

Memorandum



CITY OF DALLAS

DATE November 25, 2015

TO The Honorable Mayor and Members of the City Council

SUBJECT Dallas Police and Fire Pension System Overview

On Wednesday, December 2, 2015, the City Council will be briefed on the Dallas Police and Fire Pension System Overview. The briefing will be presented by Kelly Gottschalk, Executive Director of the Dallas Police and Fire Pension System. The briefing is attached for your review.

Please let me know if you need additional information.


Jeanne Chipperfield
Chief Financial Officer

Attachment

c: A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Mark McDaniel, Assistant City Manager
Eric D. Campbell, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager



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Dallas City Council Briefing

December 2, 2015

Dallas Police and Fire Pension System

Kelly Gottschalk, Executive Director

Agenda

- Dallas Police and Fire Pension Overview
- Key Financial Data
- Funding Levels
- Actions to Address

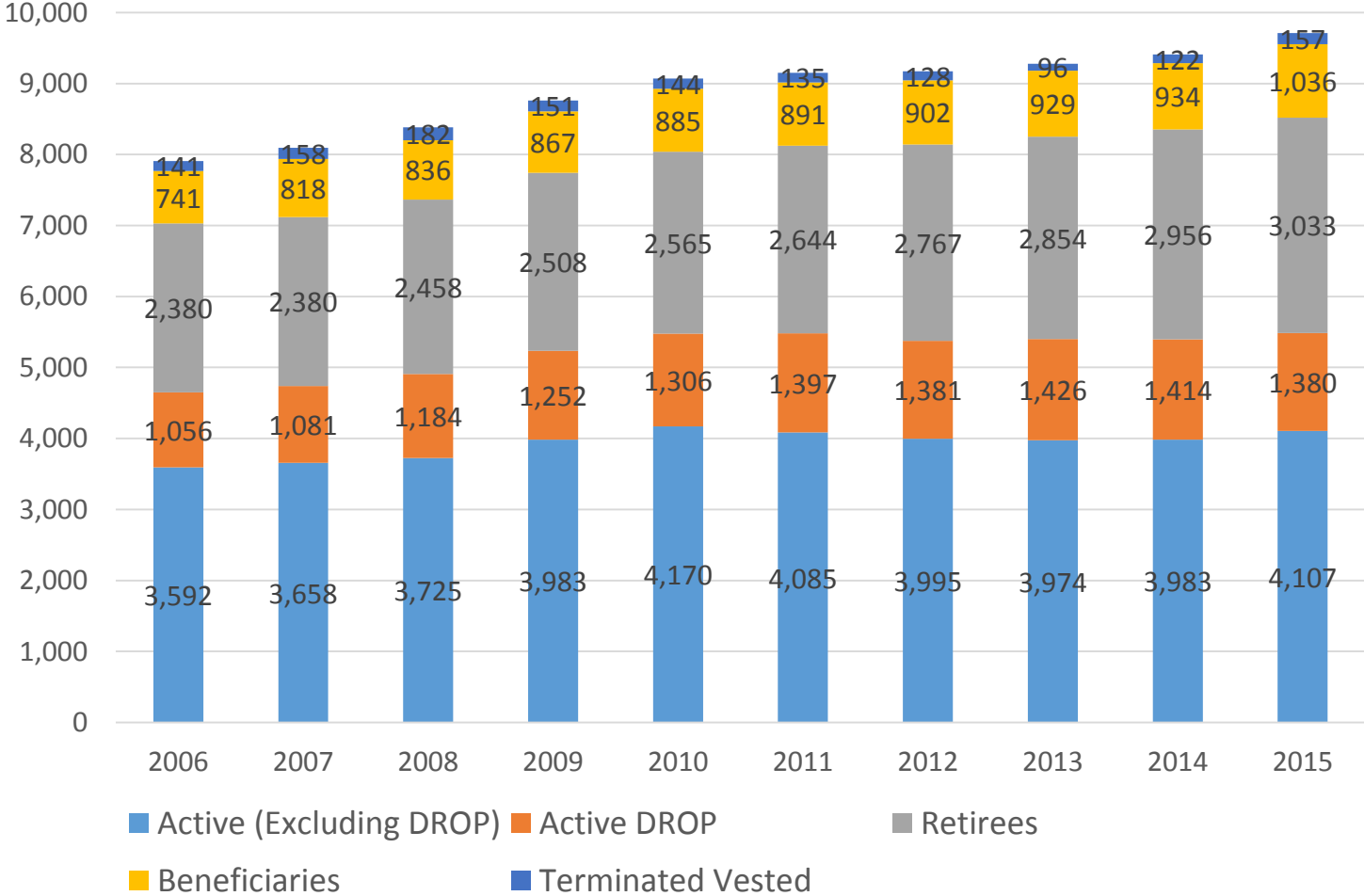
Dallas Police & Fire Pension Overview

Dallas Police and Fire Pension System		
Type	Single employer defined benefit plan provides retirement, disability and death benefits to police officers and firefighters who are employed by the City of Dallas.	
Governance	12-member board. Four City Council Members. Six members elected by active members, three each from the Police Department and the Fire Department. Two members elected by the retirees, one each retired from the Police Department, the other retired from the Fire Department.	
Plan	Combined Plan	Supplemental Plan
Membership	All Police officers and firefighters (benefit is up to highest civil service rank)	Police and Firefighters above the civil service ranks (benefit is supplemented to reflect additional compensation above civil service rank)
History	First Established by Ordinance 1916, Texas Statutes 1933	Established 1973
Amendments	Plan can be amended by a 65% vote of the members (active & active DROP vote) or the legislature	Plan can be amended by City Council
City Contributions	Set by Statute	Set by Actuarial Valuation
Social Security	No	No
DROP Program	Yes	Yes

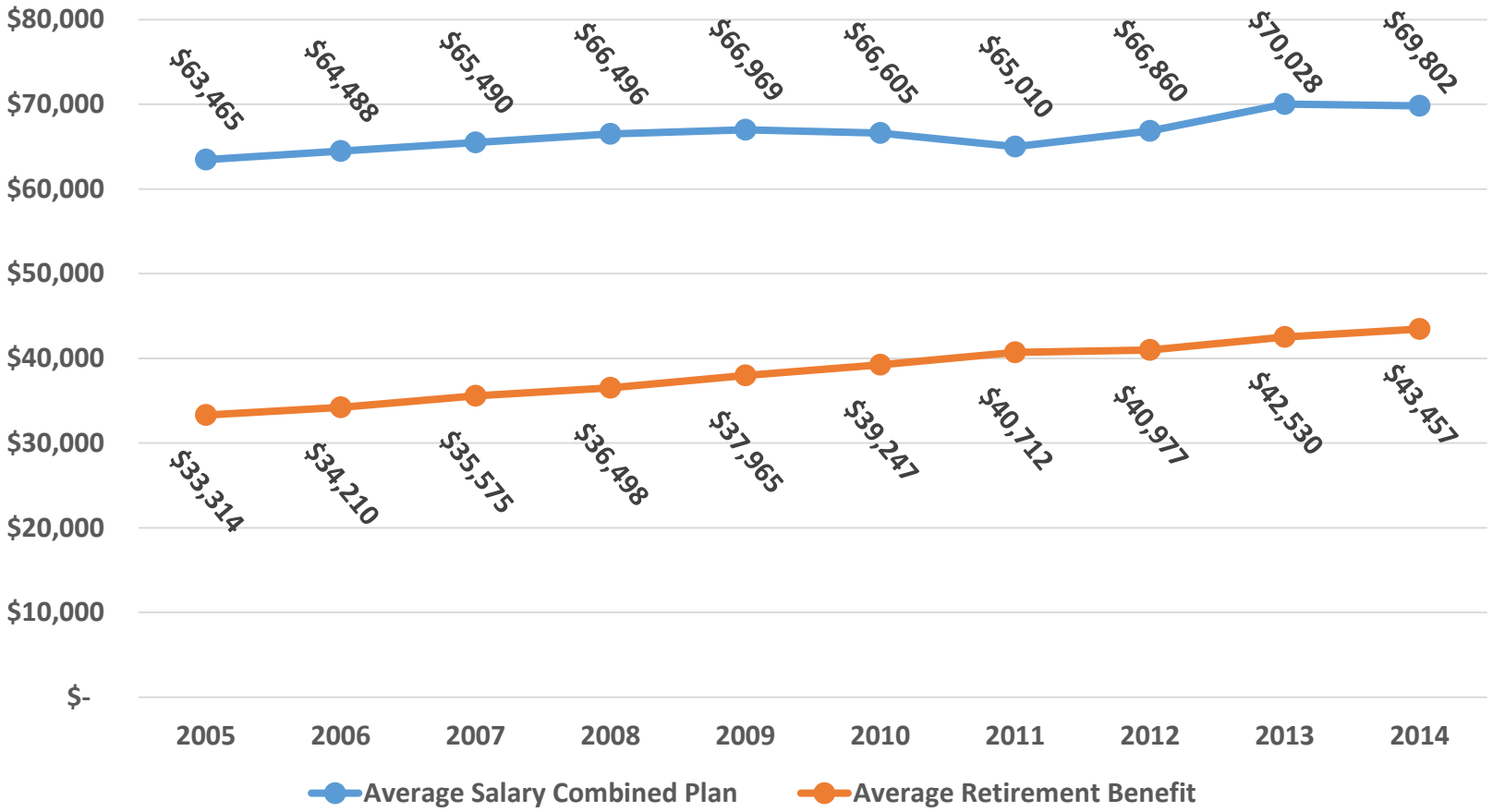
The Supplemental Plan is .06% of the total. 161 total members

Combined Plan Membership

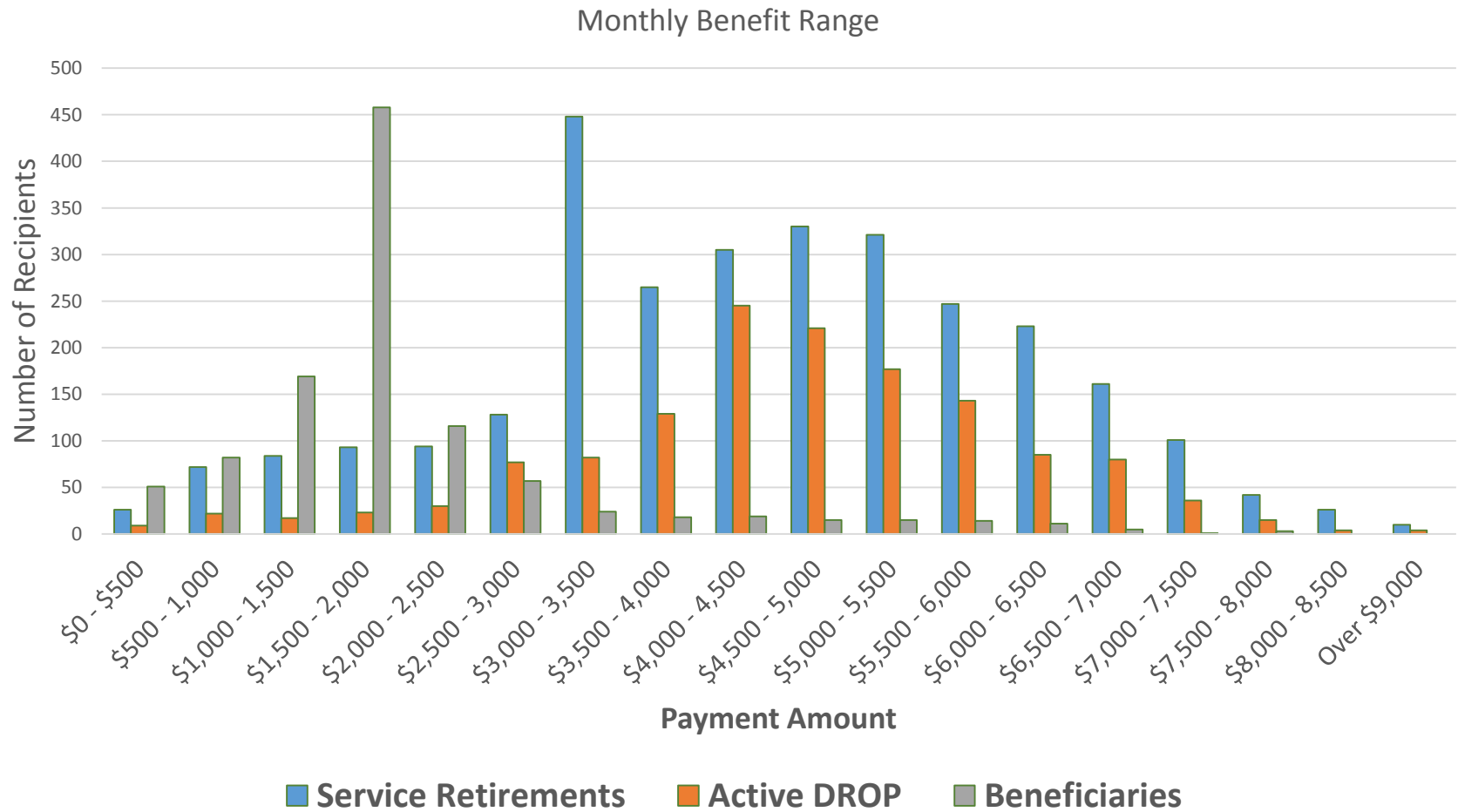
- Total Membership is nearly 10,000.
- In the past decade total membership has increased 23%. Active membership has increased 14%.



Average Salary & Pension Benefit: Combined Plan Only

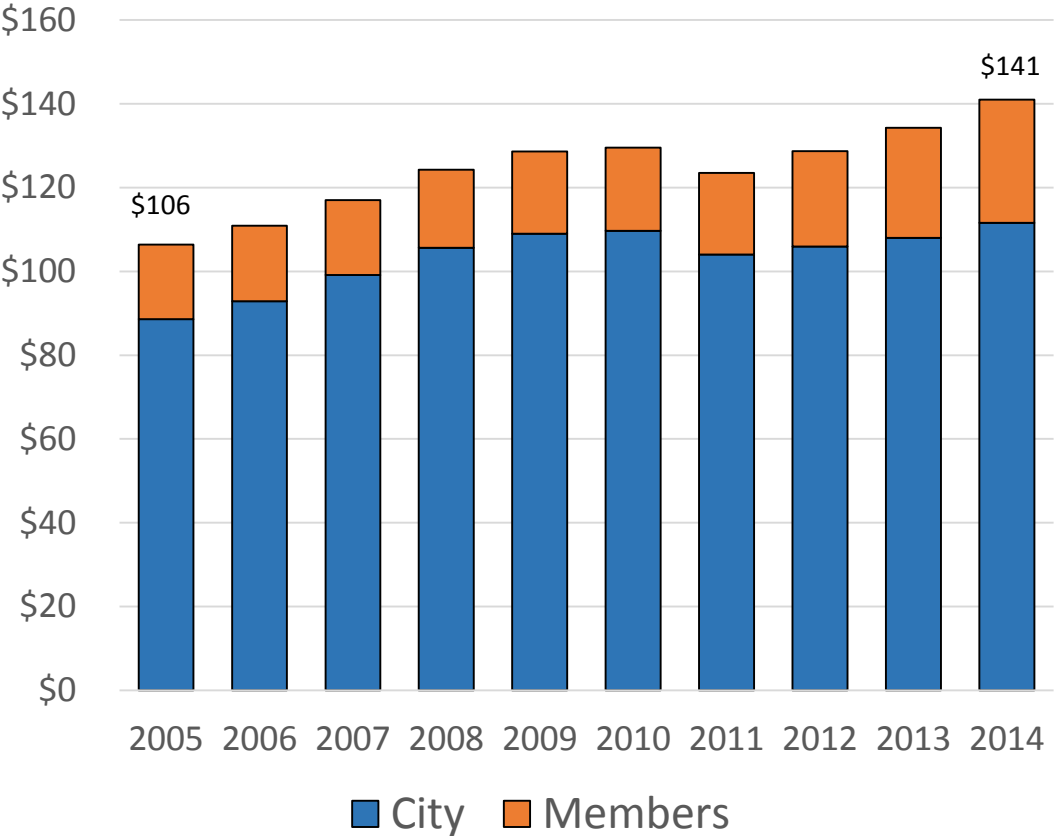


Monthly Pension Benefits



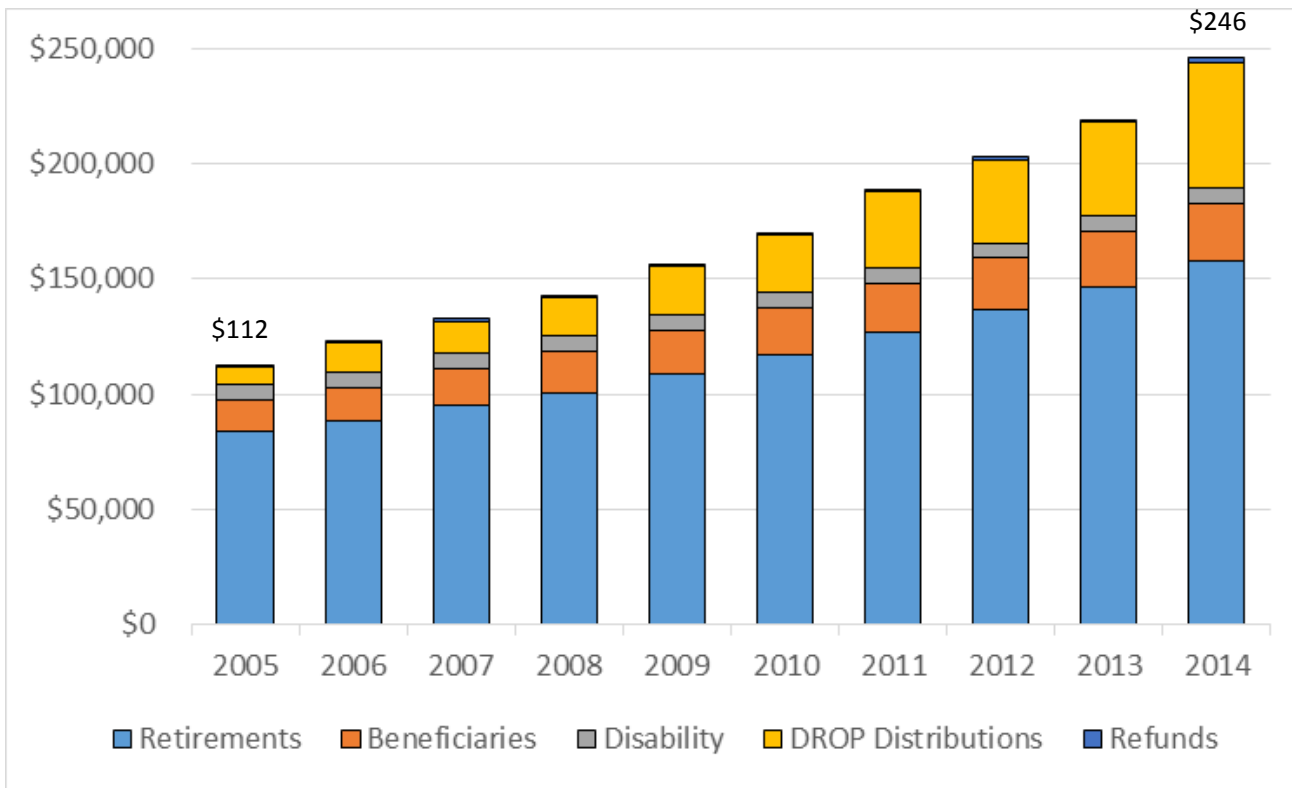
Key Financial Data

Growth of Contributions (in Millions)



- Over the last 10-years Contributions have increased by 33% or \$34.6 million.
- City contributions increased \$23 million or 26%
- Member contributions increased \$11.6 million or 65%

Growth of Distributions (In Millions)

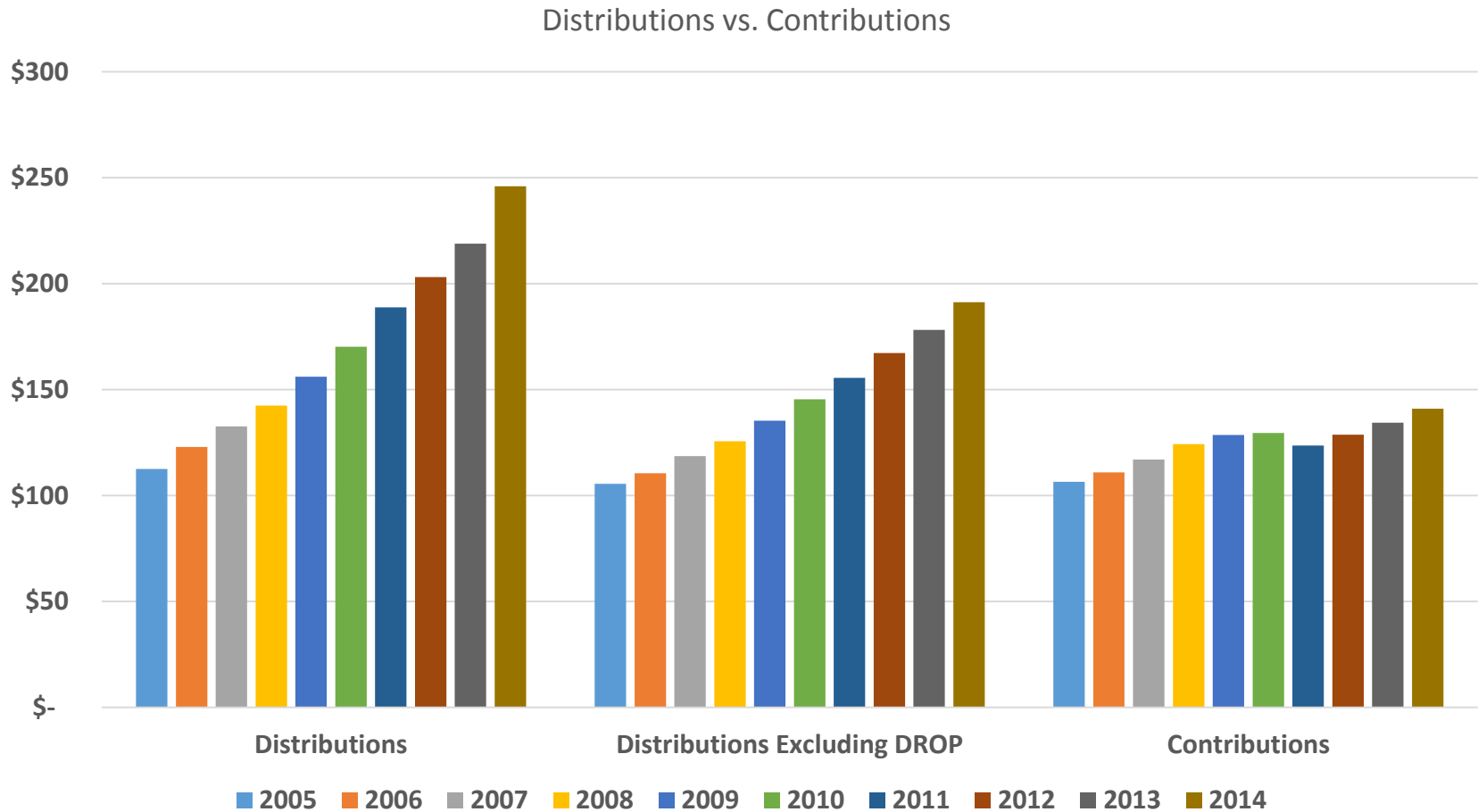


Distributions have increased by 119% over the last 10 years:

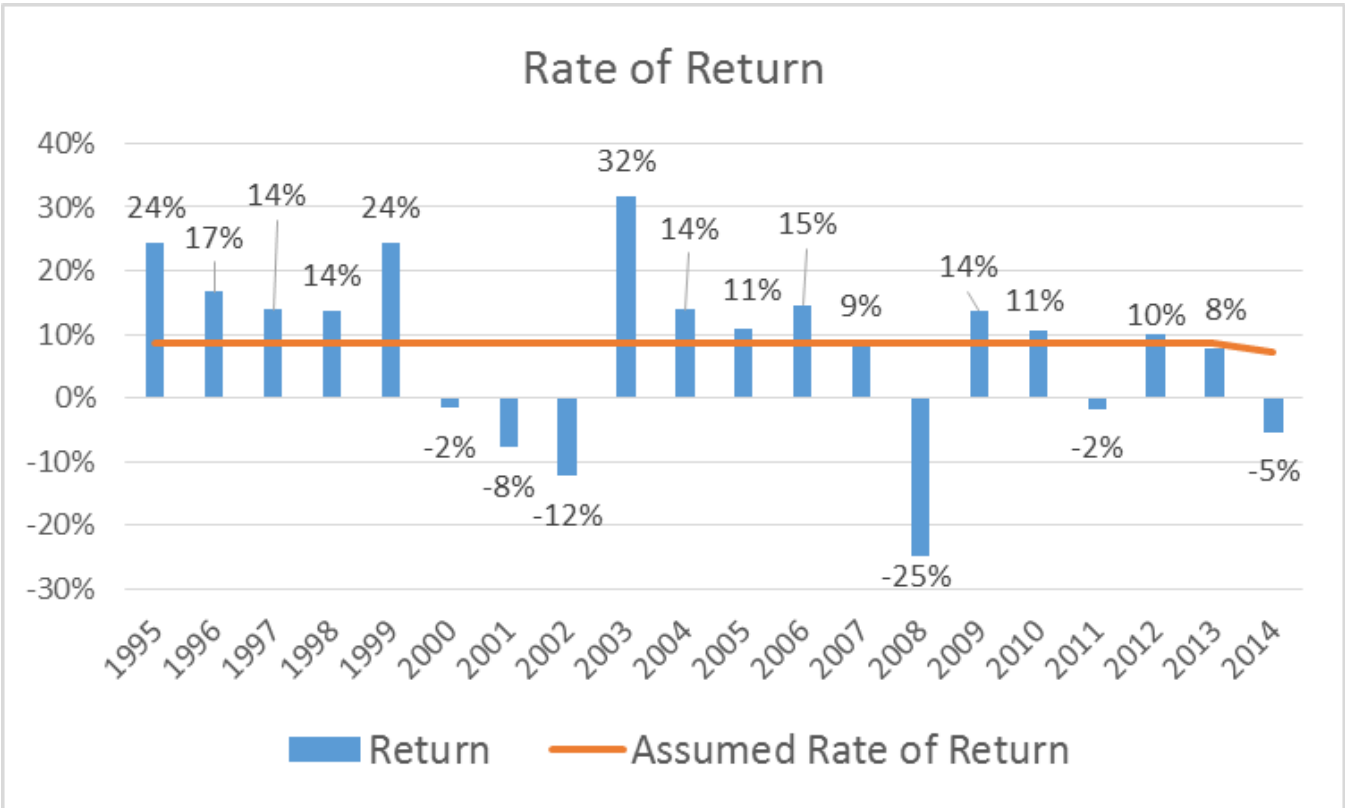
- Retirements: 88%
- Beneficiaries: 86%
- Disabilities: -5%
- DROP: 679%

Distributions vs. Contributions

(In Millions)

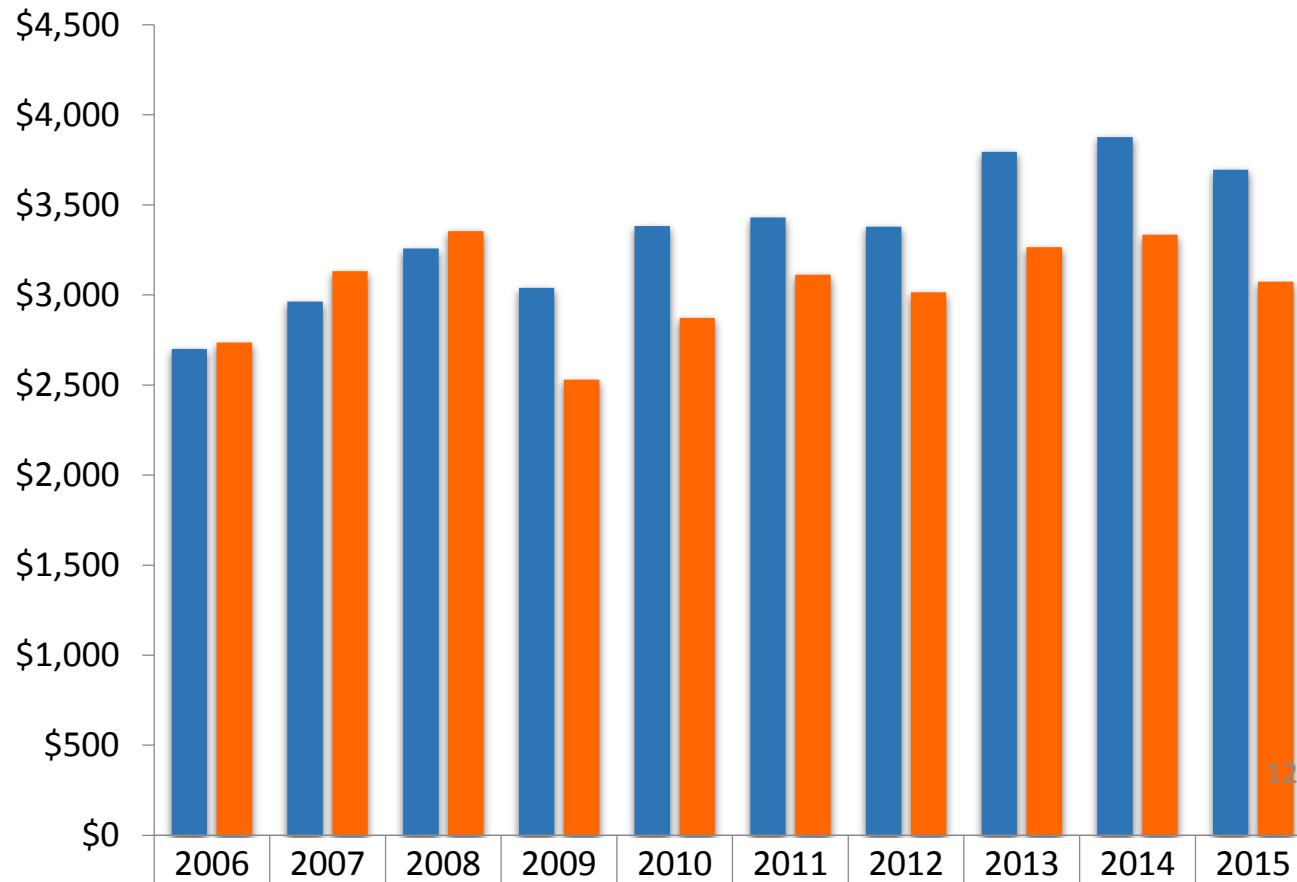


Rate of Return Compared to Actuarial Assumed Rate of Return



Assumed Rate of Return was 8.5% until 2014 when it was lowered to 7.25%

Value of Assets (In Millions)



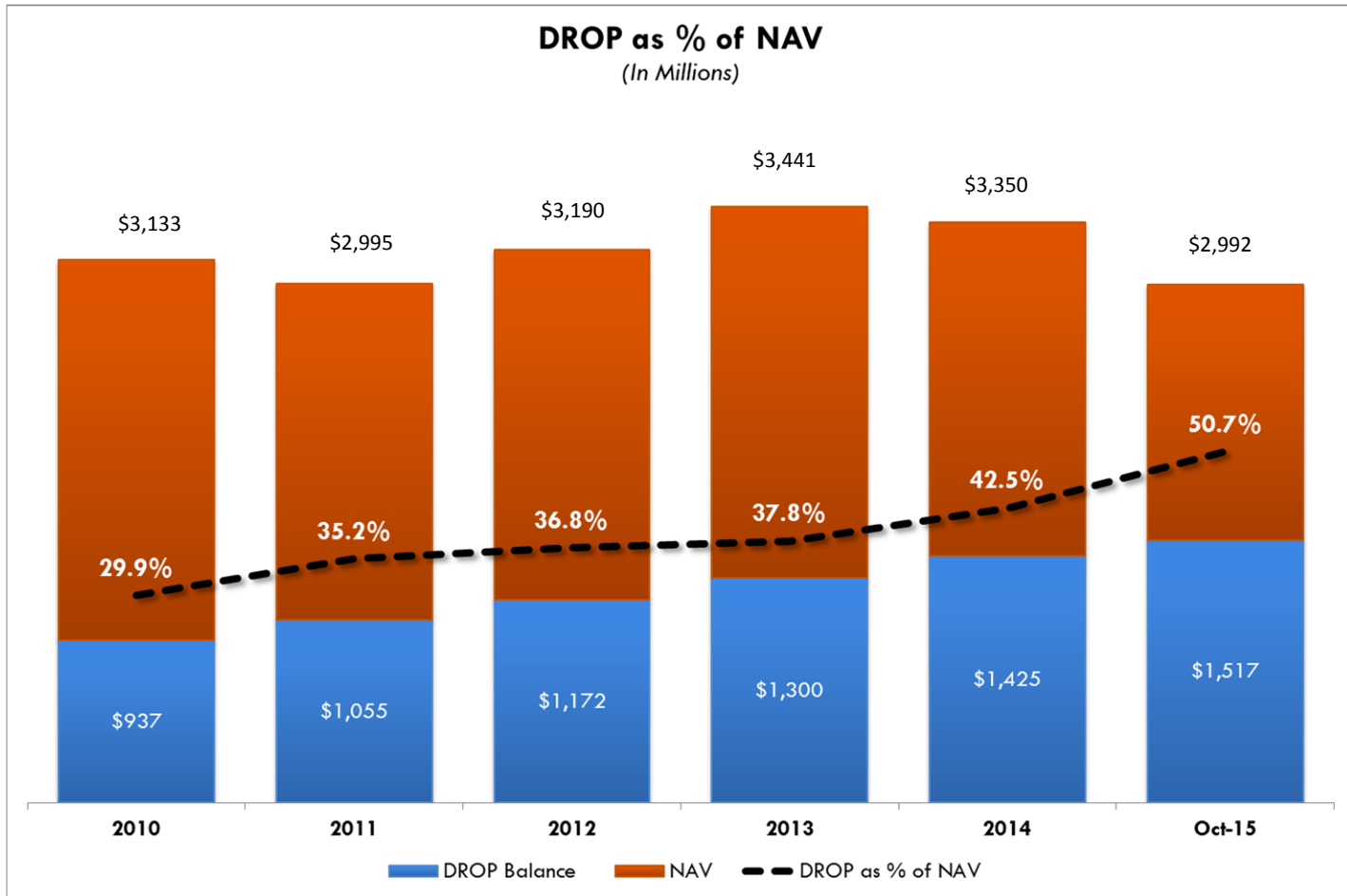
■ Actuarial Value of Assets	\$2,700	2,962	3,259	3,040	3,383	3,431	3,378	3,795	3,877	3,695
■ Market Value of Assets	\$2,736	3,131	3,353	2,529	2,873	3,113	3,015	3,265	3,335	3,074

DROP: Deferred Retirement Option Plan

- DROP was added to the Plan in 1992
- The DROP plan has been amended many times
- There is no limit on the amount of time a member can be in DROP prior to retirement
- The DROP account balance can remain after a member retires
- Retired members can continue to defer payments into DROP until the age 70.5 (IRS doesn't allow deferral after 70.5)
- Interest – changed over time, 2014 Plan amendment
- Active DROP contributions – changed over time
- Retired members can make unlimited weekly withdrawals from their accounts
- DROP was intended to be actuarial neutral
 - The current loss related to DROP is \$486 million
 - Loss primarily results from guaranteed interest rates being paid on the fund that have exceeded the interest earned on the fund.

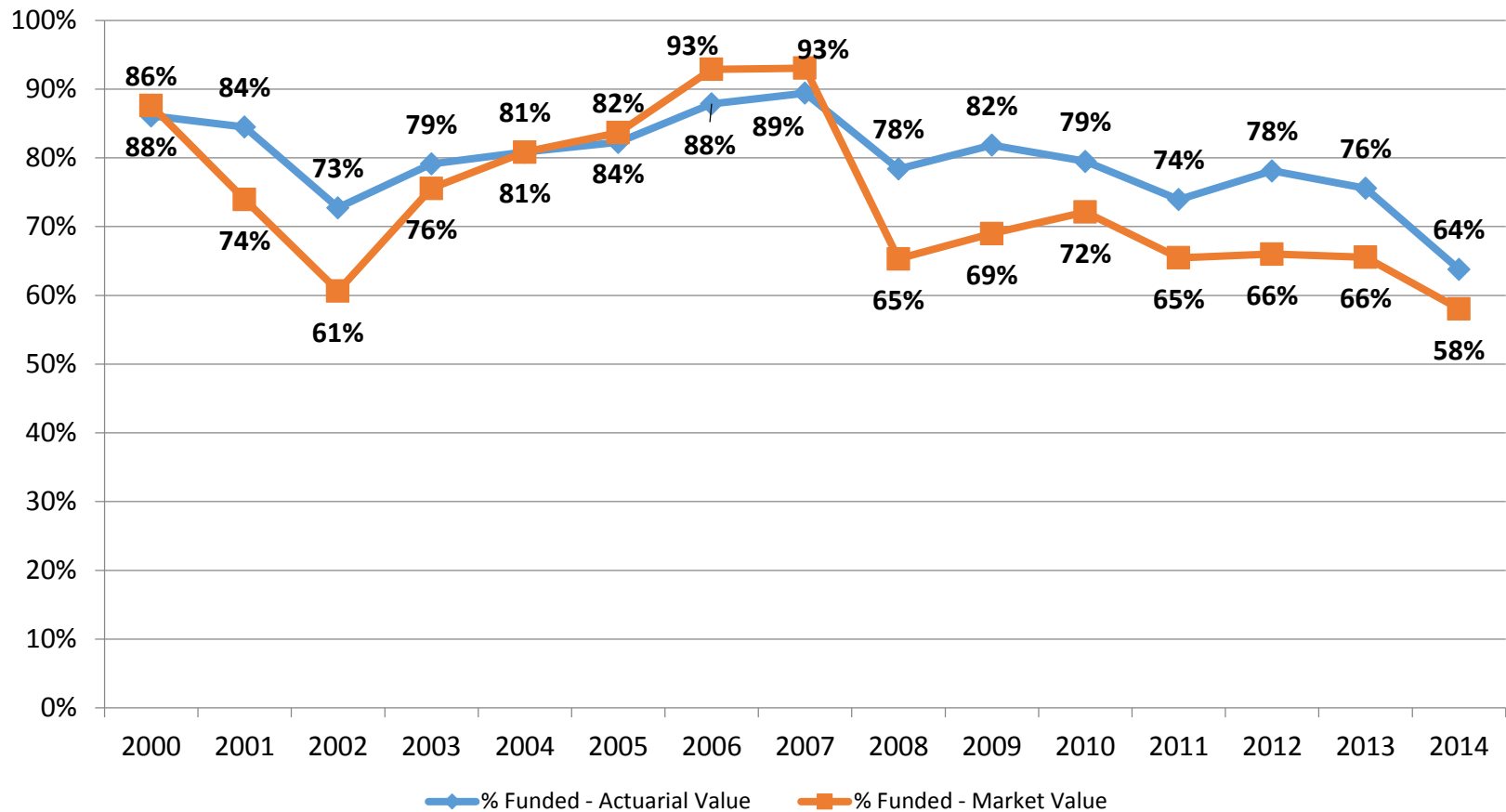
DROP Balance as a % of Total Assets

(In Millions)



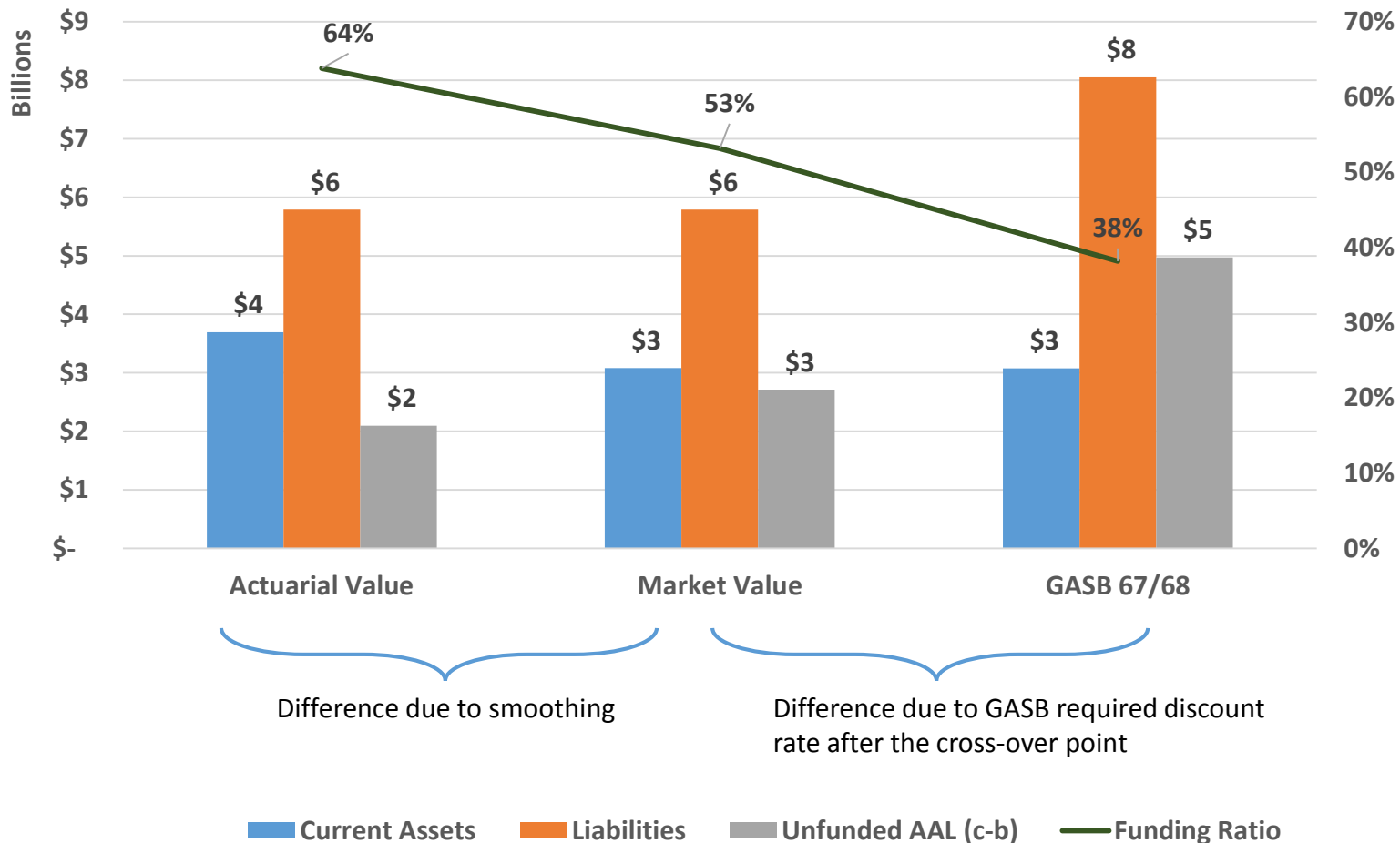
Funding Levels

Funding Ratio: Actuarial & Market



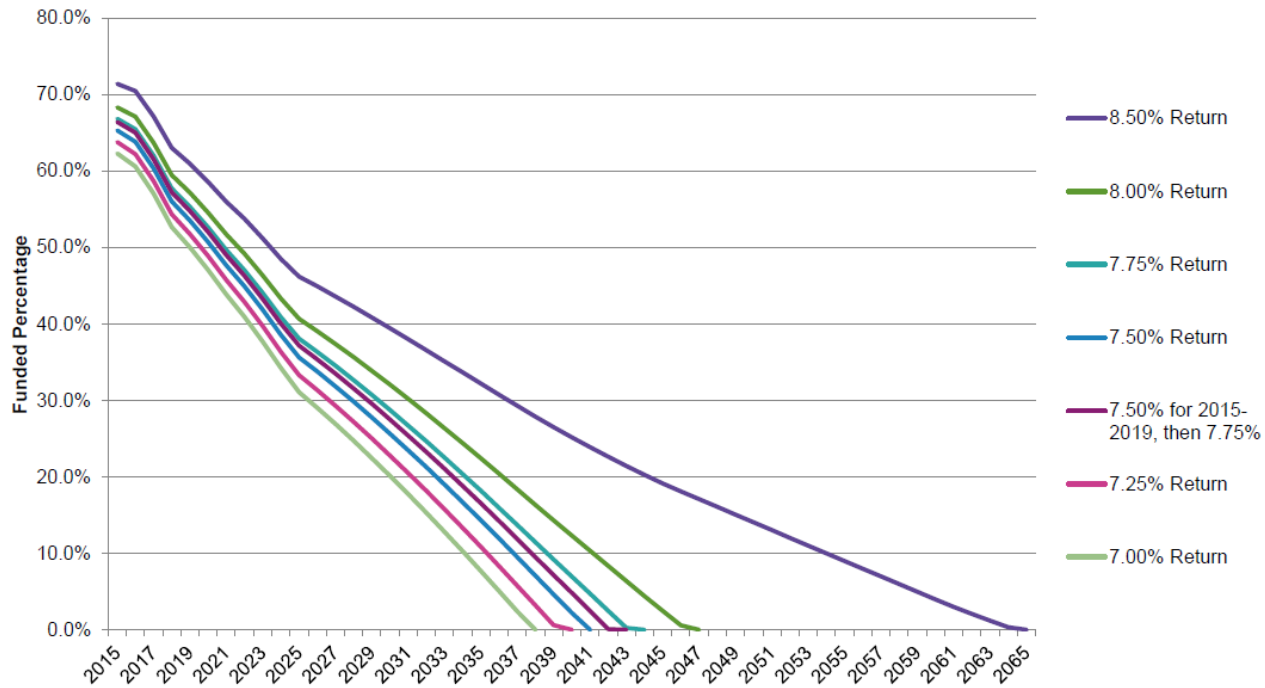
Note: Smoothing period changed from five to ten years in 2012

DPFP: Assets, Liabilities & Funding Level



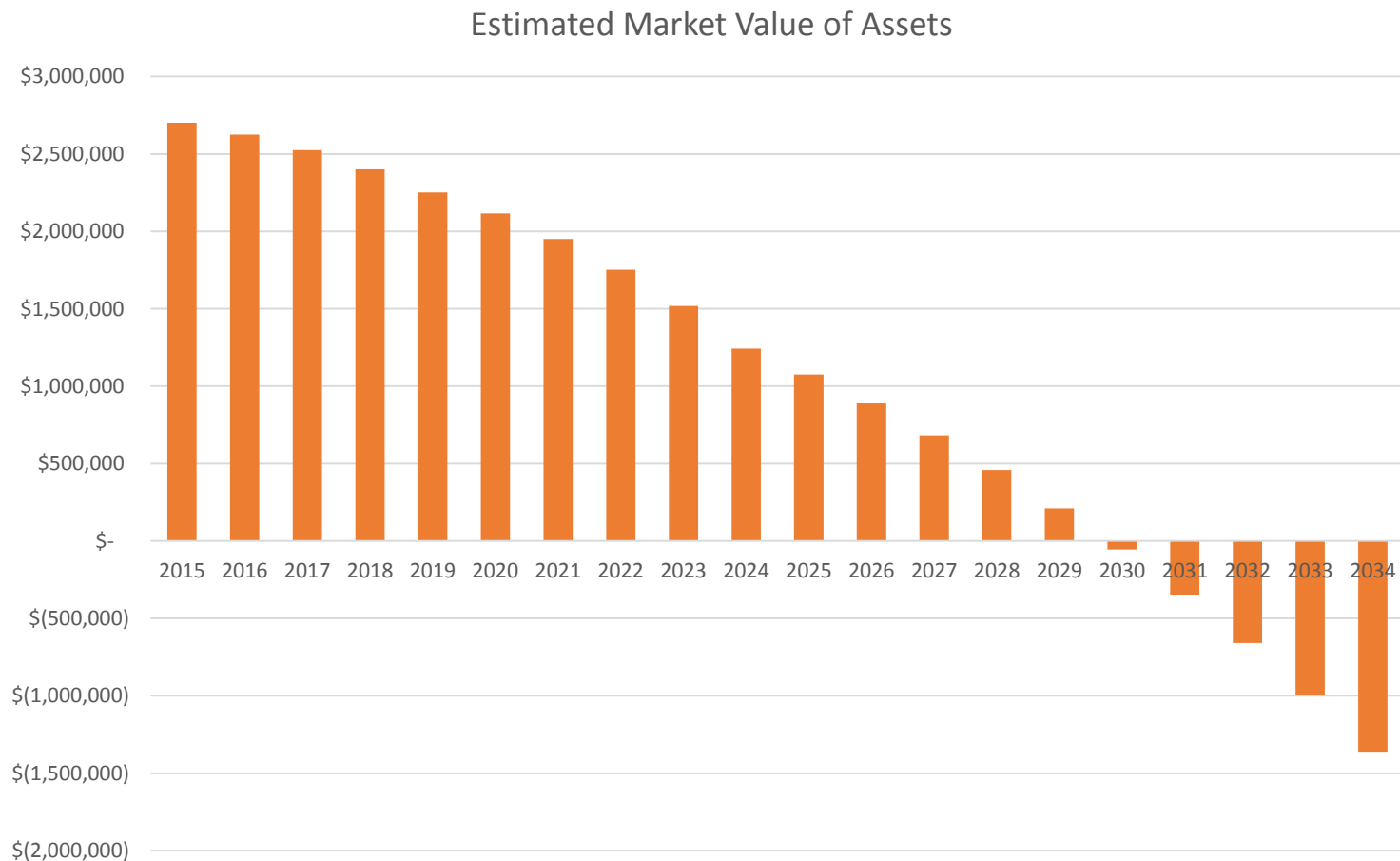
Actuarial Information (July 2015)

Impact of Revised Asset Assumption Current Plan Provisions



Estimated Market Value of Assets Adjusted for Projected Lower Returns during the Portfolio Transition Period of 2015-2019.

(October 2015 Estimate: -6.5%, 5%, 5%, 5%, 5%)



Actions to Address

Actions Being Taken Now - Investments

- Asset/Liability Study Underway
- Continue to improved investment reporting to the Board
- Will be revising Investment policies and procedures
- Transition Real Estate Asset Managers
- Hired a Chief Investment Officer,
 - working with me there will be checks and balances on investment recommendations prior to the Board
- Asset Allocation Changes
 - move the portfolio to a more typical pension portfolio
 - Investments appropriate for our plan with our liquidity requirements

Investments Goals

- Goals of new asset allocation:
 - Ensure liquidity needs are met
 - Maximize the investment returns within an appropriate risk level established by the Board
- It will take a significant amount of time to transition to portfolio to the desired end-state allocation.

Asset Allocation Timeline

Board discusses risk tolerance, liquidity & investment options. Review asset allocation concepts/considerations. Provide direction for immediate use of available cash.

11-2015

Asset allocation with interim targets and draft investment policy. Present structure studies by asset class.

Q1-2016

On-going evaluation based on the changing dynamics of the funding status and liquidity needs of the Plan.

Q3 2016 - ongoing

Provide Board education about new investment structures that may be recommended and other asset allocation concepts. Provide any additional direction that may be necessary on use of available cash.

12-2015

Adopt long-term asset allocation and finalize investment policy.

Q2-2016

Actions Being Taken Now – Financial

- Hired a new Chief Financial Officer Two Years ago.
- Implemented asset valuation methodology that is inline with accepted practices
- Continuing to revise accounting/internal control policies and procedures
- Improving Financial Reporting to the Board
- Retained a new financial audit firm
- Revised Annual Report, meets the reporting guidelines of GFOA

Additional Actions Being Taken Now

- Actuarial experience study
 - Compares actual experience to the assumptions in the actuarial valuation report to ensure we are working with the best information
 - Rate of Return was reduced in July from 8.5% to 7.25%
- Reviewing and evaluating all professional service providers
- Open and honest communication with the members, the City and the media
- Investigations
- Plan amendment litigation
- Long-term stability committee



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Questions

Kelly Gottschalk, Executive Director

kellyg@dpfp.org

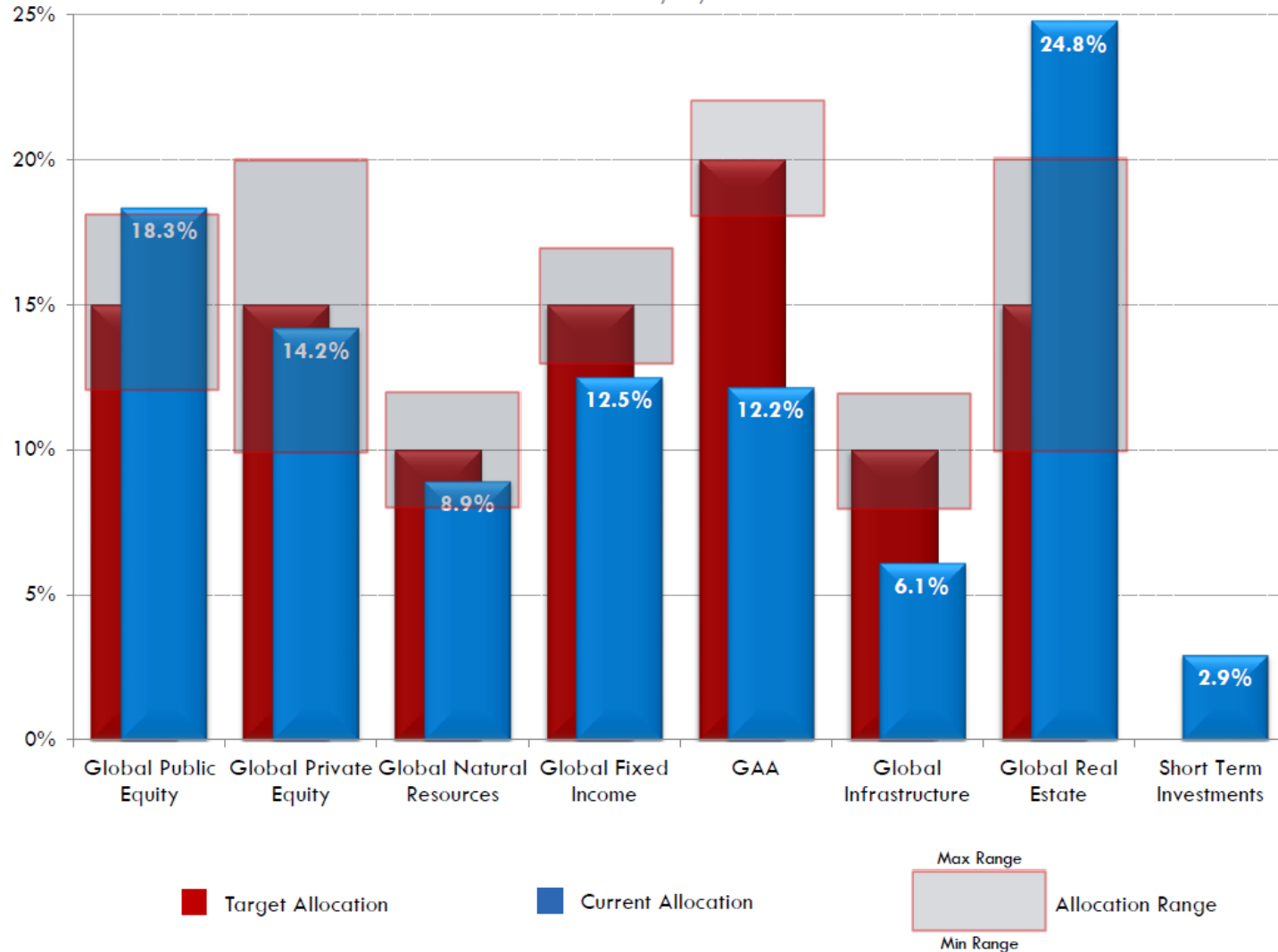
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Appendix

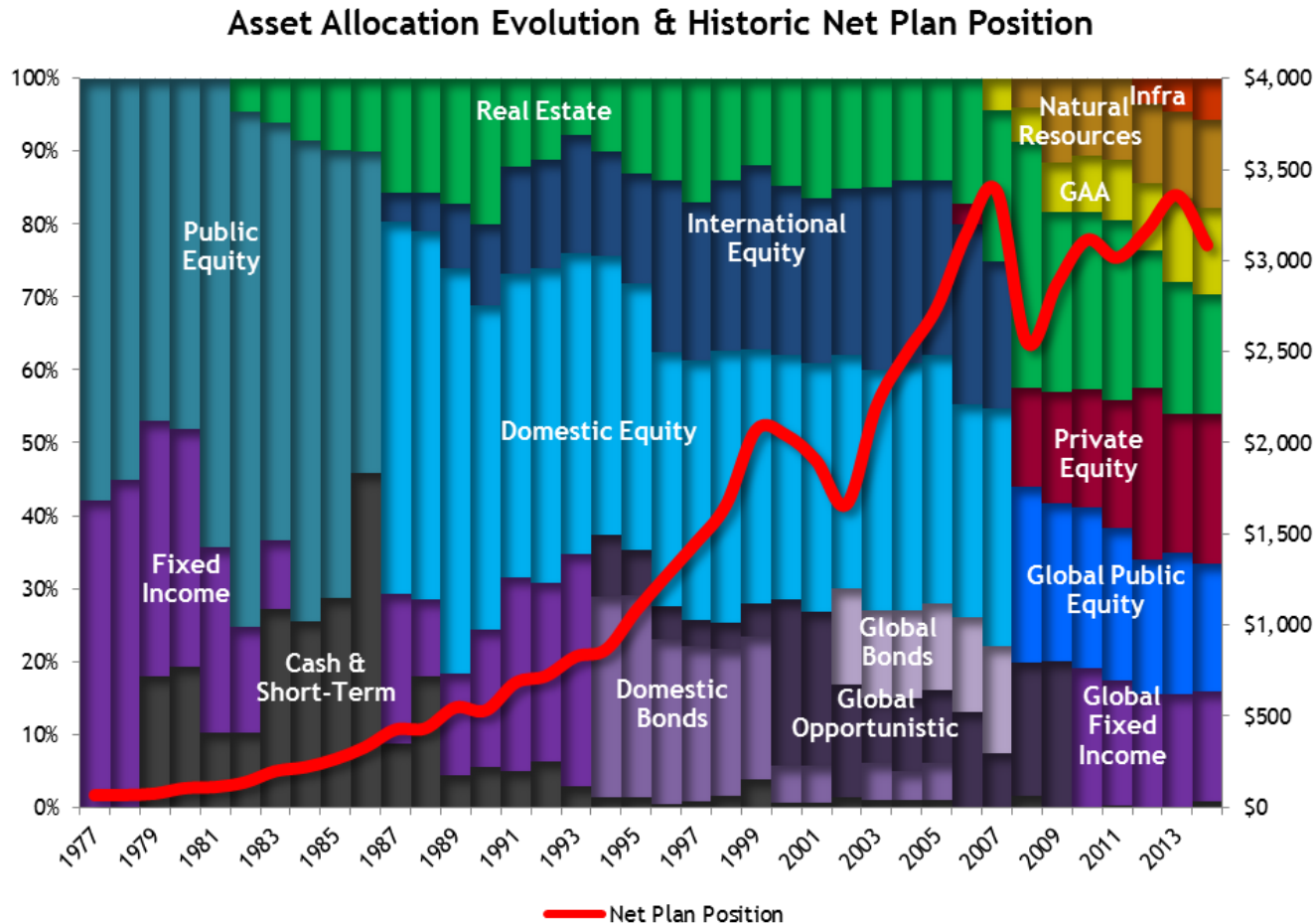
- Additional Information on Asset Allocation
- DROP Members & Account Balance Trend

Current vs. Target Asset Allocation

As of 11/9/15



Historical Asset Allocation & Net Plan Position



DROP Members & Balances

DROP MEMBER COUNT											
CONSOLIDATED PLANS* (DOLLARS IN MILLIONS)											
		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Active											
Beginning of year		1,434	1,446	1,409	1,425	1,333	1,278	1,207	1,104	1,079	995
	Entrants	107	155	190	176	208	168	191	203	139	166
	Withdrawals	-142	-167	-153	-192	-116	-113	-120	-100	-114	-82
End of year		1,399	1,434	1,446	1,409	1,425	1,333	1,278	1,207	1,104	1,079
DROP balance at Jan. 1		\$461	\$441	\$434	\$425	\$406	\$374	\$339	\$295	\$262	\$233
Retirees and Beneficiaries											
Beginning of year		1,912	1,772	1,603	1,449	1,302	1,173	1,060	921	787	668
	New accounts	177	196	203	196	162	152	130	152	149	127
	Closures	-58	-56	-34	-42	-15	-23	-17	-13	-15	-8
End of year		2,031	1,912	1,772	1,603	1,449	1,302	1,173	1,060	921	787
DROP balance at Jan. 1		\$962	\$858	\$738	\$630	\$531	\$444	\$368	\$308	\$250	\$200
Total number of DROP accounts		3,430	3,346	3,218	3,012	2,874	2,635	2,451	2,267	2,025	1,866