
Overview of the Pension Changes for Active, Non-safety Employees under the City of Detroit's Plan of Adjustment

Revised as of May 29, 2014



Overview

- This document is intended to summarize and explain the relevant terms of the General Retirement System (the “GRS”). It is not the plan document and your benefits will be calculated under the terms of the plan. Any inconsistency between this document and the terms of the plan will be interpreted consistent with the terms of the plan documents. The City has reserved the right to amend, modify or terminate the GRS.



The Basic Pension Program For Active, Non-Safety Employees

You will be eligible to receive two pension payments:

1. The pension you earned as of 6/30/2014 under the current GRS program (the “Old” GRS)

- Will be based on your final average compensation and years of service as of June 30, 2014, using the current GRS pension multipliers that apply to you,
- Then reduced by the cuts made under the Plan of Adjustment, and
- Paid to you under the eligibility and payment rules of the Old GRS.

2. The pension you earn for service after 6/30/2014 under the new hybrid GRS program (the “New” GRS)

- Will be based on your compensation and years of services after June 30, 2014, using the New GRS pension multiplier and
- Paid to you under the eligibility and payment rules that govern the New GRS.



The Key Take-Away On Eligibility For Payment of Your Old GRS Pension

- **Your eligibility to receive payment of your Old GRS pension frozen as of June 30, 2014 will not be based on the new pension program rules.**
 - It will be based on the current (Old) GRS rules governing eligibility for payment of pensions.
 - Your service with the City after June 30, 2014 will count toward satisfaction of those payment eligibility rules.
- **For most employees who began employment prior to 1996, they will be eligible for payment of frozen June 30, 2014 pensions upon attaining 30 Years of Service, regardless of age.**
- **For most employees who began employment after 1996, they will be eligible for payment of frozen June 30, 2014 pensions at 30 Years of Service and Age 55.**



Major Differences Between the Old GRS Pension and the New Hybrid GRS

Benefit Formula	
Old GRS – For Pensions Earned as of 6/30/2014	New GRS – For Pensions Earned After 6/30/2014
<ul style="list-style-type: none"> • Final Average Compensation during the <u>highest 3 consecutive years</u> over the 10 years ending 6/30/2014 x Years of Service x (1.6% for each of first 10 Yrs Service, 1.8% for the next 10 Yrs Service, 2% for the next 5 Yrs Service, and 2.2% for each Yr of Service > 25). For some employees, the multiplier has been reduced to 1.5% for all Yrs of Service after 7/1/2012 (or 4/1/ 2013, depending on the collective bargaining agreement). • Compensation generally includes overtime, longevity bonus and, upon election, for non-union and certain union employees, 25% of unused sick leave payable at retirement. 	<ul style="list-style-type: none"> • Final Average Compensation over the last 10 years x Years of Service after 6/30/2014 x 1.5%. • Compensation is base compensation; no overtime, unused sick leave, longevity payment, vacation payout, etc.
Service	
<p>One month service for 80 hours paid. Full year of service earned for 9 months service in calendar year.</p>	<p>For vesting: full year of service upon 1000 hours. For accrual: 1/12 for each month worked; 140 hours = 1 month.</p>



Major Differences Between the Old GRS Pension and the New Hybrid GRS (continued)

<i>Eligibility for Pension</i>	
Old GRS – For Receipt of 6/30/2014 Pensions	New GRS – For Receipt of Pensions Earned after 6/30/2014
<p>For unreduced normal retirement pension, generally:</p> <ul style="list-style-type: none"> • 30 years of credited service regardless of age (hired prior to 1/1/96) • 30 years of credited service and age 55 (union employees and all other employees hired on and after 1/1/96) • age 65 with 8 years of credited service • age 60 with 10 years of credited service <p>Actuarially reduced pension, generally, if under 60 with 25 years, or age 55 and 25 years of service (hired after 1/1/96).</p>	<p>For unreduced normal retirement pension:</p> <ul style="list-style-type: none"> • Age 62 and 10 years of service, with a transition period for persons who are age 53 and older as of 6/30/2014. <p>For actuarially reduced pension: Age 55 and 30 years of service.</p>
<i>Funding</i>	
<p>Pension benefits entirely funded by City. No employee contributions required or will be made in the future.</p>	<p>City contribution equal to 5% of base pay. Mandatory pre-tax employee contributions equal to 4% of base pay, but may increase to 6% if New GRS becomes underfunded.</p>



Major Similarity Between the Old GRS Pension and the New Hybrid GRS

<i>Credited Service For Vesting & Eligibility Purposes</i>	
Vesting & Eligibility for Old GRS Pension	Vesting & Eligibility for New GRS Pension
<ul style="list-style-type: none">• All Years of Service, whether before or after 6/30/2014	<ul style="list-style-type: none">• All Years of Service, whether before or after 6/30/2014



Examples of How Freeze of Old GRS & New GRS Will Work Under the City's Plan of A

- **Employee with 30 Years of Service Who Chooses to Immediately Retire**

- Assumed Facts:

- Mr. Smith began City employment in 1983, at age 25. He has 31 years of service, and is now age 56.
- Mr. Smith's final average compensation in the highest three years over the last 10 years is \$50,000.
- Mr. Smith has an annual accrued pension as of June 1, 2014 of \$28,600.
- If Mr. Smith retires on June 1, 2014, he could begin to receive his annual \$28,600 pension. He would not have to wait to receive his GRS pension but his \$28,600 pension would be reduced when the Plan of Adjustment is confirmed.



Examples of How Freeze of Old GRS & New GRS Will Work Under the City's Plan of A

- **What will happen to Mr. Smith's \$28,600 Pension?**
 - Assuming the Appropriate Classes Vote in Favor of the Plan of Adjustment, and It's Confirmed by the Bankruptcy Court (referred to as "Plan A" in the Plan of Adjustment):
 - The \$28,600 will be reduced by 4.5%, to \$27,313 annually
 - There will be no COLA payments
 - If Mr. Smith participated in the Annuity Savings Fund, and receives a distribution of his account on June 1, 2014, Smith's monthly pension will be further reduced to recoup a portion of the excess earnings he received.
 - The amount of that additional reduction to Smith's pension is capped at an additional 15.5%.
 - **Total possible reduction -- 20% -- reducing the annual pension to \$22,880. (But there will be a possibility for later pension and COLA restoration based upon future GRS funding levels.)**
 - If the Plan of Adjustment is not approved by the voters and is confirmed by the Bankruptcy Court (referred to as "Plan B" in the Plan of Adjustment), then the \$28,600 pension would be reduced by 27% instead of 4.5%, and an additional reduction representing the Annuity Savings Fund excess earnings -- without any cap -- would apply.



Examples of How Freeze of Old GRS & New GRS Will Work Under the City's Plan of A

- **Employee with 30 Years of Service Who Chooses to Remain and Work an Additional 5 Years.**
 - Assumed Facts:
 - Mr. Smith began City employment in 1983, at age 25. He has 31 years of service, and is now age 56.
 - Assume Mr. Smith works an additional 5 years and retires in 2019. During that 5 year period, his compensation is increased by 5%, 0%, 2.5%, 2.5%, and 2.5%.
 - In 2019, Mr. Smith's New GRS pension is based on his final average compensation over the last 10 years, not the highest three years. But the impact of the wage increases causes his final average compensation over 10 years to remain \$50,000.
 - Under special transition rules under New GRS, persons who are age 56 on 7/1/2014 are eligible for an unreduced pension under New GRS at age 61.



Examples of How Freeze of Old GRS & New GRS Will Work Under the City's Plan of A

- **What pension amount does Smith receive by staying until 2019?**
 - If Mr. Smith retires on June 1, 2019 when he is 61 and Plan A is approved and confirmed, he would be eligible for two pensions:
 - A \$28,600 annual pension under Old GRS, reduced 4.5% by the Plan of Adjustment to \$27,313, and
 - A \$3,750 annual pension under New GRS, plus a 2% variable COLA on that amount (upon reaching age 62).
 - 5 Years of Service x 1.5% x \$50,000
 - By working 5 more years, Mr. Smith ends up with a \$31,063 pension at age 61, and a variable COLA on the New GRS pension.
 - By not retiring immediately, Mr. Smith will have his Annuity Savings Account balance reduced by as much as 20% in 2014 when the Plan of Adjustment is confirmed, but Mr. Smith will then have the opportunity to earn up to 5.25% annually on the remaining balance in the Annuity Savings Fund account for each year during the remaining 5 years in which Mr. Smith works for the City.



Examples of How Freeze of Old GRS & New GRS Will Work Under the City's Plan of A

- **Employee with 26 Years of Service Who Chooses to Immediately Retire.**
 - Assumed Facts:
 - Ms. Jones began City employment in 1988, at age 25. She has 26 years of service, and is now age 51.
 - Her final average compensation in the highest three years over the last 10 years is \$50,000.
 - Ms. Jones has an accrued pension as of June 1, 2014 of \$23,100, payable when she would have earned 30 years of service if she had stayed employed by the City.



Examples of How Freeze of Old GRS & New GRS Will Work Under the City's Plan of A

- **If Jones retires on June 1, 2014 and elects to take her pension immediately, her \$23,100 annual pension would be actuarially reduced.**
 - However, if she waits until age 55 -- 2018 -- when she would have had 30 years of service, she will receive the full \$23,100.
 - Assuming the appropriate Classes vote in favor of the Plan of Adjustment, and it's confirmed by the Bankruptcy Court ("Plan A"):
 - The \$23,100 -- when received at age 55 -- will then be reduced by 4.5%, to \$22,061
 - There will be no COLA payments
 - If Ms. Jones also participated in the Annuity Savings Fund, and she receives a distribution of her account on June 1, 2014, her pension will be further reduced to recoup a portion of the excess interest she received.
 - The amount of that additional reduction is capped at an additional 15.5%.
 - **Total possible reduction -- 20% -- reducing the annual pension at age 55 to \$18,480. (But there will be a possibility for later pension and COLA restoration based upon future GRS funding levels).**
- **If the Plan of Adjustment is not approved by the voters but is confirmed by the Bankruptcy Court ("Plan B"), the \$23,100 pension would be reduced by 27% instead of 4.5%, and an additional reduction representing the Annuity Savings Fund excess earning -- without the cap -- would apply.**



Examples of How Freeze of Old GRS & New GRS Will Work Under the City's Plan of A

- **Employee with 26 Years of Service Who Chooses to Remain and Work An Additional 5 Years**
 - Assumed Facts:
 - Ms. Jones began City employment in 1988, at age 25. She has 26 years of service, and is now age 51.
 - Ms. Jones works an additional 5 years and retires in 2019 at age 56. During that 5 year period her compensation is increase by 5%, 0%, 2.5%, 2.5%, and 2.5%.
 - In 2019, Ms. Jones' New GRS pension is based on her final average compensation over the last 10 years, not the highest three years. But the impact of the wage increases causes her final average compensation over 10 years to remain \$50,000.
 - Under New GRS, persons who are age 55 and have 30 years of service when they retire will receive an actuarially reduced pension.



Examples of How Freeze of Old GRS & New GRS Will Work Under the City's Plan of A

- **If Ms. Jones works another 5 years and retires on June 1, 2019 at age 56, she has 2 choices (assuming Plan A is approved and confirmed by the Bankruptcy Court):**
 - **Choice 1:** Receive both an Old GRS pension and an actuarially reduced New GRS pension immediately upon retirement
 - An \$23,100 annual pension under Old GRS, reduced by the Plan of Adjustment to \$22,061, and
 - An actuarially reduced \$3,750 annual pension under New GRS, plus a 2% variable COLA on that amount (at age 62).
 - **Choice 2:** Receive a \$23,100 Old GRS pension immediately (reduced by the Plan of Adjustment to \$22,061), and wait until age 62 to receive the full \$3,750 under the New GRS.
- Ms. Jones receives her \$22,061 because her years of service after June 30, 2014 are taken into account to determine whether she satisfied the “30 years and out” rule in Old GRS.
 - Plus, Ms. Jones gets credit for the post-2014 years of service, for both vesting and accrual purposes, under the New GRS.
- By not retiring immediately, Ms. Jones will have her Annuity Savings Account balance reduced by as much as 20% in 2014 under the Plan of Adjustment, but will also have the opportunity to earn up to 5.25% annually on the remaining balance for each year during the remaining 5 years in which she works.



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