



CITY OF DETROIT
HUMAN RESOURCES DEPARTMENT
LABOR RELATIONS DIVISION

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April 10, 2025

Honorable City Council:

Re: ASF Recoupment Lump Sum Cash Option

The Labor Relations Division respectfully requests that your Honorable Body pass a resolution to amend the GRS plan to allow reopening of the lump sum cash option for retirees subject to the ASF Recoupment.

We further respectfully request that your Honorable Body adopt the following resolution with a Waiver of Reconsideration.

Respectfully submitted,

Valerie A. Colbert-Osamuede
Interim Labor Relations Director



By Council Member _____:

WHEREAS, On July 18, 2013, the City filed a petition in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court") seeking protection from its creditors under Chapter 9 of Title 11 of the United States Code, (11 U.S.C. § 101, *et seq.*); and

WHEREAS, On October 22, 2014 the City filed the *Eighth Amended Plan For the Adjustment of Debts of the City of Detroit*, which was confirmed by Order entered November 12, 2014 (the "Plan of Adjustment" or "POA"). The Plan of Adjustment went effective on December 10, 2014 ("Effective Date"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the POA; and

WHEREAS, The General Retirement System (GRS) is governed by the provisions of (1) the Combined Plan for the General Retirement System of the City of Detroit, Michigan, as amended and restated effective July 1, 2014 through Emergency Manager Order No. 44 (the "Combined Plan") and subsequent amendments thereto, (2) the Contribution Agreement with the Michigan Settlement Administration Authority (the "State Contribution Agreement") and, (3) the Plan of Adjustment; and

WHEREAS, Upon the effective date of the Plan of Adjustment, the Combined Plan and the POA provided for reductions in the accrued benefits of GRS members, retirees and beneficiaries, summarized in relevant part as follows:

- 1) A loss of cost-of-living adjustments (COLAs) paid to retirees after July 1, 2014.
- 2) A 4.5 percent cut to each retiree's remaining accrued pension benefit after the COLA loss.
- 3) For Retirement System members who participated in the Annuity Savings Fund, "ASF Recoupment" of certain excess interest amounts that were credited to such participant's account between July 1, 2003 and June 30, 2013.

and



WHEREAS, “ASF Recoupment” refers to a method by which the City, in its Plan of Adjustment, seeks to recoup amounts characterized as ‘excess interest’ credited to individual Annuity Savings Fund accounts, subject to certain caps, because those excess interest amounts exceeded the GRS actual return on investment assets in a given year (“ASF Excess Amount”). The POA identified certain GRS members who received ASF Excess Amounts and who were subject to ASF Recoupment because they were current participants in the Annuity Savings Fund or were ASF Distribution Recipients. The POA calculated the ASF Excess Amount and implemented ASF Recoupment using two primary caps. First, the ASF Recoupment is capped at 20% of the highest value of each participant’s ASF account between July 1, 2003, and June 30, 2013. The second cap, applicable to individuals who were retirees as of June 30, 2014, provides that the ASF Recoupment reduction to an individual’s monthly pension payment cannot exceed 20% of the individual’s current monthly pension, including an interest component of 6.75% on the ASF Recoupment amount. Because this 20% retiree cap is inclusive of the 4.5% across-the-board reduction to monthly benefits described above, it effectively limits the ASF Recoupment reduction to monthly pension benefits to 15.5% of the member’s current monthly pension benefit. Initially, the City mandated ASF Recoupment be repaid by all members on a monthly basis over the member’s life expectancy, calculated using and requiring that interest at a rate of 6.75% be repaid along with the principal amount of ASF Excess Interest. The Plan of Adjustment also provided a limited lump sum repayment option; and

WHEREAS, As part of the City’s bankruptcy, approximately 20,200 ballots were mailed to GRS members, retirees and beneficiaries. Of that number, approximately 11,200 individuals were subject to ASF Recoupment. It was estimated that the GRS would collect approximately \$199.7 million dollars (not including the interest charged to retirees) over the length of the ASF Recoupment Period; and

WHEREAS, The Plan of Adjustment identified and applied the ASF Recoupment to three different “ASF Groups” based upon whether the ASF Account balance was held by the GRS (generally active employees) or had been transferred/withdrawn from the GRS (generally retirees) as follows:

- 1) “ASF Group I” For each Member, retiree or vested former employee who maintained an ASF account in the Retirement System as of the Effective Date of the POA, such individual’s ASF account balance was reduced by such individual’s Annuity Savings Fund Excess Amount, as determined by the City in accordance with the POA.
- 2) “ASF Group II” For each Member, retiree or vested former employee who had received a total distribution of the individual’s ASF account during the ASF Recalculation Period, the individual’s monthly pension benefit (and the survivor monthly pension benefit payable to the



Member's survivor, if any) was reduced by the individual's "Monthly Annuity Savings Fund Excess Amount" as determined by the City in accordance with the POA.

- 3) "ASF Group I II " A Member, retiree or vested former employee who previously received a distribution of a portion but not the entirety of the Member's Annuity Savings Account were subject to paragraph (1) to the extent of any funds then credited to the Member's Annuity Savings Fund account and were subject to paragraph (2) to the extent of any ASF Excess Amount that could not be recovered pursuant to paragraph (1); and

WHEREAS, ASF Recoupment, like other provisions of the Plan of Adjustment, was not optional. ASF Group I members (and, to the extent applicable, ASF Group III members) had the ASF Recoupment amount deducted from their ASF Accounts. ASF Group I members (and, to the extent applicable, ASF Group III members), were subject to ASF Recoupment through a monthly reduction of their future pension payments, unless the member successfully elected the lump sum cash payment option offered by the POA (the "Cash Option"). The Cash Option was a method by which GRS members with a remaining balance after direct recoupment could elect to repay their ASF Recoupment balance in a single payment. The amount of all such Cash Option payments permitted by all affected members was limited, in the aggregate, to \$30 million. The election period closed in January 2015. The Cash Option was selected by approximately 128 members which represented approximately \$25 Million in the aggregate; and

WHEREAS, The City Administration and City Council have received numerous comments from retirees and beneficiaries that are subject to the ASF Recoupment monthly reduction to their pensions, which can be fairly summarized as follows:

- 1) In most instances, the reduction to their accrued monthly benefit equates to a 20% total reduction (4.5% POA reduction + 15.5% ASF Recoupment reduction).
- 2) The 6.75% interest rate applied to their ASF Recoupment Amount is excessive.
- 3) The reduction in monthly pension income and the ongoing length of the reduction period (based upon life expectancy) has significantly impacted their retirement income and, 10 years after the bankruptcy, they see no end in sight.

and



WHEREAS, The City Administration and City Council are of the opinion that a reopening of the lump sum Cash Option would provide some relief to retirees subject to ASF Recoupment with no direct actuarial impact to the GRS plan. Individuals electing the lump sum Cash Option, would fully pay their individual ASF Recoupment balance, avoid prospective application of the 6.75% interest, and have the corresponding reduction in their monthly benefit restored. The reopening of such a Cash Option window would not place individuals electing the option in a better position than those individuals that had the ASF Recoupment previously deducted from their ASF Account or previously elected the Cash Option;

THEREFORE BE IT RESOLVED, the City Council authorizes the GRS to provide for a new lump sum Cash Option window during which active employees and retirees that are still subject to ASF Recoupment may elect to pay to GRS in a single cash payment the total amount of their individual ASF Recoupment balance reflective of and discounted by, the annual 6.75% interest otherwise utilized to determine the monthly ASF Recoupment payments over their remaining life expectancy;

BE IT FURTHER RESOLVED, That the repayment provisions provide that retirees electing the Cash Option be provided the ability to remit the cash proceeds by a direct trustee-to-trustee transfer from another qualified plan to the extent provided under the Internal Revenue Code and related regulations,

BE IT FURTHER RESOLVED, that Component II of the GRS Combined Plan is amended to provide for a reopening of the Cash Option window.



November 20, 2024

Mr. David Cetlinski, Executive Director
General Retirement System of the City of Detroit
One Detroit Center
500 Woodward Avenue, Suite 3000
Detroit, Michigan 48226

Re: ASF Recoupment Lump Sum Impact

Dear Mr. Cetlinski:

Per your request, this letter discusses the financial impact of a proposal to re-open the ability for General Retirement System (GRS) members subject to ASF recoupments to pay off their remaining principal balance in a lump sum.

Background:

On April 24, 2024, we sent a letter and calculated the estimated lump sum payments needed to release 3,047 GRS retired members (as of October 1, 2024) from any further ASF recoupment payments. In addition, on July 16, 2024, we sent a letter and calculated the ASF recoupment lump sum payments (rolled forward with interest) needed to be paid by 333 GRS active members (as of October 1, 2024) to release them from any future recoupments at time of retirement. As indicated in the corresponding letters, those calculations used methods and assumptions consistent with the monthly ASF recoupment calculation assumptions approved by the Board, including use of a 6.75% interest rate. In particular:

- For the retired members: To determine the remaining principal, the calculations were performed without consideration of mortality (remaining life expectancy) of the member or their beneficiary. Therefore, the lump sum calculations were not a calculation of actuarial equivalence. The calculations were based strictly upon the reported remaining number of months for recoupment, the monthly ASF recoupment amounts and the 6.75% interest rate.
- For the active members: The lump sum amounts were also not a calculation of actuarially equivalent amounts. The calculations were based strictly upon the value of the ASF recoupment amount that was reported to us (as of March 1, 2015) with interest credited from March 1, 2015 to October 1, 2024 using a 6.75% annual interest rate, compounded monthly.

The calculations were based on data supplied by the System specifically for the calculations. We are not responsible for the accuracy or completeness of any of the information provided by the Retirement System. Please review the previous letters for additional important comments related to the calculations of the respective lump sum amounts.

Considerations:

When performing the lump sum calculations, we did not assess the reasonableness of any of the assumptions being used for the calculations, including the interest rate. Alternate assumptions may be reasonable for the purposes of the calculation. We recommended that the Board formally adopt assumptions and methods specifically to be used for lump sum payments before any lump sum amounts are accepted as payment. However, based on the assumptions stated in the Background section above, we have the following commentary on the risks related to offering the lump-sum for current retirees and active members:

- **Mortality Risk:** If members are not offered a lump sum option and instead continue to pay a monthly recoupment amount, there is a risk that individual members will become deceased prior to fully paying the ASF recoupment amount. By offering the lump sum option and ensuring that all members that elect the lump sum pay the full ASF recoupment amount, the System reduces this mortality risk and, in aggregate, the System is expected to recognize a savings. The amount of the savings cannot be estimated in advance of the decision to elect (or not) the lump sum payment option as it would depend heavily on how many members elect the lump sum payment option and the characteristics of those members (e.g., age, health status, etc.).
- **Investment Return Risk:** If members are not offered a lump sum option and instead pay a monthly recoupment amount, the System incurs no investment risk until the monthly payments are received. By offering the lump sum option, the System incurs additional investment return risk on the additional assets. This increased investment risk would result in an increased unfunded liability if investment experience does not meet/exceed expectations.
- **Timing of Lump Sum Payments:** Prior lump sum calculations, as described in the Background on the previous page, were based upon the assumption the lump-sum payments would be received as of October 1, 2024. If the payments are received at a later date, these amounts should be recomputed by the Retirement System.
- For the June 30, 2015 valuation, the System's auditors determined a receivable that was included in the reported June 30, 2015 assets. The reported assets for each valuation year thereafter, including the June 30, 2023 valuation, showed a receivable for the remaining claw-back payments. We have assumed this information, received by the System's auditors, was reasonable. This assumption complies with the Actuarial Standards of Practice. In accordance with the receivable, actuarial liabilities in the valuation are gross before accounting for estimated ASF claw-backs. Should the estimated receivable asset not be consistent with the monthly ASF recoupment payments and/or lump sum payments, there would be a financial impact to the System.



Actuarial Statement:

Reopening the ability for GRS active and retired members subject to ASF recoupment to pay off their remaining principal balance (with accrued interest for active members) in a lump sum is expected to result in no increased liability to the System and may result in a savings to the System. The impact of the expected savings cannot be known in advance of the individual decisions to elect (or not) the lump sum payment option as it would depend heavily on how many members elect the lump sum option and the characteristics of those members. Additionally, any financial impact due to a difference between the asset receivable for the remaining claw-back payments and actual lump sum payments would be realized immediately as opposed to slowly over the remaining claw back periods.

Additional Comments:

Comment 1:

If the actual implementation of the lump sum payments differs from what is described, results could be different than presented above.

Comment 2:

We have not evaluated whether or not the Plan of Adjustment (POA) would be operative at this time and/or would allow for implementation of the lump sum payments.

Comment 3:

If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of this report prior to making such decision.

Comment 4:

No statement in this report is intended to be interpreted as a recommendation in favor of the proposed payment option, or in opposition to it.

Comment 5:

This report is intended to describe the financial effect of the proposed plan changes on the Retirement System. Except as otherwise noted, potential effects on other benefit plans were not considered.



Mr. David Cetlinski
General Retirement System of the City of Detroit
November 20, 2024
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This information should not be relied on for any purpose other than the purposes described herein.
Determinations of results, for purposes other than those identified above, may be significantly different.

The signing actuaries are independent of the plan sponsor.

Please contact us if you have any questions or need anything further.

Sincerely,
Gabriel, Roeder, Smith & Company



Judith A. Kermans, EA, FCA, MAAA



James R. Sparks, ASA, FCA, MAAA

JAK/JRS:ah

cc: Yvonne Moore, City of Detroit Retirement Systems
Gail Oxendine, City of Detroit Retirement Systems

