

Employees' Retirement Fund of the City of Dallas



City of Dallas

**Ad Hoc Committee on Pensions
December 14, 2023**

Cheryl Alston, Executive Director
David K. Etheridge, Deputy Executive Director
Employees' Retirement Fund of the
City of Dallas

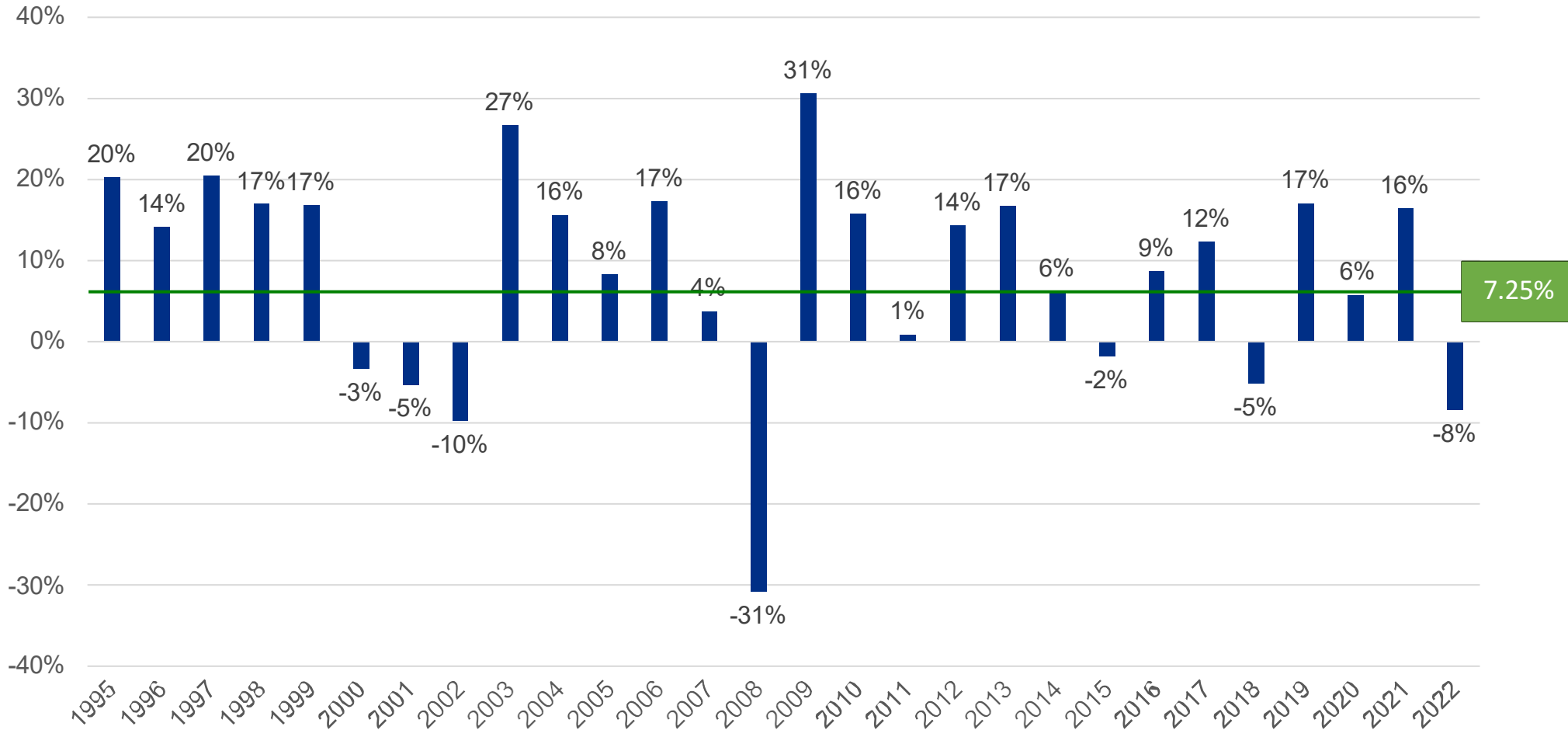
Background/History



History	Established in 1944
Type Plan	Single employer defined benefit “Trust 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. Dallas ERF does not have a Deferred Retirement Option Program (“DROP”). Cost of Living Adjustments based on Consumer Price Index (CPI)
Board Consultants	Actuary: Gabriel Roeder Smith & Company
	Investment Consultant: Wilshire
	Legal Firms: BakerHostetler LLP Foster Garvey PC Locke Lord LLP



Long-Term Dallas ERF Investment History



As of
November 30, 2023
the YTD = 6.53%

7.25%



Dallas ERF Performance Results



- ❑ Conservative Global Investment Portfolio with 85% valued daily as of 11/30/2023
 - ❖ 1-year return – 4.33%
 - ❖ 3-year return – 5.28%
 - ❖ 5-year return – 6.05%
 - ❖ Since inception (1985) – 8.63%

- ❑ Assets under Management as of 11/30/2023 – \$3.55 billion

- ❑ Actuarial Valuation conducted annually, most recently as of 12/31/2022

- ❑ Experience study conducted every five years, and the most recent study was conducted in 2020.

- ❑ An independent peer review audit of the ERF's actuary is conducted every five years.

- ❑ Funded ratio (actuarial assets divided by actuarial accrued liability) = 73.1% as of 2022



ERF Members Facts & Figures as of 12/31/2022



Average Annual Benefit
\$40,883

Annual Benefit Paid to Beneficiaries
\$317.5 Million

ERF Employee Member Headcount
7,464

ERF Retiree Headcount
7,766

Percent of ERF Active Members
who are Dallas Residents
44%

Percent of ERF Retirees
who are Dallas Residents
35%

Civilian Employee Turnover
17%

Uniform Employee Turnover
DPD = 1% | Fire = 2.4%

1,100 Active Employees eligible to retire
Leave payout = \$12M est.

Tier B Restricted Prior Service Participants
395

2023 Federal Poverty Guidelines



Number of people in your household	2023 income numbers
1	\$14,580
2	\$19,720
3	\$24,860
4	\$30,000
5	\$35,140
6	\$40,280
Civilians' average retirement benefit as of December 31, 2022	\$40,883
7	\$45,420

Dallas ERF retirees monthly benefit ranks among U.S. Department of Health and Human Services' poverty levels.

Source: The Department of Health & Human Services ("HHS") recently announced the 2023 Federal Poverty Level ("FPL") guidelines which, among other things, establish the FPL affordability safe harbor for purposes of the Affordable Care Act ("ACA") employer mandate issued 01/24/2023.



Considerations & Action Plan



2016 Cost Impact of Studies



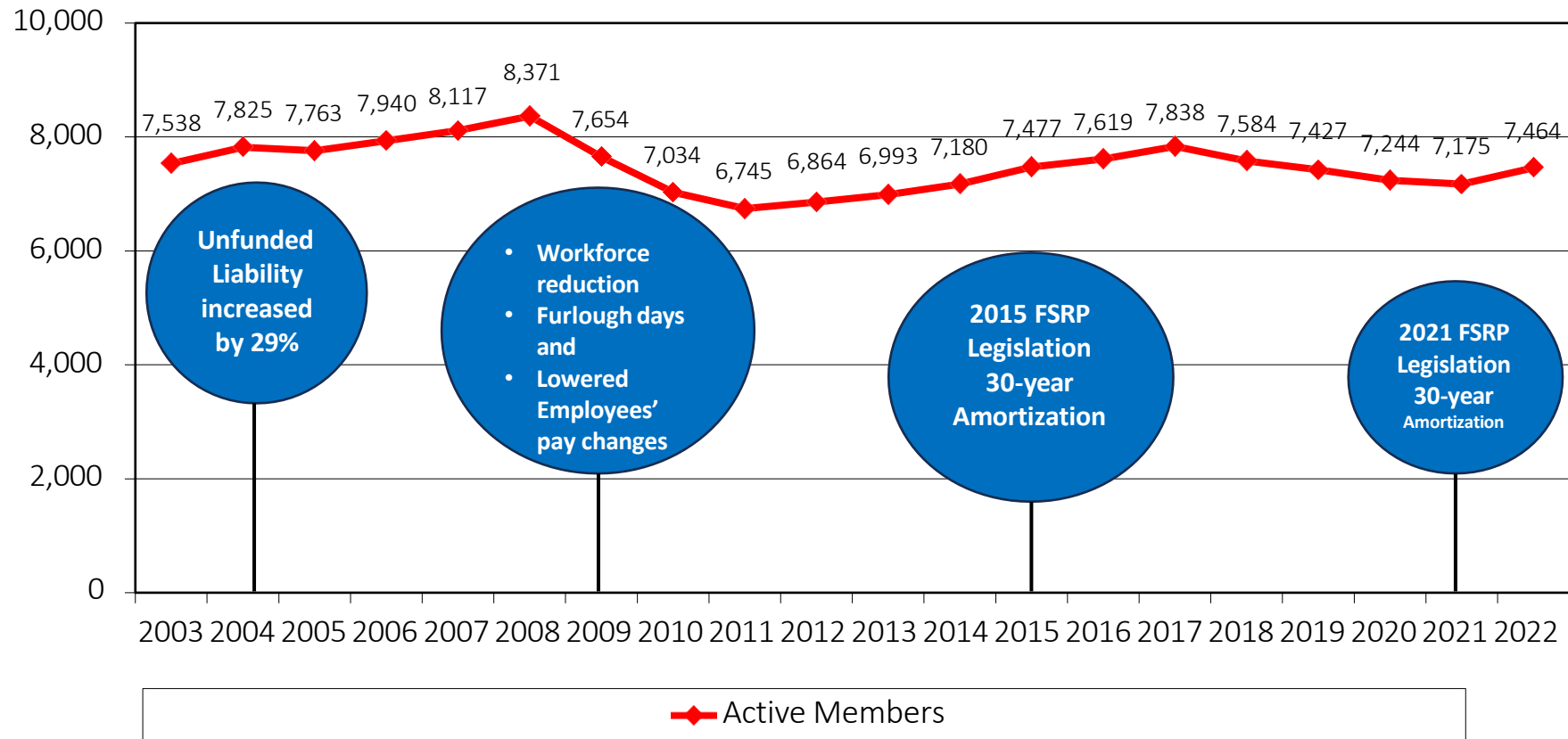
Dallas Employees' Retirement Fund Benefit Changes for New Hires

Preliminary Normal Cost Rate (NC%) as of 12/31/2015 20.36%

Study # and Description of Benefit Modification	Decrease in NC%	Percentage Decrease
1. Age 65 with 5 years of service Normal Retirement and	4.90%	24.1%
2. CPI COLA, with maximum of 3.00% (valued as 2.50% COLA)	0.62%	3.0%
3. Average Monthly Earnings period changed from 3 to 5 years	0.62%	3.0%
4. Normal Form of payment changed to life only annuity	1.00%	4.9%
5. Elimination of \$125 health supplement	0.70%	3.4%
6. Benefit multiplier changed from 2.75% to 2.50%	1.58%	7.8%
7. Combination of all prior Scenarios	7.91%	38.9%

\$2.15 billion in savings through 2055

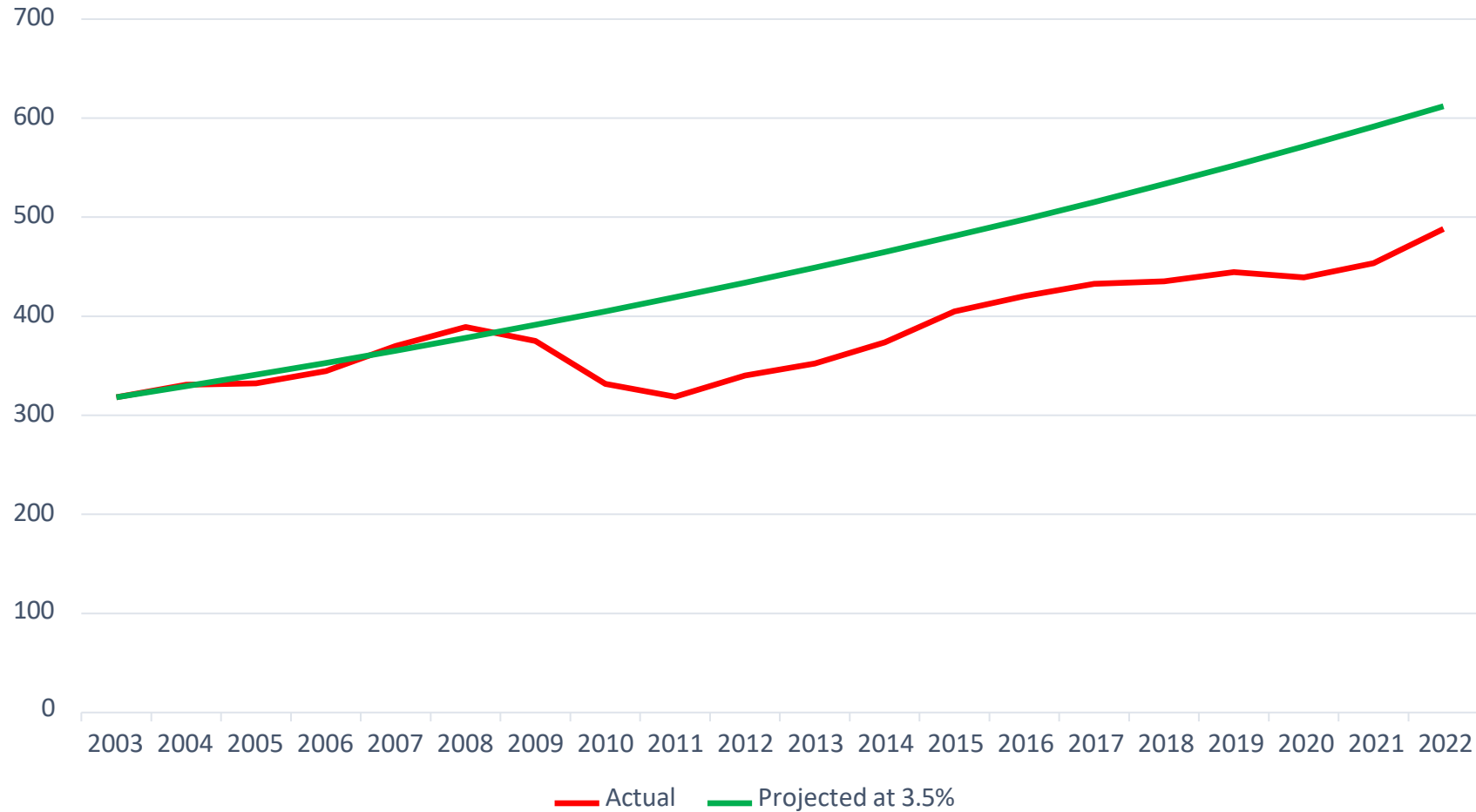
Impact of Decrease in Active Employees



Note: active membership increased 4.0% versus last year



Actual Versus Projected Payroll Growth



Total cumulative decrease in payroll from 2008 to 2022: \$1.3 billion



Funding Soundness Restoration Plan Requirements



Section 802.2015(d) of the TX Government Code provides that the Dallas ERF must formulate a revised funding soundness restoration plan. The PRBs guidelines in response to the Government Code are:

- 1) the system's (ERF) actuarial valuation shows that the plan's expected funding period exceeds 30 years but is less than or equal to 40 years; and
- 2) the system (ERF) is:
 - (A) adhering to an existing funding soundness restoration plan that was formulated before September 1, 2025; or
 - (B) implementing a contribution rate structure that uses or will ultimately use an actuarially determined contribution structure and the system's actuarial valuation shows that the system is expected to achieve full funding.

Therefore, by adhering to a FSRP before 9/1/25, the ERF would be eligible for the exception that allows analysis to be based on a 30-to-40-year range, rather than the otherwise applicable 30-year amortization period rule.

Risk / Alternative to Implementing by September 1, 2025

- Dallas ERF will lose the benefit of the special exception, which means the funding period moves from a 30 to a 25-year amortization schedule and increases the cost significantly.**



Considerations / Action Plan



- ❑ The consideration does not include a request for Bonds.
- ❑ Eliminate the maximum contribution cap of 36.00% of pay from Chapter 40-A Effective January 1, 2025, for the valuation period and replace it with the Actuarially Determined Contribution rate in the annual Valuation Report.
- ❑ Increase the employee contribution rate to a maximum of 14.00%
- ❑ Select the appropriate amortization schedule to meet budget expectations.
 - ❖ Any lump sum contribution from the City, at any point in time, will have a positive effect on the City's contribution rate as determined by the actuary.
- ❑ Amend draft changes to Chapter 40A by January 31, 2024. City Council votes in February 2024 to establish a May 2024 referendum for Dallas Citizens to consider.
- ❑ Contribution rates for the City of Dallas and ERF Members go into effect October 1, 2025.



Funding Soundness Restoration Plan Scenario



Milliman reviewed the following scenarios produced by GRS (ERF's retained actuary):

□ Current

- Deferred actuarial investment losses (2023 and prior) are recouped
- Assumed return of 7.25%
- POB debt service paid from contributions

□ Phase-In Scenario

- 36% cap is removed, and member contributions capped at 14% of pay
- Phase-in to higher City contribution at 2% more per year until reaching ultimate level % of pay.
- City contribution projected to fully fund the plan 30 years from 12/31/2024 (FSRP requirement).
- For example, the increase in contributions is projected to be
 - 2025: \$7 million for the City, and employee contributions will be \$3.5 million.
 - 2026: \$10.5 million for the City over 2025.

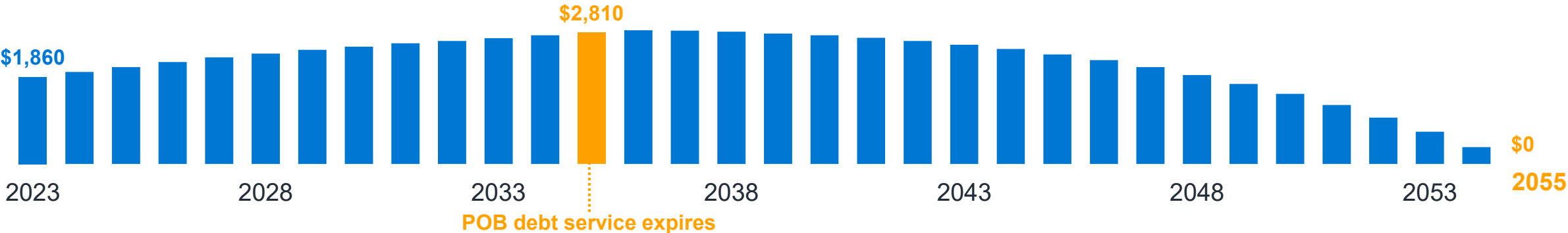
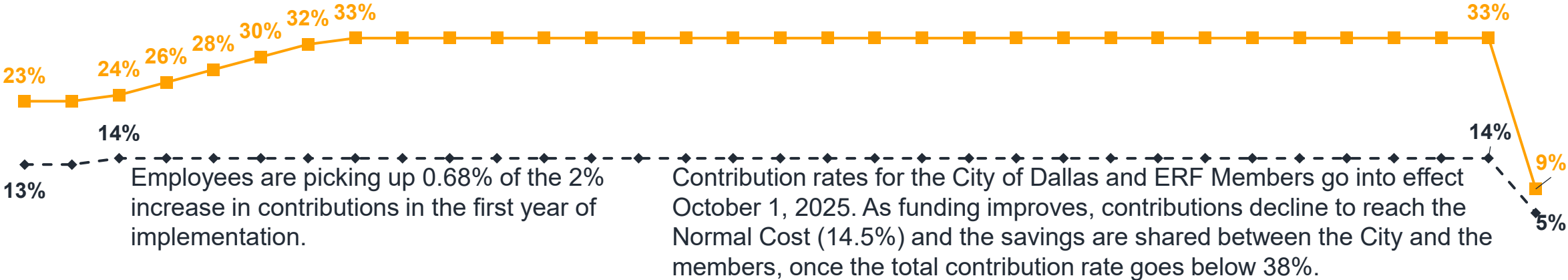


Phase- In Scenario



2% "phase-in" begins in 2025

■ Unfunded Liability ■ City Contribution Rate - ◆ - Employee Contribution Rate



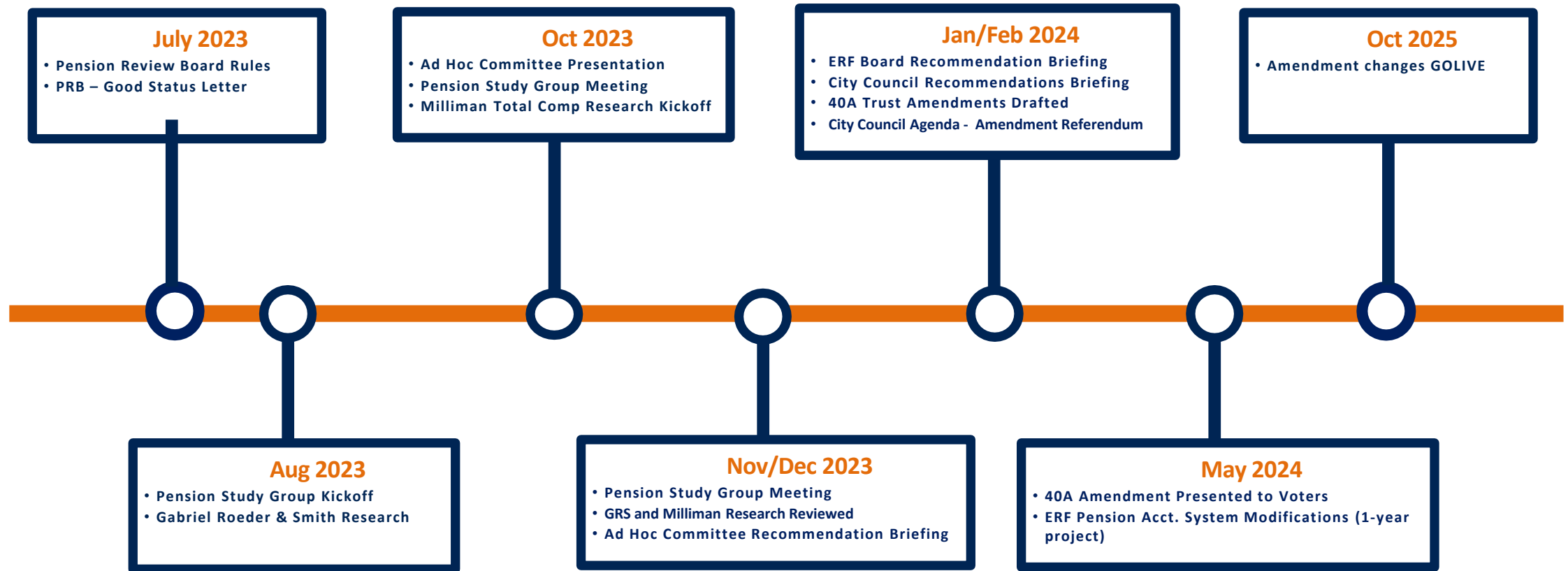
Comparable Contribution Rates for Texas Cities



City/Retirement System	City Contribution to Retirement Plan	City Contribution to Social Security	Total City Contribution to Retirement
City of Dallas ERF (current)	22.68%	0.00%	22.68%
City of Austin Muni	20.47%	6.20%	26.67%
City of Fort Worth	31.59%	0.00%	31.59%
City of Dallas ERF (recommended)	24% - 33%	0.00%	24% - 33%
City of Houston Muni	28.86%	6.20%	35.06%



Proposed 40A Amendment Timeline



Summary of Considerations & Action Plan



- ❑ The consideration does not include a request for Bonds.
- ❑ Eliminate the maximum contribution cap of 36.00% of pay from Chapter 40-A Effective January 1, 2025, for the valuation period and replace it with the Actuarially Determined Contribution rate in the annual Valuation Report.
- ❑ Increase the employee contribution rate to a maximum of 14.00%
- ❑ Select the appropriate amortization schedule to meet budget expectations.
 - ❖ Any lump sum contribution from the City at any point in time will result in a recalculation in the City's contribution rate as determined by the actuary.
- ❑ Amend draft changes to Chapter 40A by January 31, 2024. City Council votes in February 2024 to establish a May 2024 referendum for Dallas Citizens to consider.
- ❑ Contribution rates for the City of Dallas and ERF Members go into effect October 1, 2025.





City of Dallas

Appendix

Governance - Dallas ERF Board Composition



❑ The Board of the Employees' Retirement Fund of the City of Dallas is composed of seven Trustees consisting of:

(A) three persons appointed by the City Council: Henry Talavera (Chair), Dr. John Peavy III (Vice Chair), and T. Dupree Scovell

(B) three employee members from different departments of the City who are elected by members of the retirement fund - Carla D. Brewer, Tina Richardson, Sunil King; and

(C) the City Auditor (ex-officio) – Mark Swann.

❑ Dallas ERF Trustees are charged with fiduciary responsibilities to act solely in the best interest of the Fund's membership.



Civilian Base Pay Compensation Study



- ❑ The City of Dallas' Human Resources Department originally contracted Milliman Inc. to conduct a citywide Total Compensation Study in 2014.

- ❑ In October 2023, Dallas ERF contracted with Milliman Inc. to conduct the following Scope of Work:
 - 1) Evaluate City of Dallas' Civilian Base Pay to the Market and update the City's Study from 2014
 - ❖ Market comparison: Dallas pay range midpoints versus market base 50th percentile
 - ❖ Market comparison: Dallas average base pay versus market base 25th, 50th and 75th percentiles
 - ❖ Civilian jobs evaluated using published survey sources
 - 2) Evaluate ERF Tier A – Total retirement plan value as a percent (%) of pay, private sector
 - 3) Evaluate ERF Tier B – Total retirement plan value as a percent (%) of pay, private sector
 - 4) Validate pension plan cost models presented by Gabriel Roeder and Smith.



72 City of Dallas Civilian Job Titles Studied

The following jobs were provided by the City of Dallas' Human Resources Departments data sources

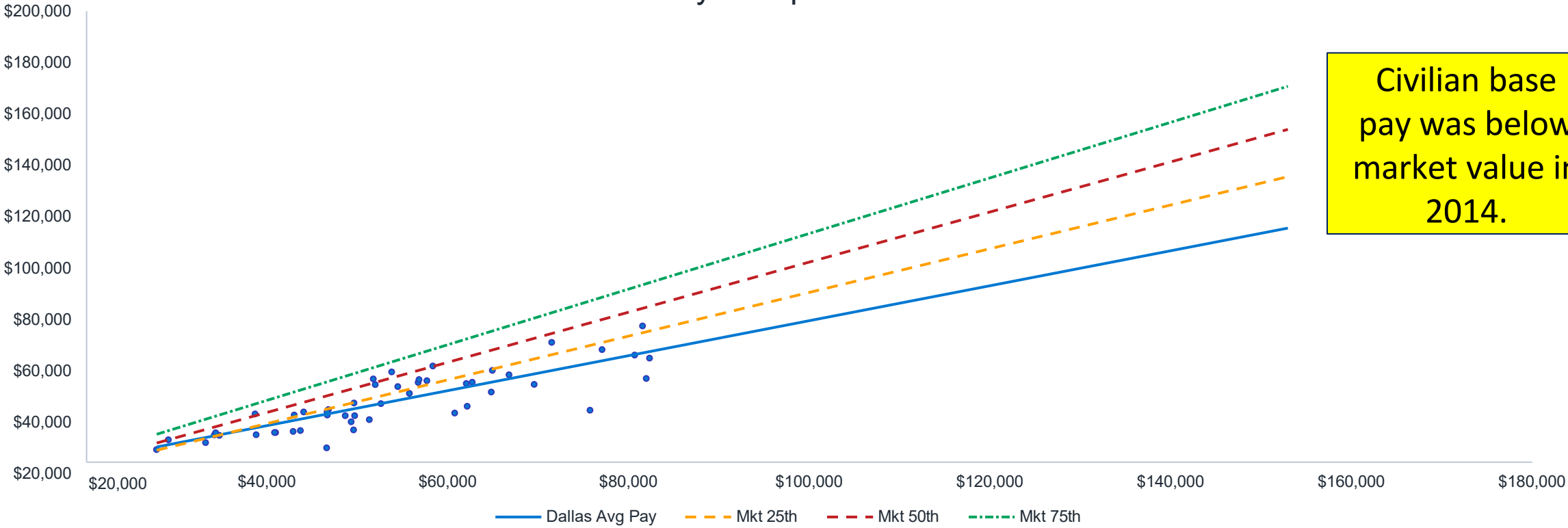
Animal Services Officer	Executive Assistant	Risk Analyst	Senior Risk Analyst
Assistant City Attorney I	Greens Superintendent	Safety Officer	Supervisor - Airport Maintenance
Assistant City Attorney IV	Heavy Equipment Operator	Senior Accountant	Supervisor - Animal Field Services
Bailiff	Human Resources Assistant	Senior Carpenter	Supervisor - Facilities
Chemist	HVAC Technician	Senior Community Service Worker	Supervisor - Heavy Equipment Operation
Chief Planner	Inspector II - Various	Senior Contract Compliance Administrator	Supervisor - Office
Community Service Worker	Inspector III - Building Inspection	Senior Design Technician	Supervisor - Park Maintenance
Contract Compliance Administrator	Irrigation Technician	Senior Electronic Technician	Supervisor - Warehouse
Court Specialist II	Laborer I	Senior Engineer	Supervisor WWTP Maintenance
Crew Leader - MISC	Laborer II	Senior HVAC Technician	Truck Driver II
Crime Technician	Legal Office Administrator	Senior Legal Secretary	Water Field Representative I
Custodian	Manager - Code Enforcement	Senior Maintenance Worker	Water Meter Reader
Customer Service Agent I	Manager - Environmental Quality	Senior Mechanic	Water Plant Operator
Customer Service Representative II	Manager - Facilities	Senior Payroll Specialist	Worker's Compensation Coordinator
Deputy City Marshal	Master Electrician	Senior Planner	
Electronic Technician	Mechanic II	Senior Plans Examiner	
Engineer Assistant I	Painter	Senior Plumber	
Engineer I	Plumber	Senior Real Estate Specialist	
Equipment Operator	Recreation Program Specialist		

2014 Market Study Results for City of Dallas Civilian Base Pay



2014 chart reproduced, Base salaries for civilian jobs average **17% below the 50th percentile** and **4% below the 25th percentile**.

Base Pay Comparisons -Civilian Jobs



Civilian base pay was below market value in 2014.



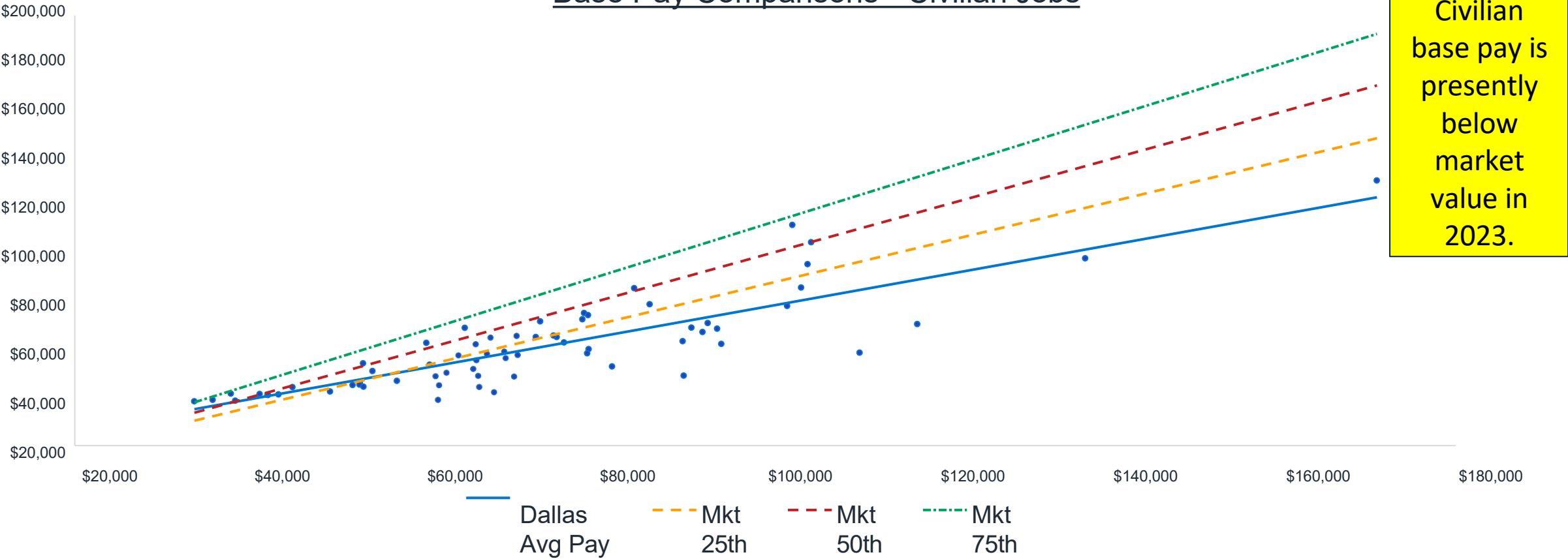
*Dallas Average Pay provided by the City of Dallas

2023 Market Study Results for City of Dallas Civilian Base Pay



- ❑ Base salaries for civilian jobs average 15% below the 50th percentile and 4% below the 25th percentile.
- ❑ Base salaries decline in competitiveness as pay increases.

Base Pay Comparisons - Civilian Jobs



Formula to Calculate Dallas ERF Benefits



Pension Formula

$$\begin{aligned} & 2.5\% \\ & \times \text{multiplied by} \quad \text{Service Credit (Full \& Partial Years)} \\ & \times \text{multiplied by} \quad \text{Average Monthly Pay} \\ \hline & = \text{Calculated Monthly Benefit} \end{aligned}$$



Civilians Turnover Rate vs. National Rate



City of Dallas' Civilian Turnover Rate = 17%

As of Dec. 31, 2022

National Avg = 3.6 to 4.2%

Oct. 2021 – Oct. 2022

NEWS RELEASE BUREAU OF LABOR STATISTICS U. S. DEPARTMENT OF LABOR



For release 10:00 a.m. (ET) Tuesday, December 5, 2023

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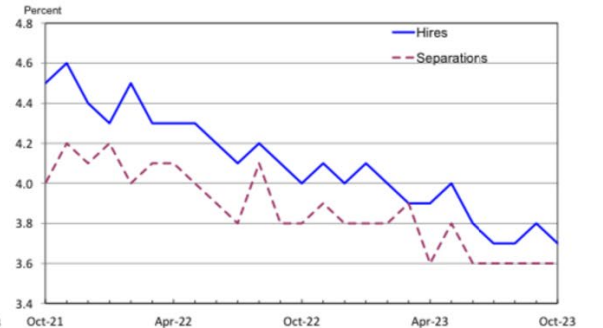
JOB OPENINGS AND LABOR TURNOVER – OCTOBER 2023

The number of job openings decreased to 8.7 million on the last business day of October, the U.S. Bureau of Labor Statistics reported today. Over the month, the number of hires and total separations changed little at 5.9 million and 5.6 million, respectively. Within separations, quits (3.6 million) and layoffs and discharges (1.6 million) changed little. This release includes estimates of the number and rate of job openings, hires, and separations for the total nonfarm sector, by industry, and by establishment size class.

Chart 1. Job openings rate, seasonally adjusted, October 2021 - October 2023



Chart 2. Hires and total separations rates, seasonally adjusted, October 2021 - October 2023



Dallas ERF Provides Two Tiers of Benefits



TIER A BENEFITS

PLAN ENTRY - By or Before December 31, 2016

MULTIPLIER - 2.75%

NORMAL RETIREMENT - Age 60

SERVICE RETIREMENT - 30 Years of Service

RULE OF 78 - Unreduced

FINAL AVERAGE PAY - Best of 3 Years
or Last 36 Months

HEALTH BENEFIT SUPPLEMENT - Max \$125

MAXIMUM RETIREE COLA - 5%

RESTRICTED PRIOR SERVICE CREDIT - No
unless Returning after Forfeiting Contributions

LIFE - Not Reduced

JOINT & HALF BENEFIT - Not Reduced

JOINT & FULL BENEFIT - Reduced

TIER B BENEFITS

PLAN ENTRY - After December 31, 2016

MULTIPLIER - 2.50%

NORMAL RETIREMENT - Age 65
with 5 Years Service

SERVICE RETIREMENT - 40 Years of Service

RULE OF 80 - Reduced Before Age 65

FINAL AVERAGE PAY - Best of 5 Years
or Last 60 Months

HEALTH BENEFIT SUPPLEMENT - None

MAXIMUM RETIREE COLA - 3%

RESTRICTED PRIOR SERVICE CREDIT - Yes

LIFE - Not Reduced

JOINT & HALF BENEFIT - Reduced

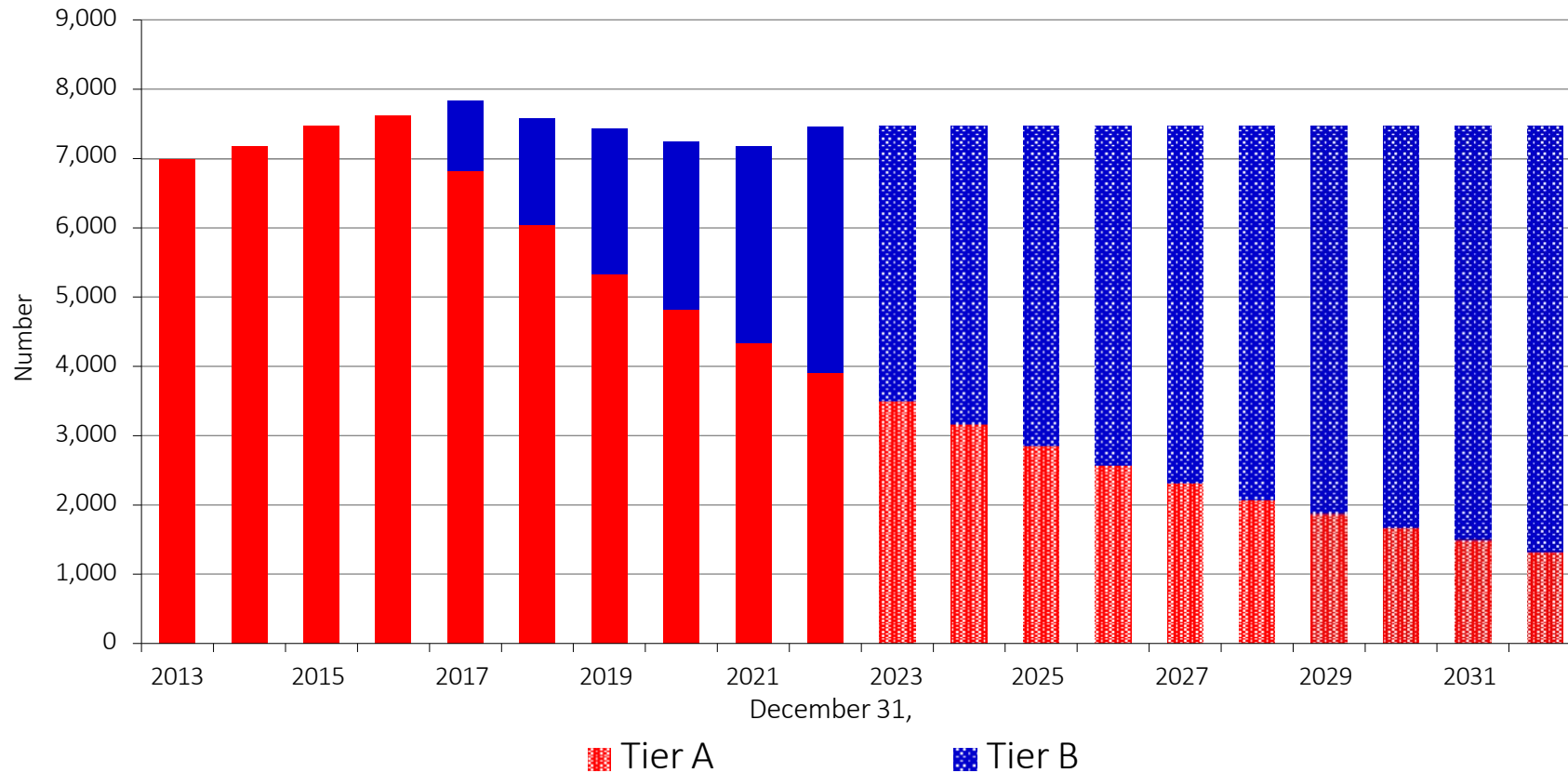
JOINT & FULL BENEFIT - Reduced

Reducing Dallas ERF pension benefits will likely increase the employee Turnover Rate of 17%.

Projected Active Membership



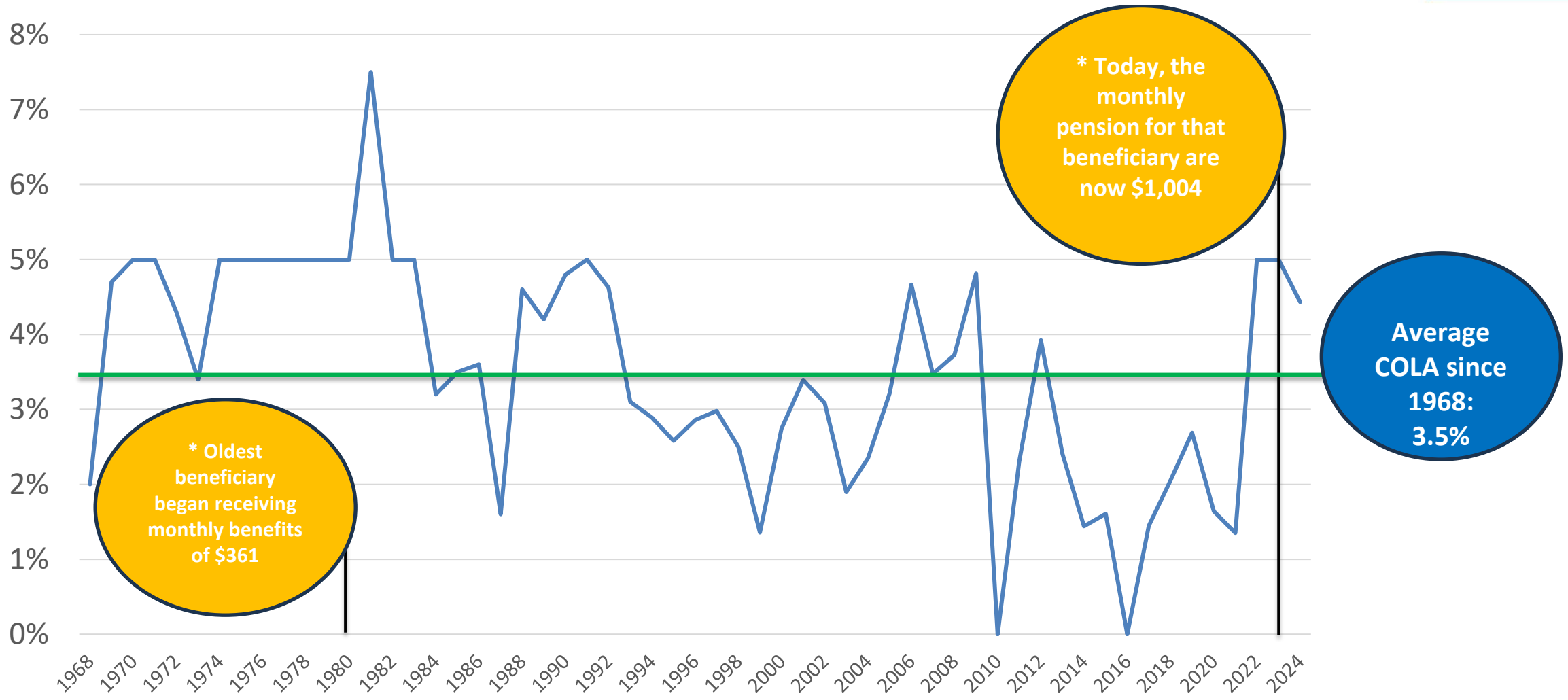
Projected Number of Tier A and Tier B Employees



Tier A = 52%
Tier B = 48%



Annual COLA Since 1968



Beneficiaries receive a simple, non-compounding COLA based on CPI to help offset the effects of inflation without social security.

Retirees Benefit as a Percent of Earnings



Years of Service for Retirement Eligibility	Tier A % of Pay	Tier B % of Pay
20 years	55%	50%
25 years	68.75%	62.5%
30 years	82.5%	75%
36.36 years	100%	91%
40 years	100%	100%

Note:

1. Tier A members must be age 50 or greater to avoid an actuarial retirement benefit reduction.
2. Tier B members must be age 65, and 5 years of service or have RSPS credit to avoid an actuarial retirement benefit reduction.

Civilian Overtime Information



- Dallas ERF receives salary pay information for all participating civilian employees including overtime as a file feed from the City Controller's Office.
- Overtime pay for Tier A and Tier B members are included in the final average calculation for every employee transitioning to retirement.
- Dallas ERF does not have the reporting capabilities in the City's HRIS System (Workday) to monitor or manage overtime as a preventative measure.



2023 Federal Poverty Guidelines




MY BENEFIT ADVISOR

2023 Federal Poverty Guidelines Announced

Issued date: 01/24/23

The Department of Health & Human Services ("HHS") recently announced the 2023 Federal Poverty Level ("FPL") guidelines which, among other things, establish the FPL affordability safe harbor for purposes of the Affordable Care Act ("ACA") employer mandate.

For plan years beginning February 1, 2023 or later, the 2023 FPL safe harbor is \$110.80/month in the lower 48 states and DC, \$138.39/month for Alaska, and \$127.45/month for Hawaii.

As a reminder, a plan can use poverty guidelines in effect within 6 months before the first day of the plan year for purposes of using an affordability safe harbor. Because the 2023 FPL guidelines were announced after the start of the calendar year, plans with plan years beginning on January 1, 2023 use \$103.28/month for the lower 48 states and DC (\$129.12/month for Alaska and \$118.78/month for Hawaii), which is 9.12% of the applicable 2022 FPL. The increased threshold of \$110.80/month for the lower 48 states and DC based on the 2023 FPL applies to plan years beginning on or after February 1, 2023.

Background and FPL Safe Harbor

Large employers may be subject to the employer mandate penalty under the ACA if they do not offer affordable, minimum value coverage to all full-time employees, and at least one full-time employee receives a subsidy in the Marketplace.

A large employer's offer of coverage will be considered "affordable" under the FPL safe harbor if the employee's required monthly contribution for the lowest cost self-only coverage that provides minimum value does not exceed 9.5% (as indexed) of a monthly amount determined as the FPL for a single individual for the applicable calendar year, divided by 12.

2023 FPL Affordability Safe Harbor

For FPL affordability safe harbor purposes, the applicable FPL is the FPL for the state in which the employee is employed. The 2023 FPL is \$14,580 for a single individual in every state (and Washington D.C.) except Alaska or Hawaii. Thus, if the employee's required monthly contribution for the lowest cost self-only coverage that provides minimum value is \$110.80 (9.12% of \$14,580/12, rounded down) or less, the employer's offer of coverage meets the FPL affordability safe harbor for a plan year beginning February 1, 2023 or later in the lower 48 states and DC.

FPL Guidelines

The following are the 2023 HHS poverty guidelines:

2023 Poverty Guidelines for the 48 Contiguous States and DC		2023 Poverty Guidelines for Alaska		2023 Poverty Guidelines for Hawaii	
Persons in family/household	Poverty Guideline	Persons in family/household	Poverty Guideline	Persons in family/household	Poverty Guideline
1	\$14,580	1	\$18,210	1	\$16,770
2	\$19,720	2	\$24,640	2	\$22,680
3	\$24,860	3	\$31,070	3	\$28,590
4	\$30,000	4	\$37,500	4	\$34,500
5	\$35,140	5	\$43,930	5	\$40,410
6	\$40,280	6	\$50,360	6	\$46,320
7	\$45,420	7	\$56,790	7	\$52,230
8	\$50,560	8	\$63,220	8	\$58,140
For families/households with more than 8 persons, add \$5,140 for each additional person.		For families/households with more than 8 persons, add \$6,430 for each additional person.		For families/households with more than 8 persons, add \$5,910 for each additional person.	

For the new poverty guidelines, visit: <https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines>.

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