

DALLAS POLICE AND FIRE PENSION SYSTEM

Pension Review Board

November 3, 2016

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DPPF FULFILLING ITS CONSTITUTIONAL OBLIGATIONS

DPPF has consistently taken action, after recognizing that all accrued benefits might not be paid, to adjust its benefits structure to try and ensure that the fund remained solvent. Until now, DPPF has not requested action by the City of Dallas to assist in accomplishing this goal.

- 2005 Member Approved Benefit Reduction:
 - Eliminated the automatic COLA for future hires
- 2011 Member Approved Benefit Reductions & Contribution Increases:
 - Added a new Tier with much lower benefits for future hires
 - Added contributions for members in DROP
- 2014 Member Approved DROP Reform:
 - Lowered the interest rate paid on DROP accounts on a phased in basis

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PROPOSED 2016 PLAN AMENDMENTS

- To address the funding issue, the Board has developed a comprehensive set of proposed Plan amendments
- An election has been called and we are currently in the process of providing member education
- Voting will run November 14th to November 28th
- A 65% passage rate is required for the amendment to pass. Retirees are not eligible to vote

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PROPOSED 2016 PLAN AMENDMENTS

- Member contribution rates are increased
- COLA is reduced and the date members are eligible for the COLA is extended for Retirees
- COLA is eliminated for members in Active DROP
- Computation pay calculation period is lengthened
- Benefit supplement is reduced
- Interest rate on DROP balances is lowered, maximum interest period earned is established while in Active DROP
- Interest rate earned on DROP balances after retirement is reduced; interest offered will be tied to the market (capped) and the liquidity of the account.
- Maximum time to defer payments into DROP accounts while in Active DROP and as a Retiree

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PROPOSED 2016 PLAN AMENDMENTS

- Tier 3 Benefit Enhancements
 - Increased multiplier
 - Increased active duty (pre-DROP) death benefit
- Multiplier increase for Tier 3 members is contingent upon contribution increases by the City of Dallas as well as contribution increases by members over 9%
- Enhancements in the multiplier are included to offset the increased contribution rate of the Tier 3 members, who have a significantly lower benefit
- The death benefit for Tier 3 is brought up to the same level of the other members

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CITY OF DALLAS

- City of Dallas has budgeted to increase their contribution rate to 28.5% this year. This will occur when the member's contribution rate is increased to 9%
- Governance amendments:
 - City Council approval of any future Plan amendments that, in total, increase the liability of the Plan
 - Increased flexibility on City Council Trustee appointees

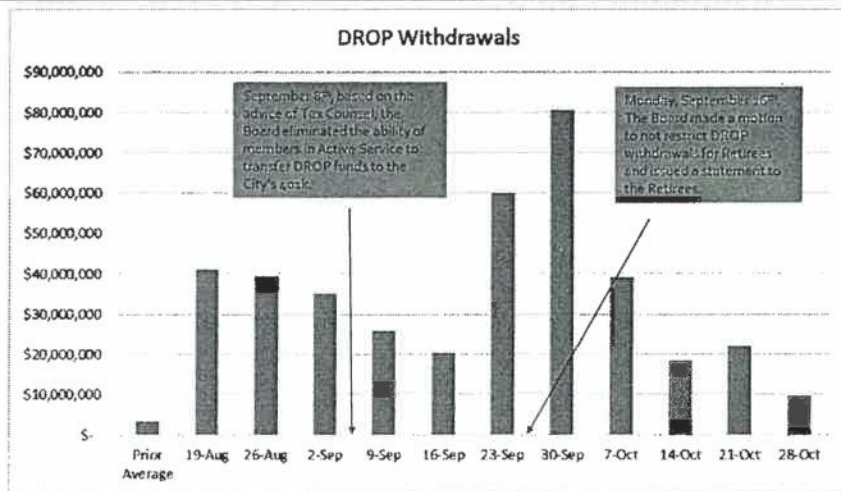
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RECENT ACTIVITY

- The Plan allows members to withdraw DROP accounts on demand. Prior to August 11th, when the Plan amendments were first discussed at the Board level, the DROP balances accounted for 61% of the total Plan assets.
- It was expected that when the Plan amendments were discussed we would have an increase in DROP withdrawals and that was built into the analysis.
- Due to press coverage and other issues, the recent withdrawal rate has been greater than expected. The retirement rate of police officers and fire fighters has increased significantly.
- The Board and staff are monitoring the continually evolving situation and are being advised by financial advisors, actuaries and attorneys.

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WEEKLY DROP WITHDRAWALS



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LIQUIDITY

- Staff monitors DROP requests on a daily basis and reviews cash flow weekly
- We know the time required to liquidate various assets
- Liquidation and rebalancing decisions are made in consultation with our investment consultant on as needed basis
- We will take the steps necessary to liquidate private assets when and if needed
- The actions taken by the Board have been effective in slowing the distributions
- Activity spikes when members become nervous

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OVERALL IMPACT AND REMAINING GAP

- When the proposed changes were developed and presented to the Board in early August, the employees were addressing 55% of the contribution rate gap required to fund the Plan in 40-years. Now with the recent DROP withdrawals, the same changes address 43% of the gap.
- The changes extended the insolvency date by 11 years, to 2041, which was an time extension of 78%. However now with DROP withdrawals, the Plan amendment changes bring the date back to the 1-1-2016 valuation insolvency date of 2030.
- City must help System to have a complete solution and to provide a sense of security to the members
- Texas Constitution: "Joint responsibility of City and System to prevent protected benefits from being reduced or otherwise impaired"

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CONCLUSION

- The proposed Plan amendments result in significant reductions of benefits and increased contributions affecting both retirees and active members.
- We have worked closely with legal counsel in developing the Plan amendments, but as is typical with most pension reform efforts something will likely be challenged.
- The issues we face today relate to decades old decisions.
- We are working in a rapidly changing environment.
- Our focus at this time is to ensure that the funding is available to make the payments promised, in full, to all members.

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