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# General Retirement System of the City of Detroit

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**Financial Report  
with Supplementary Information  
June 30, 2023**

# General Retirement System of the City of Detroit

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## Contents

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<b>Independent Auditor's Report</b>	1-3
<b>Management's Discussion and Analysis</b>	4-9
<b>Basic Financial Statements</b>	
Statement of Fiduciary Net Position	10
Statement of Changes in Fiduciary Net Position	11
Notes to Financial Statements	12-38
<b>Required Supplementary Information</b>	39
Schedule of Changes in the Net Pension Liability and Related Ratios Legacy Plan	40
Schedule of Investment Returns Legacy and Hybrid Plans	41
Schedule of Pension Contributions Legacy Plan	42
Schedule of Changes in the City's Net Pension (Asset) Liability and Related Ratios Hybrid Plan	43
Schedule of Changes in the City's Net OPEB Liability and Related Ratios Open Death Benefit Plan	44
Schedule of OPEB Contributions Open Death Benefit Plan	45
Schedule of OPEB Investment Returns Open and Closed Death Benefit Plans	46
Schedule of Changes in the City's Net OPEB Liability and Related Ratios Closed Death Benefit Plan	47
Notes to Required Supplementary Information	48-49
<b>Other Supplementary Information</b>	50
Statement of Changes in Fiduciary Net Position by Division - Legacy Defined Benefit Plan	51
Schedule of DWSD/GLWA Contributions Toward Administrative Expenses as Compared to Actual DWSD/GLWA Allocable Administrative Expenses	52
Notes to Other Supplementary Information	53

## **Independent Auditor's Report**

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

### **Opinion**

We have audited the financial statements of the General Retirement System of the City of Detroit (the "System") as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the System's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the fiduciary net position of the General Retirement System of the City of Detroit as of June 30, 2023 and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the General Retirement System of the City of Detroit's basic financial statements. The other supplementary 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

**Report on Summarized Comparative Information**

We have previously audited the General Retirement System of the City of Detroit's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Plante & Moran, PLLC*

December 7, 2023

# General Retirement System of the City of Detroit

## Management's Discussion and Analysis

As management of the General Retirement System of the City of Detroit (DGRS or the "System"), we offer readers this narrative overview and analysis of the financial activities for the year ended June 30, 2023.

### Using This Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) the required supplementary 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 supplementary information that further explain and support the information in the financial statements.

### Financial Highlights

Despite the inflationary challenges and the Fed's short-term interest rates hikes, the U.S. economy continues to forge ahead strongly. The Fed's movement to increase interest rates was implemented to target inflation by slowing economic growth. This effort has been largely successful. While areas of the economy such as employment numbers and consumer spending remain positive, the housing market has been slow. Home prices are at all-time highs, the housing inventory is low, and the 30-year fixed mortgage rate is near 8 percent.

Nevertheless, the U.S. financial markets are doing well. Stocks have recovered from their COVID-19 lows. Moreover, the first half of calendar year 2023 has seen gains that have surpassed some prior years' full year gains.

This year the System posted investment returns of 7.5 percent.

Here at the System, we continue to take steps to improve services for our members. We are implementing new technology and streamlining processes for improved efficiency. Our new ERP system will be fully online within the next few months. There are self-service features of the ERP system that are currently being utilized, and more features will be brought online upon full implementation.

Meeting our members' needs while protecting and growing the System's assets is paramount.

### Condensed Financial Information

The tables below compare key financial information in a condensed format between the current year and the prior year:

	2023	2022
<b>Assets</b>	\$ 1,790,953,379	\$ 1,864,607,863
<b>Liabilities</b>	57,334,754	74,082,376
<b>Fiduciary Net Position</b>		
Restricted:		
Pension	1,707,502,532	1,765,307,963
Postemployment benefits other than pension	26,116,093	25,217,524
<b>Total fiduciary net position</b>	<b>\$ 1,733,618,625</b>	<b>\$ 1,790,525,487</b>

# General Retirement System of the City of Detroit

## Management's Discussion and Analysis (Continued)

	2023	2022
<b>Additions</b>		
Net investment income (loss):		
Interest, dividends, and other income	\$ 40,702,871	\$ 41,900,716
Net increase (decrease) in fair value of investments	64,840,515	(153,266,843)
Investment-related expenses	(9,291,674)	(10,176,199)
Net investment income (loss)	96,251,712	(121,542,326)
Securities lending income	412,111	96,499
Contributions:		
Employer	63,153,813	63,695,698
Employee	18,842,551	16,205,029
Foundation	375,000	375,000
Total contributions	82,371,364	80,275,727
ASF recoupment interest	5,509,059	5,775,503
Transfer from Component II to Component I	15,592,259	-
Other income	2,142,960	294,045
Total additions - Net	202,279,465	(35,100,552)
<b>Deductions</b>		
Benefit payments	221,414,865	225,802,140
Member refunds and withdrawals	16,066,741	19,729,042
Transfer to Component I from Component II	15,592,259	-
General and administrative expenses	4,733,373	4,474,226
ASF recoupment write-off	1,379,089	1,221,731
Total deductions	259,186,327	251,227,139
<b>Net Decrease in Net Position Held in Trust</b>	<b>\$ (56,906,862)</b>	<b>\$ (286,327,691)</b>

### ***Fund Overview, Membership, and Governance***

The pension plans of the General Retirement System of the City of Detroit consist of defined benefit pension plans and defined contribution plans for the nonuniformed employees of the City of Detroit, Michigan, composed of Component I and Component II, which are memorialized in a document titled the Combined Plan for the General Retirement System of the City of Detroit, Michigan, made effective July 1, 2014, as amended and restated December 8, 2014 (the "Combined Plan"). The System also manages open and closed death benefit funds (collectively, the "Death Benefit Plans"). The Death Benefit Plans are held in a separate trust; the board of the Death Benefit Plans is substantially the same as the board of the pension plans. This discussion and its accompanying financial statements are concerned primarily with Component I, a new pension plan created by the City effective July 1, 2014 for active nonuniformed employees of the City to earn pension benefits on and after that date (also referred to as the "Hybrid Plan"), and Component II, the legacy pension plan where benefits were earned through June 30, 2014 (the "Legacy Plan").

As discussed in greater detail below, at the conclusion of the 2014 fiscal year, the City froze Component II. The freeze of Component II, which was the pension plan that existed as of June 30, 2014, means that no further benefit accruals occurred after that date, and no new employees are allowed to participate as members.

## General Retirement System of the City of Detroit

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

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DGRS exists to pay benefits to its members. Members of the System include active nonuniformed city employees, retirees, and their beneficiaries. Active members still employed with the City on and after July 1, 2014 earn service credit that entitles them to receive benefits in the future in Component I but not in Component II, which, as noted above, has been frozen. Both the employer and municipal plan sponsor for the System, the City, and actively employed members have historically contributed to the System (the employee contributions were voluntary prior to July 1, 2014). Retirees, their beneficiaries, and disabled members are those currently receiving benefits, though the City elected in fiscal year 2015 to transition new disability claims from the benefit program administered by the System to one administered by a third-party insurance carrier.

Component I of DGRS is a newly created plan (effective July 1, 2014), with more active members earning service credit than members eligible to receive or receiving benefits. As of June 30, 2022, there were 4,841 active members, with 692 retirees and 957 terminated plan members entitled to but not yet receiving benefits.

Component II of DGRS is a relatively mature plan in that there are more members receiving current benefits than active members. As of June 30, 2022, in Component II there were 1,850 active members, with 10,918 members receiving benefits and 2,633 terminated plan members entitled to but not yet receiving benefits. On June 30, 2014, the emergency manager of the City of Detroit, Michigan issued Order No. 30, which froze Component II. After that date, no new employees were allowed to participate in Component II, and benefit accruals for members with respect to service rendered prior to July 1, 2014 were frozen based on the member's years of service, average final compensation, and the pension multiplier formula as of the freeze date. Employees working after July 1, 2014 are now earning service credit in the Hybrid Plan, or Component I.

By way of background, a brief review of the City's migration from the Legacy Plan to the Hybrid Plan is appropriate. On June 30, 2014, the emergency manager of the City of Detroit, Michigan issued Order No. 30, which froze Component II. After that date, no new employees were allowed to participate in Component II, and benefit accruals for members with respect to service rendered prior to July 1, 2014 were frozen based on the member's years of service, average final compensation, and the pension multiplier formula as of the freeze date. Employees working after July 1, 2014 are now earning service credit in the Hybrid Plan, or Component I. On July 1, 2014, the City first published the Combined Plan with the city clerk. By August 1, 2014, the City completed the payroll information systems project transitions required to allow the now mandatory employee contributions to be contributed to Component I.

On October 19, 2014, the emergency manager issued Order No. 43, which amended and restated the Combined Plan. On December 8, 2014, before leaving office, the emergency manager issued Order No. 44, which again amended and restated the Combined Plan. According to Order No. 44, the latest amendments and restatements to the Combined Plan conformed the combined plan terms to the requirements of the City's bankruptcy plan and made clarifying modifications. The Combined Plan is available at DGRS' website, [www.rscd.org](http://www.rscd.org).

In December 2014, DGRS governance was modified as part of the City's bankruptcy plan. DGRS is governed by a board of trustees (the "Board"). Although DGRS' investment management is now the ultimate responsibility of a seven-member investment committee (the "Investment Committee"), the Board maintains its role as the governing board vested with responsibility for the general administration, management, and operation of the System, with which the Investment Committee assists, pursuant to Michigan law.

The Board is composed of 10 members. Five members are elected by the active membership to serve six-year terms. A sixth member is elected by the retiree membership to serve a two-year term. A seventh member is appointed by the mayor of the City of Detroit, Michigan from the citizens of the City to serve a six-year term. The three remaining members serve ex officio, these members being the mayor of the City (or designee), the city treasurer, and one representative from the Detroit City Council. Expirations of terms of elected trustees are staggered, while the remaining trustees serve in accordance with their office or as a designee of an office.

The Investment Committee has five independent members appointed to initial terms with staggered expirations, which terms will all eventually become six years. Two additional members, one active and one retired, serve on the Investment Committee based on appointment by the Board. The Investment Committee will be in place through at least December 2034.



## General Retirement System of the City of Detroit

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

#### **Contributions to the System**

Historically, both the City and active employees have made regular contributions to the System, with employee contributions being optional in Component II, essentially before July 1, 2014, though there was a period of transition due to the City's aging information technology infrastructure, which meant that voluntary employee contributions to Component II continued through July 2014, and mandatory employee contributions to Component I from active payroll were implemented as of August 1, 2014.

Basic pension and disability benefits in Component II had been funded through employer contributions plus investment earnings on those contributions, but employee contributions are mandatory in Component I. The required employer contributions had been determined by the System's actuaries using the entry age normal cost method, which is still the case. Assumptions used by the actuaries are subject to experience testing every five years, which is also still the case. Effective December 10, 2014, as part of the resolution of the Chapter 9 case, the investment return assumption and discount rate used by the System's actuary for the purpose of determining the System's assets and liabilities for funding purposes was fixed at 6.75 percent through the period ended June 30, 2023. This applies to both Component I and Component II.

Subsequent to the City's bankruptcy, for the Legacy Plan, the obligations for contributions to support Component II of the System through 2023 are determined as fixed amounts by the provisions in the Eighth Amended Plan for the Adjustment of Debts of the City of Detroit (the "Plan of Adjustment"). Pursuant to the Plan of Adjustment, the System is expected to receive contributions totaling \$718.6 million through fiscal year 2023. The Plan of Adjustment calls for the System to receive \$98.8 million from the State of Michigan; \$428.5 million from the Detroit Water and Sewer Department (DWSD); \$31.7 million from UTGO settlement proceeds; the present value equivalent or actual contribution of \$50 million from the Detroit Institute of Arts (DIA) and its foundation donors during a 10-year period ending in 2024; the present value equivalent or actual contribution of \$18.3 million per year from 2025 through 2034 from certain foundations; and \$114.6 million from the other city-related employer contribution sources, such as the General Fund, Detroit Library Commission, and COBO Authority, over a 10-year period covering fiscal year 2014 through fiscal year 2023. After 2023, the City and various other employer constituents, such as the library, DWSD, and COBO Authority, will retain responsibility for the full funding obligations of Component II of the System, consistent with Michigan law.

The Plan of Adjustment allows for certain of the Legacy Plan's funding obligations to DGRS through 2034 to be met by prepayment of the present value equivalent using a discount rate of 6.75 percent. In the fiscal year ended June 30, 2016, a portion of the DIA obligation to make annual \$5 million contributions over 10 years ending in 2034 was prepaid. This present value prepayment resulted in DGRS receiving \$32,511,827 on June 30, 2016 from the DIA, which represents the present value, using a 6.75 percent discount rate, of \$4,625,000 per year for the 9 years remaining on that annual \$5,000,000 commitment ending in 2024. Pursuant to the Plan of Adjustment, DGRS still expects to receive the equivalent or actual remaining \$375,000 per year from the DIA for that 10-year period ending in 2024 and also received, on June 30, 2016, the amount of \$375,000 in satisfaction of the fiscal year 2016 obligation from the DIA that was not prepaid.

In addition, the City was to remit payments on the UTGO Stub Bonds to the Combined Plan through 2028. In fiscal year 2017, the City of Detroit, Michigan refunded all of its outstanding UTGO Stub Bonds. Upon refunding, the payments to the Combined Plan were accelerated, with a majority of the outstanding balance paid to the Combined Plan in fiscal year 2017; as a result, the Combined Plan received approximately \$7.7 million in the ISP and \$18.3 million in Component II related to this transaction.

With respect to Component I, the Hybrid Plan, nonuniformed employees who are members of DGRS are now required to make mandatory contributions of 4 percent of pay toward their defined benefit pensions earned with the City, and the City contributes an additional 5 percent of pay. The City no longer counts overtime in the calculation of its employer contribution.

The City is also setting aside an additional 0.75 percent of payroll to meet the premium payments required for the disability insurance established with a third-party carrier. DGRS is not administering those disability benefits managed by the third-party carrier.

On June 30, 2023, the City met its obligation for Component I employer contributions by contributing \$15,126,876 to DGRS.

# General Retirement System of the City of Detroit

## Management's Discussion and Analysis (Continued)

### **Impact of City of Detroit, Michigan Collective Bargaining and Bankruptcy Pension Adjustments**

Pursuant to Emergency Manager Order No. 30, the existing Component II defined contribution plan and defined benefit plan were frozen, preventing any future accruals or new members in Component II effective June 30, 2014.

The following changes became effective July 1, 2014, with the advent of Component I:

- The Hybrid Plan's defined benefit plan commenced with mandatory contributions of 4 percent of base pay. The City contributes 5 percent of employee base pay, not including overtime.
- A new Hybrid Plan defined contribution plan commenced for the annuity savings fund. Employees may make voluntary annuity savings fund contributions of up to 7 percent of total after-tax pay. Interest will be credited at the actual net investment rate of return of DGRS, but in no event will it be lower than 0 percent or higher than 5.25 percent.
- The Hybrid Plan provides that future duty disability and nonduty disability retirement allowances for members who become disabled after July 1, 2014 move to a commercial insurance program through the City.

### **Benefit Payments**

The System exists to pay the benefits that its members have earned pursuant to benefits promised by the City, subject to the Chapter 9 case benefit adjustments going forward in the Legacy Plan and the new promises in the Hybrid Plan. Benefits are paid monthly. In fiscal year 2023, DGRS paid out \$235,900,000 in benefits, consisting of \$219,800,000 in benefits to retirees and beneficiaries plus \$16,100,000 in refunds of annuity savings fund balances and mandatory contributions. The benefits and refunds represent approximately 13.6 percent of the net position of the System as of June 30, 2023. Employer, foundation, and employee contributions were \$82,100,000, or 4.7 percent of the net position of the System. The excess of benefits over contributions of \$153.8 million is funded through investment income. The public capital markets represent the primary source of opportunities to earn investment income.

### **Asset Allocation**

The Board and the Investment Committee of DGRS believe that the principal determinant of total fund investment performance over long periods of time is asset allocation. DGRS' asset allocation is built upon the foundation that the obligations of the System to pay the benefits promised to its members are very long-term obligations. Accordingly, the Board and the Investment Committee must make investment decisions that they believe will be the most beneficial to the System over many years, not just one or two years.

DGRS has established asset allocation policies that are expected to deliver investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the DGRS asset allocation policy as of June 30, 2023:

Asset Class	Target Allocation
Global equity	46.00 %
Global fixed income	33.00
Real estate/Real assets	13.00
Diversifying strategies	8.00

DGRS' asset allocation policies comply with Michigan law.

### **Investment Results**

DGRS calculates investment results on a time-weighted Global Investment Performance Standard (GIPS) basis unless explicitly stated otherwise. All returns for periods of one year or greater have been annualized.

# General Retirement System of the City of Detroit

## Management's Discussion and Analysis (Continued)

### **Total Fund Composite**

DGRS' total fund composite return for the year was 7.5 percent, net of fees and expenses using a time-weighted methodology. The fund returned 8.7 percent, 5.8 percent, and 7.0 percent for its 3-, 5-, and 10-year annualized returns, respectively, net of fees and expenses.

The Federal Reserve began raising short-term interest rates in the second half of 2021 as inflation rose above 9 percent briefly that summer and has continued to do so through mid-year 2023. This is being done to slow economic growth, which inevitably will slow inflation.

The Fed's efforts appear to be working, as inflation has come down from its peak of just over 9 percent in July 2021 and is now just above 3 percent as of July 2023. While still above the Fed's target of 2 percent, the lower inflation has been achieved without too much damage to economic growth. This has provided financial markets with encouraging signs the Fed can achieve its target without causing a major recession, resulting in the proverbial "soft landing" for the economy.

The change in Fed interest rate policy from QE (quantitative easing) to QT (quantitative tightening) has raised the return assumptions for bonds quite significantly, which ultimately should make it easier for the System's expected returns.

As part of the resolution of the City of Detroit, Michigan's Chapter 9 bankruptcy case, the discount rate assumption used to meet current and future benefit obligations was set at 6.75 percent through the period ended June 30, 2023. This discount rate assumption provided in the Chapter 9 case does not purport to establish an investment return assumption or discount rate for purposes of, or in accordance with, generally accepted accounting principles. Although the fund's return for this year fell below this assumption, the fund's longer-term return expectation, which this assumption is intended to characterize, still exceeds this assumption.

Total plan returns, net of fees and expenses, for the recent prior fiscal years ended June 30 are shown below:

2022	(7.34)%
2021	28.30
2020	(0.96)
2019	3.40
2018	6.50
2017	14.10
2016	1.40
2015	2.60
2014	14.50
2013	11.70

### **Money-weighted Rate of Return**

GASB Statement No. 67 requires the disclosure of the annual money-weighted rate of return. A money-weighted rate of return (as opposed to the time-weighted rate of return discussed in the previous section) considers both the size and timing of cash flows over the course of the year to determine an internal rate of return (sometimes referred to as IRR). This return is calculated net of expenses and uses cash flows determined on a monthly basis. The DGRS money-weighted rate of return for the year using month-end cash flows was 7.38 percent.

### **Requests for Further Information**

This financial report is intended to provide a general overview of the System's finances and investment results in relation to actuarial projections. It shows the System'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 System's office or visit its website at [www.rscd.org](http://www.rscd.org).

# General Retirement System of the City of Detroit

## Statement of Fiduciary Net Position

June 30, 2023

	Component II Plan (Legacy)		Component I Plan (Hybrid)		Total
	Defined Benefit Fund	Income Stabilization Fund	Defined Benefit Fund	Death Benefit Plans	
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ (5,517,641)	\$ 406,246	\$ 19,321,255	\$ 1,508,909	\$ 15,718,769
Investments: (Notes 3 and 4)					
Global equities	709,322,202	5,549,378	80,036,655	17,180,851	812,089,086
Global fixed income	178,541,282	3,120,094	93,057,904	2,114,126	276,833,406
Real estate	221,221,473	2,022,112	37,894,807	1,680,326	262,818,718
Private equity	99,646,190	921,228	17,538,769	95,546	118,201,733
Diversifying strategies	113,693,093	1,051,093	20,011,170	3,663,436	138,418,792
Receivables:					
Investment income	2,173,117	16,966	241,430	-	2,431,513
Contributions (Note 1)	-	-	4,022,646	-	4,022,646
Other receivables	184,371	1,098	54,801	-	240,270
ASF recoupment receivable (Note 1)	93,180,996	-	-	-	93,180,996
Notes receivable from participants	2,154,243	-	1,018,653	-	3,172,896
Receivables from investment sales	1,700,611	12,464	149,974	-	1,863,049
Prepaid expenses	14,307	-	10,793	-	25,100
Restricted investments (Note 11)	4,918,883	38,483	555,024	-	5,512,390
Cash and investments held as collateral for securities lending: (Note 3)					
Asset-backed securities	1,648,013	15,236	290,067	-	1,953,316
Certificate of deposit	885,256	8,184	155,814	-	1,049,254
Repurchase agreements	601,858	5,564	105,933	-	713,355
U.S. corporate floating rate	37,949,411	350,842	6,679,492	-	44,979,745
Commercial paper	536,511	4,960	94,432	-	635,903
Capital assets - Net (Note 1)	4,042,692	-	3,049,750	-	7,092,442
<b>Total assets</b>	<b>1,466,896,868</b>	<b>13,523,948</b>	<b>284,289,369</b>	<b>26,243,194</b>	<b>1,790,953,379</b>
<b>Liabilities</b>					
Accrued expenses	3,804,939	13,258	277,055	127,101	4,222,353
Payables for investment purchases	2,055,848	15,829	204,436	-	2,276,113
Due to the City of Detroit, Michigan	527,783	-	-	-	527,783
Amounts due to broker under securities lending agreements (Note 3)	40,761,376	376,839	7,174,427	-	48,312,642
Lease liability	1,137,642	-	858,221	-	1,995,863
<b>Total liabilities</b>	<b>48,287,588</b>	<b>405,926</b>	<b>8,514,139</b>	<b>127,101</b>	<b>57,334,754</b>
<b>Net Position - Restricted for</b>					
Pension	1,418,609,280	13,118,022	275,775,230	-	1,707,502,532
Postemployment benefits other than pension	-	-	-	26,116,093	26,116,093
<b>Total net position</b>	<b>\$ 1,418,609,280</b>	<b>\$ 13,118,022</b>	<b>\$ 275,775,230</b>	<b>\$ 26,116,093</b>	<b>\$ 1,733,618,625</b>

# General Retirement System of the City of Detroit

## Statement of Changes in Fiduciary Net Position

**Year Ended June 30, 2023**  
**(with comparative totals for the year ended June 30, 2022)**

	Component II Plan (Legacy)		Component I Plan (Hybrid)		Total	2022
	Defined Benefit Fund	Income Stabilization Fund	Defined Benefit Fund	Death Benefit Plans		
<b>Additions</b>						
Investment income (loss):						
Interest, dividends, and other income	\$ 34,714,312	\$ 302,199	\$ 5,422,485	\$ 263,875	\$ 40,702,871	\$ 41,900,716
Net increase (decrease) in fair value of investments	53,781,537	464,120	8,497,293	2,097,565	64,840,515	(153,266,843)
Investment-related expenses	(7,851,493)	(69,736)	(1,283,068)	(87,377)	(9,291,674)	(10,176,199)
Net investment income (loss)	80,644,356	696,583	12,636,710	2,274,063	96,251,712	(121,542,326)
Securities lending income (loss):						
Interest and dividends	379,167	4,062	90,144	-	473,373	214,456
Net loss on collateralized securities	(51,687)	(478)	(9,097)	-	(61,262)	(117,957)
Total securities lending income	327,480	3,584	81,047	-	412,111	96,499
Contributions:						
Employer	47,900,000	-	15,126,876	126,937	63,153,813	63,695,698
Employee	6,252	-	18,737,570	98,729	18,842,551	16,205,029
Foundation	375,000	-	-	-	375,000	375,000
Total contributions	48,281,252	-	33,864,446	225,666	82,371,364	80,275,727
ASF recoupment interest (Note 1)	5,509,059	-	-	-	5,509,059	5,775,503
Transfer from Component II to Component I	-	-	15,592,259	-	15,592,259	-
Other income	2,092,008	556	50,396	-	2,142,960	294,045
Total additions - Net	136,854,155	700,723	62,224,858	2,499,729	202,279,465	(35,100,552)
<b>Deductions</b>						
Benefit payments	217,569,518	458,025	1,816,188	1,571,134	221,414,865	225,802,140
Member refunds and withdrawals	10,869,397	-	5,197,344	-	16,066,741	19,729,042
Transfer to Component I from Component II	15,592,259	-	-	-	15,592,259	-
General and administrative expenses	2,680,907	-	2,022,440	30,026	4,733,373	4,474,226
ASF recoupment write-off	1,379,089	-	-	-	1,379,089	1,221,731
Total deductions	248,091,170	458,025	9,035,972	1,601,160	259,186,327	251,227,139
<b>Net (Decrease) Increase in Fiduciary Net Position</b>	(111,237,015)	242,698	53,188,886	898,569	(56,906,862)	(286,327,691)
<b>Net Position Restricted for Pension/OPEB - Beginning of year</b>	1,529,846,295	12,875,324	222,586,344	25,217,524	1,790,525,487	2,076,853,178
<b>Net Position Restricted for Pension/OPEB - End of year</b>	<b>\$ 1,418,609,280</b>	<b>\$ 13,118,022</b>	<b>\$ 275,775,230</b>	<b>\$ 26,116,093</b>	<b>\$ 1,733,618,625</b>	<b>\$ 1,790,525,487</b>

June 30, 2023

### Note 1 - Significant Accounting Policies

#### *Reporting Entity*

The pension plans of the General Retirement System of the City of Detroit (the "System" or DGRS) and the Death Benefit Plans are managed by the Retirement System of the City of Detroit. The City of Detroit, Michigan (the "City") sponsors these plans, which consist of four single-employer retirement plans - two pension plans (the "Combined Plan") and two other postemployment benefit plans (the "Death Benefit Plans"), as described below.

#### Pension Plans

##### *Component II*

This is the legacy plan (the "Legacy Plan") that is the original defined benefit plan, which includes a defined benefit component and a defined contribution component. Component II generally applies to benefits accrued by members prior to July 1, 2014. On June 30, 2014, as a result of negotiations between the City and the public employee unions, the existing plan benefit formulas were frozen, and no employees were allowed to earn benefits under the existing plan. The emergency manager issued Order No. 30 (General Retirement System of the City of Detroit) on June 30, 2014, which put these changes into effect. Except as specifically provided in the Combined Plan, benefits provided under Component II are frozen effective June 30, 2014.

Component II also includes the Income Stabilization Fund. The fund, which is part of Component II only and established as a special plan of adjustment provision, was established for the sole purpose of paying the Income Stabilization Benefits and Income Stabilization Benefits Plus to eligible pensioners. Beginning in 2022, the investment committee of DGRS (the "Investment Committee") may recommend to the board that a portion or all of the assets that exceed income stabilization benefits (including Income Stabilization Benefits Plus) to be paid in the future be used to fund regular pension payments. As of June 30, 2023, no decisions have been made to transfer any income stabilization funds.

##### *Nonemployer Contributing Entity within Component II*

On September 9, 2014, a memorandum of understanding (the "MOU") was entered into by the emergency manager and mayor of the City of Detroit, Michigan; the county executive of each of the charter counties of Wayne and Macomb, Michigan; the County of Oakland, Michigan; and the governor of the State of Michigan. The purpose of the MOU was to establish a framework for the creation of a regional authority (known as Great Lakes Water Authority or GLWA) pursuant to Act 233 of 1955 to operate, control, and improve the regional assets of the water supply system and the sewage disposal system owned by the City.

Pursuant to the MOU, the City of Detroit, Michigan and GLWA entered into two lease agreements: the Regional Water Supply System Lease dated June 12, 2015 and the Regional Sewage Supply System Lease dated June 12, 2015. Under the provisions of the lease agreements, GLWA leases the regional assets of the City for a period of at least 40 years.

Pursuant to the lease agreements, on December 1, 2015, a triparty agreement between the City of Detroit, Michigan; the General Retirement System of the City of Detroit; and GLWA was signed (referred to as the pension reporting agreement). Per the POA and Section 4.3 of the lease agreements, GLWA is required to pay a portion of the pension obligation that will be allocable to the Detroit Water and Sewer Department (DWSD). The purpose of the pension reporting agreement is to set forth determining the funding status for the DWSD pension pool and for DGRS to agree to provide GLWA with certain actuarial and other reports to enable GLWA to properly manage and pay its portion of the pension obligation that is allocable to DWSD.

June 30, 2023

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

Effective January 1, 2016, GLWA was launched. Accordingly, the prior DWSD division was split into two - one representing the ongoing DWSD department, now referenced as DWSD-Retail (DWSD-R), and another to represent Great Lakes Water Authority. In accordance with the pension reporting agreement, the net position and liabilities of DWSD were allocated to DWSD-R and GLWA in accordance with written directions received from DWSD-R and GLWA. Per written directions, GLWA is to be allocated 70.3 percent of the net position and liabilities of DWSD. Because GLWA has no employees or retirees in the Combined Plan, GLWA is considered a nonemployer contributing entity in accordance with GASB Statement No. 67.

The financial statements of the Combined Plan reflect the net position and pension liabilities of the plan as a whole, which includes the portion allocable to GLWA. GLWA's portion of the total Component II net pension liability of \$922,964,285 at June 30, 2023 was \$37,046,054, with the remainder allocable to the City of Detroit, Michigan and related entities.

#### *Component I*

As of July 1, 2014, all current and future employees participate in the new hybrid pension plan (the "Hybrid Plan"), or Component I. Active city employees who participated in the Legacy Plan will receive the benefits they have earned under the plan through June 30, 2014 plus an additional benefit under the new hybrid plan formula, assuming all vesting requirements are met.

#### **Other Postemployment Benefit Plans**

##### *Death Benefit Plans*

Death benefits are provided to certain employees and retirees of the City of Detroit, Michigan through an employee benefit trust. The following are the benefit plans paid through the trust, both of which are defined benefit plans under GAAP:

- Closed Death Benefit Plan (Closed Plan) - This plan covers those retirees who retired on or before December 10, 2014.
- Death Benefit Plan (Open Plan) - This plan is open to all employees providing services after December 10, 2014.

##### *System Reporting*

The Combined Plan and the Death Benefit Plans are separate and independent trusts qualified under applicable provisions of the Internal Revenue Code; they are independent entities (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 Combined Plan and the Death Benefit Plans have a fiduciary obligation and legal liability for any violations of fiduciary duties as independent trustees. The Combined Plan provides retirement, disability, and survivor benefits to plan members and beneficiaries. The Death Benefit Plans provide death benefits for plan members.

The assets of the System include no securities of or loans to the City, although the System did pledge collateral related to a loan of the City (see Note 11).

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

June 30, 2023

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

#### ***Plan Sponsor Financial Condition - Impact on the System***

In the past, the City of Detroit, Michigan (the "plan sponsor") has experienced significant financial difficulty and liquidity concerns. As of June 2013, the City had defaulted on approximately \$36 million of pension contributions due to the Combined Plan. During fiscal year 2014, the City did not pay any employer contributions into the Combined Plan, despite the fact that there were actuarially required contributions.

In February 2013, the governor appointed a financial review team, which determined that a local government financial emergency existed in the City. This culminated in bankruptcy proceedings, which the City initiated in July 2013. Part of the federal court's ruling in December 2013 indicated that the bankruptcy status usurped whatever protections may be offered to governmental pensions under the Michigan Constitution. On December 10, 2014, the City exited from bankruptcy through confirmation of the Eighth Amended Plan for the Adjustment of Debts of the City of Detroit (the "Plan of Adjustment" or the "POA"). The POA specifies certain provisions pertinent to the legacy and hybrid plans, including contributions and benefits.

Since 2015, the contributions received by the Combined Plan were made in accordance with the provisions of the POA. See Note 12 for significant changes that were implemented by the Combined Plan under the POA.

The POA also resulted in the City closing the existing supplemental death benefit plan to new members effective December 10, 2014. Benefits to be paid to individuals retiring prior to that date are limited to the assets allocated to that closed plan. There are no further contribution requirements for the City for plan members who were retired as of that date.

#### ***Summary of Significant Accounting Policies***

The following is a summary of the significant accounting policies used by the General Retirement System of the City of Detroit.

#### **Accounting and Reporting Principles**

The System follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

#### **Basis of Accounting**

The System uses the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### **Specific Balances and Transactions**

##### ***Cash and Cash Equivalents***

The System considers cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when purchased to be cash equivalents.



June 30, 2023

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

#### *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 sale 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 determined by the System's management.

Approximately \$777,200,000, or 45 percent, of the System's net position as of June 30, 2023 does not have a readily determinable market value. Of this balance, approximately \$16,500,000 has been estimated by management. The remaining \$760,700,000 is valued based on valuations performed by the investee company management, which is subject to annual audits (generally as of December 31).

Investments for which market quotations are readily available are generally priced by the custodian using nationally recognized pricing services and practices. For investments that do not have readily observable market prices, including but not limited to private equity, public and private real estate, alternatives, and direct loans, management's estimate of their fair value is based on information provided by investment managers, general partners, real estate advisors, and other means. These sources are held to a standard of reasonable care in verifying that the valuations presented reasonably reflect the underlying fair value of the investments. A variety of factors is considered in the valuation process, including the nature of the investment, local market conditions, trading values on public exchanges for comparable investments, and current and projected operating performance. However, due to the inherent uncertainty and the degree of judgment involved in determining fair value for such investments, the values reflected in the financial statements may differ significantly from values that would have been used had a readily determinable market value for the investments existed, and the difference could be material.

#### *Contributions Receivable*

At June 30, 2023, there was \$4,022,646 in employer contributions receivable. This amount relates to fiscal year 2023 Component I contributions and was paid in July 2023.

#### *ASF Recoupment Receivable - Component II (Legacy)*

For members who elected to make employee contributions into the defined contributions-style program, referred to as the annuity savings fund (ASF), between July 1, 2003 and June 30, 2013, the POA called for recoupment of amounts that the City calculated were excess interest credited to individual ASF accounts. In 2011, the City Council adopted an ordinance that limited ASF interest credits to the plan's actual net investment return, with a cap of 7.9 percent and a floor of 0 percent. The POA calculation of excess interest applies the interest formula in the 2011 ordinance to the July 1, 2003 - June 30, 2013 recoupment period, recouping all interest paid in excess of the lower of 7.9 percent or the plan's actual return for that year, with a cap on the recoupment amount of 20 percent of the highest ASF balance in this period. The recoupment amount is also capped at 15.5 percent of the retiree's monthly pension check. The City offered a limited lump sum or a monthly payment option. Repayment of these excess interest amounts is not optional. As of June 30, 2023, the System has approximately \$93,200,000 to be collected. The receivable will be collected, with 6.75 percent interest, as a reduction to monthly pension benefits for those with recoupment balances outstanding.

#### *Receivable/Payable from Investment Sales/Purchases*

The System liquidated investments prior to year end and reported a receivable from investment sales at June 30, 2023 in the amount of \$1,863,049. The proceeds from the sales were received subsequent to year end. In addition, the System purchased investments prior to year end and reported a payable from investment purchases at June 30, 2023 in the amount of \$2,276,113. This amount was paid subsequent to year end.

June 30, 2023

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

#### *Notes Receivable from Participants*

In Component II (Legacy) and Component I (Hybrid), any active general employee who is or has been a participant in the 1973 defined contribution plan (annuity savings fund) may be eligible for the employee loan program. 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 two outstanding loans. The balance of these loans for the year ended June 30, 2023 was \$2,154,243 and \$1,018,653 for Legacy and Hybrid, respectively. The balance is measured at the unpaid principal balance plus any accrued but unpaid interest. Participant notes receivable are written off when deemed uncollectible.

#### *Capital Assets*

Capital assets for the System include software, office equipment, and furniture. The System's leased assets are also categorized as part of capital assets (see below). Depreciation and amortization expense is calculated by allocating the net cost of the assets over their estimated useful lives.

#### *Leases*

The System is a lessee for its office building. The System recognizes a lease liability and an intangible right-to-use lease asset in the statement of fiduciary net position.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the System determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The System uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the System generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the System is reasonably certain to exercise.

The System monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets (reported with other capital assets) and lease liabilities are reported on the statement of fiduciary net position.

#### *Restricted Assets*

As part of an agreement with the City, the System has pledged collateral in case of the City's default on a certain loan agreement between the City and the United States Department of Housing and Urban Development (HUD) (see Note 11). At June 30, 2023, this amount has been shown as restricted assets on the statement of fiduciary net position.

June 30, 2023

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

#### *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 of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

### Note 2 - Pension Plan Description

#### *Component II (Legacy Plan) and Component I (Hybrid Plan)*

##### **Plan Administration**

The Combined Plan's governance was modified in December 2014 as part of the City's bankruptcy plan. The Combined Plan's board of trustees and the Investment Committee administer the General Retirement System of the City of Detroit Pension Plan - a single-employer defined benefit and defined contribution plan that provides retirement benefits, as well as survivor and disability benefits, for plan members and beneficiaries. Plan members include active employees, retirees, and beneficiaries from various departments within the City of Detroit, Michigan. Benefit terms have been established by contractual agreements between the City and the employees' collective bargaining unit, as modified by the POA. Future amendments are subject to the same process. However, pursuant to the POA, pension benefit terms presently expressed in the Combined Plan are not subject to amendment before June 30, 2023, unless an amendment is required to maintain the tax-qualified status of the plans. The obligation to contribute to and maintain the Combined Plan was established by the city charter and negotiations with the employees' collective bargaining units.

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

The Investment Committee has five independent members appointed to initial terms with staggered expirations, which terms will all eventually become six years. Two additional members, one active and one retired, serve on the Investment Committee based on appointment by the board. The Investment Committee will be in place through at least December 2034.

##### **Benefits Provided**

The Combined Plan provides retirement and disability benefits. Benefit terms had been established by negotiations between the City Council and the employees' collective bargaining unit and subject to amendment by the City Council. Further changes to benefits were provided for under the POA.

**Note 2 - Pension Plan Description (Continued)**

**Employees Covered by Benefit Terms**

The following members were covered by the benefit terms:

	Component II (Legacy Plan)	Component I (Hybrid Plan)
Date of member count	June 30, 2022	June 30, 2022
Inactive plan members or beneficiaries currently receiving benefits	10,918	692
Inactive plan members entitled to but not yet receiving benefits	2,633	957
Active plan members	1,850	4,841
Total employees covered by the plan	<u>15,401</u>	<u>6,490</u>

As of June 30, 2014, Component II has been frozen. As of that date, no new participants were allowed to enter the plan, and no new benefit accruals were allowed for existing participants.

After July 1, 2014, active members will retain existing service credit in the Legacy Plan but will only earn additional service credit in the new Hybrid Plan.

**Contributions**

Article 9, Section 24 of the State of Michigan Constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, in the past, the Combined Plan had retained an independent actuary to determine the annual contribution. The actuarially determined rate was the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. However, until 2024, contributions are based on specific provisions in accordance with the Plan of Adjustment.

**Employer and Nonemployer Contributing Entity Contributions**

*Component II*

For Component II, during fiscal year 2023, employer contributions are not actuarially determined but rather are determined by the provisions of the POA detailed under Exhibit II.B.3.r.ii.A of the POA. Included within contributions for fiscal year 2023 in Component II are contributions from the Foundation for Detroit's Future (the "Foundation") in the amount of \$375,000 and \$47.9 million of contributions from the city-related entities and GLWA.

*Component I*

For Component I, during fiscal year 2023, employer contributions are not actuarially determined but rather are determined by the provisions of the Combined Plan detailed under Section 9.3 of Component I. Per Section 9.3, commencing on July 1, 2014 and ending on June 30, 2023, the City is required to contribute 5 percent of compensation of active members. A portion of the employer's annual contribution for each plan year, as determined by the City, shall be credited to the rate stabilization fund reserve, with the remainder allocated to the pension accumulation fund reserve. No contribution amounts have been allocated to the rate stabilization fund. During fiscal year 2023, the City and related entities contributed \$15,126,876 into the Hybrid Plan. Beginning in 2024, the employer contributions will be actuarially determined based on the amount necessary to fund the plan on an actuarial basis.

Because there were no actuarially determined contributions for Component I, there is no required schedule of city contributions included within these financial statements.

June 30, 2023

### Note 2 - Pension Plan Description (Continued)

#### Employee Contributions

##### *Component II*

Contribution requirements of plan members historically were established and amended by the board of trustees in accordance with the city charter, union contracts, and plan provisions. For the year ended June 30, 2023, there were no employee contributions into Component II, except for military service purchase payments, as the plan was frozen as of June 30, 2014.

##### *Component I*

Contribution requirements of plan members are established in Sections 9.3 and 10.1 of Component I of the Combined Plan. For the year ended June 30, 2023, the required active member contribution rate for employees was 4.0 percent of annual pay. Additionally, employees can make voluntary contributions of 3 percent, 5 percent, or 7 percent of annual pay. During fiscal year 2023, the plan received mandatory and voluntary employee contributions of \$18,737,570.

#### Fiscal Responsibility Provision

To safeguard the long-term actuarial and financial integrity of the Combined Plan, in the event the funding level of Component I projected over a five-year period falls below 100 percent, certain remedial actions are required, as set forth in Section 9.5 of Component I of the Combined Plan, including elimination of COLA, transfers from the rate stabilization fund reserve to the pension accumulation fund reserve, and increases in mandatory employee contributions from 4 percent to 5 percent.

In the event the funding level of Component I is projected to fall below 80 percent, additional remedial actions are required, including further increasing the mandatory employee contributions to 6 percent and the potential for reducing the retirement allowance.

As of June 30, 2023, the enactment of the remedial actions has not been required based on actuarial projections of the funding levels.

### Note 3 - Deposits and Investments

The System is authorized by Michigan Public Act 314 of 1965, as amended, to invest, within the pension and Death Benefit Plans, 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 investments according to Michigan Public Act 314 of 1965, as amended. The System's deposits and investment policies are in accordance with statutory authority.

# General Retirement System of the City of Detroit

## Notes to Financial Statements

June 30, 2023

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

The System invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, 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 that such changes could materially affect the amounts reported on the statement of changes in fiduciary net position.

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

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. Approximately \$4.1 million of the System's checking account balances was uninsured and uncollateralized at June 30, 2023. The System believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

#### **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 System's investment policy does not restrict investment maturities.

At year end, the System had the following investments and maturities:

Investment (in Thousands)	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Corporate bonds	\$ 126,928	\$ 4,004	\$ 103,467	\$ 12,917	\$ 6,540
U.S. government mortgage-backed securities	27,514	483	8,107	398	18,526
Mutual fund	35,058	-	32,944	2,114	-
Government securities	621	-	217	384	20
U.S. government securities	37,152	5,140	17,954	7,734	6,324
Asset backed	739	-	739	-	-
<b>Total</b>	<b>\$ 228,012</b>	<b>\$ 9,627</b>	<b>\$ 163,428</b>	<b>\$ 23,547</b>	<b>\$ 31,410</b>

Not all fixed-income securities 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 System has no investment policy that would further limit its investment choices.

At June 30, 2023, the credit quality ratings of debt securities (other than those guaranteed by the U.S. government), as rated by Standard & Poor's, are as follows:

Investment (in Thousands)	AAA	AA	A	BBB	BB	B or lower	NR
Corporate bonds	\$ 1,428	\$ 624	\$ 10,443	\$ 12,066	\$ 17,928	\$ 13,097	\$ 71,342
U.S. government mortgage-backed securities	-	18,221	-	-	-	-	9,293
Mutual funds	-	-	-	-	-	-	35,058
Government securities	246	260	-	-	-	-	116
Asset backed	739	-	-	-	-	-	-
<b>Total</b>	<b>\$ 2,413</b>	<b>\$ 19,105</b>	<b>\$ 10,443</b>	<b>\$ 12,066</b>	<b>\$ 17,928</b>	<b>\$ 13,097</b>	<b>\$ 115,809</b>

**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 System does not restrict the amount of investments in foreign currency.

The following securities are subject to foreign currency risk:

Currency (in Thousands)	Equity	Cash	Net Investment (Payable) Receivable
Brazil real	\$ 1,219	\$ -	\$ -
Canadian dollar	3,626	2	65
Eurocurrency unit	16,667	-	227
Hong Kong dollar	883	-	2
Japanese yen	6,435	-	119
Mexican peso	1,124	-	-
New Taiwan dollar	3,174	-	138
Norwegian krone	2,200	-	64
Pound sterling	3,536	-	-
Singapore dollar	987	-	-
South Korean won	1,009	-	4
Swiss franc	1,937	-	74
Total	<u>\$ 42,797</u>	<u>\$ 2</u>	<u>\$ 693</u>

**Securities Lending**

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the System, through the Combined Plan, lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System'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 no less than 102 percent of the market value of the loaned securities.

As of June 30, 2023, the collateral provided was 101.92 percent of the market value of the loaned securities, which is less than the required 102 percent.

The System 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 System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of June 30, 2023 was 10 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, 2023, the System had no credit risk exposure to borrowers. The collateral held (at cost) and the fair market value of the underlying securities on loans for the System as of June 30, 2023 were \$48,312,642 and \$47,402,770, respectively.

June 30, 2023

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

The following represents the balances relating to the securities lending transactions as of June 30, 2023; investments are reported at fair value:

Securities Lent	Underlying Securities
U.S. corporate fixed income	\$ 9,634,260
U.S. equities	34,802,194
Non-U.S. equities	911,080
U.S. governments	2,055,236
Total	<u>\$ 47,402,770</u>

The fair market value of the collateral pool related to securities lending at June 30, 2023 was \$49,331,573. The investments were in asset-backed securities, floating-rate notes, certificate of deposit, commercial paper, and repurchase agreements. Approximately 96 percent of these securities had a duration of less than 1 year, 0.5 percent had a duration between 1 and 3 years, and 3.5 percent had a duration over 15 years.

The credit ratings of the securities lending collateral pool held at June 30, 2023, as rated by S&P, are as follows:

Ratings	Amount
AAA	\$ 230,302
AA	11,074,157
A	32,655,606
A-1	1,685,157
CC	1,150,548
D	627,106
NR	1,908,697
Total	<u>\$ 49,331,573</u>

**Note 4 - Fair Value Measurements**

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the notes to the financial statements now include enhanced disclosures about fair value measurement, the level of fair value hierarchy, and valuation techniques.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (NAV) (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.



# General Retirement System of the City of Detroit

## Notes to Financial Statements

June 30, 2023

### Note 4 - Fair Value Measurements (Continued)

The System has the following recurring fair value measurements as of June 30, 2023:

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2023
Fixed income:				
Government securities (U.S. and other)	\$ 14,710,003	\$ 621,267	\$ -	\$ 15,331,270
Corporate bonds	-	125,115,063	-	125,115,063
U.S. government mortgage-backed	-	27,513,573	-	27,513,573
Asset-backed securities	-	2,747,277	-	2,747,277
Corporate floating rate notes	-	44,979,745	-	44,979,745
Certificate of deposit (negotiable)	-	1,049,254	-	1,049,254
Commercial paper	-	635,903	-	635,903
Mutual funds	38,721,013	-	-	38,721,013
Privately negotiated debt	-	1,813,153	-	1,813,153
U.S. Treasury	-	22,441,512	-	22,441,512
<b>Total fixed income</b>	<b>53,431,016</b>	<b>226,916,747</b>	<b>-</b>	<b>280,347,763</b>
Equity:				
Common stock	598,995,635	-	-	598,995,635
Preferred stock	1,986,431	3,942,662	-	5,929,093
<b>Total equity</b>	<b>600,982,066</b>	<b>3,942,662</b>	<b>-</b>	<b>604,924,728</b>
Partnership investments	-	-	2,330,000	2,330,000
Real estate private equity funds	-	-	10,577,740	10,577,740
Real estate-related investments	-	-	3,600,000	3,600,000
<b>Total</b>	<b>\$ 654,413,082</b>	<b>\$ 230,859,409</b>	<b>\$ 16,507,740</b>	<b>901,780,231</b>
Investments measured at NAV:				
International equity funds				234,736,450
Fixed-income funds				42,627,301
Hedge funds				135,109,538
Real estate funds				232,637,090
Private equity funds				115,601,733
<b>Total investments measured at NAV</b>				<b>760,712,112</b>
<b>Total investments measured at fair value</b>				<b>\$ 1,662,492,343</b>

A total of \$713,355 of repurchase agreements recorded at amortized cost is not included in the fair value table above.

Equity securities, U.S. government securities, and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

**Note 4 - Fair Value Measurements (Continued)**

The fair value of preferred stock and fixed-income securities at June 30, 2023 was determined primarily based on Level 2 inputs. The System estimates the fair value of these investments using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals for identical or similar assets.

The fair value of the remaining investments at June 30, 2023 was determined primarily based on Level 3 inputs. The System estimates the fair value of these investments using the System's own pricing estimate methodology, pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

The valuation method for investments measured at net asset value per share (or its equivalent) is presented in the table below.

***Investments in Entities that Calculate Net Asset Value per Share***

The System holds shares or interests in investment companies where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

As of June 30, 2023, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
International equity funds	\$ 234,736,450	\$ -	Monthly	Up to 30 days
Fixed-income funds	42,627,301	-	Daily	10 business days
Hedge funds	135,109,538	-	Quarterly	100 days
Real estate funds	232,637,090	-	Quarterly	90 days
Private equity funds	115,601,733	46,019,720	N/A	N/A
Total investments measured at NAV	<u>\$ 760,712,112</u>	<u>\$ 46,019,720</u>		

Multiple funds are held in each category. For reporting purposes, the redemption frequency and redemption notice period provided are the most restrictive of any of the funds in the category.

The international equity funds class includes investments in funds that invest in predominantly equity securities of non-U.S. companies. The funds invest in developed and emerging market countries and utilize investments across the capitalization spectrum from large to small companies. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The fixed-income funds class includes investments in funds that invest in predominantly fixed-income instruments in the U.S. and developed and emerging market countries. The funds invest across a diverse group of security types, including government, corporate, and mortgage-backed debt, and across the credit quality spectrum of investment grade and high yield. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The hedge funds class includes investments in funds that achieve capital appreciation through multimanager and/or multistrategy investments. Within this group of funds, there is exposure to investment strategies, including, but not limited to, credit, event-driven, equity, and relative value. The funds have the ability to invest across all markets and across all asset classes to implement their various strategies. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

**Note 4 - Fair Value Measurements (Continued)**

The real estate funds class includes investments in funds whose objective is to operate a core portfolio of real estate investments predominantly located in the U.S. The funds acquire ownership in underlying investments either through direct real estate ownership or ownership in real estate companies or the equity of real estate investment trusts. The funds predominantly target purchases in office, industrial, retail, or multifamily real estate classes. The fair values of the investments in this class have been estimated using net asset value per share of the investments (or its equivalent).

The private equity funds class is an alternative investment class and consists of investments in companies that are not listed on a public exchange. The General Retirement System of the City of Detroit maintains a diversified portfolio of private equity investments by both style (buyout, turnaround, venture capital, etc.) and vintage year exposure. With its private equity allocation, the General Retirement System of the City of Detroit seeks to take advantage of the illiquidity premium associated with these private equity investments. The fair values of the investments in this class have been estimated using net asset value per share of the investments (or its equivalent).

**Note 5 - Pension Plan Investments - Policy and Rate of Return**

***Component II (Legacy Plan) and Component I (Hybrid Plan)***

**Investment Policy**

The assets of Components II and I are commingled and invested together, as allowed by the POA. The Combined Plan's policy in regard to the allocation of invested assets is established and may be amended by governance by a majority vote of its members. It is the policy of the governance to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Combined Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the governance's adopted asset allocation policy as of June 30, 2023:

Asset Class	Target Allocation
Global equity	46.00 %
Global fixed income	33.00
Real estate/Real assets	13.00
Diversifying strategies	8.00
Total	100.00 %

**Rate of Return**

For the year ended June 30, 2023, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.94 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Note 6 - Pension Plan Reserves**

***Component II (Legacy Plan)***

In accordance with the Combined Plan for the General Retirement System of the City of Detroit and state law, the following reserves are required to be set aside within the Component II (Legacy) pension plan:

The annuity reserve fund is an accumulation of transfers that is made from the annuity savings fund when an employee retires or becomes disabled or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contribution, net of the annuities paid. Balance is currently negative and as a result, has been combined with the pension reserve fund for disclosure.

**Note 6 - Pension Plan Reserves (Continued)**

The pension reserve fund represents funded pension benefits available for retired members and is funded by actuarially determined transfers from the pension accumulation fund. The transfers from the pension accumulation fund to the pension reserve fund for fiscal year 2023 retirements have not yet been determined.

The employee reserve (annuity savings fund or ASF) is credited as employee contributions are received throughout the year; the ASF maintains a record of the amount contributed by each employee and credits interest annually at a rate approved by the board. During fiscal year 2023, the board approved the interest rate at 5.25 percent. Eligible active members may elect to withdraw their accumulated (annuity) contributions plus investment earnings. Upon retirement, members can elect to annuitize or receive a lump sum of their accumulated contribution and interest earnings. When an employee retires or becomes disabled or if a surviving spouse elects an annuity rather than a lump-sum payout of accumulated employee contributions, the balance is transferred to the annuity reserve fund. See Note 12 for disclosure of significant changes to the ASF going forward.

The pension accumulation fund is the fund that will accumulate reserves for the pensions and other benefits payable from the contributions made by the City, including various departments thereof, and certain third parties pursuant to the POA and from which pensions and other benefits will be paid on account of members with prior service credit and transfers, as provided in Section E-18. Contributions to the pension accumulation fund from the effective date of the POA through fiscal year 2023 shall be made only in the amounts and from the sources identified in the POA. Due to the required transfers to fund the pension reserve fund, the fund as of June 30, 2023 is negative and has been combined with the pension reserve fund for disclosure.

The expense fund is the fund that will be credited with all money provided by the City to pay the administrative expenses of the Combined Plan and from which all the expenses necessary in connection with the administration and operation of the Combined Plan will be paid. At year end, this reserve balance is zero, as all employer contributions were credited to the pension accumulation fund.

The income fund shall be the fund to which all interest, dividends, and other income derived from the investments of Component II of the Combined Plan will be credited. Transfers from the income fund will be made to credit earnings and losses to various reserves of the Combined Plan in accordance with the provisions of Component II of the combined plan document. Amounts credited to the income fund in excess of amounts needed to credit earnings and losses of the Combined Plan, as provided in Component II, for any plan year shall be transferred to the pension accumulation fund and used to pay retirement allowances and other benefits on account of members. During fiscal year 2023, the income fund reserve was not utilized, and all investment income was credited to the pension accumulation fund.

The balances of the reserve accounts for Component II (excluding the Income Stabilization Fund) as of June 30, 2023 are included in the table below. The reserve balances as of June 30, 2023 shown below do not include the current year transfer amount related to fiscal year 2023 retirements for amounts that are transferred from the pension accumulation fund to the pension reserve fund.

The balances of the reserve accounts at June 30, 2023 are as follows:

	Required Reserve	Amount Funded
Annuity savings fund	\$ 82,885,035	\$ 82,885,035
Pension reserve fund	1,856,204,265	1,335,724,245
Annuity reserve fund	-	-
Pension accumulation fund	-	-

June 30, 2023

### Note 6 - Pension Plan Reserves (Continued)

#### *Component I (Hybrid Plan)*

In accordance with the Combined Plan for the General Retirement System of the City of Detroit and state law, the following reserves are required to be set aside within the Component I (Hybrid) pension plan:

The accumulated mandatory employee contribution fund shall be the fund in which shall be accumulated the contributions of members to provide their retirement allowances. Upon the retirement, termination, or death of a member with a vested retirement allowance, the member's accumulated mandatory employee contributions shall be deemed to be part of the pension reserve that shall be used to pay the member's retirement allowance.

The accumulated voluntary employee contribution fund shall be the fund in which shall be accumulated the voluntary after-tax contributions of members together with earnings thereon (the board approved 5.25 percent rate of return for fiscal year ended June 30, 2023).

The pension accumulation fund shall be the fund in which shall be accumulated reserves for the retirement allowances and other benefits payable from that portion of the employer's annual contribution that is not credited to the rate stabilization fund and amounts transferred to Component I and from which shall be paid retirement allowances and other benefits on account of members. During fiscal year 2023, all employer contributions were directed by the City into the pension accumulation fund, and no amounts were credited to the rate stabilization fund.

The rate stabilization fund shall be the fund that shall be credited with the employer's annual contributions in excess of the amount of the employer's contribution that is credited to the pension accumulation fund and amounts transferred to Component I, as provided in Section E-16(C) of Component II. See Note 11 for details on the transfer provisions related to transfers between Component II and Component I. During fiscal year 2023, no amounts were credited to the rate stabilization fund. Therefore, this reserve balance is zero.

The medical benefit fund shall be the fund that will be credited with contributions made for the purpose of funding medical benefits. During the year, no such contributions were made, and, therefore, this reserve balance is zero.

The expense fund shall be the fund to which will be credited any money provided by the employers to pay the administrative expenses of the Combined Plan and from which certain expenses incurred in connection with the administration and operation of the Combined Plan will be paid. At year end, this reserve balance is zero, as all employer contributions were credited to the pension accumulation fund.

The income fund shall be the fund to which all interest, dividends, and other income derived from the investments of Component I of the Combined Plan will be credited. Transfers from the income fund will be made to credit earnings and losses to various reserves of the Combined Plan in accordance with the provisions of Component I of the combined plan document. Amounts credited to the income fund in excess of amounts needed to credit earnings and losses of the Combined Plan, as provided in Component I, for any plan year shall be transferred to the pension accumulation fund. During fiscal year 2023, investment income was transferred to other reserve funds, and, therefore, this reserve balance at June 30, 2023 remains unfunded.

The balances of the reserve accounts for Component I as of June 30, 2023 are included in the table below. As of June 30, 2023, not all transfers from the accumulated mandatory employee contribution fund to the pension accumulation fund for retirements have occurred.

June 30, 2023

**Note 6 - Pension Plan Reserves (Continued)**

The balances of the above reserves for Component I that were funded as of June 30, 2023 are as follows:

	Required Reserve	Amount Funded
Accumulated mandatory employee contribution fund	\$ 70,323,194	\$ 70,323,194
Accumulated voluntary employee contribution fund	39,938,095	39,938,095
Pension accumulation fund	-	165,513,945

**Note 7 - Net Pension Liability for Component II (Legacy Plan)**

The net pension liability has been measured as of June 30, 2023 and is composed of the following:

Total pension liability	\$ 2,341,573,565
Plan fiduciary net position	<u>1,418,609,280</u>
City's pension liability	<u>\$ 922,964,285</u>
Plan fiduciary net position as a percentage of the total pension liability	60.58 %

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2022, which used update procedures to roll forward the estimated liability to June 30, 2023. The valuation used the following actuarial assumptions applied to all periods included in the measurement:

Inflation	N/A	
Salary increases	N/A	No inflation assumption or salary increases due to plan freeze as of June 30, 2014
Investment rate of return	6.76%	Net of pension plan investment expense, including inflation

Note that the long-term assumed rate of return used for the purpose of the GASB Statement No. 67 valuations was determined in accordance with generally accepted accounting principles. This rate will change annually based on capital market expectations in consideration of the System's most recently approved asset mix. This should not be confused with the provisions in the Plan of Adjustment, which established a 6.75 percent assumed rate of return that does not change annually as it is set by the POA for the purpose of the various provisions within the plan; the Plan of Adjustment did not attempt to dictate the long-term rate of return to be used for accounting purposes.

The mortality table assumption was based on the PubG-2010(B) Below-Median General Retiree Table. The tables are projected to be fully generational, based on the two-dimensional, sex-distinct mortality scale MP-2021.

The actuarial assumptions, other than the investment rate of return, used in the June 30, 2022 valuation to calculate the total pension liability as of June 30, 2023 were based on the results of an actuarial experience study for the period from July 1, 2015 through June 30, 2020.

**Note 7 - Net Pension Liability for Component II (Legacy Plan) (Continued)**

***Attribution Period***

As addressed more fully in Note 12, as of June 30, 2014, the plan was frozen such that no new benefit accruals were allowed, and no new members could join. Starting on July 1, 2014, the participants in the Legacy Plan (Component II) will now be earning benefits under a newly created defined benefit plan (Component I). GASB Statement No. 67 requires that the service costs of all pensions be attributed through all assumed exit ages through retirement. Neither GASB Statement No. 67 nor any other GASB standard has set forth guidance specifically related to frozen plans with successor plans in place. Absent any guidance to the contrary, due to the status as a frozen plan combined with the fact that individuals are now earning service in a new defined benefit pension plan, the retirement date for the purpose of attribution was assumed to be June 30, 2014 for all members. Therefore, the total pension liability at June 30, 2023 is equal to the present value of projected benefit payments.

***Discount Rate***

The discount rate used to measure the total pension liability as of June 30, 2023 was 6.76 percent; however, the single discount rate used at the beginning of the year was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

***Projected Cash Flows***

Based on the above assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees at both the beginning of the year and the end of the year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate. Contributions to the Combined Plan are projected to be at the actuarially determined amounts beginning in 2024. The projection of cash flows assumes full funding of the actuarially assumed contributions will be made at rates sufficient to fund the benefits by amortizing the unfunded liability over a closed 30-year period, based on the System's adopted funding policy.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return as of June 30, 2023 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Global equity	4.58 %
Global fixed income	4.09
Real estate/Real assets	4.64
Diversifying strategies	4.30

June 30, 2023

**Note 7 - Net Pension Liability for Component II (Legacy Plan) (Continued)**

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability, calculated using the discount rate of 6.76 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.76 percent) or 1 percentage point higher (7.76 percent) than the current rate:

	1 Percentage Point Decrease (5.76%)	Current Discount Rate (6.76%)	1 Percentage Point Increase (7.76%)
Net pension liability	\$ 1,115,770,578	\$ 922,964,285	\$ 756,452,874

**Note 8 - Net Pension Asset of the City for Component I (Hybrid Plan)**

The net pension asset of the City has been measured as of June 30, 2023 based on benefits in force as of that date and is composed of the following:

Total pension liability	\$ 242,486,802
Plan fiduciary net position	<u>275,775,230</u>
City's net pension asset	<u>\$ (33,288,428)</u>
Plan fiduciary net position as a percentage of the total pension liability	113.73 %

***Actuarial Assumptions***

The total pension liability was determined by an actuarial valuation as of June 30, 2022, which used update procedures to roll forward the estimated liability to June 30, 2023. The following are the significant assumptions:

Wage inflation assumption was 3 percent.

The investment rate of return (net of pension plan investment expense, including inflation) applied to the beginning of year total pension liability was 6.75 percent as compared to 6.76 percent, which was the assumed long-term rate of return as of the end of year. The rates were determined in accordance with generally accepted accounting principles. This rate will change annually based on capital market expectations in consideration of the System's most recently approved asset mix. This should not be confused with the provisions in the Plan of Adjustment, which established a 6.75 percent assumed rate of return that does not change annually, as it is set by the POA for the purpose of the various provisions within the plan; the Plan of Adjustment did not attempt to dictate the long-term rate of return to be used for accounting purposes.

The mortality table assumption was based on the PubG-2010(B) Below-Median General mortality Table. The tables are projected to be fully generational, based on the two-dimensional, sex-distinct mortality scale MP-2021.

The actuarial assumptions, other than the investment rate of return, used in the June 30, 2022 valuation to calculate the total pension liability as of June 30, 2023 were based on the results of an actuarial experience study for the period from July 1, 2015 through June 30, 2020.

Cost of living adjustments (COLA): This plan has a postretirement COLA feature known as the Variable Pension Improvement Factor (VPIF) of a 2 percent simple COLA. It can be granted beginning on July 1, 2018 only if the five-year projection shows the plan's funded status at 100 percent based upon 6.75 percent future investment return. For the purpose of the total pension liability, the actuary assumed a 0.50 percent simple COLA beginning in fiscal year 2023 to model the potential average COLA over time. Had no COLA been assumed, the net pension asset would have been \$(41,114,167). Had the full 2 percent COLA been assumed, the net pension asset would have been \$(9,504,195).



June 30, 2023

**Note 8 - Net Pension Asset of the City for Component I (Hybrid Plan) (Continued)**

There were no changes in benefit provisions during the year affecting the total pension liability.

***Discount Rate***

The discount rate used to measure the total pension liability as of June 30, 2023 was 6.76 percent; however, the single discount rate used at the beginning of the year was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

***Projected Cash Flows***

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees at both the beginning of the year and the end of the year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate. Contributions to the Combined Plan are projected to be at the actuarially determined amounts beginning in 2024. The projection of cash flows assumes full funding of the actuarially assumed contributions will be made at rates sufficient to fund the benefits by amortizing the unfunded liability over a closed 15-year period, based on the System's adopted funding policy.

The long-term expected rate of return on future pension plan investments is the same as Component II given that the assets are commingled (see Note 7).

***Sensitivity of the Net Pension Asset to Changes in the Discount Rate***

The following presents the net pension asset of the City, calculated using the discount rate of 6.76 percent, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (5.76 percent) or 1 percentage point higher (7.76 percent) than the current rate:

	1 Percentage Point Decrease (5.76%)	Current Discount Rate (6.76%)	1 Percentage Point Increase (7.76%)
Net pension asset of the City	\$ (253,550)	\$ (33,288,428)	\$ (60,140,882)

**Note 9 - Other Postemployment Benefit Plan**

***Closed Death Benefit Plan (Closed Plan) and Death Benefit Plan (Open Plan)***

***Plan Description***

The City of Detroit Employees Death Benefit Board of Trustees administers the Death Benefit Plans, which are single-employer defined benefit OPEB plans used to provide death benefits to employees and retirees. The Death Benefit Board of Trustees is the same as the board of trustees of the General Retirement System of the City of Detroit, with the exception of the civilian member. Also, the one representative from the Detroit City Council is the City Council president.

In accordance with the City of Detroit, Michigan's plan of adjustment, the Death Benefit Plan was split into two parts: an Open Plan and a Closed Plan. Members retired on or before December 10, 2014 are in the Closed Plan. Members who retire after December 10, 2014 (provided they were active on or after December 10, 2014) are in the Open Plan. The City has no further obligations to Closed Plan members. Closed Plan members will receive benefits only if the Closed Plan assets are sufficient.

**Note 9 - Other Postemployment Benefit Plan (Continued)**

**Benefits Provided**

In accordance with the City of Detroit, Michigan Code of Ordinances, effective July 1, 1999, prior to retirement from city services, a death benefit in the amount of \$10,000 or the amount designated in the member's labor agreement, shall be paid. After retirement of the member from the City, the amount of death benefits paid is based upon the retiree's years of city service ranging from \$1,860 (for 8 to 10 years of service) to \$3,720 (for 30 years of service). For years of service beyond 30 years, \$93 will be added per year for each additional year of service.

**Employees Covered by Benefit Terms**

Closed plan: As of June 30, 2022, 8,874 retirees are covered by the benefit terms in the Closed Plan.

Open plan: The following members were covered by the benefit terms in the Open Plan:

Date of member count	June 30, 2022
Retirees and beneficiaries	3,269
Active plan members	<u>7,163</u>
Total employees covered by the plan	<u><u>10,432</u></u>

**Contributions**

**Open Plan**

The City of Detroit Employee Benefit Plan board establishes contribution rates for the Death Benefit Plan; however, the City of Detroit, Michigan is under no legal obligation to prefund the plan benefits. The board's policy is to develop an employer contribution that is the greater of (1) the per active person rate provided for in the City of Detroit, Michigan Ordinance or (2) normal cost plus a 27-year closed (30-year closed period beginning with the June 30, 2019 valuation) amortization of unfunded actuarial accrued liability on a per active person basis. For the year ended June 30, 2023, the employer contribution rate for each active member was \$13.30 a year, except for police lieutenants and sergeants and fire equivalents. For police lieutenants and sergeants and fire equivalents, the employer contribution rate for each member was \$20.70 a year. For retirees, no employer contribution is required. Active plan members are required to contribute \$10.40 a year, except for police lieutenants and sergeants and fire equivalents, who contribute \$13.00 a year. For retired plan members, required contributions are \$1.08 a year. During the year ended June 30, 2023, the Open Plan received employer contributions of \$126,937 and employee contributions of \$89,485.

**Closed Plan**

The City of Detroit, Michigan allocated \$30,423,997 to the Closed Death Benefit Plan as of December 31, 2014 to fully fund the plan. There are no required additional employer contributions. For retired plan members, required employee contributions are \$1.08 a year. Total employee contributions for the year ended June 30, 2023 for the closed plan were \$9,244.

**Net OPEB Liability**

**Closed Plan**

The Closed Death Benefit Plan will provide future benefits only to the extent that plan assets are available to pay them. After the contribution in 2014, no further employer contributions will be made to the Plan. As such, the total OPEB liability as of June 30, 2023 is equal to the plan net position of \$21,310,495.

**Note 9 - Other Postemployment Benefit Plan (Continued)**

**Open Plan**

The net OPEB liability has been measured as of June 30, 2023 and is composed of the following:

Total OPEB liability	\$ 6,192,161
Plan fiduciary net position	<u>4,805,598</u>
Net OPEB liability of the City	<u>\$ 1,386,563</u>
Plan fiduciary net position as a percentage of the total OPEB liability	77.61 %

***Actuarial Assumptions***

The total OPEB liability was determined by an actuarial valuation as of June 30, 2022, which used update procedures to roll forward the estimated liability to June 30, 2023. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

The inflation assumption was 2.5 percent. The investment rate of return (net of pension plan investment expense, including inflation) was 5.50 percent, which was also the investment rate of return used at the beginning of the year. The rate was determined in accordance with generally accepted accounting principles.

For members in the general retirement system, the mortality table assumption was based on the PubG-2010(B) Below-Median General Retiree Table. For members in the police and fire retirement system, the mortality table assumption was based on the PubS-2010 Safety Retiree Table. All mortality tables are projected to 2021 based on the two-dimensional, sex-distinct mortality improvement scale MP-2021.

***Discount Rate***

The discount rate used to measure the total OPEB liability was 5.50 percent, which was also the single discount rate used at the beginning of the year. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the current contribution rate.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The actuarial assumptions, other than the investment rate of return, used in the June 30, 2022 valuation to calculate the total pension liability as of June 30, 2023 were based on the results of an actuarial experience study for the period from July 1, 2015 through June 30, 2020.

**Note 9 - Other Postemployment Benefit Plan (Continued)**

**Investment Rate of Return**

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The board has not adopted a formal investment policy; however, the pension board approved a formal investment allocation in August 2014. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	26.00 %	4.96 %
International equities	25.00	5.57
Bonds	25.00	2.93
REITs	4.00	3.75
Global multisector fixed income	20.00	2.46
Total	100.00 %	

**Sensitivity of the City's Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the City, calculated using the discount rate of 5.50 percent, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.50 percent) or 1 percentage point higher (6.50 percent) than the current rate:

	1 Percentage Point Decrease (4.50%)	Current Discount Rate (5.50%)	1 Percentage Point Increase (6.50%)
Net OPEB liability of the City	\$ 2,579,412	\$ 1,386,563	\$ 448,739

Since the OPEB benefits in this plan are life insurance only, there is no health care trend assumption. The sensitivity of net OPEB liability using +/-1 percent health care trend is not applicable to this plan.

**Rate of Return**

For the year ended June 30, 2023, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 10.19 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Note 10 - Leases**

The System leases its office building from a third party. Payments are generally fixed monthly with certain variable payments not included in the measurement of the lease liability, such as common area maintenance (CAM) and taxes.

The lease asset of the System, reported with other capital assets on the statement of fiduciary net position, is \$2,320,754, with accumulated amortization of \$480,881 as of June 30, 2023.

**Note 10 - Leases (Continued)**

Future principal and interest payment requirements related to the System’s lease liability at June 30, 2023 are as follows:

Years Ending	Principal	Interest	Total
2024	\$ 198,620	\$ 103,928	\$ 302,548
2025	219,132	92,491	311,623
2026	241,081	79,891	320,972
2027	264,556	66,046	330,602
2028	289,651	50,869	340,520
2029-2031	782,823	51,058	833,881
Total	\$ 1,995,863	\$ 444,283	\$ 2,440,146

**Note 11 - Commitments**

The Combined Plan document setting forth the Legacy Plan (Component II) contains a provision for the transfer of certain excess investment returns to the new Hybrid Plan (Component I). In any plan year during the period beginning on or after July 1, 2014 and ending on June 30, 2023, if the annual rate of return credited to member annuity savings fund accounts is less than the actual rate of return net of expenses of the plan's invested assets for the second plan year preceding the plan year in which the annual rate of return is credited, the excess earned shall be transferred to the pension accumulation fund maintained under Component I of the Combined Plan and will be used to fund transition costs related to Component I. The transition cost is a measure of the liability that Component I of the Combined Plan has at its inception due to the fact that members in Component I receive vesting and eligibility credit under Component I for service that was earned prior to July 1, 2014 and is otherwise credited to members under Component II. Such transition costs have been calculated by the plan's actuary. Yearly transfers to fund these costs are required in the second year following the year in which the return is earned based on a two-year look-back; therefore, as an example, any transfers based on the plan year ended June 30, 2021 will be calculated and transferred during the plan year ended June 30, 2023.

Based on these provisions, \$15,592,259 and \$0 was transferred from Component II to Component I toward the transition costs in the fiscal years ended June 30, 2023 and 2022, respectively. The cumulative amount of transfers from prior fiscal years was \$10,193,807. No more transfers will occur given the combined plan document only specified transfers to be made through June 30, 2023.

**Account Pledge Agreement**

In 2022, the System entered into a collateral pledge agreement with the U.S. Department of Housing and Urban Development, as allowed under MCL 38.1133(8). This collateral pledge agreement requires the System to pledge to HUD as collateral for the City of Detroit, Michigan on its outstanding loan with HUD, an amount equal to the balance of the HUD loan to the City that exceeds \$2 million. The City has provided a covenant that it will make all payments to HUD on this related obligation. As the HUD loan balance held by the City is reduced as the City makes payments, the collateral will decrease in a similar amount. According to the repayment schedule, the City is due to pay off the principal balance in August 2026. As of June 30, 2023, the amount of pledged collateral is \$5,512,390.

**Note 12 - City of Detroit, Michigan's Chapter 9 Bankruptcy Plan of Adjustment and Continuing Impact on the Plan**

In March 2013, after enduring years of financial difficulty, the City of Detroit, Michigan filed for bankruptcy protection. The Eighth Amended Plan for Adjustment of Debts of the City of Detroit was filed with the Bankruptcy Court on October 22, 2014. In November 2014, after a confirmation hearing lasting several weeks, the Bankruptcy Court confirmed the Plan of Adjustment, which became effective December 10, 2014.

June 30, 2023

#### **Note 12 - City of Detroit, Michigan's Chapter 9 Bankruptcy Plan of Adjustment and Continuing Impact on the Plan (Continued)**

##### ***Legacy Plan (Component II)***

The pension settlement, as part of the Plan of Adjustment, compromised pension claims and provided funding support for legacy pension benefit obligations under the General Retirement System of the City of Detroit Component II from the State of Michigan, the Detroit Institute of Arts, and certain foundation donors. The Plan of Adjustment also required certain governance changes for DGRS. Those governance changes included establishment of the Investment Committee effective December 10, 2014, which officially marked the beginning of implementation of the Plan of Adjustment, although DGRS had for months already undertaken contingency planning for all of the pension adjustments. In addition to governance changes, the POA requires of the System, through its board of trustees and the Investment Committee, certain periodic and interim reporting obligations to the City, the Foundation for Detroit's Future, and the State of Michigan. Although there were some delays in meeting certain obligations because of new actuarial reporting requirements for governmental systems, which in turn impacted the preparation of the System's audited financial statements, the System believes it has ultimately met its special reporting obligations in fiscal year 2016 and continued to do so in fiscal years 2017 through 2023.

For DGRS, with respect to Component II benefit adjustments, the pension settlement (for which benefit levels were and are contingent on other factors, including receipt of outside contributions) is provided for the following:

- A loss of cost of living adjustments, or escalators, paid after July 1, 2014
- A 4.5 percent cut to the remaining accrued pension benefit after the COLA loss
- For DGRS members who participated in the annuity savings fund plan between 2003 and 2013, subject to certain caps, recoupment of certain amounts of interest deemed by the City to be in excess of that which should have been credited to individual ASF accounts, referred to as "ASF Recoupment." ASF Recoupment, like other provisions of the pension settlement, was not optional. Most members will pay their ASF Recoupment by a monthly deduction from their future pension benefits for a set term of months, including interest calculated at 6.75 percent. All members were offered a lump-sum cash option, which was limited in the aggregate to \$30 million in member recoupment. In fiscal year 2016, the Bankruptcy Court approved certain additional members whose application submissions were not timely received to participate in the lump-sum cash option.
- The possibility of restoration of certain pension benefit cuts, based on a program for the most financially vulnerable pensioners and beneficiaries through the State of Michigan Treasury Department, as well as a new feature of Component II allowing restoration depending on the System's funding level over time
- An Income Stabilization Program (the "ISF Program") was established as part of the State Contribution Agreement, another facet of the pension settlement. The ISF Program, supported by city funds arising from an unlimited tax general obligation bonds settlement, is intended to ensure that the most financially vulnerable retirees and beneficiaries do not fall below the poverty line as a result of bankruptcy-related pension changes. Beginning on March 1, 2015, certain DGRS members also received benefit pension cut restoration under the ISF Program administered by DGRS, pursuant to the State Contribution Agreement, based on eligibility and benefit payments calculated by the State of Michigan. Following the close of the fiscal year ended June 30, 2016 and pursuant to Component II of the Combined Plan and the State Contribution Agreement, the System implemented the first annual ISF Program benefit adjustments effective July 1, 2016.

June 30, 2023

#### **Note 12 - City of Detroit, Michigan's Chapter 9 Bankruptcy Plan of Adjustment and Continuing Impact on the Plan (Continued)**

- The POA also discusses a restoration plan. Terms of the pension restoration are contained in Exhibit II.B.3.r.ii.C of the POA, and the terms govern how accrued pensions, including COLA benefits that were reduced as a part of the POA, may be restored over the 30-year period following the confirmation order. The Investment Committee will supervise the restoration process in accordance with the restoration plan. The restoration plan shall be deemed a part of Component II. The funding levels have not been attained as of June 30, 2023 for the restoration process to initiate.

The obligations for contributions to support Component II of the System through 2023 was determined as fixed amounts by the provisions in the Plan of Adjustment. Pursuant to the Plan of Adjustment, the System was expected to receive contributions totaling \$718.6 million through fiscal year 2023. The Plan of Adjustment calls for the System to receive \$98.8 million from the State of Michigan; \$428.5 million from DWSD; \$31.7 million from UTGO settlement proceeds; the actual or present value equivalent of \$50 million from the DIA and its foundation donors; and \$114.6 million from the other city-related employer contribution sources, such as the General Fund, Detroit Library Commission, and COBO Authority, over a 10-year period covering fiscal year 2014 through fiscal year 2023. Between 2025 and 2034, DGRS will receive \$18.3 million per year from certain foundation donors. After 2023, the City, and various other employer constituents, such as the Library, DWSD, and COBO Authority, will retain responsibility for the full funding obligations of Component I of the System, consistent with Michigan law.

In fiscal year 2017, DGRS received from the City, its employer-related contribution sources, and the DIA and its foundation donors all contributions required by the Plan of Adjustment. The City was to remit payments on the UTGO Stub Bonds to the Combined Plan through 2028. In fiscal year 2017, the City of Detroit, Michigan refunded all of its outstanding UTGO Stub Bonds. Upon refunding, the payments to the Combined Plan were accelerated, with a majority of the outstanding balance paid to the Combined Plan in fiscal year 2017; as a result, the Combined Plan received approximately \$9.4 million in the ISF and \$18.3 million in the Component II Defined Benefit Fund related to this transaction.

DGRS continues to implement the POA, which includes ongoing compliance and additional reporting requirements by the board and the Investment Committee, annual review of benefit levels, and essentially provides for a 40-year plan to close the DGRS Legacy Component II underfunded liability. ASF Recoupment, in particular, is a notable facet of the Plan of Adjustment that will continue to be implemented as members apply for Component II pension benefits over time.

#### **Note 13 - City of Detroit, Michigan Commitment to Future Funding**

In anticipation of significant actuarially required contributions commencing in fiscal year 2024, the City, independent of the System, has established a Retiree Protection Trust Fund (the "Trust"). The Trust, a permanent irrevocable trust under Sections 115 and 414(d) of the Internal Revenue Code, is to receive, maintain, and invest city funds restricted for future deposits to the General Retirement System Plan and the Police and Fire Retirement System Plan as part of an effort to manage and stabilize future required city contributions to the plans. The City has set aside approximately \$465 million for this Trust as of June 30, 2023 for future contributions to the General Retirement System Plan and the Police and Fire Retirement System Plan. Contributions to the System will be recognized as the City makes distributions from this independent trust to the System.

#### **Note 14 - Pension Reporting Agreement**

Effective January 1, 2016, Great Lakes Water Authority was launched. Accordingly, the prior DWSD division in Component II was split into two - one representing the ongoing DWSD department, now referenced as DWSD-Retail, and another to represent the GLWA serving water and sewer customers in areas outside of the City.

June 30, 2023

### Note 14 - Pension Reporting Agreement (Continued)

On December 1, 2015, a triparty agreement referred to as the pension reporting agreement between the City of Detroit, Michigan; the General Retirement System of the City of Detroit; and GLWA was signed. Per the Plan of Adjustment and Section 4.3 of the lease agreements, GLWA is required to pay a portion of the pension obligation that would otherwise have been allocated in full to the DWSD pension pool.

The purpose of the pension reporting agreement is to set forth determining the funding status for the DWSD pension pool and for DGRS to agree to provide GLWA with certain actuarial and other reports to enable GLWA to properly manage and pay its portion of the pension obligation that is allocable to the DWSD pension pool. In accordance with the pension reporting agreement, the net position and liabilities of the DWSD pension pool were allocated between DWSD-R and GLWA. Per written directions, GLWA is to be allocated 70.3 percent of the net position and liabilities of the DWSD pension pool.

Additionally, per Section 2.3 of the pension reporting agreement, the DWSD pension pool was to pay \$2.5 million annually for administrative expenses into the System. This annual payment occurred for the nine years ending with fiscal year June 30, 2023. According to the pension reporting agreement, DGRS was to track the actual annual administrative expenses allocable to the DWSD pension pool, and then, beginning with the fiscal year commencing on July 1, 2023, DGRS was required to calculate the actual aggregate amount of administrative expenses allocable to the DWSD pension pool during such nine-year period. In the event that the aggregate amount paid by the DWSD pension pool was more than the actual aggregate amount of administrative expenses allocable to the DWSD pension pool during such nine-year period, such amount was to be considered the aggregate excess of administrative expenses as of June 30, 2023. Based on this required reporting by DGRS, as of June 30, 2023, the aggregate excess of administrative expenses paid by the DWSD pension pool are approximately \$13 million.

During the fiscal year beginning on July 1, 2023, the parties to the pension reporting agreement are to mutually determine and resolve whether any aggregate excess or shortfall of administrative expenses as of June 30, 2023 shall have any effect on the obligation of DWSD-R or GLWA to make payments to the General Retirement System of the City of Detroit under the pension reporting agreement. To date, no decisions have been made related to how this aggregate excess of administrative expenses paid by GLWA and DWSD-R are to be treated going forward.

### Note 15 - Subsequent Events

#### *Protecting Michigan Pension Grant Program*

Under its fiscal year 2022-2023 budget, the Michigan Department of Treasury was appropriated funds to establish and operate a local unit municipal pension principal payment grant program for qualified retirement systems with a funded ratio below 60 percent, as defined in the Protecting Local Government Retirement and Benefits Act, Public Act 202 of 2017. As part of this grant program, the General Retirement System of the City of Detroit Defined Benefit Component II (Legacy) plan received \$23 million subsequent to June 30, 2023.



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## Required Supplementary Information

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# General Retirement System of the City of Detroit

## Required Supplementary Information Schedule of Changes in the Net Pension Liability and Related Ratios Legacy Plan

### Last Ten Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>										
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,736,019
Interest	157,105,662	168,079,194	182,140,105	192,888,245	195,489,643	192,359,745	201,919,236	214,011,164	263,007,329	242,611,073
Changes in benefit terms	-	-	-	-	-	-	-	-	(731,824,895)	(113,311,571)
Differences between expected and actual experience	(27,014,766)	(12,568,209)	(59,232,849)	(55,836,749)	13,596,902	34,154,327	(27,508,380)	(43,719,112)	24,644,530	-
Changes in assumptions	(1,789,161)	(181,357,524)	119,876,694	67,677,535	-	(110,274,515)	76,925,957	90,034,927	(101,559,893)	(271,190,194)
Benefit payments, including refunds	(228,438,915)	(236,552,949)	(237,123,777)	(239,881,652)	(248,790,017)	(253,442,630)	(267,249,539)	(292,282,179)	(297,538,990)	(397,733,807)
<b>Net Change in Total Pension Liability</b>	(100,137,180)	(262,399,488)	5,660,173	(35,152,621)	(39,703,472)	(137,203,073)	(15,912,726)	(31,955,200)	(843,271,919)	(506,888,480)
<b>Total Pension Liability - Beginning of year</b>	2,441,710,745	2,704,110,233	2,698,450,060	2,733,602,681	2,773,306,153	2,910,509,226	2,926,421,952	2,958,377,152	3,801,649,071	4,308,537,551
<b>Total Pension Liability - End of year</b>	<b>\$ 2,341,573,565</b>	<b>\$ 2,441,710,745</b>	<b>\$ 2,704,110,233</b>	<b>\$ 2,698,450,060</b>	<b>\$ 2,733,602,681</b>	<b>\$ 2,773,306,153</b>	<b>\$ 2,910,509,226</b>	<b>\$ 2,926,421,952</b>	<b>\$ 2,958,377,152</b>	<b>\$ 3,801,649,071</b>
<b>Plan Fiduciary Net Position</b>										
Contributions - Employer, state, and foundation	\$ 48,281,252	\$ 48,275,000	\$ 48,275,000	\$ 48,275,000	\$ 68,275,000	\$ 68,275,000	\$ 91,238,402	\$ 104,792,657	\$ 189,282,094	\$ 25,126,131
Contributions - Employee	-	-	-	-	-	-	-	-	609,073	10,241,761
Net investment income (loss)	80,971,836	(102,790,030)	406,977,916	(14,002,111)	47,170,004	155,423,193	206,896,568	(12,450,547)	93,054,981	289,789,607
Administrative expenses	(2,680,907)	(2,541,080)	(1,987,194)	(2,351,273)	(3,023,939)	(3,313,418)	(6,021,837)	(3,742,618)	(4,617,194)	(11,237,767)
Benefit payments, including refunds	(228,438,915)	(236,552,949)	(237,123,777)	(239,881,652)	(248,790,017)	(253,442,630)	(267,249,539)	(292,282,179)	(297,538,991)	(397,733,807)
Other (includes ASF recoupment)	(9,370,281)	4,806,056	6,405,364	5,155,198	(5,347,863)	6,952,522	8,324,074	5,945,783	135,280,369	-
<b>Net Change in Plan Fiduciary Net Position</b>	(111,237,015)	(288,803,003)	222,547,309	(202,804,838)	(141,716,815)	(26,105,333)	33,187,668	(197,736,904)	116,070,332	(83,814,075)
<b>Plan Fiduciary Net Position - Beginning of year</b>	1,529,846,295	1,818,649,298	1,596,101,989	1,798,906,827	1,940,623,642	1,966,728,975	1,933,541,307	2,131,278,211	2,015,207,879	2,099,021,954
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 1,418,609,280</b>	<b>\$ 1,529,846,295</b>	<b>\$ 1,818,649,298</b>	<b>\$ 1,596,101,989</b>	<b>\$ 1,798,906,827</b>	<b>\$ 1,940,623,642</b>	<b>\$ 1,966,728,975</b>	<b>\$ 1,933,541,307</b>	<b>\$ 2,131,278,211</b>	<b>\$ 2,015,207,879</b>
<b>Net Pension Liability - Ending</b>	<b>\$ 922,964,285</b>	<b>\$ 911,864,450</b>	<b>\$ 885,460,935</b>	<b>\$ 1,102,348,071</b>	<b>\$ 934,695,854</b>	<b>\$ 832,682,511</b>	<b>\$ 943,780,251</b>	<b>\$ 992,880,645</b>	<b>\$ 827,098,941</b>	<b>\$ 1,786,441,192</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	60.58 %	62.65 %	67.25 %	59.15 %	65.81 %	69.98 %	67.57 %	66.07 %	72.04 %	53.01 %
<b>Covered Payroll</b>	\$ -	\$ 83,104,746	\$ 102,653,636	\$ 111,124,304	\$ 142,215,060	\$ 149,373,313	\$ 141,454,717	\$ 143,882,722	\$ 200,722,197	\$ 203,507,079
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	- %	1,097.25 %	862.57 %	992.00 %	657.24 %	557.45 %	667.20 %	690.06 %	412.06 %	877.83 %

GASB Statement No. 67, as amended, requires covered payroll to be presented, as well as the net pension liability as a percentage of covered payroll. Covered payroll for 2023 is not available.

## General Retirement System of the City of Detroit

### Required Supplementary Information Schedule of Investment Returns Legacy and Hybrid Plans

	<b>Last Ten Fiscal Years Years Ended June 30</b>									
	2023	2022	2021	2020	2019	2018	2017	2016	2015*	2014*
Annual money-weighted rate of return - Net of investment expense	4.94 %	(7.27)%	28.31 %	(0.78)%	3.28 %	6.70 %	12.60 %	1.10 %	2.40 %	16.30 %

\*Fiscal years 2014 and 2015 do not include information related to the Hybrid Plan. The Hybrid Plan was effective July 1, 2014, and for the first year (fiscal year 2015), it did not invest in anything other than cash and cash equivalents.

## General Retirement System of the City of Detroit

### Required Supplementary Information Schedule of Pension Contributions Legacy Plan

**Last Ten Fiscal Years  
Years Ended June 30**

	2023*	2022*	2021*	2020*	2019*	2018*	2017*	2016*	2015*	2014
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72,643,307
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	-	25,126,131
<b>Contribution Deficiency</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (47,517,176)</b>
<b>Covered Payroll</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 238,669,871</b>
<b>Contributions as a Percentage of Covered Payroll</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>- %</b>	<b>10.53 %</b>

\*The contributions starting with fiscal year 2015 were determined by the provisions of the POA; the contributions were not actuarially determined and, therefore, not subject to disclosure within this schedule in accordance with GASB Statement No. 67.

# General Retirement System of the City of Detroit

## Required Supplementary Information Schedule of Changes in the City's Net Pension (Asset) Liability and Related Ratios Hybrid Plan

	<b>Last Nine Fiscal Years</b>									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	
<b>Total Pension Liability</b>										
Service cost	\$ 22,742,191	\$ 27,040,658	\$ 25,208,118	\$ 22,532,002	\$ 20,171,596	\$ 17,056,732	\$ 18,417,036	\$ 18,302,706	\$ 19,318,576	
Interest	14,296,616	14,050,863	12,218,430	10,270,622	7,531,400	5,438,061	4,084,390	2,495,896	695,469	
Differences between expected and actual experience	(6,162,346)	(18,137,902)	(10,183,406)	(7,464,424)	7,556,858	4,546,865	(4,667,487)	(1,263,760)	(1,202,108)	
Changes in assumptions	(278,694)	(22,668,570)	14,453,739	6,518,200	-	(5,758,189)	2,780,462	2,111,451	-	
Changes in benefit terms	3,617,374	-	-	-	-	-	-	-	-	
Voluntary employee contributions	6,588,107	5,691,594	5,183,291	5,723,982	5,804,274	5,302,650	5,043,347	5,213,744	5,775,885	
Benefit payments, including refunds	(7,013,532)	(7,395,729)	(5,118,404)	(3,629,833)	(3,539,384)	(2,390,592)	(2,134,809)	(2,287,214)	-	
<b>Net Change in Total Pension Liability</b>	<b>33,789,716</b>	<b>(1,419,086)</b>	<b>41,761,768</b>	<b>33,950,549</b>	<b>37,524,744</b>	<b>24,195,527</b>	<b>23,522,939</b>	<b>24,572,823</b>	<b>24,587,822</b>	
<b>Total Pension Liability - Beginning of year</b>	<b>208,697,086</b>	<b>210,116,172</b>	<b>168,354,404</b>	<b>134,403,855</b>	<b>96,879,111</b>	<b>72,683,584</b>	<b>49,160,645</b>	<b>24,587,822</b>	<b>-</b>	
<b>Total Pension Liability - End of year</b>	<b>\$ 242,486,802</b>	<b>\$ 208,697,086</b>	<b>\$ 210,116,172</b>	<b>\$ 168,354,404</b>	<b>\$ 134,403,855</b>	<b>\$ 96,879,111</b>	<b>\$ 72,683,584</b>	<b>\$ 49,160,645</b>	<b>\$ 24,587,822</b>	
<b>Plan Fiduciary Net Position</b>										
Contributions - Employer	\$ 15,126,876	\$ 15,689,188	\$ 11,690,984	\$ 12,515,861	\$ 12,205,699	\$ 14,673,644	\$ 9,484,992	\$ 9,048,831	\$ 8,811,369	
Mandatory employee contributions	12,149,463	10,418,809	9,333,975	10,205,770	9,765,911	8,837,967	7,752,058	7,345,515	6,970,544	
Net investment income (loss)	12,717,757	(13,857,941)	41,527,492	(2,216,167)	3,270,862	8,445,590	9,109,732	(76,608)	20,690	
Administrative expenses	(2,022,440)	(1,894,415)	(1,316,430)	(1,540,433)	(1,942,064)	(2,171,693)	(2,648,385)	(3,094,197)	(1,481,590)	
Voluntary employee contributions	6,588,107	5,691,594	5,183,291	5,723,982	5,804,274	5,302,650	5,043,347	5,213,744	5,786,488	
Benefit payments, including refunds of mandatory contributions	(4,621,285)	(4,058,032)	(2,743,760)	(2,048,198)	(1,920,550)	(1,308,550)	(1,021,847)	(1,031,060)	(10,603)	
Refunds based on voluntary contributions	(2,392,247)	(3,337,697)	(2,374,644)	(1,581,635)	(1,618,834)	(1,082,042)	(1,112,962)	(1,256,154)	-	
Other	15,642,655	40,981	32,244	1,237,613	9,066,288	12,436	61,834	6,586	-	
<b>Net Change in Plan Fiduciary Net Position</b>	<b>53,188,886</b>	<b>8,692,487</b>	<b>61,333,152</b>	<b>22,296,793</b>	<b>34,631,586</b>	<b>32,710,002</b>	<b>26,668,769</b>	<b>16,156,657</b>	<b>20,096,898</b>	
<b>Plan Fiduciary Net Position - Beginning of year</b>	<b>222,586,344</b>	<b>213,893,857</b>	<b>152,560,705</b>	<b>130,263,912</b>	<b>95,632,326</b>	<b>62,922,324</b>	<b>36,253,555</b>	<b>20,096,898</b>	<b>-</b>	
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 275,775,230</b>	<b>\$ 222,586,344</b>	<b>\$ 213,893,857</b>	<b>\$ 152,560,705</b>	<b>\$ 130,263,912</b>	<b>\$ 95,632,326</b>	<b>\$ 62,922,324</b>	<b>\$ 36,253,555</b>	<b>\$ 20,096,898</b>	
<b>City's Net Pension (Asset) Liability - Ending</b>	<b>\$ (33,288,428)</b>	<b>\$ (13,889,258)</b>	<b>\$ (3,777,685)</b>	<b>\$ 15,793,699</b>	<b>\$ 4,139,943</b>	<b>\$ 1,246,785</b>	<b>\$ 9,761,260</b>	<b>\$ 12,907,090</b>	<b>\$ 4,490,924</b>	
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	113.73 %	106.66 %	101.80 %	90.62 %	96.92 %	98.71 %	86.57 %	73.75 %	81.74 %	
<b>Covered Payroll</b>	\$ 293,017,696	\$ 260,683,104	\$ 233,681,019	\$ 245,732,111	\$ 224,726,503	\$ 246,173,916	\$ 199,307,987	\$ 185,147,364	\$ 180,069,852	
<b>City's Net Pension (Asset) Liability as a Percentage of Covered Payroll</b>	(11.36)%	(5.33)%	(1.62)%	6.43 %	1.84 %	0.51 %	4.90 %	6.97 %	2.49 %	

See notes to required supplementary information.

## General Retirement System of the City of Detroit

### Required Supplementary Information Schedule of Changes in the City's Net OPEB Liability and Related Ratios Open Death Benefit Plan

	<b>Last Seven Fiscal Years</b>						
	2023	2022	2021	2020	2019	2018	2017
<b>Total OPEB Liability</b>							
Service cost	\$ 132,945	\$ 154,693	\$ 129,692	\$ 142,198	\$ 129,558	\$ 114,919	\$ 103,457
Interest	326,131	331,758	311,172	281,348	255,501	223,231	215,053
Differences between expected and actual experience	21,270	33,174	2,304	215,945	197,652	325,148	-
Changes in assumptions	-	117,486	806,689	-	-	-	-
Benefit payments, including refunds	(260,207)	(186,198)	(213,821)	(205,148)	(234,422)	(184,826)	(230,000)
<b>Net Change in Total OPEB Liability</b>	220,139	450,913	1,036,036	434,343	348,289	478,472	88,510
<b>Total OPEB Liability - Beginning of year</b>	5,972,022	5,521,109	4,485,073	4,050,730	3,702,441	3,223,969	3,135,459
<b>Total OPEB Liability - End of year</b>	<b>\$ 6,192,161</b>	<b>\$ 5,972,022</b>	<b>\$ 5,521,109</b>	<b>\$ 4,485,073</b>	<b>\$ 4,050,730</b>	<b>\$ 3,702,441</b>	<b>\$ 3,223,969</b>
<b>Plan Fiduciary Net Position</b>							
Contributions - Employer	\$ 126,937	\$ 106,510	\$ 114,790	\$ 113,842	\$ 92,990	\$ 107,627	\$ 88,709
Contributions - Employee	89,485	85,236	96,996	86,147	73,457	96,337	80,151
Net investment income (loss)	393,971	(671,339)	1,128,321	11,617	246,685	296,957	315,310
Administrative expenses	(5,104)	(6,584)	(18,094)	(55,108)	(61,160)	(32,001)	(61,755)
Benefit payments, including refunds	(260,207)	(186,198)	(213,821)	(205,148)	(234,422)	(184,826)	(230,000)
Other	-	-	-	-	-	(221,948)	-
<b>Net Change in Plan Fiduciary Net Position</b>	345,082	(672,375)	1,108,192	(48,650)	117,550	62,146	192,415
<b>Plan Fiduciary Net Position - Beginning of year</b>	4,460,516	5,132,891	4,024,699	4,073,349	3,955,799	3,893,653	3,701,238
<b>Plan Fiduciary Net Position - End of year</b>	<b>\$ 4,805,598</b>	<b>\$ 4,460,516</b>	<b>\$ 5,132,891</b>	<b>\$ 4,024,699</b>	<b>\$ 4,073,349</b>	<b>\$ 3,955,799</b>	<b>\$ 3,893,653</b>
<b>City's Net OPEB Liability (Asset) - Ending</b>	<b>\$ 1,386,563</b>	<b>\$ 1,511,506</b>	<b>\$ 388,218</b>	<b>\$ 460,374</b>	<b>\$ (22,619)</b>	<b>\$ (253,358)</b>	<b>\$ (669,684)</b>
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	77.61 %	74.69 %	92.97 %	89.74 %	100.56 %	106.84 %	120.77 %

Contributions to the OPEB plan are not based on a measure of pay; therefore, no covered payroll is presented.

GASB Statement No. 74 was implemented on June 30, 2017 and does not require retroactive implementation. Data will be added as information is available until 10 years of such information is available.

## General Retirement System of the City of Detroit

### Required Supplementary Information Schedule of OPEB Contributions Open Death Benefit Plan

**Last Seven Fiscal Years  
Years Ended June 30**

	2023	2022	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 126,937	\$ 106,510	\$ 114,790	\$ 113,842	\$ 92,990	\$ 93,797	\$ 104,659
Contributions in relation to the actuarially determined contribution	126,937	106,510	114,790	113,842	92,990	107,627	88,709
<b>Contribution Excess (Deficiency)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,830</b>	<b>\$ (15,950)</b>

GASB Statement No. 74 was implemented for the fiscal year ended June 30, 2017 and does not require retrospective implementation. Data will be added as information is available until 10 years of such information is reported.

#### Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Level dollar entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	28 years, board policy
Asset valuation method	3-year smoothed market, no corridor
Inflation	N/A
Investment rate of return	5.50 percent, net of OPEB plan expenses, including price inflation at 2.50 percent
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	For members in the General Retirement System, the PubG-2010(B) Below-Median General Retiree table for males and females with male rates multiplied by 97 percent and female rates multiplied by 126 percent For members in the Police and Fire Retirement System, the PubS-2010 Safety Retiree table for males and females with male rates multiplied by 115 percent and female rates multiplied by 125 percent All mortality tables are projected to 2021, based on the two-dimensional, sex-distinct mortality improvement scale MP-2021. This table contains no margin for future improvements in life expectancies for conservatism in this valuation.
Other information	There were no benefit changes during the year.

## General Retirement System of the City of Detroit

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### Required Supplementary Information Schedule of OPEB Investment Returns Open and Closed Death Benefit Plans

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**Last Seven Fiscal Years  
Years Ended June 30**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	10.19 %	(14.46)%	24.52 %	0.30 %	2.97 %	5.93 %	7.23 %

GASB Statement No. 74 was implemented for the fiscal year ended June 30, 2017 and does not require retrospective implementation. Data will be added as information is available until 10 years of such information is reported.



## General Retirement System of the City of Detroit

### Required Supplementary Information Schedule of Changes in the City's Net OPEB Liability and Related Ratios Closed Death Benefit Plan

	<b>Last Seven Fiscal Years</b>						
	2023	2022	2021	2020	2019	2018	2017
<b>Total OPEB Liability -</b>							
Increase (decrease) in total OPEB liability due to availability of assets	\$ 553,487	\$ (4,209,561)	\$ 4,496,393	\$ (944,616)	\$ 12,295	\$ 38,822	\$ (15,035)
<b>Total OPEB Liability - Beginning of year</b>	<u>20,757,008</u>	<u>24,966,569</u>	<u>20,470,176</u>	<u>21,414,792</u>	<u>21,402,497</u>	<u>21,363,675</u>	<u>21,378,710</u>
<b>Total OPEB Liability - End of year</b>	<u><b>\$ 21,310,495</b></u>	<u><b>\$ 20,757,008</b></u>	<u><b>\$ 24,966,569</b></u>	<u><b>\$ 20,470,176</b></u>	<u><b>\$ 21,414,792</b></u>	<u><b>\$ 21,402,497</b></u>	<u><b>\$ 21,363,675</b></u>
<b>Plan Fiduciary Net Position</b>							
Retiree contribution	\$ 9,244	\$ 9,390	\$ 19,867	\$ 12,925	\$ 9,080	\$ 9,528	\$ -
Net investment income (loss)	1,880,092	(3,277,720)	5,538,571	63,605	1,295,090	1,416,686	1,996,352
Administrative expenses	(24,922)	(32,147)	(18,096)	-	-	-	-
Benefit payments, including refunds	(1,310,927)	(909,084)	(1,043,949)	(1,074,935)	(1,230,715)	(1,355,391)	(1,949,612)
Other	-	-	-	53,789	(61,160)	(32,001)	(61,775)
<b>Net Change in Plan Fiduciary Net Position</b>	553,487	(4,209,561)	4,496,393	(944,616)	12,295	38,822	(15,035)
<b>Plan Fiduciary Net Position - Beginning of year</b>	<u>20,757,008</u>	<u>24,966,569</u>	<u>20,470,176</u>	<u>21,414,792</u>	<u>21,402,497</u>	<u>21,363,675</u>	<u>21,378,710</u>
<b>Plan Fiduciary Net Position - End of year</b>	<u><b>\$ 21,310,495</b></u>	<u><b>\$ 20,757,008</b></u>	<u><b>\$ 24,966,569</b></u>	<u><b>\$ 20,470,176</b></u>	<u><b>\$ 21,414,792</b></u>	<u><b>\$ 21,402,497</b></u>	<u><b>\$ 21,363,675</b></u>
<b>City's Net OPEB Liability - Ending</b>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>
<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

GASB Statement No. 74 was implemented for the fiscal year ended June 30, 2017 and does not require retrospective implementation. Data will be added as information is available until 10 years of such information is reported.

As the plan will provide future benefits only to the extent that plan assets are available to pay them, the total OPEB liability is equal to the plan's ending net position.

Contributions to the OPEB plan are not based on a measure of pay, nor is there applicable payroll; therefore, no covered payroll is presented.

# General Retirement System of the City of Detroit

## Notes to Required Supplementary Information

June 30, 2023

### ***Pension Information***

#### **Benefit Changes**

##### *Legacy Plan*

In 2014, the pension plan was frozen. No new employees are allowed to participate in the plan. All benefits for actives were frozen as of June 30, 2014 based on service and average final compensation accrued as of that date.

In 2015, benefits were reduced by 4.5 percent, and the cost of living adjustments were eliminated.

##### *Hybrid Plan*

In 2023, the bankruptcy court granted a change to the Hybrid plan to allow members in the work share program during the period April 1, 2020 through December 31, 2022 to get credited service for that period.

#### **Changes in Assumptions**

##### *Legacy Plan*

In 2014, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 5.88 percent to 7.2 percent and updating the mortality tables from RP-2000 Combined Table to RP-2014 Blue Collar Mortality Table, and adjustments for longevity and unused sick leave were eliminated.

##### *Legacy and Hybrid Plan*

In 2015, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.2 to 7.61 percent.

In 2016, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.61 to 7.23 percent.

In 2017, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.23 to 6.91 percent.

In 2018, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.91 to 7.38 percent.

In 2020, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.38 to 7.06 percent.

In 2021, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 7.06 to 6.50 percent.

In 2022, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.50 to 6.75 percent and updating the mortality tables from the RP-2014 Blue Collar Annuitant Table to the Pub-2010 General Employee table, as well as updates to wage inflation, withdrawal, and disability rates.

In 2023, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.75 to 6.76 percent.

### ***OPEB Information***

#### **Changes in Assumptions**

In 2021, the discount rate changed from 7.00 to 5.99 percent.

## General Retirement System of the City of Detroit

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### Notes to Required Supplementary Information (Continued)

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**June 30, 2023**

In 2022, the discount rate changed from 5.99 to 5.50 percent and updating the mortality tables from the RP-2014 Blue Collar Annuitant Table to the PubG-2010(B) Below-Median General Retiree table for members in the general retirement system and to the PubS-2010 Safety Retiree table for members in the police and fire retirement system, as well as updates to the withdrawal and disability rates.

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## Other Supplementary Information

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**Combined Plan for the General Retirement System of the City of Detroit**

**Statement of Changes in Fiduciary Net Position by Division - Legacy Defined Benefit Plan**

**For the Year Ended June 30, 2023**

	DWSD Subdivisions		General Retirement System - Divisions				
	GLWA	DWSD-R	DWSD - Division	General Division	DOT	Library	Total - General Retirement System (all Divisions)
			Total (all DWSD Subdivisions)				
<b>Beginning Net Position - July 1, 2022</b>	406,972,233	171,935,643	578,907,876	776,443,791	94,217,535	80,277,093	1,529,846,295
<b>Additions:</b>							
Investment income (loss):							
Interest, dividends, and other income	9,132,208	3,858,131	12,990,339	17,775,651	2,396,031	1,931,458	35,093,479
Net increase in fair value of investments	14,823,480	6,262,551	21,086,031	27,161,903	2,807,530	2,726,073	53,781,537
Net unrealized loss on collateralized securities	(14,675)	(6,200)	(20,875)	(26,064)	(2,250)	(2,498)	(51,687)
Investment related expenses	(2,164,059)	(914,261)	(3,078,320)	(3,965,330)	(409,867)	(397,976)	(7,851,493)
Net investment income	21,776,954	9,200,221	30,977,175	40,946,160	4,791,444	4,257,057	80,971,836
<b>Contributions:</b>							
Employer contributions:							
Originating from DWSD:							
Regular pension contribution	30,158,700	12,741,300	42,900,000	-	-	-	42,900,000
Contribution for administrative expenses	1,757,500	742,500	2,500,000	-	-	-	2,500,000
DWSD transfer to General Division for administrative expenses	(1,757,500)	(742,500)	(2,500,000)	2,500,000	-	-	-
Total contributions originating from DWSD	30,158,700	12,741,300	42,900,000	2,500,000	-	-	45,400,000
Employee contributions - military service purchase	-	-	-	-	6,252	-	6,252
Contributions from other divisions	-	-	-	-	-	2,500,000	2,500,000
Total employer contributions	30,158,700	12,741,300	42,900,000	2,500,000	6,252	2,500,000	47,906,252
Foundation for Detroit's Future	-	-	-	265,012	109,988	-	375,000
Total contributions	30,158,700	12,741,300	42,900,000	2,765,012	116,240	2,500,000	48,281,252
ASF recoupment interest	1,080,790	456,607	1,537,397	2,849,863	1,006,368	115,431	5,509,059
Other income	543,246	229,508	772,754	1,065,819	139,985	113,450	2,092,008
Total additions - net	53,559,690	22,627,636	76,187,326	47,626,854	6,054,037	6,985,938	136,854,155
<b>Deductions:</b>							
Member refunds and withdrawals	906,168	382,833	1,289,001	5,796,776	3,040,273	743,347	10,869,397
Retirees' pension and annuity benefits	41,837,725	17,675,398	59,513,123	120,817,855	30,703,630	6,534,910	217,569,518
General and administrative expenses	713,179	301,301	1,014,480	1,360,642	165,107	140,678	2,680,907
ASF Recoupment Write-off	397,676	168,008	565,684	573,726	234,041	5,638	1,379,089
Transfer of general and administrative expenses to General Division	(713,179)	(301,301)	(1,014,480)	1,014,480	-	-	-
Transfer to Component I (Transition Cost)	4,147,878	1,752,375	5,900,253	7,913,549	960,269	818,188	15,592,259
Total deductions	47,289,447	19,978,614	67,268,061	137,477,028	35,103,320	8,242,761	248,091,170
<b>Net Increase (Decrease) in Net Position</b>	<b>6,270,243</b>	<b>2,649,022</b>	<b>8,919,265</b>	<b>(89,850,174)</b>	<b>(29,049,283)</b>	<b>(1,256,823)</b>	<b>(111,237,015)</b>
<b>End of Year Net Position Restricted for Pensions - June 30, 2023</b>	<b>413,242,476</b>	<b>174,584,665</b>	<b>587,827,141</b>	<b>686,593,617</b>	<b>65,168,252</b>	<b>79,020,270</b>	<b>1,418,609,280</b>

## **Combined Plan for the General Retirement System of the City of Detroit**

Schedule of DWSD/GLWA Contributions Toward Administrative Expenses as Compared to Actual  
DWSD/GLWA Allocable Administrative Expenses

**For the Year Ended June 30, 2023**

	DWSD Division Total	
	GLWA	DWSD-R
<b>Amount Paid in Excess of Administrative Expenses</b>		
<b>Otherwise Allocable - June 30, 2022</b>	\$ 8,067,659	\$ 3,408,388
DWSD/GLWA contribution for administrative expenses in accordance with plan of adjustment and bankruptcy order	1,757,500	742,500
Administrative expenses otherwise allocable to DWSD/GLWA	<u>(713,179)</u>	<u>(301,301)</u>
<b>Cumulative Amount Paid in Excess of Administrative Expenses</b>		
<b>Otherwise Allocable - June 30, 2023</b>	<b><u>\$ 9,111,980</u></b>	<b><u>\$ 3,849,587</u></b>

## Combined Plan for the General Retirement System of the City of Detroit

### Notes to Other Supplementary Information

June 30, 2023

#### **Allocation Between Divisions**

The Combined Plan's allocation methodology to allocate fiscal year 2023 activity between the four main divisions (General Division, DOT, DWSD, and Library) is dependent upon each revenue or expense type. Below is a description of the allocation methodology used by the Combined Plan. Where applicable, the allocation methodology outlined in the pension reporting agreement was utilized.

**Investment Income** - Investment income (including income from securities lending activity) and investment expenses were allocated to the divisions, with the exception of the allocation between DWSD-R and GLWA, based on the net position of each division compared to total net position (excluding the Annuity Savings Fund) as of fiscal year ended June 30, 2023. The investment income and expenses allocated were after adjusting for interest credited to the Annuity Savings Fund.

**Administrative Expenses** - In accordance with Section 2.3 of the pension reporting agreement, DWSD-R and GLWA's collective allocable share of administrative expenses of approximately \$1 million has been allocated to the general division. Correspondingly, the expenses transferred to the general division are offset by a \$2.5 million contribution made by DWSD-R and GLWA, collectively, for administrative expenses, which was credited to the general division. This will occur until 2023, at which point the City and GLWA will mutually determine and resolve whether any aggregate over- or underpayment will impact the obligation of DWSD-R and GLWA to make payments to GRS under the pension reporting agreement.

**Contributions** - In fiscal year 2023, the Plan received contributions from the divisions and the Foundation for Detroit's Future. The employer contributions were allocated between the divisions according to which division the contribution was received from, with the exception of DWSD-R and GLWA's collective payments of \$45,400,00, which were allocated as outlined in the POA and/or the pension reporting agreement (see below). Of the total payment of \$45,400,000, \$2,500,000 reflects DWSD-R and GLWA's agreed-upon share of administrative expenses which, per the pension reporting agreement, is to be transferred to the credit of the general division. The payment from the Foundation was allocated based on a common understanding from the bankruptcy proceedings, which was ultimately determined by the City of Detroit and agreed to by the other divisions. The Foundation proceeds were allocated solely to the general division and DOT in proportion to their respective net pension liability as determined by the City's actuary as of June 30, 2023.

**ASF Recoupment** - Revenue from the ASF recoupment was allocated between the divisions, other than between DWSD-R and GLWA, according to the division under which the individual's ASF earnings were originally accumulated and paid out.

**Member Refunds, Withdrawals, Retirees' Pension, and Annuity Benefits** - These deductions were allocated, other than the allocation between DWSD-R and GLWA, based on the original division from which benefits were being provided and withdrawals were being made.

**Allocation between DWSD-R and GLWA** - Once the above activity was allocated to the divisions, the DWSD division was further subdivided between DWSD-R and GLWA in accordance with the pension reporting agreement, which stipulated such allocation would be dictated to the Plan by DWSD-R and GLWA. Per those instructions, the Plan allocated the DWSD activity between GLWA (70.3 percent) and DWSD-R (29.7 percent).