



**To: Beneficiaries of the Detroit General Retirement System,
as holders of claims in Class 11**

From: General Retirement System of the City of Detroit

Dated: June 19, 2014

This letter is being sent to you on behalf of the General Retirement System of the City of Detroit (the “GRS” or the “Retirement System”) in connection with the City’s proposed *Fourth Amended Plan of Adjustment* (the “Plan”). If you are a beneficiary of the GRS, you are the holder of a claim in Class 11 of the Plan. All holders of claims in Class 11 are entitled to vote for or against the Plan.¹

BASED ON THE INFORMATION BELOW, PLEASE BE ADVISED THAT THE RETIREMENT SYSTEM BELIEVES THAT THE CITY’S PROPOSED PLAN IS IN THE BEST INTERESTS OF THE BENEFICIARIES OF THE RETIREMENT SYSTEM AND URGES THE BENEFICIARIES, AS HOLDERS OF PENSION CLAIMS IN CLASS 11, TO VOTE IN FAVOR OF THE PLAN BY PROPERLY COMPLETING AND RETURNING THEIR BALLOTS INDICATING THEIR ACCEPTANCE OF THE PLAN, IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH ON THE BALLOT.

PLEASE NOTE THAT IF YOU HAVE ALREADY RETURNED YOUR BALLOT AND YOU WISH TO CHANGE YOUR VOTE, YOU CAN SUBMIT A NEW BALLOT PRIOR TO THE VOTING DEADLINE OF JULY 11, 2014.²

WHILE THE RETIREMENT SYSTEM RECOMMENDS ACCEPTANCE OF THE PLAN, EACH BENEFICIARY MUST MAKE HIS/HER OWN INDEPENDENT DETERMINATION AS TO WHETHER OR NOT THE PLAN IS ACCEPTABLE TO THAT BENEFICIARY AND IS URGED TO READ THE PLAN AND ACCOMPANYING DISCLOSURE STATEMENT CAREFULLY AND CONSULT COUNSEL OF HIS/HER CHOOSING.

A. Role of the Retirement System

The GRS is responsible for administering the City’s pension plan for both active and retired general City employees and their survivors. One of the Retirement System’s most

¹ You may also be the holder of a claim for other post-employment benefits (“OPEB”), which primarily pertain to post-retirement healthcare and death benefits. Such claims are separately treated and entitled to vote on the Plan under Class 12 of the Plan.

² You can obtain another ballot by contacting the Balloting Agent at (877) 298-6236 or via email at detroitinfo@kecllc.com or via mail at Detroit Balloting Center c/o KCC, 2335 Alaska Avenue, El Segundo, CA 90245.

important duties is to collect all City contributions required to properly fund the pensions. Once the City filed for bankruptcy, that duty took on a new focus. The law and good judgment required the GRS to seek, through negotiation and/or litigation, to obtain a commitment for as much funding as practicable from the City to minimize any impact on pension benefits for beneficiaries.

To that end, the Retirement System assembled a team of professionals to protect the interests of the System's beneficiaries, including: Clark Hill PLC, as restructuring counsel; Greenhill & Co., LLC, as financial advisor; Arnold & Porter LLP, as appellate counsel; and Gabriel Roeder Smith & Company, the long-time actuarial firm of the Retirement System.

B. The Pensions Clause vs. the City's Bankruptcy

The so-called Pensions Clause of the Michigan Constitution states that accrued public pension benefits "shall not be impaired or diminished." Before the City filed for bankruptcy, the Retirement System filed a state-court lawsuit to prevent the State from authorizing the City to file a bankruptcy that would seek to reduce accrued pensions. When the City filed for bankruptcy, the Retirement System played a central role in arguing to the Bankruptcy Court that the City was not eligible to be in bankruptcy - - unless its filing was explicitly conditioned on upholding the Pensions Clause. The matter was heavily litigated. Unfortunately, on December 5, 2013, the Bankruptcy Court issued its decision, ruling that the Pensions Clause did not prohibit the City from filing for bankruptcy and seeking to reduce accrued pension benefits.

The Retirement System, along with others, have appealed the Bankruptcy Court's ruling directly to the U.S. Court of Appeals for the Sixth Circuit. The Appeal is pending at this time, written arguments are still being completed, and the timing of a decision from the Court of Appeals is unknown. While we believe that our interpretation of the Michigan Constitution is correct, the Sixth Circuit may not agree and may allow the City to reduce pensions. If the Sixth Circuit reversed the Bankruptcy Court decision and ruled in favor of the Retirement System, the City could seek further appeal. If the City did not file any other appeal or if it lost any additional appeal, the City could not proceed with a Plan that reduces pensions.

It is important to keep in mind, however, that the outcome of this litigation is highly uncertain, and the general statistics regarding success on appeal do not favor the Retirement System as the appellant. In spite of the risks in the appeal, we believe that the Retirement System's aggressive assertion of its legal arguments in this matter has given the City pause for thought and has helped create significant leverage in negotiations with the City.

C. Prior Plan Proposals

On June 14, 2013, prior to the bankruptcy filing, the City issued a Proposal for Creditors. Under the Proposal, the Retirement System's defined benefit plan would be promptly frozen and closed, and claims for underfunding liability would receive a pro rata share, along with various bond claims, healthcare claims, and other miscellaneous claims in a \$2 Billion 20-year Note. Other than the payment of 1.5% interest on the Note starting in the second full year, all other

distributions to creditors on the Note were entirely speculative. As such, the Proposal would have been disastrous for the Retirement System's beneficiaries.

On February 21, 2014, the City filed its initial Plan of Adjustment in the bankruptcy case. Under that Plan, it was proposed that GRS beneficiaries would experience benefit cuts of 26%-34%, plus loss of COLAs. Again, such cuts would have a devastating impact on beneficiaries.

D. Mediation and the Current Plan Proposal

From roughly October through mid-April, the Retirement System, along with others, engaged in numerous and intensive mediation negotiations with the City, conducted by a team of mediators, regarding the City's ability to fund the Retirement System while limiting the City's obligation and risk for any underfunding liability. Ultimately, these lengthy, hard-fought negotiations produced a current version of the proposed Plan that provides the following to GRS beneficiaries: a modest **4.5% cut** in benefits, and a loss of future COLAs. With respect to GRS beneficiaries, the Plan also provides for a limited (capped) amount of recoupment by the City of alleged excess payments made by the City from 2003 through 2013 with respect to the Annuity Savings Fund program ("ASF recoupment").³ Importantly, the Plan also includes a mechanism for **restoration** of cuts in benefits and COLAs in the event that the Retirement System's financial performance exceeds projections in the years to come. As such, the current Plan represents a **vast improvement** in the proposed treatment of pension claims relative to the City's prior proposals.

The favorable treatment of pension claims described above, which minimizes cuts in benefits and COLAs, is referred to as "Alternative A" under the Plan. The Alternative A treatment is dependent upon significant cash contributions from the State, certain charitable foundations, and the Detroit Institute of Arts (the "Outside Funding"). As discussed below, however, those contributions depend upon **both** Class 10 (PFRS claimants) and Class 11 (GRS claimants) voting in favor of the Plan. If either Class 10 or Class 11 does not vote in favor of the Plan, then the Outside Funding will not be made, and the treatment of pension claims under the Plan becomes far less favorable: for GRS beneficiaries, a **27% cut** in benefits, loss of future COLAs, plus ASF recoupment (with less restriction on the recoupment amount). The opportunity for restoration of benefits or COLAs in the future would be more uncertain. This treatment of pension claims is referred to as "Alternative B" under the Plan.

The Plan groups the various claims against the City into 16 classes. The percentage recovery differs by class, but, in particular, general unsecured creditors and some bondholders will receive only approximately 10% recovery on their claims. Relative to Alternative A, many of those creditors have filed objections to the Plan, arguing that the GRS pension claims are being treated *too well* in comparison to these other creditors and that the difference is unfair. The Retirement System strongly disagrees and opposes any such objection.

³ For clarity, the Annuity Savings Fund recoupment was and is a deal point demanded by the City, not the GRS. The GRS, in working with this demand, negotiated to reduce the amount of the potential recoupment to limit its impact on GRS beneficiaries.

E. Voting on the Plan

Under the City's Plan, if either Class 10 (PFRS) or Class 11 (GRS) votes to reject the Plan, Alternative A will not take effect because the Outside Funding will not be contributed. The harsher pension cuts of Alternative B would be put into effect if the Plan is then confirmed without the support of both Classes 10 and 11.

*You are only being asked whether Alternative A under the Plan is acceptable to you, and a vote in favor of the Plan is only a vote in favor of Alternative A.*⁴ The City has agreed that, if the Outside Funding is not made available, any vote in Classes 10 or 11 to accept the Plan will be treated as rejecting the Plan instead. In other words, the Court will assume that a favorable vote in Classes 10 or 11 is a vote for Alternative A only, not an acceptance of Alternative B.⁵

F. Recommendation

In summary, the Retirement System and its team of professionals have worked very hard to get the best result possible for the GRS pension beneficiaries. Those efforts are reflected in Alternative A of the current Plan. The Alternative A treatment represents a very substantial improvement in the proposed treatment of pension claims relative to the City's prior proposals, and the Retirement System believes it represents a fair and equitable treatment of pension claims, taking into account all of the financial and legal circumstances involved in this matter. If Alternative A is rejected by either Class 10 or Class 11, then one or more of the Retirement Systems and/or their beneficiaries and other representatives may (it is not entirely clear under the Plan) seek to continue to pursue the Sixth Circuit appeal and claims arising under the Pensions Clause. However, the possibility of success in the appeal and any related litigation is highly risky, and the result is by no means certain.

⁴ The Retirement System does not support the harsher proposed treatment of Alternative B under the Plan, but you are not being asked to vote on Alternative B.

⁵ Alternative A of the Plan seeks to prevent all holders of pension claims from bringing any claims against the State for cut pension benefits if the Plan is confirmed by the Bankruptcy Court. While the Retirement System recognizes that an argument may exist to make a claim against the State directly, under an interpretation of the Pensions Clause that would indicate that the State may be a guarantor of all public pensions in Michigan, it should be noted that there is no case law on this issue, and the only authority on the subject is a letter opinion of then-Attorney General Frank Kelley concluding that the State is not a guarantor and has no obligation for the pensions of its cities. Therefore, the Retirement System believes the treatment of pension claims provided by Alternative A should be supported, despite this bar in the Plan to suing the State.

Accordingly, in light of the City's financial condition, the current situation in the bankruptcy case, and the risks involved in the Sixth Circuit appeal and any related litigation, **THE RETIREMENT SYSTEM, IN CONSULTATION WITH ITS RESTRUCTURING COUNSEL AND FINANCIAL ADVISOR, BELIEVES THAT THE PROPOSED PLAN IS IN THE BEST INTERESTS OF THE SYSTEM'S BENEFICIARIES AND RECOMMENDS THAT CLASS 11 GRS CLAIMANTS VOTE TO ACCEPT THE PLAN BY RETURNING THEIR BALLOTS INDICATING THEIR ACCEPTANCE OF THE PLAN IN ACCORDANCE WITH THE INSTRUCTIONS ON THE BALLOT.**⁶

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⁶ The Retirement System may make certain objections to the Plan to ensure that it ultimately meets all of the legal requirements for confirmation by the Bankruptcy Court. Nonetheless, subject to making such objections, the Retirement System submits that the Plan's treatment of pension claims under Alternative A is in the best interests of beneficiaries and urges beneficiaries to vote in favor of the Plan.