

# Memorandum



CITY OF DALLAS

DATE October 12, 2018

Honorable Members of the Government Performance & Financial Management  
TO Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,  
Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Dallas Police and Fire Pension Annual Report**

On October 15, 2018, Kelly Gottschalk, Executive Director of the Dallas Police and Fire Pension, will brief the Government Performance & Financial Management Committee on the Dallas Police and Fire Pension Annual Report. I have attached the briefing materials for your review.

Please let me know if you have any questions.

  
M. Elizabeth Reich  
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of City Council  
T.C. Broadnax, City Manager  
Chris Caso, City Attorney (Interim)  
Carol A. Smith, City Auditor (Interim)  
Billieae Johnson, City Secretary  
Judge Preston Robinson, Administrative Judge

Kimberly Bizer Tolbert, Chief of Staff to the City Manager  
Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Majed A. Al-Ghafry, Assistant City Manager  
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer  
Directors and Assistant Directors

# Dallas Police and Fire Pension Annual Report

## 2017 Financial Review

City of Dallas: Government Performance  
and Financial Management Committee

October 15, 2018



# Audit and Annual Report Status

- Board is scheduled to review and approve the draft audit and draft Comprehensive Annual Financial Report (CAFR) at the October 10<sup>th</sup> Board meeting.
- Reporting was delayed due to the delay in the reporting from two private asset managers. These assets represent approximately 9% of the total portfolio.
- Once the audit and CAFR are finalized the City will be provided a copy and the CAFR will be posted on the DPFP website.
- The actuarial valuations and GASB reporting are complete.

# Membership Data

	Years Ended December 31,		
	2017	2016	Change
<b>Active Members</b>			
Number	4,952	5,104	-152 members
Average Age	40.6	41.4	-0.8 years
Average Service	13.4	14.3	-0.9 years
Average Computation Pay	\$69,878	\$70,026	-0.2%
Number in DROP	626	1,102	-476 members
Total DROP Accounts	\$241.4M	\$356.4M	-\$115.0M
<b>Retirees and Beneficiaries</b>			
Number <sup>1</sup>	4,748	4,456	+292 members
Average Monthly Payment <sup>2</sup>	\$4,171	\$4,102	+1.7%
<b>Terminated Vested Members</b>			
Number	226	215	+11 members

<sup>1</sup>Includes beneficiaries with DROP accounts only

<sup>2</sup>Includes benefit supplement

# Fiduciary Net Position

A summary of the Combining Statements of Fiduciary Net Position of the Plans is as follows (in thousands):

DECEMBER 31:	2017	2016	2015
<b>Assets</b>			
Investments, at fair value	\$ 1,990,602	\$ 1,960,057	\$ 2,827,859
Invested securities lending collateral	12,153	21,671	94,246
Receivables	34,629	29,378	58,568
Cash and cash equivalents	118,587	326,785	77,072
Prepaid expenses	436	460	202
Capital assets, net	12,715	12,041	12,192
<b>Total assets</b>	<b>2,169,122</b>	<b>2,350,392</b>	<b>3,070,139</b>
<b>Liabilities</b>			
Notes payable	-	130,000	235,315
Securities purchased	31,411	24,353	37,341
Securities lending obligations	12,153	21,671	94,246
Accounts payable and accrued liabilities	4,407	6,036	3,656
<b>Total liabilities</b>	<b>47,971</b>	<b>182,060</b>	<b>370,558</b>
<b>Net position held in trust - restricted for pension benefits</b>	<b>\$ 2,121,151</b>	<b>\$ 2,168,332</b>	<b>\$ 2,699,581</b>

# Fiduciary Net Position

A summary of the Combining Statements of Changes in Fiduciary Net Position of the Plans is as follows (in thousands):

YEARS ENDED DECEMBER 31:	2017	2016	2015
<b>Additions / (Reductions)</b>			
<b>Contributions</b>			
City	\$ 128,395	\$ 122,409	\$ 117,328
Members	33,044	25,553	25,720
<b>Total contributions</b>	<b>161,439</b>	<b>147,962</b>	<b>143,048</b>
Net income (loss) from investing activities	97,456	165,327	(237,572)
Net income from securities lending activities	101	402	544
Other income	2,094	204	132
<b>Total additions (reductions)</b>	<b>261,090</b>	<b>313,895</b>	<b>(93,848)</b>
<b>Deductions</b>			
Benefits paid to members	295,245	827,649	285,857
Refunds to members	3,578	3,354	1,786
Interest expense	1,290	4,569	6,049
Professional and administrative expenses	8,158	9,571	8,479
<b>Total deductions</b>	<b>308,271</b>	<b>845,143</b>	<b>302,171</b>
<b>Net decrease in net position</b>	<b>(47,181)</b>	<b>(531,249)</b>	<b>(396,019)</b>
<b>Net position held in trust - restricted for pension benefits</b>			
Beginning of period	2,168,332	2,699,581	3,095,600
End of period	\$ 2,121,151	2,168,332	\$ 2,699,581

# Pension Liability

The net pension liability is measured as the total pension liability, less the amount of the plan's fiduciary net position. The components of the net pension liability at December 31, 2017 and 2016 are as follows (in thousands):

## Combined Pension Plan

	2017	2016
Total pension liability	\$ 4,497,347	\$ 8,450,281
Less: Plan fiduciary net position	(2,103,345)	(2,150,662)
Net pension liability	\$ 2,394,002	\$ 6,299,619

Plan fiduciary net position as a percentage of the total pension liability at December 31, 2017 and 2016 is 46.8% and 25.4%, respectively.

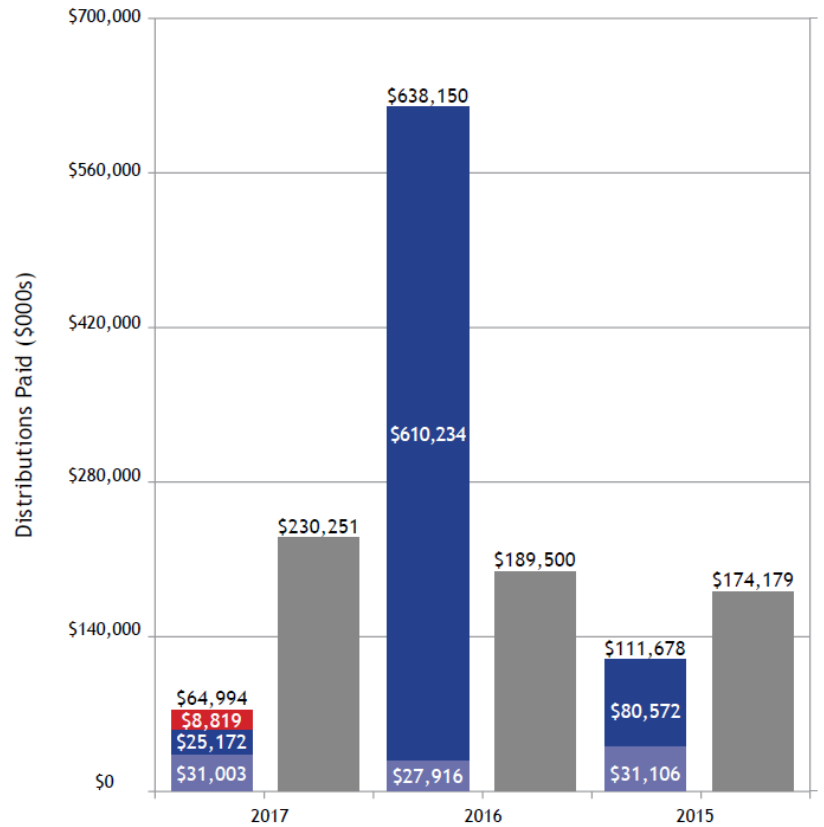
## Supplemental Plan

	2017	2016
Total pension liability	\$ 33,670	\$ 40,647
Less: Plan fiduciary net position	(17,805)	(17,670)
Net pension liability	\$ 15,865	\$ 22,977

Plan fiduciary net position as a percentage of the total pension liability at December 31, 2017 and 2016 is 52.9% and 43.5%, respectively.

# Distributions Paid to Members

Distributions Paid To Members  
 Twelve Months Ended December 31

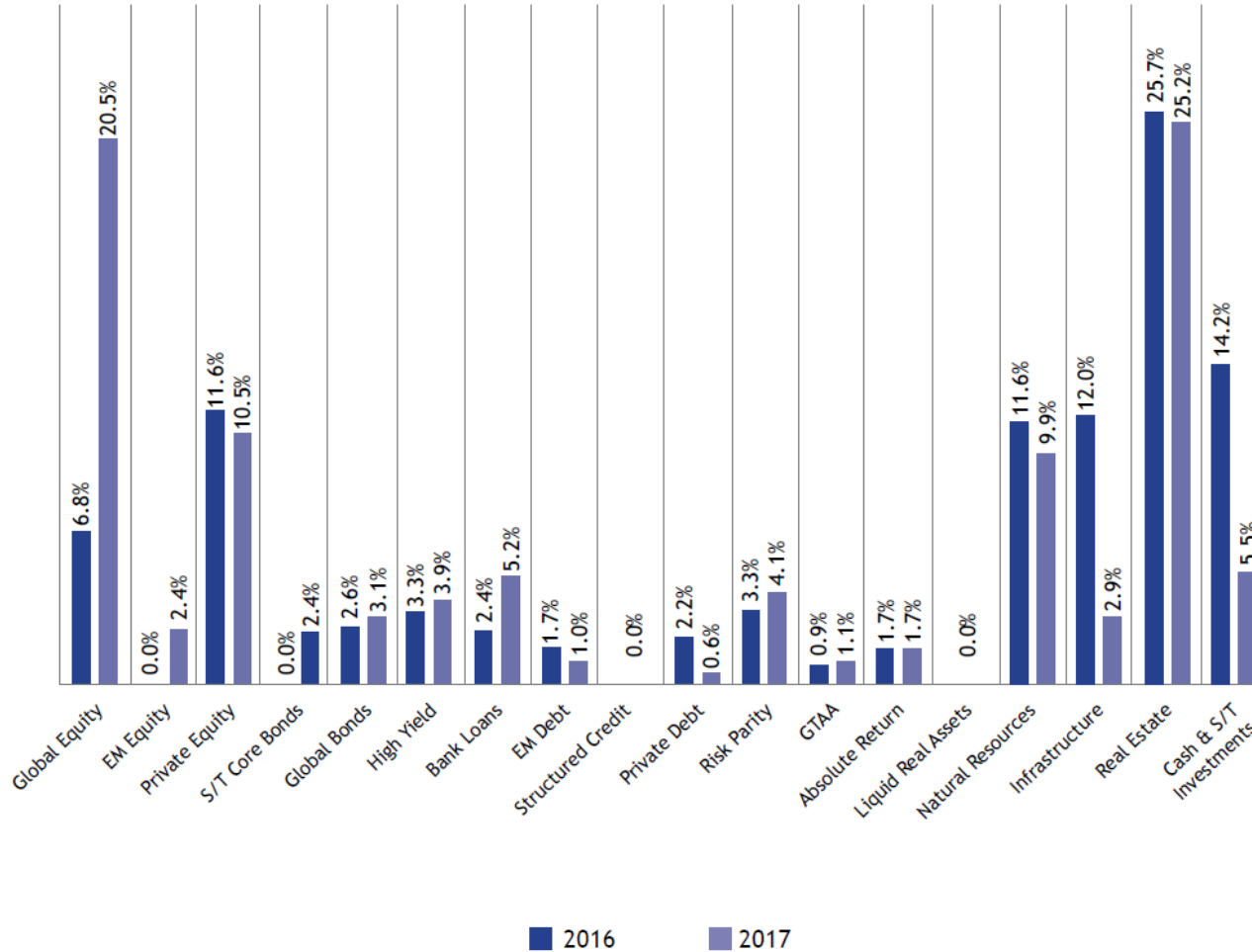


■ Monthly DROPS Installment Payments    ■ DROPS Lump Sum Payments  
■ DROPS Annuity Payments                      ■ Monthly Benefit Payments



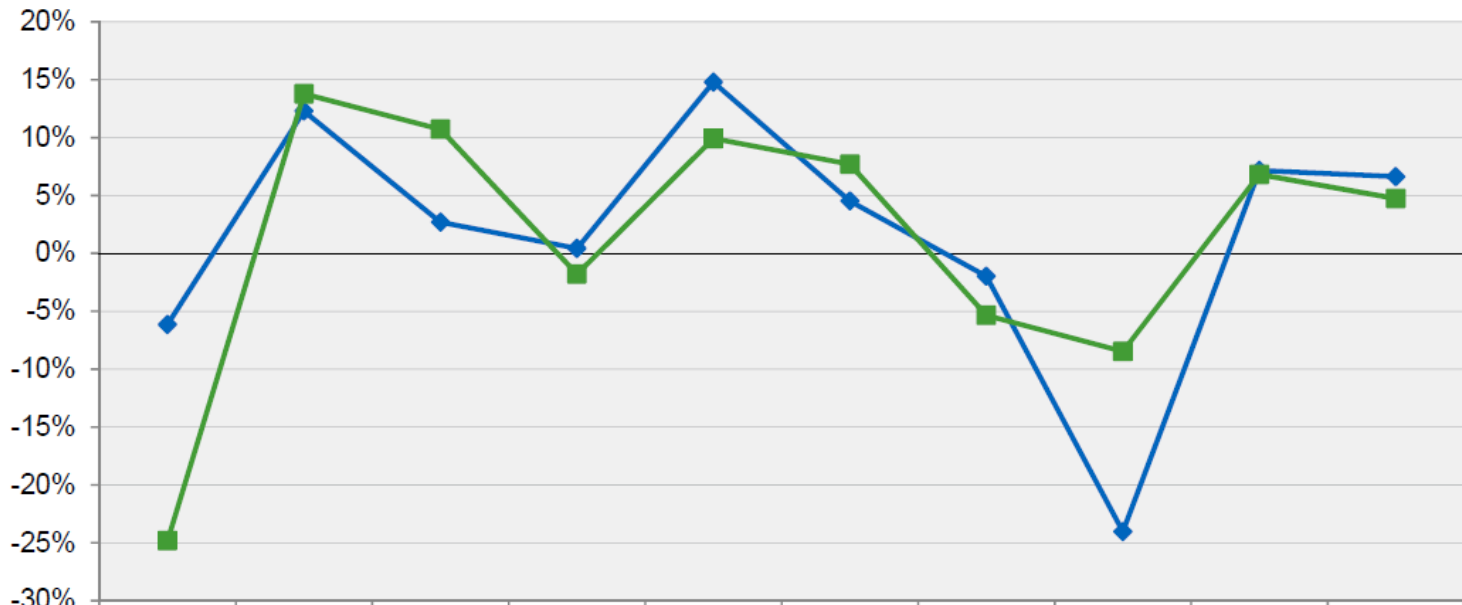
# Asset Allocation by Asset Class

Asset Allocation by Asset Class



# Asset Returns

ASSET RETURNS

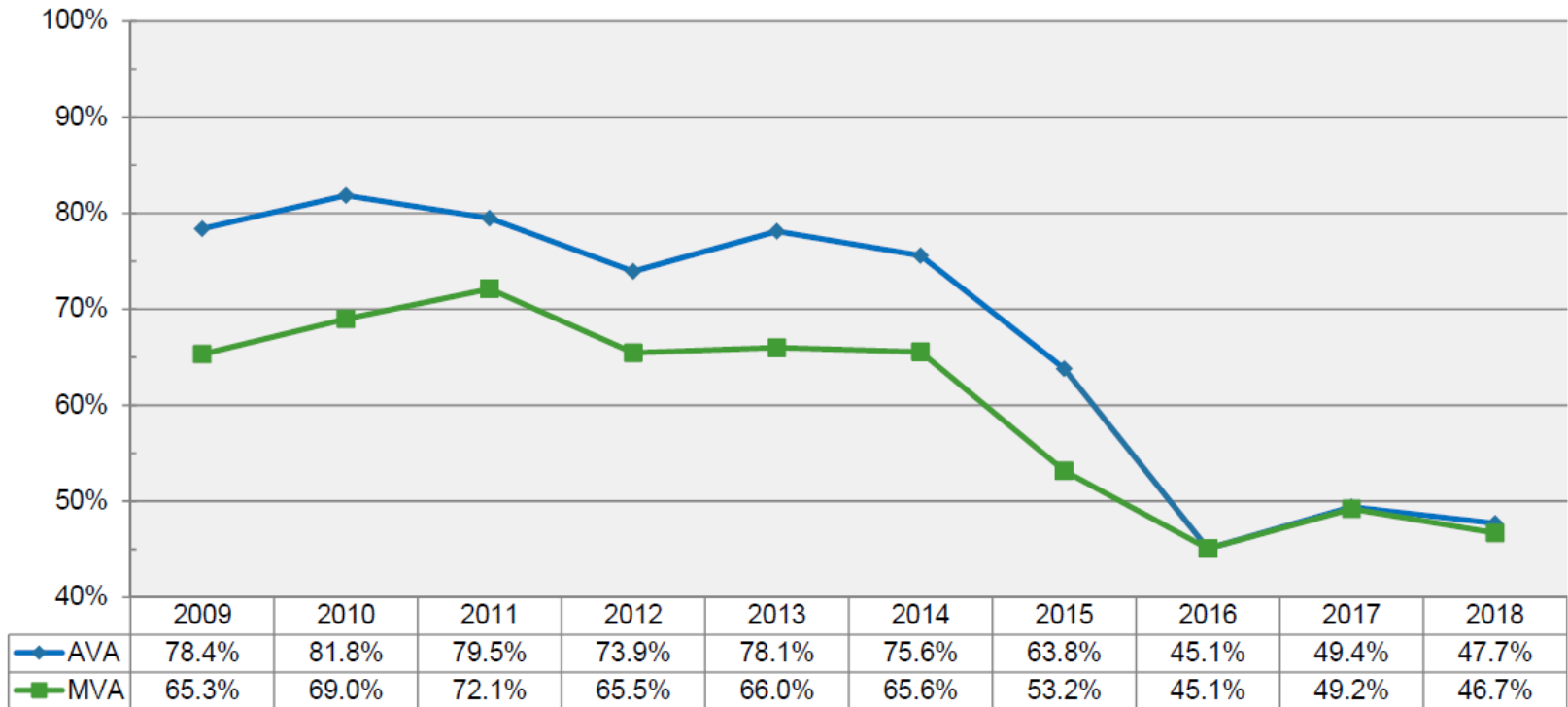


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
◆ Actuarial Value	-6.14%	12.29%	2.69%	0.43%	14.79%	4.52%	-1.98%	-24.03%	7.16%	6.63%
■ Market Value	-24.80%	13.78%	10.72%	-1.78%	9.92%	7.70%	-5.35%	-8.47%	6.82%	4.74%

Source: Segal's Annual Valuation Summary as of January 1, 2018

# Funded Percentage

**FUNDED PERCENTAGE AS OF JANUARY 1**



January 1, 2018 Projected Funded Period 45 years, 2063

Source: Segal's Annual Valuation Summary as of January 1, 2018

# Pension Liability – GASB No. 67

	Year Ended December 31, 2017	Year Ended December 31, 2016
Total Pension Liability	\$4.50 billion	\$8.45 billion
Plan Fiduciary Net Position	\$2.10 billion	\$2.15 billion
City's Net Pension Liability	\$2.40 billion	\$6.30 billion
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	46.77%	25.45%

Source: Segal's Annual Valuation Summary as of January 1, 2018

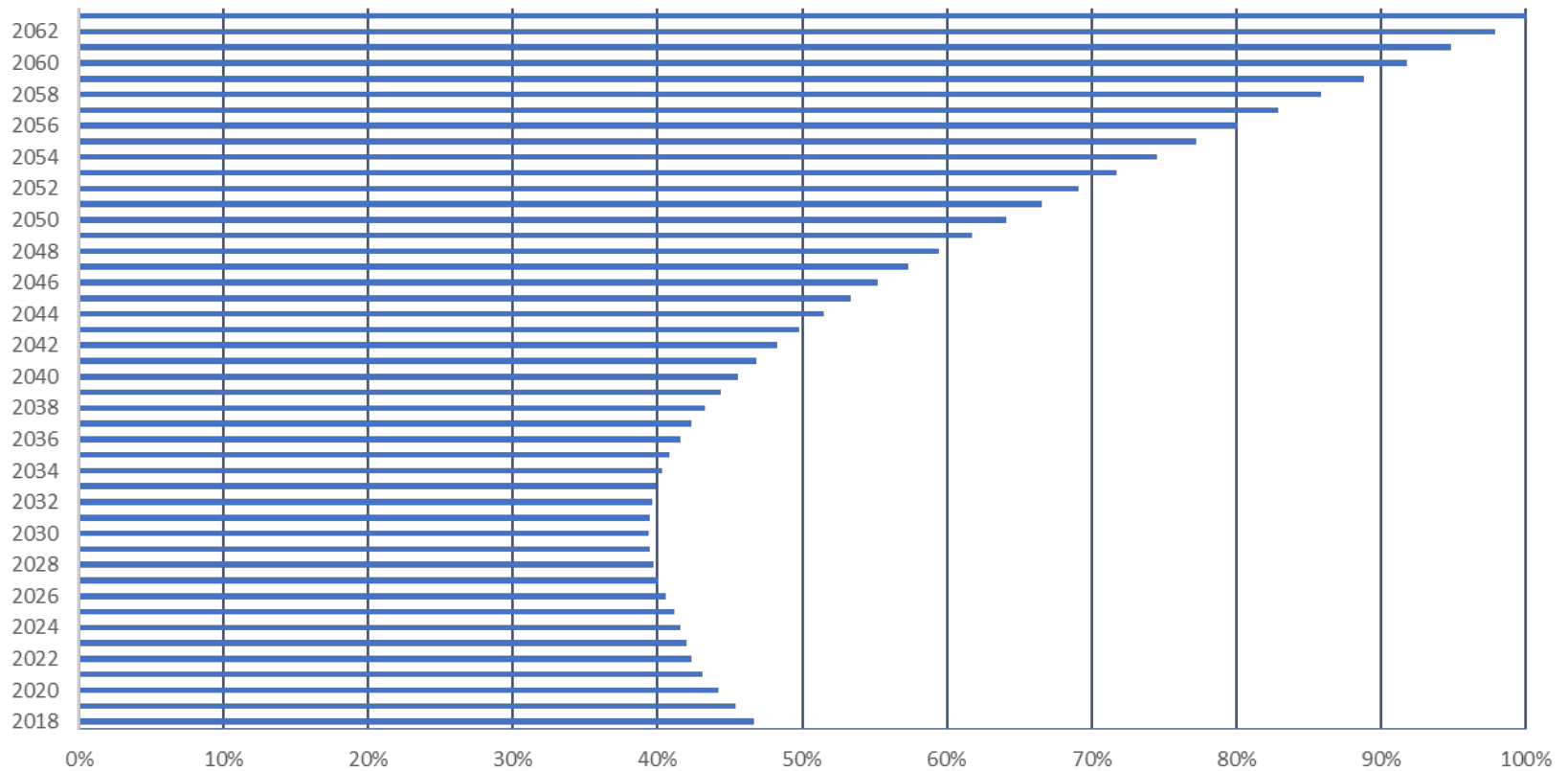
# Importance of City Hiring Plan Payroll Estimates

Taken directly from Segal's Annual Valuation Summary as of January 1, 2018 Presentation to the Board:

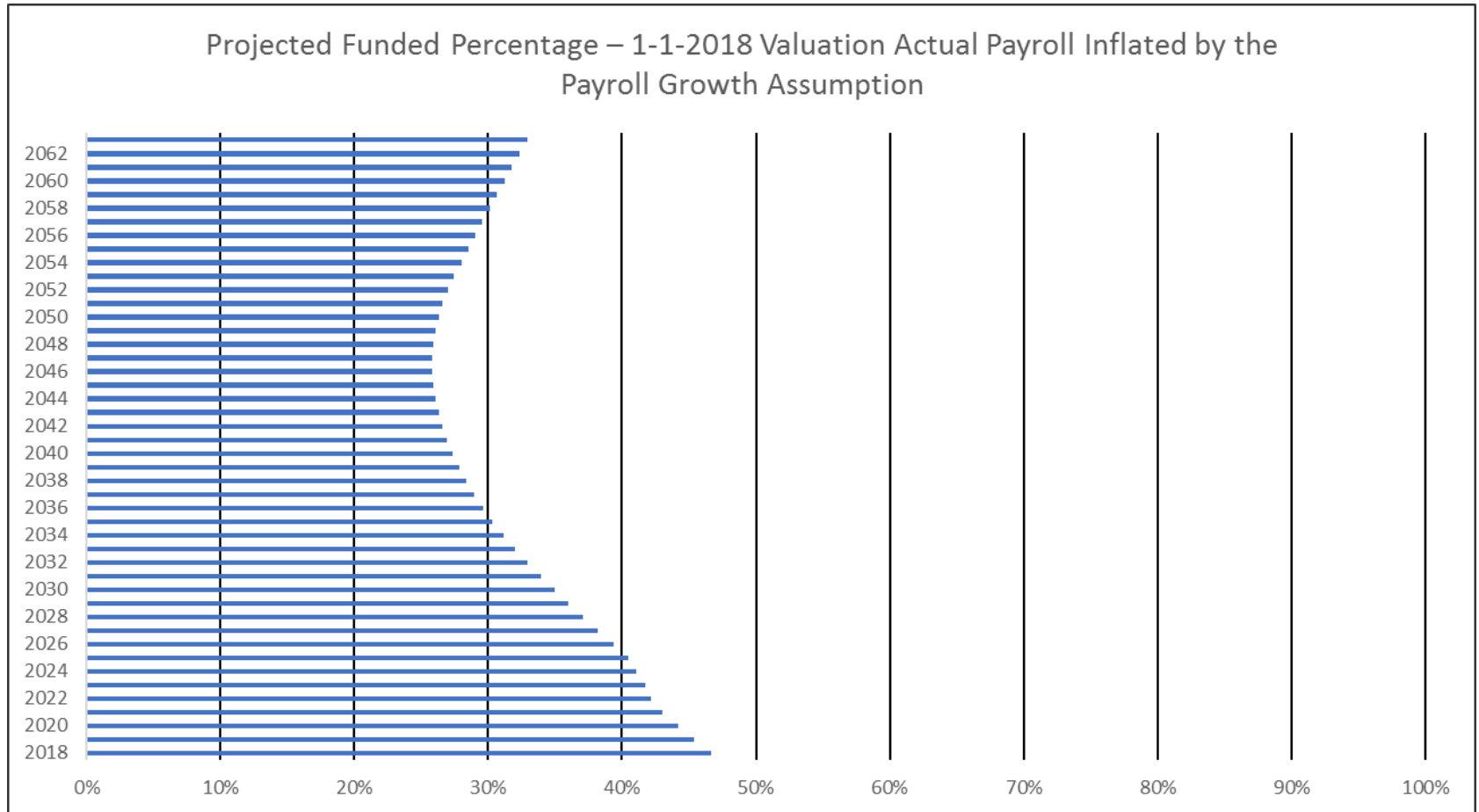
- Assuming the City's Hiring Plan payroll projection is met, the expected full-funding date is 2063.
  - Full-funding date may vary on an annual basis due to demographic experience, economic experience, and contributions other than assumed
- City's long-term contribution rate is scheduled to be 34.50% of computation pay
  - Through 2024 there is a floor on the City's contribution levels
  - Beginning in 2025, City expected to contribute based solely on pay
  - City's plan reflects significant growth in payroll over 20 years, from \$372 million in 2017 to \$684 million in 2037 (average annual growth of 3.1%)
  - Differences between actual payroll and City's Hiring Plan payroll will have an impact on when the System is projected to become fully funded
  - If payroll growth is more modest, or if there is adverse experience in the System that leads to losses, the period required to achieve 100% funding could be significantly longer.
  - **If the City's Hiring Plan projections are not met and instead the current valuation payroll of \$346.0 million increases by the assumed payroll growth of 2.75% each year ongoing, and if City and member contributions are based on this projected payroll beginning in 2025, the System is projected to be only 33% funded in 2063, rather than 100%.**

# Projected Funded Percentage at City Hiring Plan Levels

Projected Funded Percentage – City Hiring Plan



# Projected Funded Percentage based on Actual Payroll



# Summary Regarding Projected Funding Percentages

- The Projected Funded Percentages are based on the 1-1-2018 Actuarial Valuation and assumes all assumptions are met.
  - Even if all assumptions are achieved the funding level of the Plan is fragile.
  - The funded percentage is projected to decline for the next 15 years before it begins to increase.
  - The funded percentage is projected to be below 40% for 6 years and below 50% for 26 years.
- If the City does not meet the Hiring Plan projections, and remains on the same hiring path (1-1-2018 Valuation Payroll inflated by the 2.75% payroll growth assumption) the projected results are as follows:
  - The funded percentage is projected to drop below 40% funded in 2026.
  - The funded percentage is projected to be below 40% for 38 years.
  - The funded percentage is projected to be below 30% for 22 years.
  - The funded percentage is projected to drop to a low of 25.85% in 2047 before it begins to increase to a 33% funded level in 2063.
- As we knew when HB 3158 was passed, HB 3158 created a path to solvency but the path is narrow with many risks and little room for error. Any early disruption in achieving the assumptions (both investment returns as well as hiring projections) could have a catastrophic impact on the funding of the plan.