

State Pension Review Board of Texas Board Meeting

January 26, 2017

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Background

Authority	Chapter 40A of the Dallas City Code
History	First established in 1944
Type Plan	Single employer defined benefit plan that provides retirement, disability and death benefits for the permanent civilian employees of the City of Dallas
Governance	Seven member board consisting of three persons appointed by the City Council, three employees elected by the membership, and the City Auditor, ex officio
Design	City of Dallas does not participate in Social Security. City of Dallas does not provide disability insurance. Dallas ERF does not have a Deferred Retirement Option Program (“DROP”).



Fund Value and Funding Ratio

- Assets under Management (12/31/16) – \$3.3 billion
- Funding Ratio (12/31/15) – 80.4%
 - Actuarial Value of Assets - \$3.320 billion
 - Actuarial Accrued Liability -\$4.129 billion
- Dallas ERF's 80.4% funded ratio ranks in the **top 30th** percentile (better than 70%) according to Wilshire's City/County Funding Study for 2016 nationwide.



Membership Statistics

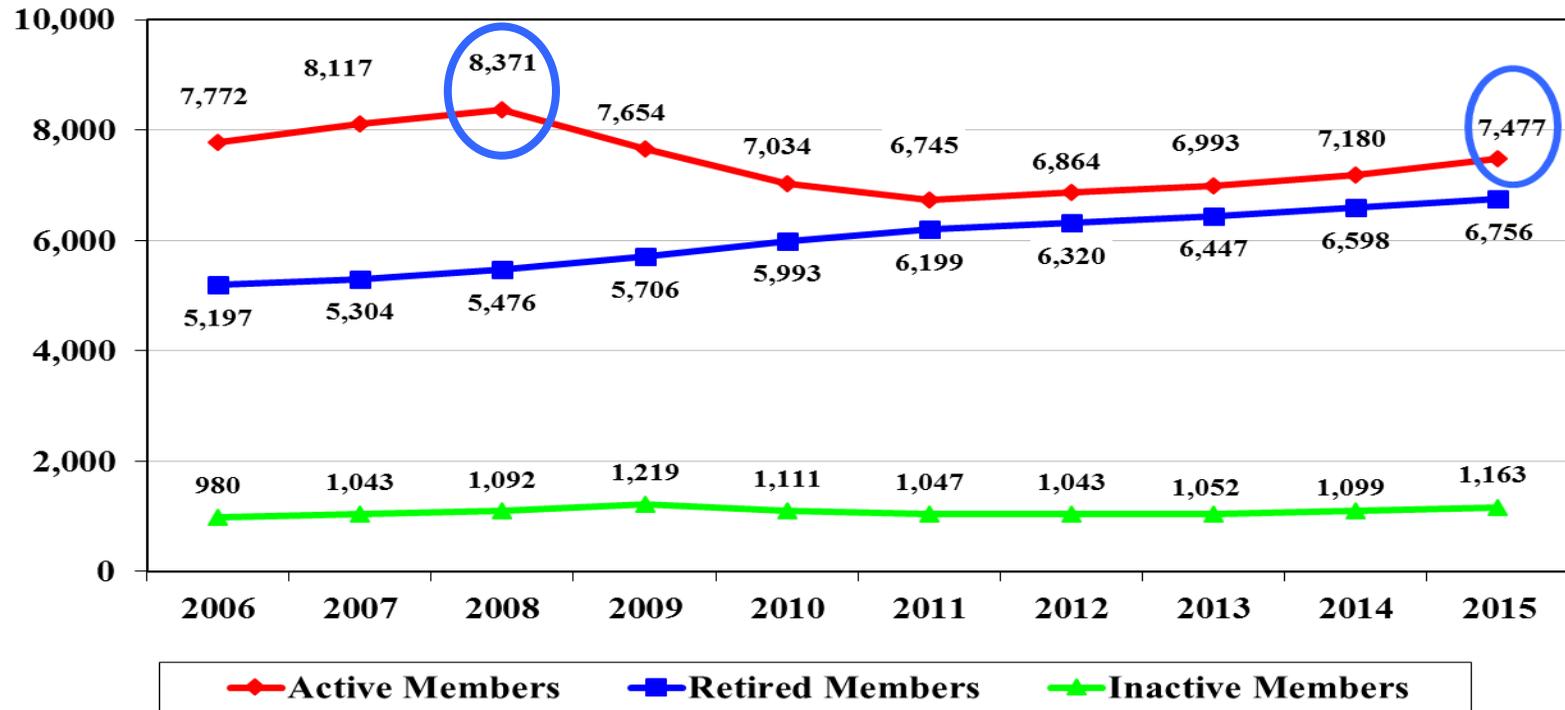
- City of Dallas employs over 7,000 civilian employees to deliver City services to an estimated 1.2 million citizens.
- The Fund has given a benefit promise to over 15,000 families in the DFW area.

	Membership (12/31/2015)	Membership (12/31/2016)
Active Members	7,477	7,601
Benefit Recipients	6,756	6,895
Inactive Members	1,163	1,100+
Total	15,396	15,596+



Active Members and Retired Members

Reducing employee headcount reduces the contributions to the Fund.



Note: The number of active employees is 12% lower than the high point in 2008.

- Active members are defined as permanent civilian employees who contribute to the Fund for vesting and retirement eligibility purposes.
- Retired members are former employees who earned eligibility to retire through contributions and are receiving a lifetime annuity.
- Inactive members are former employees who earned vesting status (five years of credited service) and will receive a lifetime annuity at age 60.



Contribution Rates

- Employees are required to contribute to the pension fund along with the employer, the City of Dallas (“City”)
- Total contribution rate is paid jointly by the City (63%) and the employees (37%)
- Future City and Employee contribution adjustments are automatic
 - Subject to trigger points and maximums
- Current Contribution Rate – 36.00%
 - Employee (37%) – 13.32%
 - Employer (63%) – 22.68% (Split to pay the following)
 - Pension Obligation Bond Credit Rate – 8.35%
 - ERF Contribution - 14.33%



Sources of Pension Fund Revenue

	2015 Amount	Percentage
Employee Contributions	\$50.7 million	22%
Employer Contributions	\$50.7 million	22%
Investment Income	\$133.7 million	56%
= Total Benefits Paid	\$235.1 million	100%

Source: ERF 2015 Annual Report



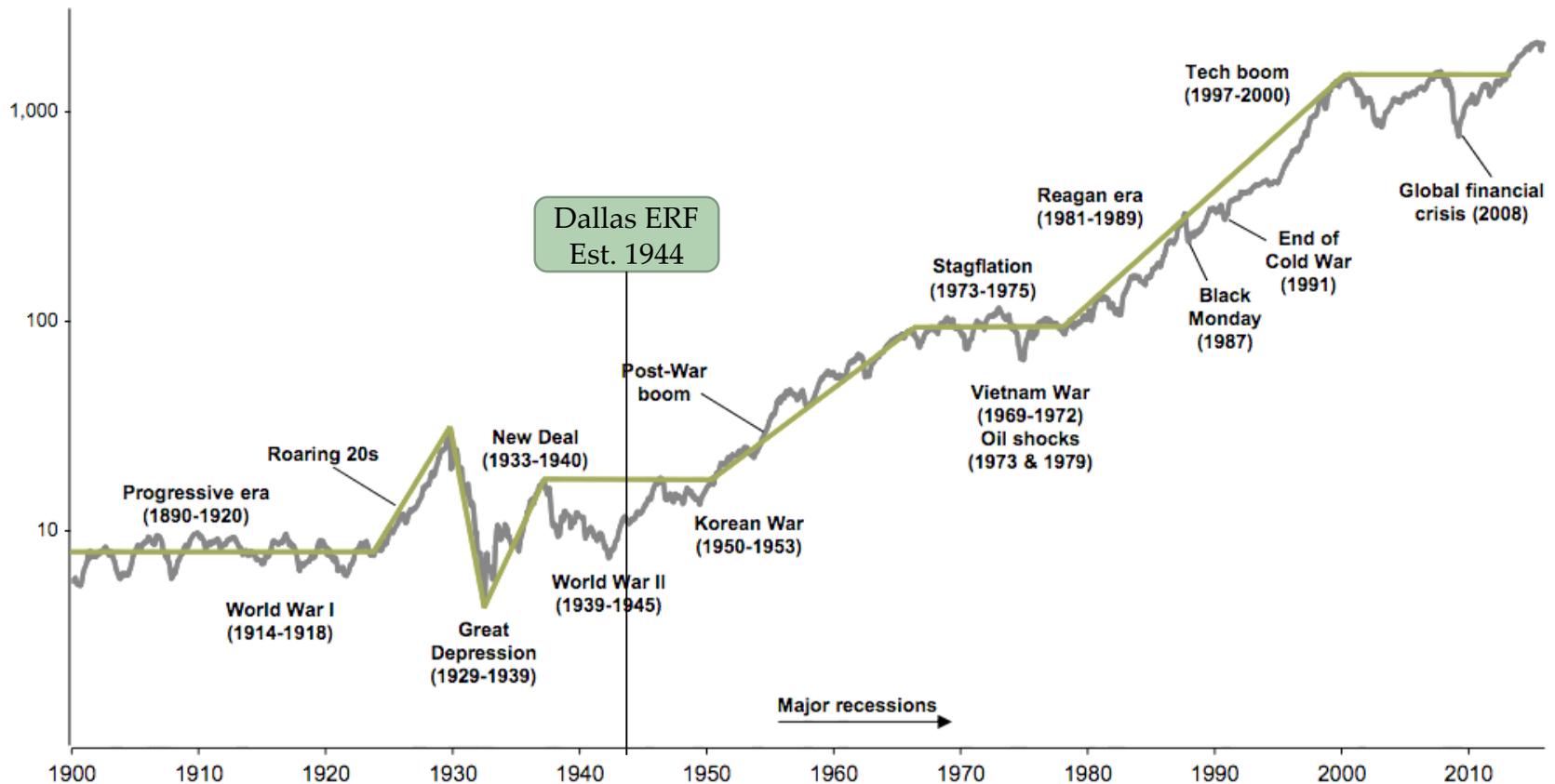
Dallas ERF has a Long Term Investment Horizon

Stock market since 1900

GTM - U.S. | 15

S&P Composite Index

Log scale, annual





Investment Summary

- Conservative Global Investment Portfolio
- 90% of Portfolio Valued Daily
- Rate of Return
 - 5.00% Real Rate of Return
 - 3.00% Inflation
 - = 8.00% Assumed Rate of Return
- Investment Returns (as of 12/31/2016)
 - 1 year return – 9.08%
 - 5 year return – 8.82%
 - 30 year return – 8.52%

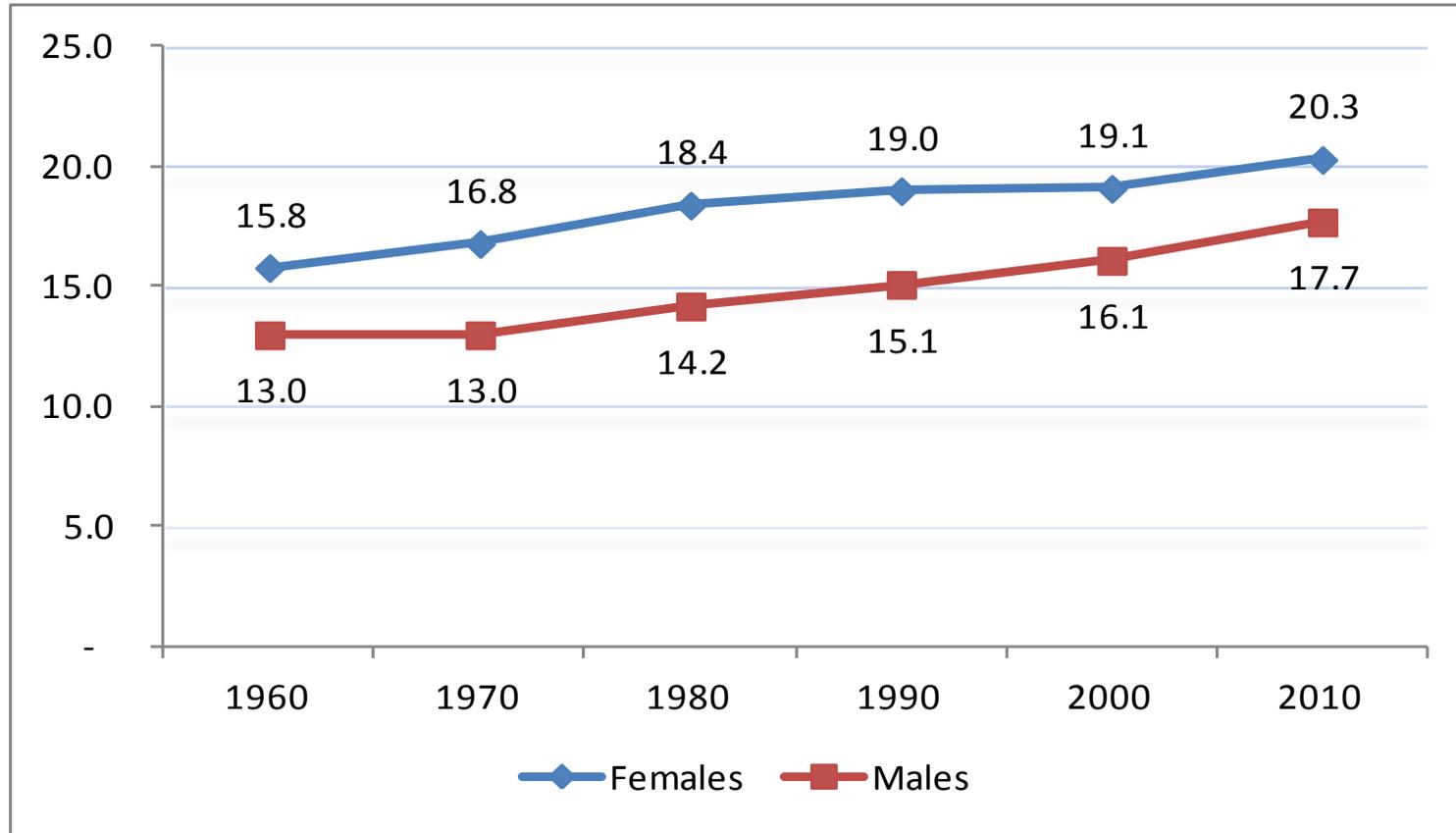


More Conservative Assumptions - Better Positions the Fund for the Future

- 2015 Actuarial Valuation reflects the Board's adoption of new assumptions:
 - Decrease in discount rate from 8.25% to 8.00%. Discount rate change increased liabilities by \$106 million and
 - New demographic assumptions, including generational mortality, increased liabilities by \$187 million.
- The adoption of more conservative assumptions above represents almost \$293 million of the current \$800 million Unfunded Actuarial Accrued Liability (UAAL).
- Based on the new assumptions, the Employees' Retirement Fund's normal cost for the current plan year increased to 20.36% of payroll for FYE 2015.
- The "normal cost" of a defined-benefit plan is the annual cost of the future liability associated with the benefits earned in that particular year.



Life Expectancy Increases from Age 65



Since 2010, life expectancies continue to increase. The latest published rates (2012) are 20.5 years for females and 17.9 years for males, both from age 65.

Source: National Vital Statistics Reports



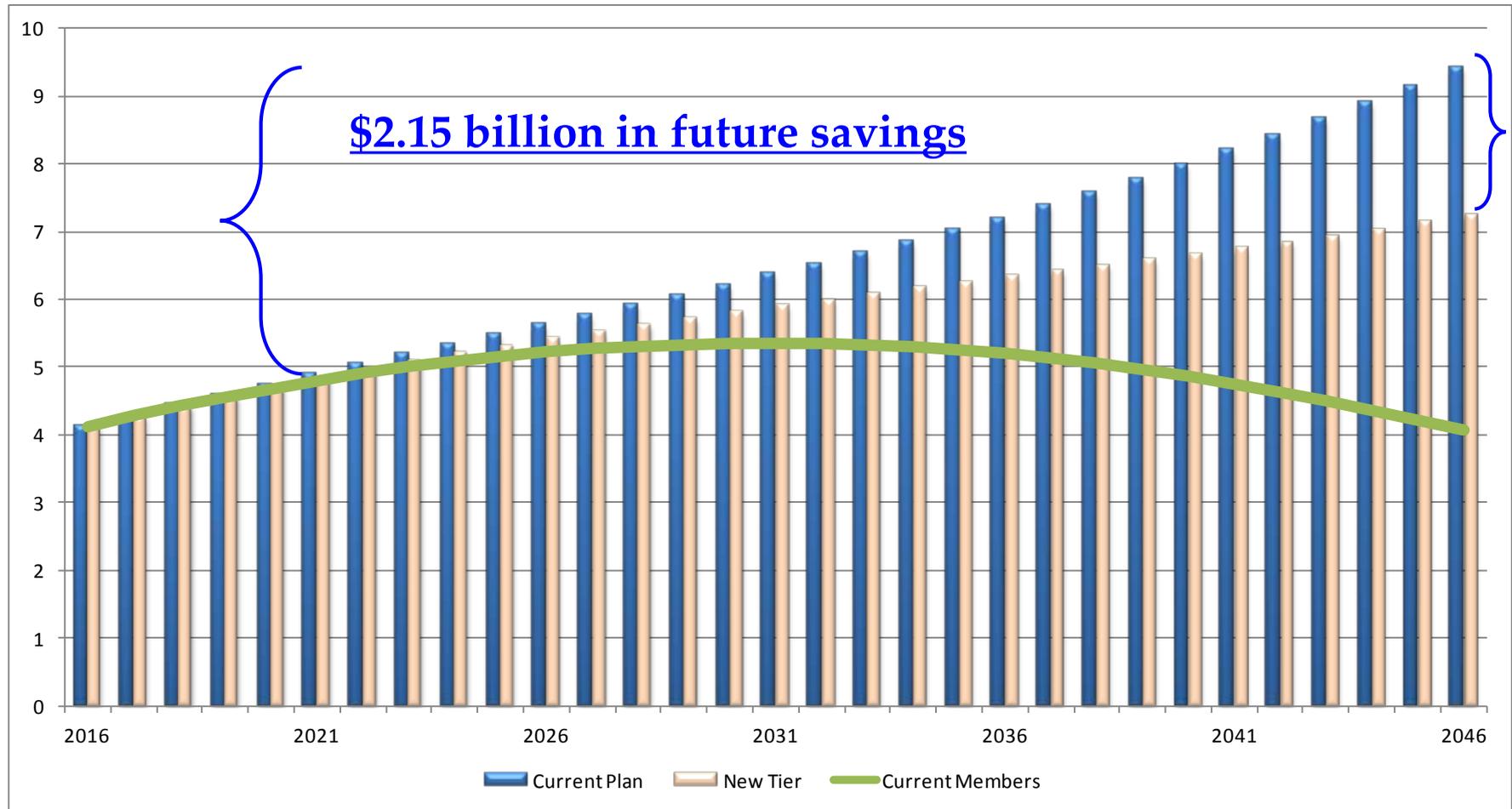
Approved Changes to Chapter 40A (Financial Impact)

Benefit Factors	Plan Changes for New Employees Hired on or after January 1, 2017
Retirement Eligibility	<ul style="list-style-type: none">• Changed from Age 60 to 65 w/5 years of credited service• From 30 years to 40 years of service (unreduced)• Rule of 78 (unreduced ≥ 50 YOA) to Rule of 80 (actuarially reduced < 65 years of age)
Benefit Multiplier	<ul style="list-style-type: none">• Reduced from 2.75% to 2.5%
CPI Cost of Living Adjustment (COLA)	<ul style="list-style-type: none">• Reduced from a maximum of 5% to a maximum of 3%
Average Monthly Earnings	<ul style="list-style-type: none">• Changed from 3 to 5 year average
Survivor Benefits	<ul style="list-style-type: none">• Changed from Joint & 50% survivor to Life Only as the normal form of retirement• All survivor benefits continue to have a 10 year guarantee• Now Joint & 50% survivor benefits, like Joint & 100% survivor benefits, will be actuarially reduced
Health Benefit Supplement	<ul style="list-style-type: none">• Eliminated \$125 monthly Health Supplement



New Plan Reduces Future Liabilities by \$2.15 Billion and Reduces Normal Cost by 36.3%

\$ in Billions





Chapter 40A Amendment Process

- Chapter 40A-35 requires all interested parties to approve any changes – Dallas ERF Board, Dallas City Council, and the voters of the City of Dallas.
 - (a) Except as provided in Subsection (b), this chapter may not be amended except by a proposal initiated by either the board or the city council that results in an ordinance approved by the board, adopted by the city council, and approved by a majority of the voters voting at a general or special election.
 - (b) A provision of this chapter, other than this section, that is determined by the board to require amendment in order to comply with federal law may be amended by ordinance of the city council, without voter approval, upon recommendation of the board.

- Dallas ERF Board and the Dallas City Council approved changes in August 2016
- City of Dallas voters approved changes in November 2016 (69% of voters approved)
- Chapter 40A changes effective on January 1, 2017



Conclusion

The Dallas ERF Board was proactive and conservative by recommending the new tier of benefits for new employees hired on or after January 1, 2017:

- Maintains a financially sound and sustainable retirement plan based on conservative economic, demographic and actuarial assumptions;
- Addresses people living longer in retirement by lowering the Fund's normal cost by 36.3% (from 20.36% to 12.96%);
- Decreases long term liabilities approximately \$2.15 billion over a 30-year period;
- Provides an adequate retirement pension for future employees who do not participate in Social Security;
- Strengthens the overall trust in the Plan for all members; and
- The Plan changes are prudent and fiscally responsible and promote the long term viability of the Fund.