



Financial Services Audit Committee Communication

Date: January 18, 2019

To: Great Lakes Water Authority Audit Committee

From: Kathy Smith-Roy, Financial Services Member

Re: General Retirement System Financial Report for Year-end June 30, 2018

Background: The Great Lakes Water Authority's (GLWA) assumed a portion of the legacy pension commitment assigned to the City of Detroit Water & Sewerage Department (DWSD) pursuant to the terms of the regional water and sewer leases. For this reason, GLWA monitors activity related to the City of Detroit General Retirement System (GRS).

Attached are the following reports presented to the GRS Board at its December 5, 2018 meeting:

- ✓ Report letter to those charged with governance for The General Retirement of the City of Detroit for the year ended June 30, 2018 (dated November 26, 2018)
- ✓ Audited Financial Report for The General Retirement System of the City of Detroit (dated November 26, 2018)
- ✓ GASB Statement No. 68 Employer Reporting and Accounting Schedules of Component II, June 30, 2017 (dated July 23, 2018)
- ✓ GASB Statement No 67 and 68 Accounting and Financial Reporting of Pension Plans of Component II June 30, 2018 (dated October 31, 2018)

Highlights/Analysis: The June 30, 2017 Net Pension Liability of the system decreased to \$943.8 million from \$992.9 million as of June 30, 2016 (approximately 5%). In determining the total pension liability as of June 30, 2017, the changes in actuarial assumptions from June 30, 2016 included the following.

1. The long-term expected return on assets was 6.91% net of investment expenses, as of June 30, 2016 (it was 6.75% net of investment and administrative expenses, in the June 30, 2016 funding valuation, as required by the Plan of Adjustment).
2. The Single Discount Rate (SDR) changed to 6.91% from 7.23% when compared to the June 30, 2016 GASB 68 valuation.

Executive Summary as of June 30, 2017

Actuarial Valuation Date	June 30, 2016
Measurement Date of the Net Pension Liability	June 30, 2017
Employer's Fiscal Year Ending Date (Reporting Date)	June 30, 2018
Membership	
Number of	
- Retirees and Beneficiaries	11,926
- Inactive, Nonretired Members	3,588
- Active Members	<u>3,236</u>
- Total	18,750
Covered Payroll	\$ 143,882,722
Net Pension Liability	
Total Pension Liability	\$ 2,910,509,226
Plan Fiduciary Net Position	<u>1,966,728,975</u>
Net Pension Liability	\$ 943,780,251
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.57%
Net Pension Liability as a Percentage of Covered Payroll	655.94%
Development of the Single Discount Rate	
Single Discount Rate	6.91%
Long-Term Expected Rate of Investment Return	6.91%
Long-Term Municipal Bond Rate*	3.56%
Last year ending June 30 in the 2018 to 2117 projection period for which projected benefit payments are fully funded	2117
Total Pension Expense	\$ 113,958,599

Source: GASB Statement No. 68 Employer Reporting and Accounting Schedules of Component II, June 30, 2017 (dated July 23, 2018), p 1

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At June 30, 2017 the DWSD Net Pension Liability decreased to \$254.6 million from \$276.1 million at June 30, 2016 (approximately 7.8% decrease). The following excerpt from the report shows the schedule of changes in Net Pension Liability by unit.

Schedule of Changes in Net Pension Liability and Related Ratios Current Period
Fiscal Year Ended June 30, 2017*

	General	DOT	DWSD	Library	Total
A. Total Pension Liability					
1. Service Cost	\$ -	\$ -	\$ -	\$ -	\$ -
2. Interest on the Total Pension Liability	111,696,826	29,480,676	53,810,904	6,930,830	201,919,236
3. Changes of benefit terms	-	-	-	-	-
4. Difference between expected and actual experience of the Total Pension Liability	(23,006,975)	(5,802,247)	3,370,105	(2,069,263)	(27,508,380)
5. Changes of assumptions	41,844,061	11,022,689	21,554,914	2,504,293	76,925,957
6. Benefit payments, including refunds of employee contributions^	(150,490,982)	(36,843,199)	(72,661,992)	(7,253,366)	(267,249,539)
7. Net change in Total Pension Liability	\$ (19,957,070)	\$ (2,142,081)	\$ 6,073,931	\$ 112,494	\$ (15,912,726)
8. Total Pension Liability – Beginning	1,620,153,175	426,176,461	780,603,529	99,488,787	2,926,421,952
9. Total Pension Liability – Ending	\$ 1,600,196,105	\$ 424,034,380	\$ 786,677,460	\$ 99,601,281	\$ 2,910,509,226
B. Plan Fiduciary Net Position					
1. Contributions – employer	\$ 45,388,561	\$ 100,841	\$ 42,900,000	\$ 2,849,000	\$ 91,238,402
2. Contributions – employee	-	-	-	-	-
3. Net investment income	119,411,049	23,970,241	55,209,451	8,305,826	206,896,567
4. Benefit payments, including refunds of employee contributions^	(150,490,982)	(36,843,199)	(72,661,992)	(7,253,366)	(267,249,539)
5. Pension Plan Administrative Expense	(5,024,638)	(749,619)	-	(247,580)	(6,021,837)
6. Other	4,567,412	1,436,415	2,125,248	195,000	8,324,075
7. Net change in Plan Fiduciary Net Position	\$ 13,851,402	\$ (12,085,321)	\$ 27,572,707	\$ 3,848,880	\$ 33,187,668
8. Plan Fiduciary Net Position – Beginning	1,108,816,677	240,693,710	504,535,894	79,495,026	1,933,541,307
9. Plan Fiduciary Net Position – Ending	\$ 1,122,668,079	\$ 228,608,389	\$ 532,108,601	\$ 83,343,906	\$ 1,966,728,975
C. Net Pension Liability	\$ 477,528,026	\$ 195,425,991	\$ 254,568,859	\$ 16,257,375	\$ 943,780,251
D. Plan Fiduciary Net Position as a percentage of the Total Pension Liability	70.16%	53.91%	67.64%	83.68%	67.57%
E. Covered-employee payroll	\$ 83,878,095	\$ 25,487,019	\$ 22,864,010	\$ 11,653,598	\$ 143,882,722
F. Net Pension Liability as a percentage of covered-employee payroll	569.31%	766.77%	1113.40%	139.51%	655.94%

*Totals may not add due to rounding.

^Includes approximately \$2.9 million of adjusted loan balances that were treated as refunds of ASF contributions.

Source: GASB Statement No. 68 Employer Reporting and Accounting Schedules of Component II, June 30, 2017 (dated July 23, 2018), p 18

On January 24, 2017, the parties agreed that 70.3 percent of the liability was allocable to the GLWA regional operations and 29.7 percent to DWSD and is the basis of allocation for future pension contributions. That net pension liability is further subdivided between the Water System and the Sewer System for each entity.

For the fiscal year ending June 30, 2018 GLWA reported a net pension liability of \$179 million.

The combined administrative expenses for Component I (Hybrid) and Component II (Legacy) plans were \$2.2M for June 30, 2018. The administrative expenses for both plans

was 3.0% of payroll; Component II is allocated 60% of the expenses, a decrease from June 30, 2017 of a 71% allocation.

GLWA tracks the Administrative Charges payments and expenses. At June 30, 2018 the excess/overpayment of administrative charges have accumulated to \$2.1 million. These amounts are included in Prepaid Items and Other Assets in the June 30, 2018 Statement of Net Position for GLWA.

The General Retirement System of the City of Detroit GASB Statement No. 67 Plan Reporting and Accounting Schedules of Component II June 30, 2018 reports a projected decrease in Net Pension Liability to \$832.7 million from \$943.8 million as of June 30, 2017 (approximately 11.8%). For purposes of determining the total pension liability as of June 30, 2018, the changes in actuarial assumptions from June 30, 2017 included the following.

1. The long-term expected return on assets was 7.38% net of investment expenses, as of June 30, 2017 (it was 6.91% net of investment and administrative expenses, in the June 30, 2017 funding valuation, as required by the Plan of Adjustment).
2. The Single Discount Rate (SDR) changed to 7.38% from 6.91% when compared to the June 30, 2017 GASB Statement No. 67 valuation.

The following is an excerpt from the GASB 67 report required supplemental information showing the multi-year schedule of changes in net pension liability including the June 30, 2017 projected net pension liability.

Schedules of Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios Multiyear

Ultimately 10 Fiscal Years will be Displayed					
Fiscal year ending June 30,	2018	2017	2016	2015	2014
Total Pension Liability					
Service Cost	\$ -	\$ -	\$ -	\$ -	\$ 32,736,019
Interest on the Total Pension Liability	192,359,745	201,919,236	214,011,164	263,007,329	242,611,073
Benefit Changes	-	-	-	(731,824,895)	(113,311,571)
Difference between Expected and Actual Experience	34,154,327	(27,508,380)	(43,719,112)	24,644,530	-
Assumption Changes	(110,274,515)	76,925,957	90,034,927	(101,559,893)	(271,190,194)
Benefit Payments	(239,301,938)	(242,938,006)	(242,470,451)	(253,217,949)	(253,683,194)
Refunds*	(14,140,692)	(24,311,533)	(49,811,728)	(44,321,041)	(144,050,613)
Net Change in Total Pension Liability	(137,203,073)	(15,912,726)	(31,955,200)	(843,271,919)	(506,888,480)
Total Pension Liability - Beginning	2,910,509,226	2,926,421,952	2,958,377,152	3,801,649,071	4,308,537,551
Total Pension Liability - Ending (a)	\$ 2,773,306,153	\$ 2,910,509,226	\$ 2,926,421,952	\$ 2,958,377,152	\$ 3,801,649,071
Plan Fiduciary Net Position					
Employer Contributions	\$ 68,275,000	\$ 91,238,402	\$ 104,792,657	\$ 189,282,095	\$ 25,126,131
Employee Contributions	-	-	-	609,073	10,241,761
Pension Plan Net Investment Income	155,423,193	206,896,567	(7,865,094)	93,054,978	289,789,607
Benefit Payments	(239,301,938)	(242,938,006)	(242,470,451)	(253,217,949)	(253,683,194)
Refunds*	(14,140,692)	(24,311,533)	(49,811,728)	(44,321,041)	(144,050,613)
Pension Plan Administrative Expense	(3,313,418)	(6,021,837)	(3,742,618)	(7,556,822)	(11,237,767)
Other	6,952,522	8,324,075	1,360,330	138,219,998	-
Net Change in Plan Fiduciary Net Position	(26,105,333)	33,187,668	(197,736,904)	116,070,332	(83,814,075)
Plan Fiduciary Net Position - Beginning	1,966,728,975	1,933,541,307	2,131,278,211	2,015,207,879	2,099,021,954
Plan Fiduciary Net Position - Ending (b)	\$ 1,940,623,642	\$ 1,966,728,975	\$ 1,933,541,307	\$ 2,131,278,211	\$ 2,015,207,879
Net Pension Liability - Ending (a) - (b)	\$ 832,682,511	\$ 943,780,251	\$ 992,880,645	\$ 827,098,941	\$ 1,786,441,192
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	69.98 %	67.57 %	66.07 %	72.04 %	53.01 %
Covered-Employee Payroll	\$ 141,454,717	\$ 143,882,722	\$ 200,722,197	\$ 203,507,079	\$ 213,291,083
Net Pension Liability as a Percentage of Covered-Employee Payroll	588.66 %	655.94 %	494.65 %	406.42 %	837.56 %
Notes to Schedule:					
N/A					

* For FY 2017, includes approximately \$2.9 million of adjusted loan balances that were treated as refunds of ASF contributions.

A Special Funding Situation may occur if a non-city entity has a legal obligation to contribute directly to the Retirement System. The Net Pension Liability shown here has not been adjusted for any potential funding situation. Our understanding is that the City makes all the employer contributions into the fund, even though the City may receive monies from other entities as a result of the POA.

Source: GASB Statement No 67 and 68 Accounting and Financial Reporting of Pension Plans of Component II June 30, 2018, p 23

Proposed Action: Receive and file report.