

Memorandum



CITY OF DALLAS

DATE July 30, 2018

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

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

On Monday, August 6, 2018, Cheryl Alston, Director of the Employees' Retirement Fund, will provide the Government Performance & Financial Management Committee an update on the Employees' Retirement Fund. I have attached the briefing for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billierae Johnson, City Secretary
Daniel F. Solis, Administrative Judge
Kimberly Bizzor 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
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



**Government Performance and Financial Management Committee
August 6, 2018**



Background

History	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"). Cost of Living Adjustments based on Consumer Price Index (CPI)



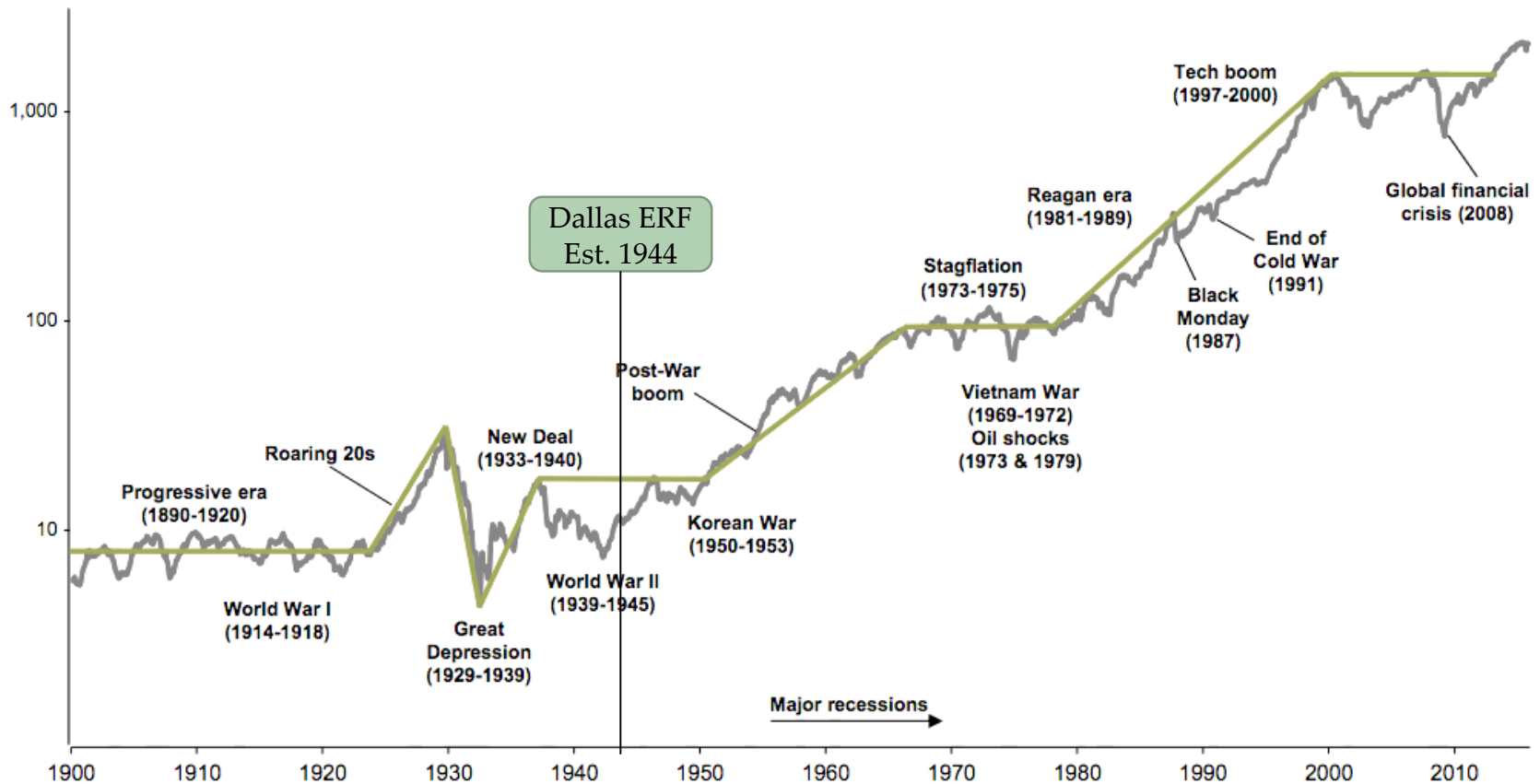
Dallas ERF has a Long Term Horizon

Stock market since 1900

GTM - U.S. | 15

S&P Composite Index

Log scale, annual

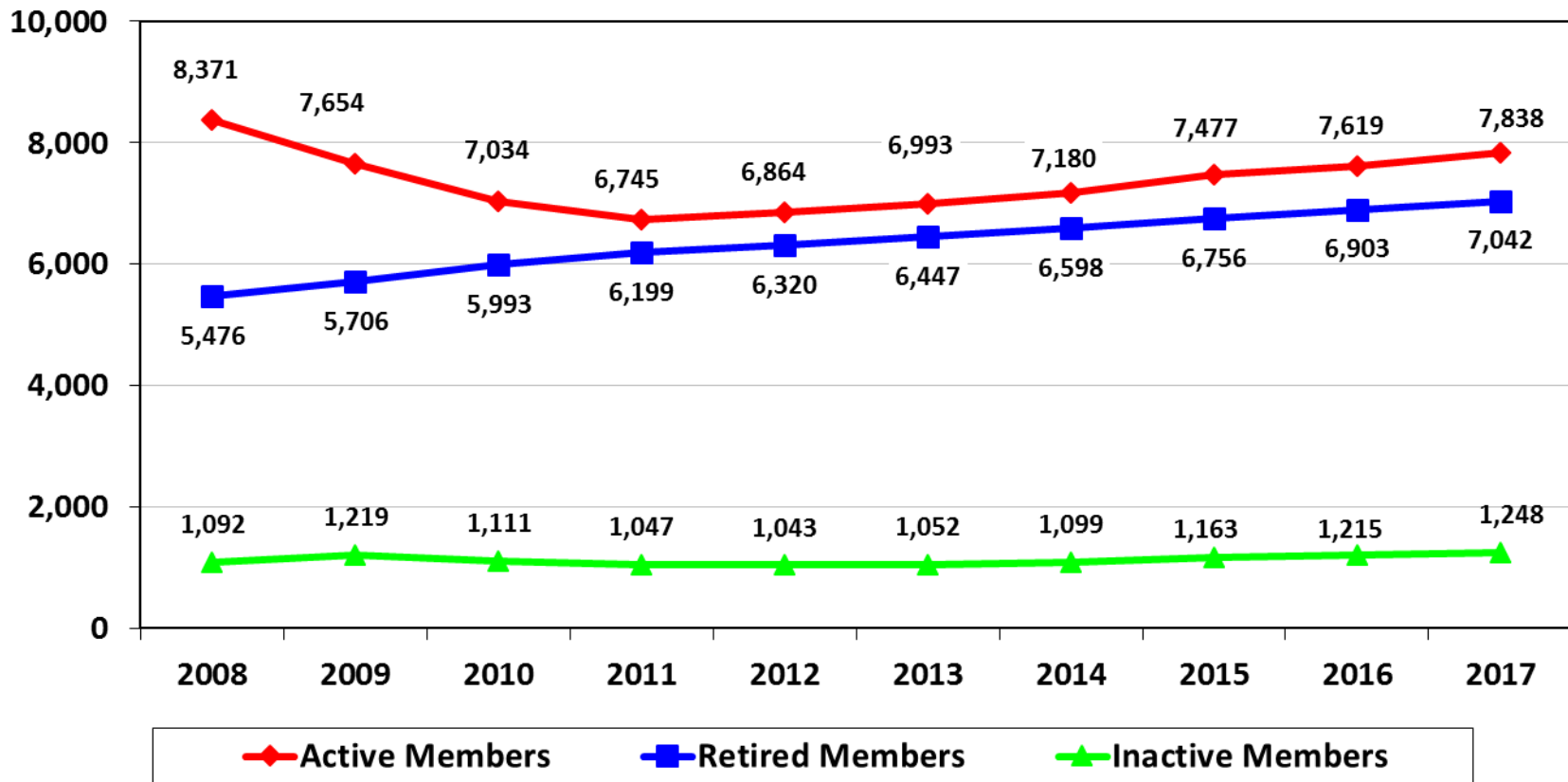


Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns.



City of Dallas employs over 7,800 civilian employees to deliver City services to an estimated 1.3 million citizens.

The Fund has given a benefit promise to over 16,000 families in the DFW area.



Note: Active membership increased 2.9% over last year.

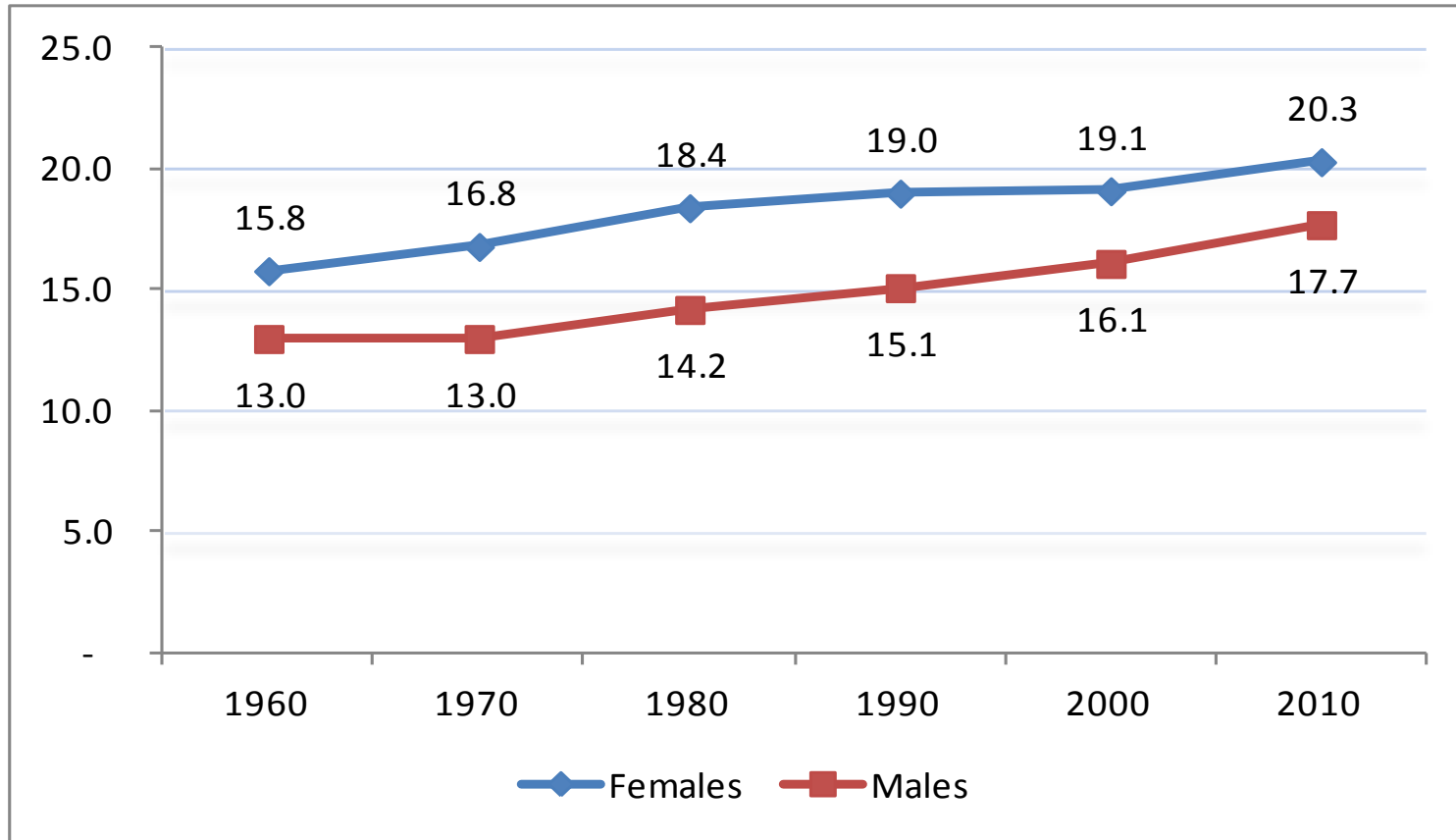


Membership Statistics

- Oldest employee born in 1934 (83 years old)
- Youngest employee born in 1998 (19 years old)
- 1,100 employees are eligible to retire.
- Oldest service retiree born in 1916 (101 years old)
- 2 beneficiaries born in 1914 (103 years old)
- Retiree has been in payment status for 43+ years (retired prior to 1974).



ERF adjusted benefits for employees hired on and after January 1, 2017 due to people living and working longer.



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



Chapter 40A Amendment Process

- 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.



Approved Changes to Chapter 40A – Projected to Decrease Normal Cost* from 20.36% to 12.96% over Next 30 Years

- Normal cost decreased from 20.75% last year to 20.04% in 2017.
- We expect the normal cost to decline each year for the foreseeable future (20+ years).

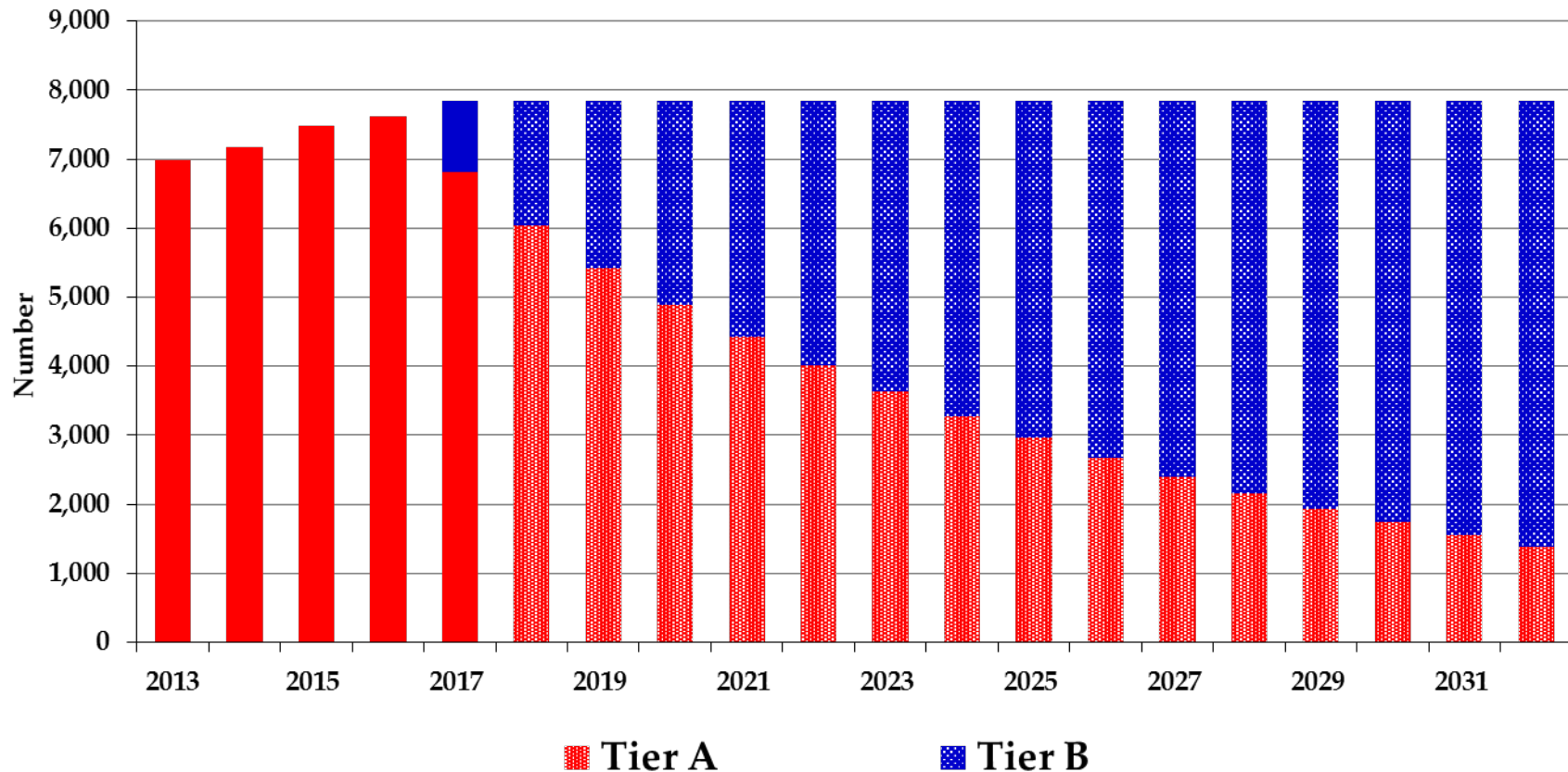
Benefit Factors	Plan Changes for New Employees Hired on and after January 1, 2017
Retirement Eligibility	<ul style="list-style-type: none">• Changed from Age 60 to 65 w/5 years of credited service• From 30 years to 40 years of service (unreduced)• Rule of 78 (unreduced ≥ 50 YOA) to Rule of 80 (actuarially reduced < 65 years of age)• Restricted Prior Service Credit
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
Health Benefit Supplement	<ul style="list-style-type: none">• Eliminated \$125 monthly Health Supplement

* 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.



Projected Active Membership – 13% of Active Members in Tier B as of 12/31/17

Projected Number of Tier A and Tier B Employees



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

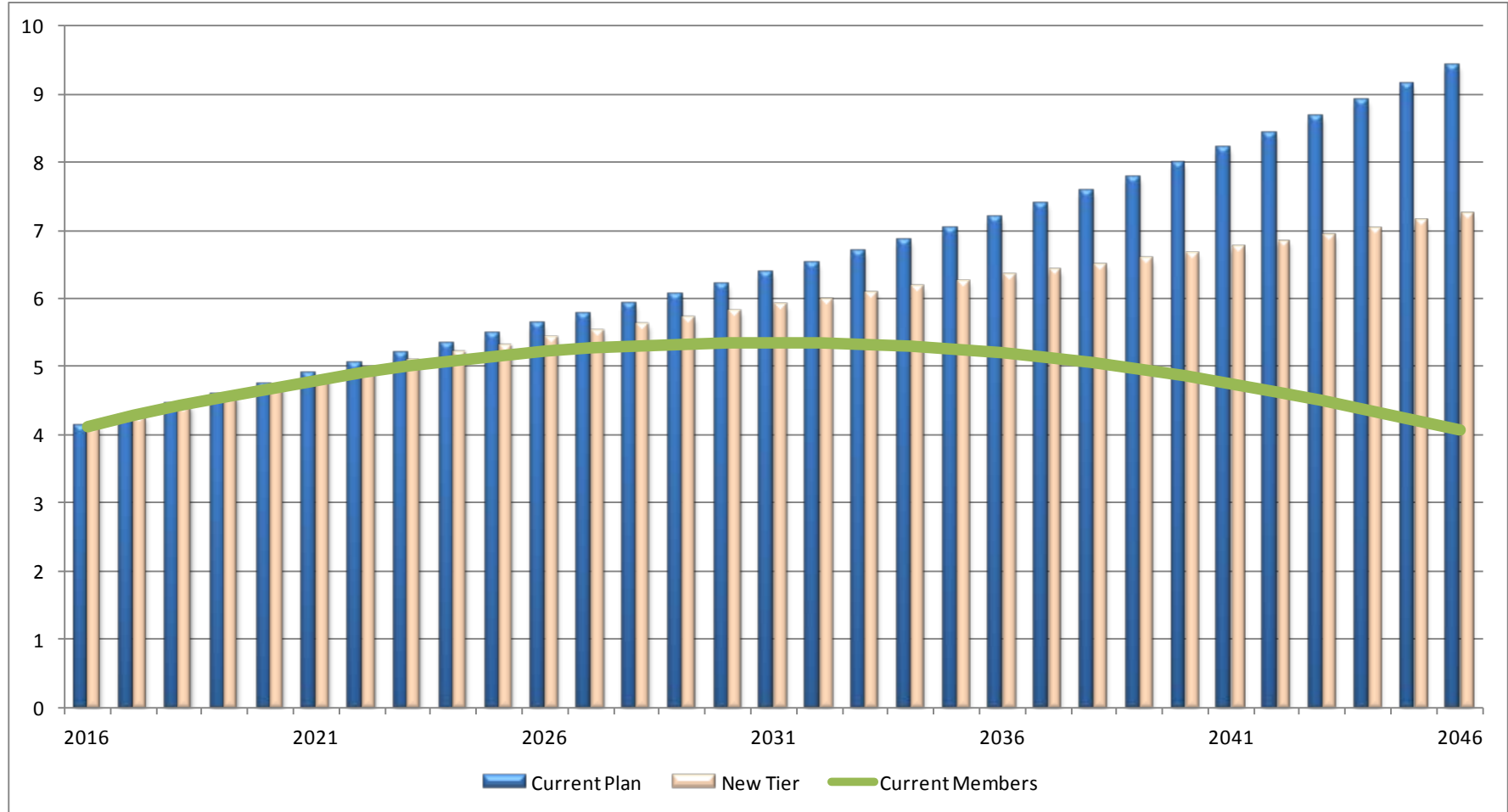
Source: GRS

50% of Active Employees Will Be in New Tier in 5 Years.



Chapter 40A Changes implemented in Jan 2017 are on track to reduce future liabilities by \$2.15 Billion.

\$ in Billions





Employees' Retirement Fund
of the City of DALLAS

Conservative Global Liquid Investment Portfolio



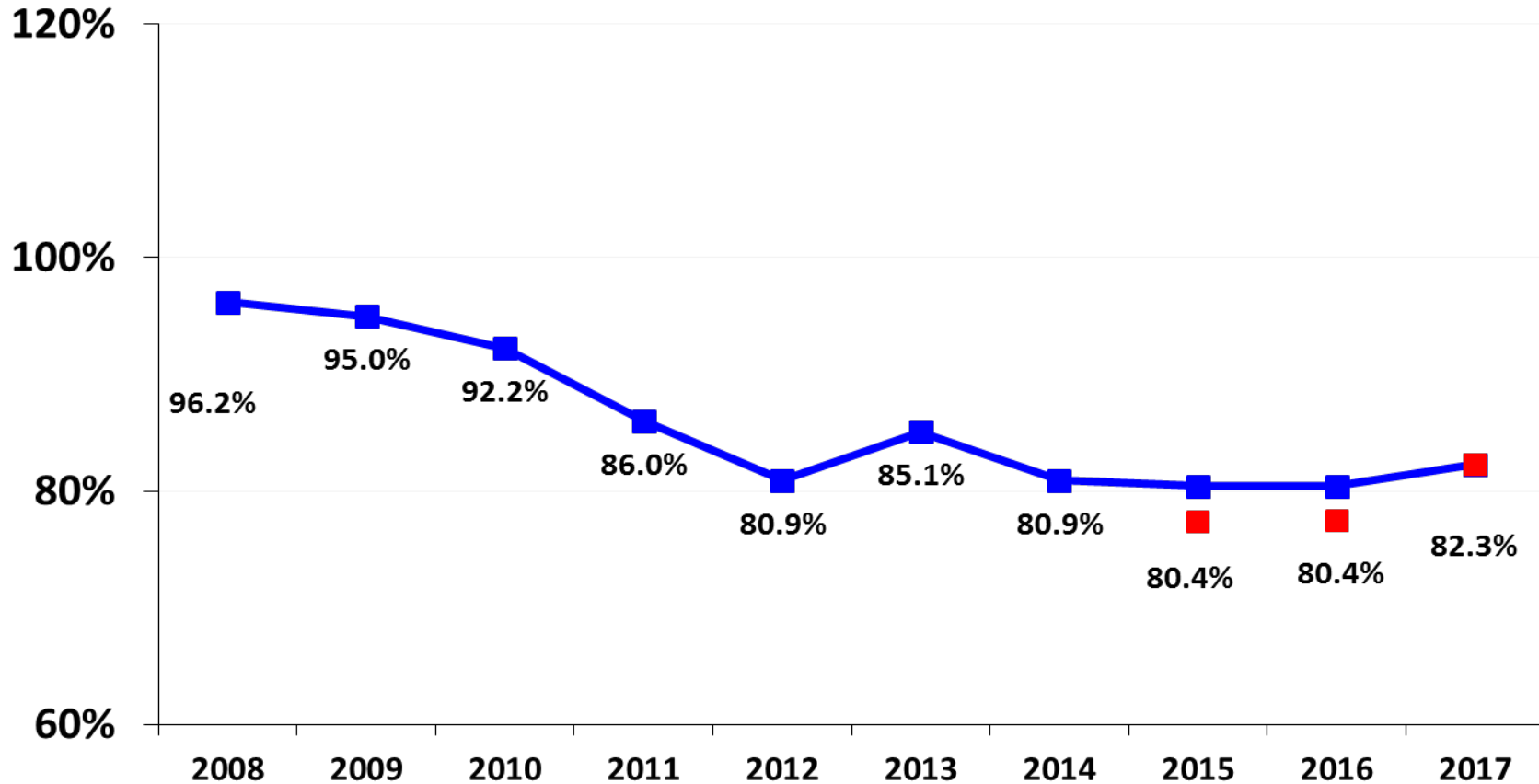


Fund Value and Funding Ratio

- Assets under Management (12/31/17) – \$3.6 billion
- Investment Returns (as of 12/31/2017) exceed actuarial rate of return of 7.75%
 - 1 year return – 13.3%
 - 5 year return – 8.65%
 - 30 year return – 8.68%
- Funding Ratio (12/31/17) of 82.3%, increase from 80.4% of 12/31/16.
- Dallas ERF's 82.3% funded ratio ranks in the **top 25th** percentile (better than 75%) according to Wilshire's State Funding Study for 2017 nationwide.



Historical Funded Ratios



■ 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%.
■ Funded ratio using market value of assets as of December 31, 2017 is 82.3%.



Fund's Target Asset Allocation

Asset Class		Percentage
Domestic Equity		15.0%
International Equity		15.0%
Global Equity		5.0%
Global Low Volatility Equity		10.0%
Private Equity		<u>5.0%</u>
Total Growth/Equity		50.0%
Public Real Assets (MLP)		10.0%
Real Estate Investment Trust (REIT)		5.0%
Private Real Estate		<u>5.0%</u>
Total Inflation Hedging		20.0%
Global Fixed Income		15.0%
Opportunistic Credit		2.5%
High Yield		<u>12.5%</u>
Total Risk Reduction/Mitigation		30.0%
Total		100.0%

As of December 31, 2017



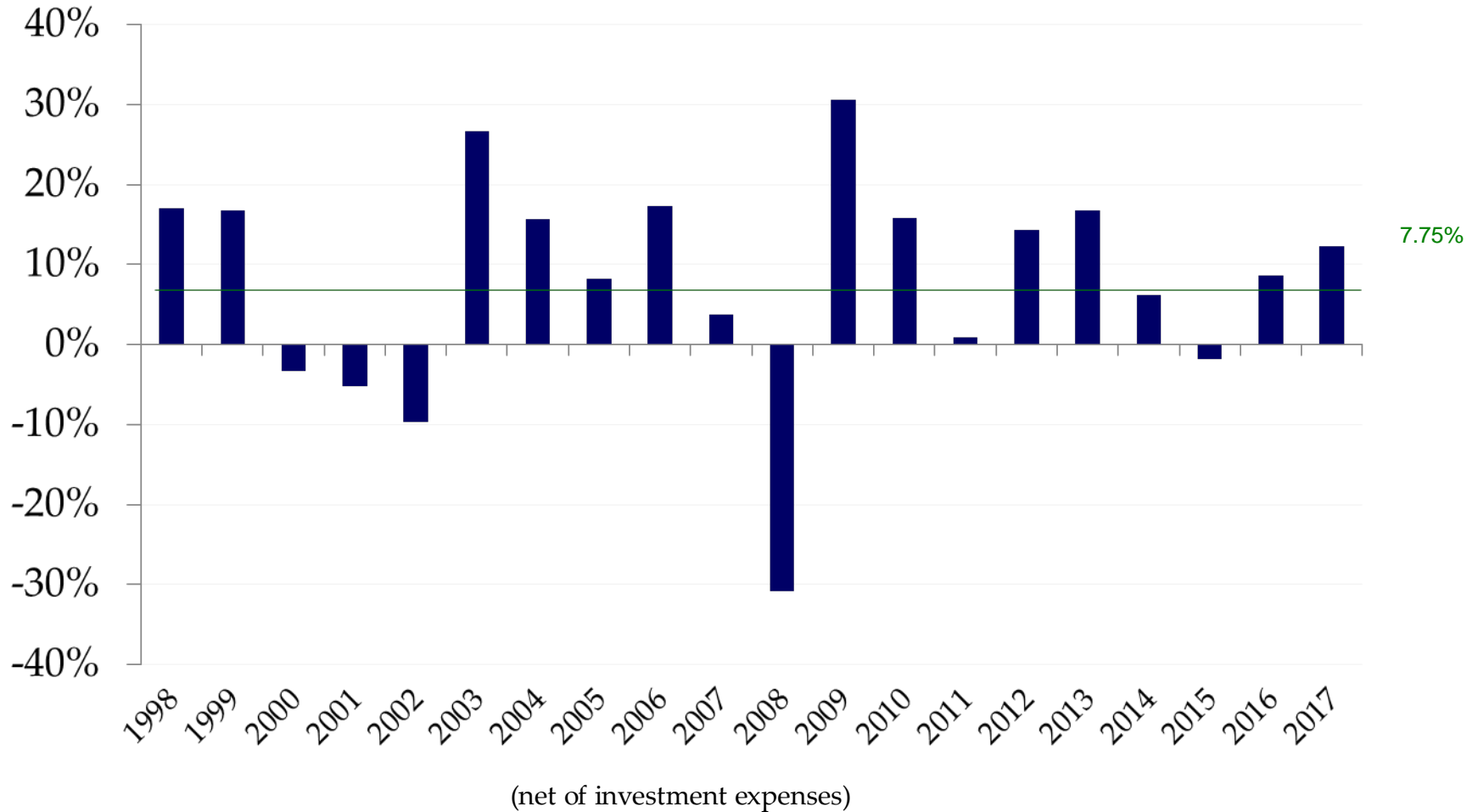
Asset Class Performance

Top Performing Asset Classes	1 Year Return as of 12/31/17
International Equity	29.9%
Global Equity	24.5%
Domestic Equity	21.5%

Lowest Performing Asset Classes	1 Year Return as of 12/31/17
Public Real Assets	-6.5%
Global Fixed Income	4.2%



History of Fund Returns (Market)





Conclusion – 2017 was a positive year for the Fund.

- Actuarial Gain on Assets
 - Conservative Global Investment Portfolio with 90% valued daily
 - Marked actuarial value to market value
 - Investment Returns (as of 12/31/2017) exceed actuarial rate of return of 7.75%
 - 1 year return – 13.3%
 - 5 year return – 8.65%
 - 30 year return – 8.68%
 - CYTD return as of 6/30/18 is flat at 0.64%

- Positive liability experience in 2017
 - Lower than expected salary increases
 - Lower than expected cost of living adjustments
 - COLA of 2.053% vs Assumption of 2.75%
 - 13% of Actives are Tier B with lower normal cost.