General Retirement System of the City of Detroit

## Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/05	\$ 3,222,393,861	\$ 3,347,387,652	\$ 124,993,791	96.3	\$ 390,593,600	32.0
06/30/06	3,373,687,677	3,434,288,153	60,600,476	98.2	361,151,456	16.8
06/30/07	3,586,550,485	3,629,217,059	42,666,574	98.8	361,701,481	11.8
06/30/08	3,641,197,523	3,609,558,628	(31,638,895)	100.9	368,470,990	(8.6)
06/30/09	3,412,411,183	3,689,065,726	276,654,543	92.5	357,072,833	77.5
06/30/10	3,238,130,553	3,719,586,762	481,456,209	87.1	332,343,506	144.9

# Pension Plan of the General Retirement System of the City of Detroit

## Required Supplemental Information Schedule of Employer Contributions

Year Ended June 30	Date of Actuarial Valuation	Annual Required Contribution	Contribution Made	Percentage Contributed	Transfer from Accrued Liability Reserve Fund*
2006	June 30, 2004	\$ 42,799,581	\$ 58,162,088	136	\$ 32,651,232
2007	June 30, 2005	41,444,808	41,444,808	100	39,840,591
2008	June 30, 2006	43,168,448	43,168,448	100	40,430,886
2009	June 30, 2007	41,395,719	41,395,719	100	39,688,411
2010	June 30, 2008	37,338,960	37,338,960	100	48,542,194
2011**	June 30, 2009	55,138,044	55,138,044	100	52,306,723

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2010, the latest actuarial valuation, follows:

Valuation date	June 30, 2010
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.9%
Projected salary increases	4.0%-8.9%
Includes inflation at	4.0%
Cost-of-living adjustments	2.25% of original pension amount at retirement

\* In accordance with the pension obligation certificate requirements, annual transfers are made from the Accrued Liability Reserve Fund to the pension accumulation reserve for the amortization of the unfunded liability that existed at the date the certificates were issued. The annual required contributions are stated net of the POC transfers.

\*\* A portion of these employer contributions remains outstanding at June 30, 2011 but, per agreement with the City, will be paid during FY 2012.

## **Other Supplemental Information**

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# **Pension Plan of the General Retirement System of the City of Detroit**

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## **Other Supplemental Information Description of Funds**

**Annuity Savings Fund** - This fund represents cumulative required and voluntary contributions made by the active employees plus accumulated interest.

**Annuity Reserve Fund** - Transfers are made from the Annuity Savings Fund into the Annuity Reserve Fund when an employee retires, becomes disabled, or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions.

Both annuity funds are referred to as defined contribution plans.

**Market Stabilization Fund** - This fund represents designations from the plans' investment income (loss) to be used to cushion the market value adjustments within the other funds. The boards of trustees authorized the creation of this fund and the reserve amounts are calculated using a three-year average method.

**Accrued Liability Reserve Fund** - This fund originated during June 2005 when the City of Detroit (the "City") issued pension obligation certificates to fund the unfunded actuarial accrued liability that existed at June 30, 2003 (subject UAAL). On an annual basis, the actuary will inform the Plan of the amount to transfer from the Accrued Liability Reserve to the Pension Accumulation Fund in lieu of contributions from the City for the subject UAAL.

**Pension Accumulation Fund** - This fund represents accumulated City contributions to the pension plan for the payment of pensions and other benefits to future retirees. Additionally, pre-employment military service credit contributions are captured in this fund.

**Pension Reserve Fund** - This fund represents funded pension benefits available for retired members and is funded by actuarially determined transfers from the Pension Accumulation Fund.

# Pension Plan of the General Retirement System of the City of Detroit

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	Annuity Reserves	
	Annuity Savings Fund	Annuity Reserve Fund
<b>Additions</b>		
Net investment income	\$ 47,828,261	\$ 4,717,198
Contributions:		
Employee	18,104,402	-
Employer	-	-
Total additions - Net	65,932,663	4,717,198
<b>Deductions</b>		
Retirees' pension and annuity benefits	-	-
General and administrative expenses	-	-
Depreciation expense	-	-
Member refunds and withdrawals	112,728,838	-
Total deductions	112,728,838	-
<b>Net (Deductions) Additions - Before transfers</b>	(46,796,175)	4,717,198
<b>Transfers - Net</b>	(6,709,981)	5,729,832
<b>Net (Decrease) Increase in Net Assets Held in Trust for Pension Benefits</b>	(53,506,156)	10,447,030
<b>Net Assets Held in Trust for Pension Benefits - Beginning of year</b>	649,554,738	64,773,694
<b>Net Assets Held in Trust for Pension Benefits - End of year</b>	\$ 596,048,582	\$ 75,220,724

**Other Supplemental Information**  
**Statement of Changes in Plan Net Assets by Fund**  
**Year Ended June 30, 2011**  
(with comparative totals for the year ended June 30, 2010)

Market Stabilization Fund	Accrued Liability Reserve Fund	Pension Reserves		Total	
		Pension Accumulation Fund	Pension Reserve Fund	2011	2010
\$ 190,481,996	\$ 61,846,501	\$ 4,829,752	\$ 131,164,953	\$ 440,868,661	\$ 124,929,111
-	-	-	-	18,104,402	19,043,434
-	-	55,138,044	-	55,138,044	37,338,960
190,481,996	61,846,501	59,967,796	131,164,953	514,111,107	181,311,505
-	-	-	221,498,249	221,498,249	214,110,830
-	-	4,731,602	-	4,731,602	6,029,721
-	-	98,151	-	98,151	89,170
-	-	-	-	112,728,838	101,705,630
-	-	4,829,753	221,498,249	339,056,840	321,935,351
190,481,996	61,846,501	55,138,043	(90,333,296)	175,054,267	(140,623,846)
(105,750,007)	(52,306,723)	(30,520,614)	189,557,493	-	-
84,731,989	9,539,778	24,617,429	99,224,197	175,054,267	(140,623,846)
(751,949,715)	789,718,180	(390,279,024)	1,884,694,816	2,246,512,689	2,387,136,535
<b>\$ (667,217,726)</b>	<b>\$ 799,257,958</b>	<b>\$ (365,661,595)</b>	<b>\$ 1,983,919,013</b>	<b>\$ 2,421,566,956</b>	<b>\$ 2,246,512,689</b>