

DETROIT POLICE AND FIRE RETIREMENT SYSTEM **UNDER THE PLAN OF ADJUSTMENT**

FREQUENTLY ASKED PENSION QUESTIONS FOR ACTIVE POLICE AND FIRE EMPLOYEES

Questions About the Recent Pension Changes Announcements

Q1 What changes are being made to PFRS?

A1 As we explained in prior communications, the City is freezing benefits under current PFRS (“Old PFRS Pension”) effective June 30, 2014 and launching a new hybrid pension plan (“New PFRS Pension”) effective July 1, 2014 for all eligible police and fire employees. Employees who elected into the Deferred Retirement Option Program (“DROP”) under the Old PFRS Pension on or before June 30, 2014 will not be eligible to participate in the New PFRS Pension.

Q2 Why is this being done?

A2 The reason for this change is to strengthen the financial condition of PFRS while continuing to maintain a defined benefit retirement program for the City’s police and fire employees.

Q3 How does this affect me?

A3 You will keep the pension benefits you earned through June 30, 2014 under the Old PFRS Pension, except as it relates to COLA payments, which would be modified under the terms of the bankruptcy Plan of Adjustment. If you are vested currently or you work long enough for the City to become vested, those benefits will be paid to you when you retire.

Annuity Savings Fund (“ASF”) contributions to the Old PFRS Pension will stop for pay you earn on and after July 14, 2014. Your ASF account will remain in the Old PFRS Pension until it is distributed to you (or your beneficiary) or used to increase your pension benefit under the terms of the Old PFRS Pension. Beginning July 1, 2014, your ASF account will be credited with interest at the annual adjusted rate of return for the PFRS, but not less than 0% and not more than 5.25%.

Effective July 1, 2014, you will begin to earn benefits under the New PFRS Pension. You will be required to contribute 6% of your base compensation on a pre-tax basis to the New PFRS Pension and the City will contribute a portion (either 11.2% or 12.25%, depending on your collective bargaining unit) of your base compensation, as well. Your required contributions will begin with the pay you earn on and after July 14, 2014.

In addition to your required contributions, if you are a member of the Detroit Police Command Officers Association or the Detroit Police Lieutenants and Sergeants

Association, you may elect to make after-tax contributions to the New PFRS Pension of between 1% and 10% of your pay. These voluntary savings contributions – they are not mandatory; it is entirely up to you whether you want to participate in this retirement savings device -- will be credited with interest at the same rate that will apply to your ASF account money (see above). If you want to make voluntary savings contributions to the New PFRS Pension, those contributions will begin as soon as possible after July 14, 2014.

Q4 Do these changes to PFRS affect my salary?

A4 All employees will be required to contribute to the New PFRS Pension. These contributions will be made on a pre-tax basis, lowering your income for income tax purposes, so you may pay less in federal and state income taxes. Some police and fire employees will see increases in their paychecks that will offset part of their required contributions to the New PFRS Pension.

Q5 Who should I contact if I have questions about these pension changes, or any wage increases?

A5 We recommend contacting your union representative. If you are a non-union employee, you should direct questions to PensionQA@detroitmi.gov.

Questions About the Old PFRS Pension

Q6 What happens when my PFRS pension is “frozen” on June 30, 2014?

A6 Your accrued pension benefit under PFRS will be calculated as of June 30, 2014. The Retirement System will look at your Years of Service and your Average Final Compensation (“AFC”) as of June 30, 2014, and will then calculate your pension as of that date: Years of Service x AFC x the existing Pension Multiplier. The resulting pension amount will then be fixed or “frozen”, meaning that it will not increase in the future under this formula, even if you continue to work for the City after June 30, 2014 (including by reason of rehire). Your benefit as of June 30, 2014 is called your “Frozen PFRS benefit” in this FAQ.

Your Frozen PFRS benefit will be payable to you under the same payment rules that apply to you currently. That is, when you reach 20 years (or 25 years, if applicable) of service, you can retire immediately and begin receiving payment of your Frozen PFRS benefit. You DO NOT have to wait until you reach your normal retirement age under the New PFRS Pension to receive payment of your Frozen PFRS benefit.

Any additional pension amount that you earn for your years of service with the City after June 30, 2014 will be calculated under the New PFRS Pension, which is described below in FAQ 24.

In addition, no mandatory ASF contributions will be made to the Old PFRS Pension for pay you earn on and after July 14, 2014.

Q7 If I am vested under the Old PFRS Pension and I decide to resign, will I continue to receive interest on my ASF account balance if I choose to leave it in the Old PFRS Pension?

A7 YES. If you resign your position with the City and you leave your ASF account balance in the Old PFRS Pension, your ASF account will continue to be credited with interest for the period of time provided in the Old PFRS Pension. Beginning July 1, 2014, the interest credit amount for ASF account balances will be the actual net earnings rate of the assets of PFRS; however, the earnings rate will never be less than 0% or greater than 5.25%. For example, if the actual net earnings rate of PFRS is 4.2%, your ASF account would be credited with interest at the rate of 4.2%. If the actual net earnings rate is -4.2%, your ASF account will not be reduced. If the actual net earnings rate is 6%, your ASF account will be credited with interest at the rate of 5.25%.

Q8 If I am employed with the City on June 30, 2014 but I have not worked long enough to become vested will I lose all my right to a pension under the Old PFRS Pension when the Old PFRS Pension is frozen?

A8 NO. If you continue to work for the City until you work long enough to become vested under the rules of the Old PFRS Pension – which for most police and fire employees is 8 years, and for some police and fire employees is 10 years – you will become vested in your Frozen PFRS benefit. If you leave the City after June 30 2014 and before you work long enough to become vested, you will lose your right to receive a pension under the Old PFRS Pension.

Q9 If I am not employed with the City on June 30, 2014 and I had less than the number of years of service required to be vested when I left, can I return to work and grow into a pension under the frozen Old PFRS Pension?

A9 NO. If you are not a City employee on June 30, 2014, and you had less than 8 or 10 years (whichever applies to you) of service when you left, you will lose your right to receive a pension under the Old PFRS Pension when the Old PFRS Pension is frozen.

Q10 If I have been with the City for 25 years and I resign before June 30, 2014, will I lock in my current pension multiplier?

A10 There is no advantage associated with resigning before June 30, 2014. Your current multiplier is locked in for purposes of determining your Frozen PFRS benefit under the Old PFRS Pension, whether or not you resign before June 30, 2014.

Q11 When can I retire under the Old PFRS Pension and receive my Frozen PFRS benefit?

A11 You can retire under the Old PFRS Pension and receive your Frozen PFRS benefit on the same date you would have been entitled to retire had the Old PFRS Pension not been frozen. For most employees, that occurs upon completion of 20 or 25 years of service. For purposes of determining whether you can receive a pension under the Old PFRS Pension, your service with the City both before and after June 30, 2014 will be counted.

Example 1: John Smith is age 39 and has 16 years of service as of June 30, 2014. Assume that he can retire and receive a full pension from the Old PFRS Pension upon completion of 20 years of service. His Frozen PFRS benefit is \$34,000 per year. If he terminates employment on June 30, 2014 Smith will not be eligible to immediately receive his Frozen PFRS benefit. But if he continues to work at the City for four (4) more years, and then terminates employment on June 30, 2018, he will have 20 years of service and he will be eligible to immediately receive his \$34,000 per year Frozen PFRS benefit.

Q12 If I am 45 years old with 25 years of service, do I have to work all the way to age 50 or 52 in order to retire and receive my Frozen PFRS benefit?

A12 NO. You do not have to wait until age 50 or 52 to retire. Because you have 25 years of service currently, you may retire from City employment and begin to receive payment of your unreduced Frozen PFRS benefit. If you are a member of the Detroit Police Command Officers Association or the Detroit Police Lieutenants and Sergeants Association, you may also receive any benefit you have earned under the New PFRS Pension under the transition rule described in FAQ 26. If you are a member of the Detroit Fire Fighters Association or the Detroit Police Officers Association, you will have to wait until you are age 52 to begin receiving payment of your pension benefit under the New PFRS Pension.

Example 2: Jane Jones is age 45 with 25 years of service. As of June 30, 2014 she has earned a \$37,000 frozen pension under the Old PFRS Pension. Jones works three more years. During those three years she earns an additional \$3,000 pension under the New PFRS Pension. Jones retires on June 30, 2017, at which time she is age 48 and has 28 years of service. Jones can begin to receive her \$37,000 per year pension from the Old PFRS Pension and, if Jones is a member of the Detroit Police Command Officers Association or the Detroit Police Lieutenants and Sergeants Association, she can begin to receive her \$3,000 pension from the New PFRS Pension. If Jones is a member of the Detroit Police Officers Association or the Detroit Fire Fighters Association, she can begin to receive her \$37,000 per year pension from the Old PFRS Pension, but not her additional \$3,000 pension from the New PFRS Pension. However, when Jones turns age 52 – in 2021 – she can then begin to draw her \$3,000; thus, at that juncture, Jones will receive a \$40,000 annual pension.

- Q13 If I retire on or before June 30, 2014, what compensation and years of service will count for purposes of calculating my Frozen PFRS benefit under the Old PFRS Pension?**
- A13** If you retire on or before June 30, 2014, your compensation and years of service will be determined as of the date of your termination of employment with the City
- Q14 If I retire on or after July 1, 2014, what compensation and years of service will count for purposes of calculating my Frozen PFRS benefit?**
- A14** If you retire on or after July 1, 2014, your compensation and years of service as of June 30, 2014 will be used for purposes of calculating your Frozen PFRS benefit.
- Q15 What happens to my benefit if I am already vested under the Old PFRS Pension but I left the City?**
- A15** If you were vested in your benefit under the Old PFRS Pension when you left the City, your Frozen PFRS benefit will be determined under the Old PFRS Pension benefit formula in effect on the date your employment terminated, based on your compensation and years of service on that date.
- Q16 Can I “roll over” my pension benefits accrued under the Old PFRS Pension into another retirement plan?**
- A16** NO, but you may have the right to roll-over your ASF account to an IRA or another retirement plan (other than the New PFRS Pension) if you are currently eligible or become eligible to withdraw those funds.
- Q17 If I am eligible for an unreduced normal pension under the Old PFRS Pension, can I continue to work after June 30, 2014 and simultaneously draw that pension?**
- A17** NO. You must retire to begin to receive your pension. No individual is permitted to draw a pension benefit and work for the City at the same time.
- Q18 Under the Old PFRS Pension, what 5-year period (or 3-year period for members of the Detroit Police Command Officers Association) is used to calculate Average Final Compensation for my Frozen PFRS benefit if I remain employed by the City after June 30, 2014?**
- A18** Under the Old PFRS Pension, the applicable compensation years will be the 5 year period (or the 3 year period, if applicable) that ends on June 30, 2014, even if you continue to work for the City after June 30, 2014.

- Q19 If I am age 47 and have 15 years of service, plus 3 years of military service, will my military service continue to be used in my pension calculation under both the Old and New PFRS Pension?**
- A19** Your credited service (including any military service for which you have been given credit) as of June 30, 2014 will be used for purposes of calculating your Frozen PFRS benefit under the Old PFRS Pension. Under the New PFRS Pension, only service earned on or after July 1, 2014 will be used for purposes of calculating your New PFRS Pension. Any military service earned while employed by the City on or after July 1, 2014 will count as credited service for pension benefit purposes under the New PFRS Pension, provided that you “make up” any mandatory contributions that you would have made to the New PFRS Pension during the period of your military service.
- Q20 If I am currently 45 years old and have 15 years of credited service, when can I retire under the Old PFRS Pension and receive my Old PFRS Pension benefits?**
- A20** You can retire under the Old PFRS Pension and receive your pension on the date you would have been eligible to retire and receive a pension if benefits had not been frozen. For example, if under the Old PFRS Pension you are eligible to retire once you have 25 years of service, and you currently have 15 years of service, you would be able to receive your Old PFRS Pension upon 10 additional years of service. The pension you receive will be your Frozen PFRS benefit. Under the New PFRS Pension, you will be eligible to retire on the date described in FAQ 26.
- Q21 If I opted into the DROP under the Old PFRS Pension prior to June 30, 2014, will my participation in DROP end when the Old PFRS Pension is frozen on June 30, 2014?**
- A21** NO. If you made an irrevocable election on or before June 30, 2014 to participate in the DROP, you will continue to participate after June 30, 2014 under the terms of the DROP program in effect on that date. You will not be eligible to participate in the New PFRS Pension.
- Q22 If I do not elect to participate in DROP before July 1, 2014 under the Old PFRS Pension, can I still elect to participate in DROP after that date?**
- A22** If you are a member of the Detroit Police Command Officers Association or the Detroit Police Lieutenants and Sergeants Association, you may elect to participate in DROP under the Old PFRS Pension after June 30, 2014. Your participation in DROP will, however, be limited to 5 years. In addition, the City anticipates that the amount subject to DROP will be credited to an account established for you under the Old PFRS Pension (i.e., those amounts will no longer be transferred to ING). Your DROP account will be credited with interest at a rate equal to seventy-five percent (75%) of the actual net earnings rate earned on the assets of PFRS; however the earnings rate credited to your DROP account will never be less than 0% or greater than 7.75%.

If you are a member of the Detroit Police Officers Association or the Detroit Fire Fighters Association, you may not elect to participate in DROP after June 30, 2014.

Questions About the New PFRS Pension

Q23 If I continue to work for the City after June 30, 2014, will I be covered under the New PFRS Pension or is that plan only for newly hired City employees? If I am covered under the New PFRS Pension how will my benefits from PFRS be calculated and when will they be paid?

A23 The New PFRS Pension is not just for newly hired employees. If you are a current employee and you continue to be employed by the City after June 30, 2014, you will begin to earn pension benefits under the New PFRS Pension effective July 1, 2014. If you work for the City both before and after July 1, 2014, you will receive two pension benefits:

Your Old PFRS Pension - This pension benefit will be payable to you under the rules of the Old PFRS Pension; and

Your New PFRS Pension - This pension benefit will be paid in accordance with the rules of the New PFRS Pension.

Q24 How is the pension benefit calculated under the New PFRS plan?

A24 The benefit formula under the New PFRS plan is 2.0% of your Average Final Compensation per year of Credited Service earned on and after July 1, 2014.

Average Final Compensation for a member of the Detroit Police Command Officers Association or the Detroit Police Lieutenants and Sergeants Association is the average of the member's base compensation over the last consecutive 5 years of employment with the City. For members of the Detroit Fire Fighters Association and the Detroit Police Officers Association, Average Final Compensation is the average of the member's base compensation over the last consecutive 10 years of employment with the City.

You will earn 1/12th of a year of Credited Service under New PFRS for each month in which you work 140 hours for the City.

Q25 Will all of my years of service with the City (even those credited before July 1, 2014) be counted under the New PFRS plan?

A25 As noted above, for benefit accrual purposes only your years of service with the City on and after July 1, 2014 will count.

For purposes of determining whether you are vested in your benefit under the New PFRS Pension and whether you have enough years of service to meet the eligibility

requirements for receiving a benefit, your total service with the City (both before and after June 30, 2014) will be counted.

Q26 When can I retire under the New PFRS Pension and receive a full pension?

A26 If you are a member of the Detroit Fire Fighters Association or the Detroit Police Officers Association, you must wait until you reach age 52 and have 25 years of service to retire and receive a full pension from the New PFRS Pension. This rule does not apply to receipt of your Old PFRS Pension. See FAQ 11, above. If you are a member of the Detroit Police Command Officers Association or the Detroit Police Lieutenants and Sergeants Association, you can begin receiving your full pension from the New PFRS Pension when you reach age 50 and have 25 years of service. If you are a member of the Detroit Police Command Officers Association or the Detroit Police Lieutenants and Sergeants Association, under special transition rules, you can receive your full pension at the ages and years of service set forth below:

<u>Fiscal Year Ending</u>	<u>Age and Service</u>
6/30/2015	Age 43 and 20 years
6/30/2016	Age 43 and 20 years
6/30/2017	Age 44 and 21 years
6/30/2018	Age 45 and 22 years
6/30/2019	Age 46 and 23 years
6/30/2020	Age 47 and 24 years
2021 and thereafter	Age 50 and 25 years

Example 3: Joe Smith is age 46 and has 25 years of service as of June 30, 2014. His Frozen PFRS benefit is \$34,000. Assume that, as of June 30, 2015, Smith has accrued an additional \$1,000 annual pension under the New PFRS Pension and that he is a member of the Detroit Police Command Officers Association. Because, under the chart above, he can receive his full pension under the New PFRS Pension as long as he is age 43 and has 20 years of service, Smith can also receive his full New PFRS Pension. If he retires on June 30, 2015, Smith will receive a pension of \$35,000 (\$34,000 + \$1,000).

Q 27 Can I elect to participate in DROP under the New PFRS Pension?

A27 If you are a member of the Detroit Police Command Officers Association or the Detroit Police Lieutenants and Sergeants Association, you may elect to participate in DROP under the New PFRS Pension when you become eligible to retire and receive an unreduced Retirement Allowance from the New PFRS Pension. Your participation in DROP will be limited to 5 years. The amount subject to DROP will be credited to an account established for you under the New PFRS Pension. Your DROP account will be credited with interest at a rate equal to seventy-five percent (75%) of the actual net earnings rate earned on the assets of PFRS; however the earnings rate will never be less than 0% or greater than 7.75%.

If you are a member of the Detroit Police Officers Association or the Detroit Fire Fighters Association, you may not elect to participate in DROP under the New PFRS Pension.

Q29 Under the New PFRS Pension, if an employee makes mandatory contributions of 6% of his or her annual base pay but separates from the City prior to completing the 10 year vesting period, does the employee receive his or her mandatory contributions to the New PFRS Pension upon separation?

A28 YES. An employee who terminates from employment with the City (other than by reason of retirement or death) may elect to receive a distribution of his or her accumulated mandatory employee contributions. The distribution will be made in a lump sum payment or in equal installments over a period of time not to exceed three years, according to such rules and regulations as the Board of Trustees of PFRS may adopt from time to time.

Q29 Does the mandatory employee contribution under the New PFRS Pension include overtime pay? In other words, if I work overtime do I have to contribute more?

A29 NO. The mandatory employee contributions are based on your base compensation.

Q30 How will annual compensation be computed under the New PFRS Pension for the purposes of calculating my Average Final Compensation? Will it be the "gross wages" paid annually as reflected on my last paycheck each year, minus overtime pay?

A30 Average Final Compensation will be based on base wages, and does not include overtime, unused vacation and sick leave payouts, longevity payments, bonuses, and any other special payments. Average Final Compensation will include paid time off, plus any before-tax salary reductions for the employee portion of insurance premiums and flexible spending account contributions under the City's cafeteria plan, and mandatory employee contributions to the New PFRS Pension.

Questions About the Changes Proposed in the Plan of Adjustment

Q31 Can I avoid any reductions to my COLAs made in connection with the Plan of Adjustment by resigning or retiring before June 30, 2014?

A31 NO. Retirees are also subject to any reductions that may be made in connection with the Plan of Adjustment.

Q32 Can I avoid any reductions to my COLAs by resigning or retiring before the Bankruptcy Court approves the Plan of Adjustment?

A32 NO. Any adjustments made to COLAs in the Plan of Adjustment will apply to all current members who are entitled to receive a benefit from the Old PFRS Pension even if they

are not employed with the City when the Bankruptcy Court approves the Plan of Adjustment.

Questions Relating to Retiree Health Benefits

Q33 If I retire after 2014, will I receive retiree health benefits?

A33 Yes. You will receive retiree health benefits as provided for in the collective bargaining agreements negotiated, and still to be negotiated or imposed, by the City and the applicable safety union. Persons who retire after 2014 will receive retiree health benefits for at least 5 years.

Q34 How much in retiree health benefits will I receive if I retire after 2014?

A34 The amount of retiree health benefits and the form of those benefits (for example, whether in the form of a cash stipend) will be negotiated by the City and the applicable unions over the next several weeks.

Q35 How will retiree health benefits compare for someone who retires in 2014 vs. someone who retires in 2015 or later?

A35 Neither the amount of retiree health benefits for someone who retires in 2014 nor the amount of retiree health benefits for those who retire in 2015 (or later) has been determined. However, the City anticipates they will be similar for at least the next 5 years.

Q36 How does health insurance compare for someone who chooses to stay with the City versus someone who retires in 2014 and 2015?

A36 Someone who stays in active employment with the City will receive significantly more generous and valuable health insurance than someone who retires this year or thereafter. That is particularly the case for an active employee who has a spouse and dependent children. The City's active health insurance benefit program covers spouses as well as dependents until age 26. In contrast, it is not anticipated that the retiree health program will provide any benefit to dependent children. Spouses of retirees are likely to be provided very modest benefits, and if the spouse is under age 65 such spouse may end up not receiving any benefits at all.