

# Memorandum



CITY OF DALLAS

DATE September 1, 2017

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

SUBJECT **Employees' Retirement Fund of the City of Dallas Update**

On Tuesday, September 5, 2017, the Employees' Retirement Fund will brief the Government Performance & Financial Management Committee on Employees' Retirement Fund of the City of Dallas Update. I have attached the briefing for your review.

Please let me know if you need additional information.

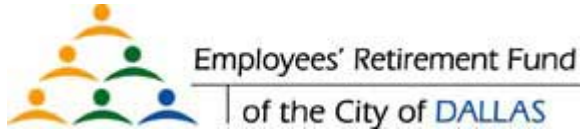
A handwritten signature in cursive script that reads "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

## Attachment

c: Honorable Mayor and City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Biliera Johnson, City Secretary (Interim)  
Daniel F. Solis, Administrative Judge  
Kimberly Bizer Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Jo M. (Jody) Puckett, Assistant City Manager (Interim)  
Nadia Chandler Hardy, Chief of Community Services  
Raquel Favela, Chief of Economic Development & Neighborhood Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors



# **Employees' Retirement Fund of the City of Dallas Update**

**September 5, 2017**

Cheryl D. Alston, Executive Director  
David K. Etheridge, Deputy Director



# Overview

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- I. Fund Background
- II. Annual Actuarial Valuation Update for FY 12/31/16
- III. Investment Performance Update
- IV. Chapter 40A Amendment



# 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”).



## Appropriate Checks and Balances are in Place

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- Grant Thornton conducts annual financial audits. Dallas ERF has the same auditor as the City of Dallas;
- Gabriel Roeder Smith & Company conducts annual actuarial valuations and an experience study at least every five years;
- Actuarial Peer Review conducted every three years by third party actuary mandated per Chapter 40A; and
- City of Dallas conducted a five-year peer review on assets and liabilities in 2015 and is now required to conduct an actuarial review every 5 years under State law.



## Actuarial Valuation – FY 2016

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- Prepared as of December 31, 2016, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods
- Purposes:
  - Measure the actuarial liabilities of the ERF(Fund)
  - Determine actuarial required contribution rate
  - Provide other information for reporting
  - Explain changes in actuarial condition of the Fund



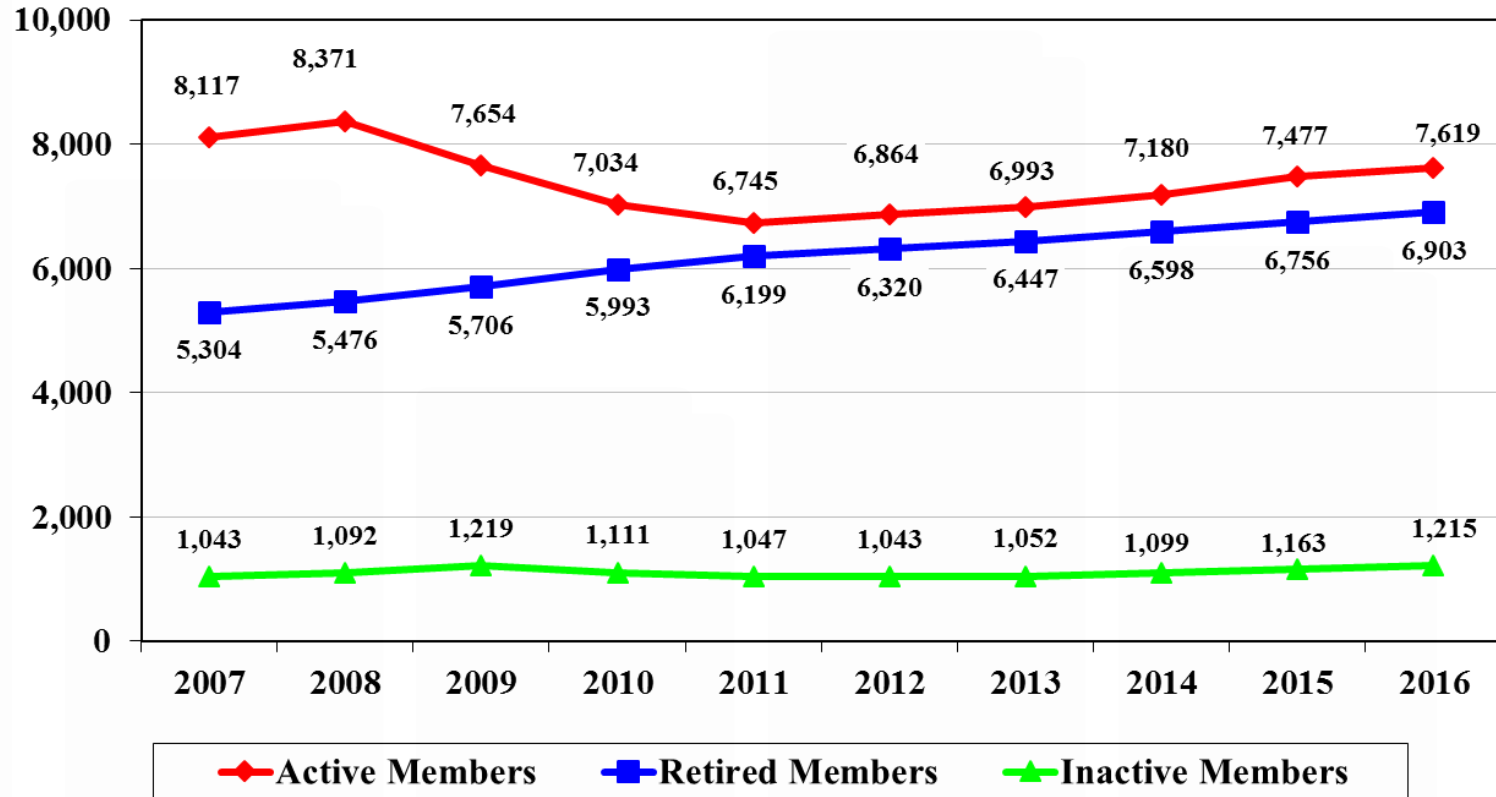
# Membership Statistics

- 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 15,500 families in the DFW area.

	Membership (12/31/2015)	Membership (12/31/2016)
Active Members	7,477	7,619
Benefit Recipients	6,756	6,903
Inactive Members	1,163	1,215
<b>Total</b>	<b>15,396</b>	<b>15,596+</b>



# Active Members and Retired Members

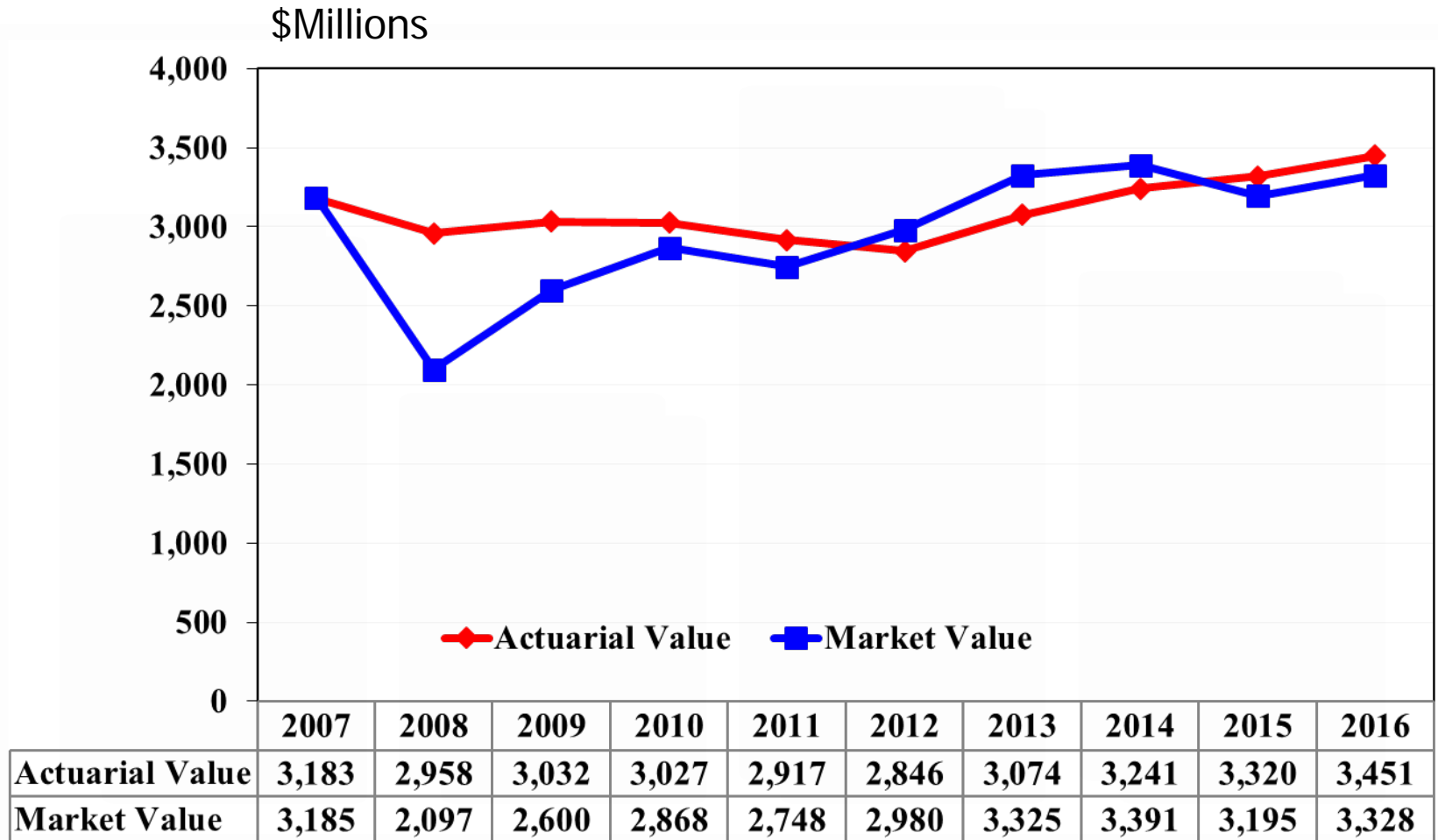


Note: active membership increased 1.9% over last year



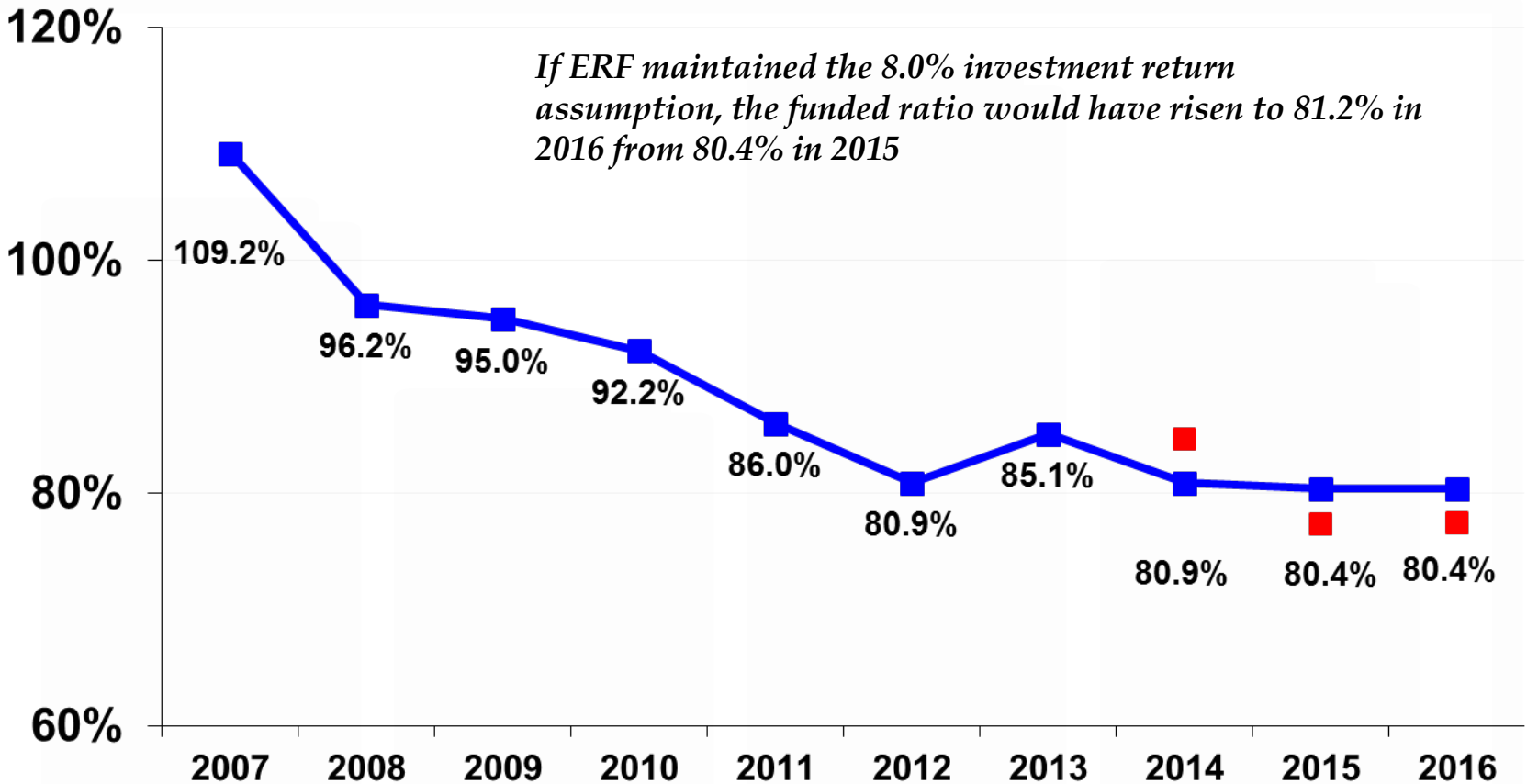


# Historical Asset Values





# Historical Funded Ratios



■ Funded ratio using market value of assets as of December 31, 2014 is 84.7 %.  
■ Funded ratio using market value of assets as of December 31, 2015 is 77.4%.  
■ Funded ratio using market value of assets as of December 31, 2016 is 77.5%.



# Key Issues and Changes

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- ERF was above the prior year's investment target of 8.0% on both a market value and actuarial value basis in 2016
  - Return on market value was 8.65%
  - Actuarial gain on assets of \$16 million
  
- ERF had positive liability experience in 2016
  - Primarily due to lower than expected cost of living adjustment – 1.446% (tied to Consumer Price Index)
  - Fewer retirements than expected
  - More retiree deaths than expected



# Key Issues and Changes

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- The ERF Board adopted the following changes to the economic assumptions
  - Decrease in inflation rate to 2.75%
  - Decrease in investment return assumption to 7.75%
  - 0.25% decrease in salary increase assumptions (individual)
  - 0.25% decrease in salary increase assumptions (aggregate)
- Change in assumptions increased normal cost and unfunded liability
  - Liabilities increased by \$41 million due to new assumptions
- Total Contribution Rate – 63% paid by City and 37% paid by members
  - City contribution rate is 22.68%
  - Member rate is 13.32%



# Key Issues and Changes

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- The new Tier was effective January 1, 2017
  - The liabilities and contribution rates shown in this presentation only reflect Tier A benefits
  - Tier B members will be included in the valuation beginning next year
- GASB Net Pension Liability – Fund passes test and Net Pension Liability is reduced



## GASB #67 & #68

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- Impact of new plan provisions on GASB #67 & #68
  - The Fund now passes the Single Discount Rate test
  - Long term return assumption used to determine liabilities
  - Net Pension Liability will be equal to Fund's AAL minus market value of assets
- NPL decreased from \$2.2 billion last year to \$964 million as of 12-31-2016



# Investment Update

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- Conservative Global Investment Portfolio
- 90% of Portfolio Valued Daily
- Rate of Return
  - 5.00% Real Rate of Return
  - 2.75% Inflation
  - = 7.75% Assumed Rate of Return
- Investment Returns (as of 7/31/2017)
  - CYTD – 8.51%
  - 1 year return – 10.03%
  - 5 year return – 8.99%
  - Since 12/31/84 – 9.26%



## Chapter 40A Amendment Process

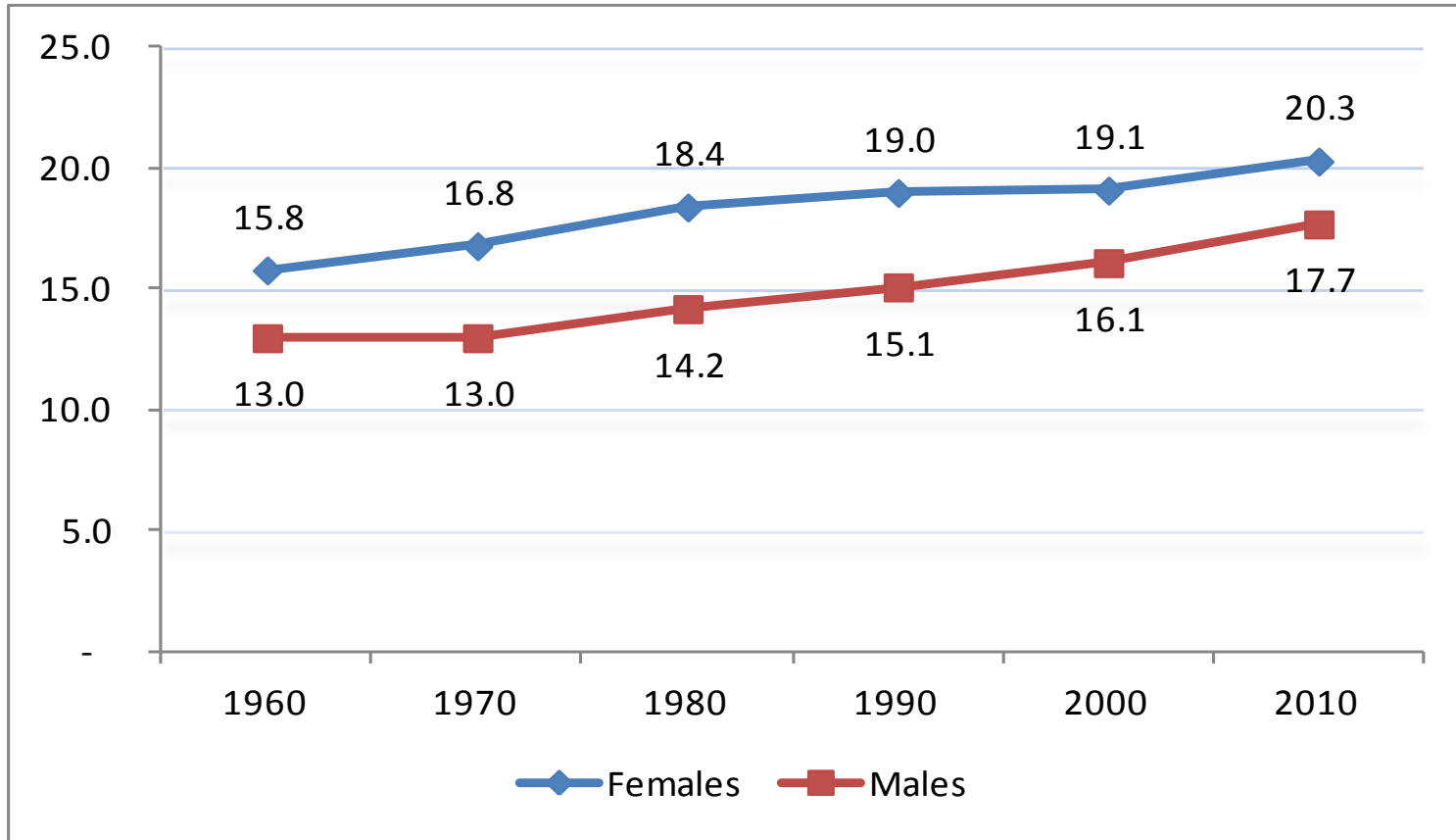
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- Chapter 40A Amendment process requires all interested parties to approve any changes not required by Federal law.
- The Dallas ERF Board, Dallas City Council, and the voters of the City of Dallas must approve the changes.
  - Dallas ERF Board unanimously approved in August 2016
  - Dallas City Council approved changes in August 2016
  - City of Dallas voters approved changes in November 2016 (69% of voters approved)
- Chapter 40A amendment became effective on January 1, 2017.





# 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



# Membership

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- Oldest employee born in 1934 (83 years old)
- Youngest employee born in 1999 (18 years old)
- 24 active employees with benefit multiplier capped at 100% over 36.3636 years of service
- Oldest service retiree born in 1916 (101 years old)
- 2 beneficiaries born in 1914 (103 years old)
- About a dozen members have been in payment status for more than 40 years (retired prior to 1977)

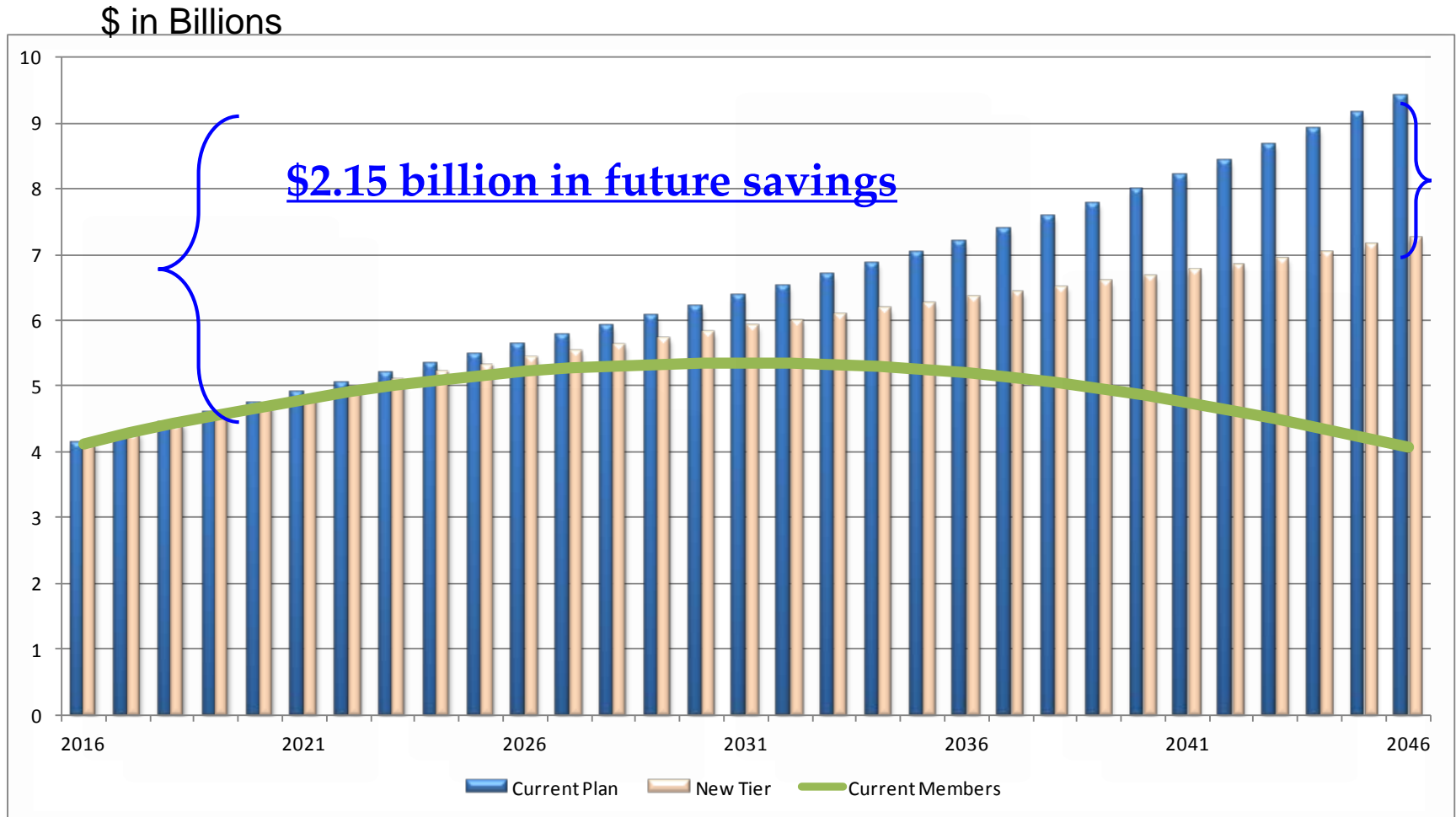


# Approved Changes to Chapter 40A reduced normal cost from 20.36% to 12.96%

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



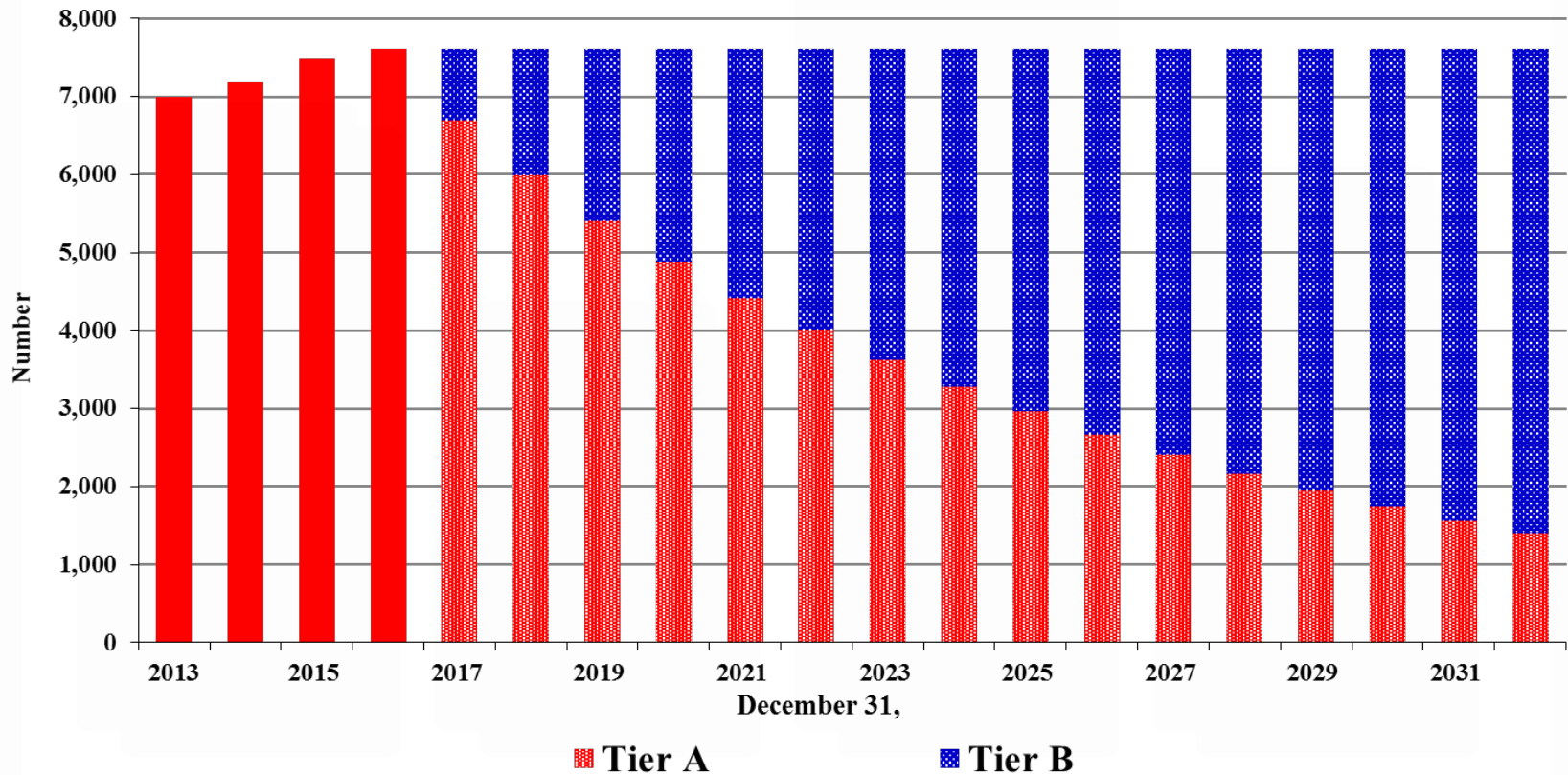
# Chapter 40A changes should reduce future liabilities by \$2.15 Billion and Reduces Normal Cost by 36.3%.





# Projected Active Membership

## Projected Number of Tier A and Tier B Employees



Note: The projected total number of employees is assumed to remain a constant 7,619.



# Conclusion

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Overall, 2017 is a positive year for Dallas ERF

- Implemented Tier B to address people living longer in retirement by lowering the Fund's normal cost by 36.3% (from 20.36% to 12.96%);
- Investment Performance is positive with 8.51% for CYTD and 10.03% for one year;
- Funded Ratio maintained at 80.4%;
- Unmodified clean audit opinion for 2016. No audit changes or recommendation; and
- Maintain a financially sound and sustainable retirement plan based on conservative economic, demographic and actuarial assumption.