Memorandum



DATE

January 13, 2017

CITY OF DALLAS

TO

The Honorable Mayor and Members of the City Council

SUBJECT

Police and Fire Pension Update

On Wednesday, January 18, 2017, Larry Casto, City Attorney, and I will brief the City Council on Police and Fire Pension Update. The briefing is attached for your review.

Please let me know if you need additional information.

Chief Financial Officer

Attachment

c: A.C. Gonzalez, City Manager Larry Casto, City Attorney Craig D. Kinton, City Auditor Rosa A. Rios, City Secretary Daniel F. Solis, Administrative Judge Ryan S. Evans, First Assistant City Manager Eric D. Campbell, Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager Mark McDaniel, Assistant City Manager Joey Zapata, Assistant City Manager Sana Syed, Public Information Officer Elsa Cantu, Assistant to the City Manager - Mayor & Council



Current Status of the Dallas Police and Fire Pension (DPFP) Finances



Current Investments as of 12/31/16 (unaudited)

Asset Class	Target	Actual (as of 12/31/16)
Equity	25%	6.70%
Fixed Income	28%	10.07%
Real Assets (incl Real Estate)	25% (12%)	45.01% (25.54%)
Private Investments	10%	18.17%
Cash and Cash Equivalents	2%	14.26%
Other	10%	5.79%

Historically Out of Balance

Made Worse by Recent Liquidations

Equity Performance: 6.54%

Fixed Income Performance: 13.78%

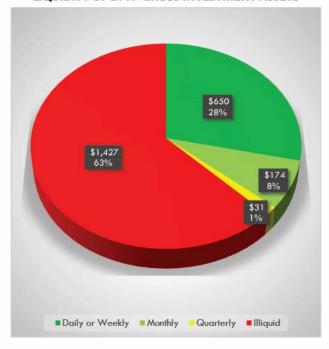
While these returns are good, they represent only **16.77%** of the whole portfolio

We will not know the 2016 return on some other assets for several months

Current Snapshot – Plan Assets and DROP as of 1/10/17

DPFP Investment Assets		
Gross Asset Value	\$	2,281,521,748
Less: DPFP Debt		130,000,000
Net Assets		2,151,521,74
Total Liquid Assets (30 day liquidity or less)		824,262,53
DROP Assets and Obligations		
Retiree DROP		702,663,633
Active DROP		358,560,34
Total DROP Assets		1,061,223,98
Benefit Activity		
Monthly Benefit Payments		18,420,00
Less: Monthly Contributions		11,000,00
Monthly Net Benefit Outflow (a)		7,420,00
Minimum Annual Distributions (b)		69,372,00
2017 Required Min. Distributions (RMDs) (c)		6,900,00
Total Reserve		
12-mos Total Benefit Activity ((a*12)+b+c)		165,312,00
Commitment to Repay Real Estate Debt*		190,000,00
DPFP Debt		130,000,00
Unfunded Capital Commitments		155,442,84
12-mos Operating & Investment Expenses		20,000,000
Total Reserve		660,754,84

LIQUIDITY OF DPFP GROSS INVESTMENT ASSETS



^{* -} DPFP has a capital commitment obligation to repay \$190m of company level debt of a real estate operating company investment, which matures in May 2017, but could be called once DPFP net plan assets drop below \$2 billion.



Note: This slide is taken from a presentation prepared and presented by the Dallas Police and Fire Pension, January 12, 2017

Status of Negotiations with DPFP Board



Taxpayer Plan to Save the Pension

On December 9, City sent to State Legislature draft legislation designed to:

Provide a secure, stable retirement for all

Encourage positive financial behavior

Help recruiting efforts - be market competitive

Ensure effective checks and balances

Raise contributions

Resolves \$3.5B in unfunded liabilities in 30 years

Funded Ratio immediately Improves

Current: 36% Immediate: 50% 30 Yrs: 100%

City's Plan to Save the Pension: Who Contributes What

Fixing the Features:	Contributions
 Recalculating high DROP interest rates, COLAs, and health care supplement to rates comparable to other pensions 	\$959 M
 Making equity adjustments and requiring DROP balances to be paid as annuities rather than lump sums 	\$926 M
Current Employees: • Changing the retirement age and other benefit calculations	\$73 M
 Increasing Member contributions to 13.5% of computation pay (\$53 M annually) 	\$1.6 B
Taxpayers:Increasing taxpayer contributions to 34.5% of computation pay (\$135 M annually)	\$4.1 B



DPFP Plan Amendment Election Failed

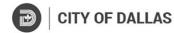
The DPFP plan:

- Addressed less than half of the liabilities
- Requested \$1.1 billion from taxpayers
 130% tax increase
 Average tax bill from \$1,502 to \$3,469

On December 17, 2016, voting on the DPFP Plan amendments ended.

DPFP members failed to approve moderate changes to the Plan.

DPFP Board Meeting January 12, 2017 Action on DROP Withdrawals



Deferred Retirement Option Program (DROP): By the Numbers

9,600 total plan membership

3,025 total retirees

\$56,400 average annual pension benefit (Nov 2016)

3,067 number of DROP accounts (both retiree and active)

\$597,000 average DROP account value

number of accounts over \$1M, about 17% of the number of

DROP accounts

\$4.3M highest DROP account value



2016 Lump Sum Withdrawals

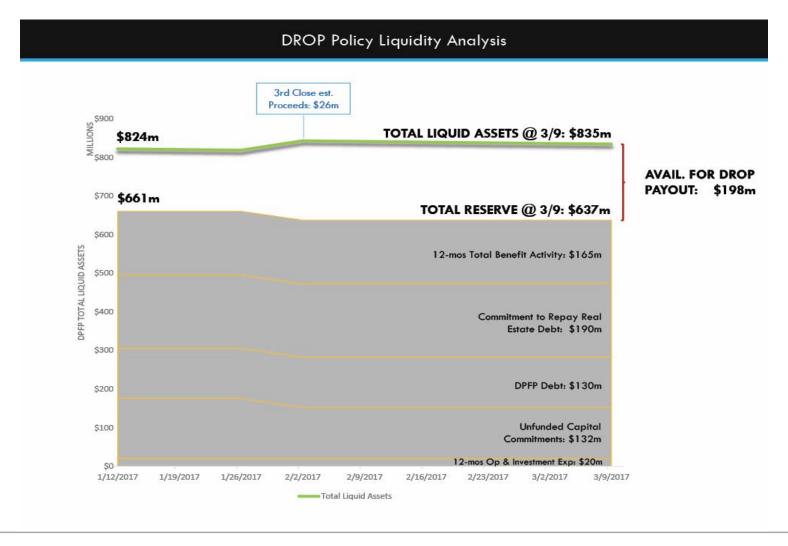
\$520M withdrawals August 19 – December 2 greatly increased the vulnerability of the fund

The DPFP Board did not take steps to protect the fund until facing legal action:

On December 8, the fund "dropped the gate"

On December 21, the judge allowed the Board to make \$2.2 million in monthly DROP payments

On January 12, the Board approved a revised DROP distribution policy





Note: This slide is taken from a presentation prepared and presented by the Dallas Police and Fire Pension, January 12, 2017

Impact of Immediate DROP Withdrawals & the Board's Action on January 12 on Solvency

As early as 2027, the Pension could be out of money – that's just 10 years from now

Recent analysis indicates the fund could actually become insolvent in as little as 5-7 years because of DROP withdrawals, liquidation of assets, and poor return on investments

Next Steps

Rapidly Changing Situation

Public Reaction: Taxpayers are concerned about the prospect of higher taxes, further street degradation, or loss of City services

We are keeping the public informed on **SaveThePension.com**The Mayor and Council Members are making public presentations

Police and Fire Associations: Very helpful and supportive of all efforts to save the pension. Recognize current and future sworn employees should be protected.

Rapidly Changing Situation

We will bring new information to the Council as we can regarding:

Conversations with legislative partners
Ongoing negotiations with the DPFP Board
Planning for possible mediation
Working with police and fire associations
New information on DPFP finances
Further rating agency actions
Other alternatives under development



Questions

APPENDIX

DROP POLICY ADDENDUM SUMMARY

January 12, 2017



POLICY DISTRIBUTION PARAMETERS Benefit Distributions:

- - Monthly retirement benefit payments will continue to be made at the end of each month according to the Plan
 - Continue to process refunds according to the Plan
- ▶ DROP Distributions per 1/12/17 Board action:
 - ▶ 4 Types of DROP account distributions 1 is mandatory, 1 is a transition payment, 2 require an action by the member to opt into one or both,
 - > 100% of the 2017 Required Minimum Distributions (RMD) to be paid as soon as possible
 - > A total of \$6.6 million to be distributed to members with DROP lump sum requests on file which have not yet been paid; to be allocated to each requestor on a pro-rata basis, based on their requested amount. This is for requests received as of the time of the Board motion on 1/12.
 - Installment payments are made for January and February 2017, based on the November 30th amounts on file unless the member reduced the amount post-Nov 30th
 - For Distributees who have timely opted in to the Minimum Annual Distribution and/or Pro-rata distribution pool:
 - Pay Minimum Annual Distribution to members (Slide 3)
 - Monthly, if the Board certifies that excess liquidity exists, a pro-rata distribution will be made to members who have provided timely instructions to opt into the distribution pool (Slides 4-6)



MINIMUM ANNUAL DISTRIBUTION

- A Distributee may elect to receive a Minimum Annual Distribution from his or her DROP account. The Minimum Annual Distributions works as follows:
 - 2017: \$30,000 is the maximum to be distributed per Distributee as a Minimum Annual Distribution in 2017. The distributee will receive either \$3,000 per month (March December) as an ACH, or if a rollover is selected the money will be distributed semi-annually with \$12,000 distributed on June 30th and \$18,000 distributed on December 29th. To be eligible for the maximum in 2017, a completed request form must be received by DPFP by close-of-business February 28, 2017.
 - Requests received after February 28, 2017 will be eligible to receive \$3,000 per month for all months remaining after the month the completed request was received. The rollover/semi-annual option is not available for requests received after February 28, 2017.
 - 2018 and subsequent years: \$36,000 is the total to be distributed per Distributee. The Distributee will receive either \$3,000 per month (January December) as an ACH or if a Rollover is selected \$18,000 on June 30th and \$18,000 on December 31st. To be eligible for the Minimum Annual Distribution in 2018 and subsequent years, a completed request must be received by DPFP by close-of-business November 30 of the prior year.
 - Distributees not meeting the November 30th deadline will not be eligible for a Minimum Annual Distribution in the following year. The only exception will be for new retirees who can opt in during the month that they first retire.



RESERVE AMOUNT

The "Reserve Amount" will mean the amount the Board determines is necessary to satisfy the following obligations that are essential to DPFP's efficient administration:

- No less than 12 months of monthly annuity benefit payments, less monthly contributions for the same period;
- No less than 12 months of anticipated operating expenses;
- No less than 12 months of minimum annual distributions pursuant to Section 7 of this Addendum;
- All anticipated required minimum distributions for the coming year;
- All outstanding indebtedness; and
- All outstanding capital commitments for existing private market investments as well as other anticipated 12 months of investment-related expenditures.

The Reserve Amount is not a fixed sum and will vary as the needs associated with the obligations comprising the Reserve Amount change over time, including the amounts necessary to ensure that DPFP can satisfy the Cash Requirements for the above items in an efficient and prudent manner.

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EXCESS LIQUIDITY AMOUNT

- Withdrawals from DROP accounts will be permitted only if for a given month (i) the total liquid assets held by DPFP exceed (ii) the Reserve Amount as of the date that the Board certifies the Reserve amount and the amount of minimum annual distributions anticipated to be paid for such month (the "Excess Liquidity Amount").
- The Board will certify the Excess Liquidity Amount, if any, at its regular monthly meeting, beginning March 2017
- The Board may determine to not distribute Excess Liquidity Amounts if it so chooses in any month.

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PRO-RATA DISTRIBUTION

- Board certifies the Excess Liquidity Amount
- If the Board determines that a pro-rata monthly distribution will be made for the current month:
 - The total amount available will be divided on a pro-rata basis between each Distributee with a timely submitted DROP withdrawal request on file with DPFP as of the last day of the prior month
 - Each Distributee's share will be determined by multiplying the certified Excess Liquidity
 Amount for such month by a fraction, the numerator of which is the amount of such
 Distributee's DROP account, and the denominator of which is the total aggregate amount
 of all Distributees' DROP accounts that will participate in the distribution



IMPORTANT NOTE

- All members should understand that we are in extraordinary times. The DROP Policy Addendum represents the Board's best attempt to follow the terms of the Plan in the discharge of its fiduciary duties with the current information at its disposal. There can be no assurance when distributions will be made and in what amounts. Furthermore, the Board may change the terms of the Policy if it determines after seeing how facts unfold that such changes are necessary to continue to properly fulfill its fiduciary duties. This may include changing the way distributions are made, changing, or dispensing with, the minimum annual distribution, changing the reserve amount or any other changes the Board may deem necessary.
- It is the desire of the Board that the Addendum will eventually be abandoned if a plan can be put into place to assure DPFP's solvency. Until such time, members will need to carefully pay attention to announcements from DPFP as such announcements may well affect your ability to receive funds from your DROP accounts.

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Judge's Decision to Judge's Decision on or Receipt of Instruction to March 9th March 15th March 31st after January 17th February 28th March 15th •Target ACH and rollover •If Judge Parker allows •Letter mailed to all 1,927 Executive Director presents · Process the paperwork for *Determine the pro-rata DROP payments according to the DROP Policy Retiree DROP account holders. share of the distribution for a proposed reserve all requests received for distribution date for requests received by closeincludes IRS rollover notice amount to the Board ACH, rollover and those members in the initial adopted by the Board and combination distributions Pro-rata distribution pool of-business on February 28th Member must: ·Board certifies the reserve Board motion made on based on the following: amount for the month Determine the combined · Indicate their desire to January 12th to pay out Executive Director presents DROP balance of all participate in the Minimum Jan/Feb '17 installments members requesting to be Annual Distribution and/or the total liquid assets (30- An individual Distributee's ·Best efforts will be made to and \$6.6M to outstanding included in the initial Prothe Pro-rata share of any days or less) based on share is calculated as their make all payments on DROP lump sum requests rata distribution pool individual DROP balance potential monthly distribution liquid assets just prior to the March 31st but it is Board meeting date. divided by the total of all impossible to predict at this Provide distribution DROP balances for The total liquid assets less instructions & required time if that is members in the distribution *NOTE: Installment the reserve amount is the administratively feasible potential total available for pool as of February 28, payments are made at Distribution options: ACH, January 31st and February rollover, or a combination. DROP payout 28th based on November •The monthly Minimum The rollover and combination options are not available in Annual Distribution amount reduced by the member. some circumstances. is subtracted from the Pro-rata payment of \$6.6M potential total available for Instructions are valid until DROP payout to determine modified the Excess Liquidity Amount ·Current requests on hand for Board certifies the Excess lump sum and installments are Liquidity Amount •Deadline to be in the initial distribution pool is close-ofbusiness February 28th · Deferrals cease with the February benefit payment DROP DISTRIBUTION TIMELINE FOR THE INITIAL DISTRIBUTION IF ALLOWED BY THE COURT

Receipt of April 13th March 10th March 31st Instruction to April April 15th April 29th Deadline to request Second letter mailed Executive Director Process the Determine the pro- Target ACH and rollover distribution to DROP account to be included in the presents a proposed paperwork for all rata share of the holders that have not reserve amount to the distribution for those date for requests second (April 29th) requests received for distribution pool is received by the closeresponded indicating ACH, rollover and members in the Pro-Board their desire to March 31st combination rata distribution pool of-business on March Board certifies the participate in either distributions based on the 31st Member must: reserve amount for the Minimum Annual following: the month Determine the Indicate their desire Distribution or any combined DROP to participate in the Executive Director potential Pro-rata Minimum Annual balance of all An individual presents the total · Best efforts will be distribution share members requesting Distribution and/or liquid assets (30-days Distributee's share is made to make all to be included in the the Pro-rata share of or less) based on liquid calculated as their payments on April April Pro-rata any potential assets just prior to the individual DROP 29th but it is impossible distribution pool monthly distribution Board meeting date. balance divided by NOTE: No further to predict at this time the total of all DROP action is necessary for Provide distribution The total liquid assets if that is balances for members distributes who have instructions & less the reserve administratively previously opted in and provided the in the distribution pool required paperwork amount is the feasible as of March 31: potential total Distribution options: available for DROP ACH, rollover, or a combination. The payout rollover and The monthly Minimum combination options Annual Distribution are not available in amount is subtracted some circumstances. from the potential total available for Instructions are valid DROP payout to until modified determine the Excess Liquidity Amount Board certifies the **Excess Liquidity** Amount DROP DISTRIBUTION TIMELINE FOR SECOND POSSIBLE DISTRIBUTION IF ALLOWED BY THE COURT. SUBSEQUENT DISTRIBUTIONS WILL FOLLOW A SIMILAR MONTHLY TIMELINE

ADDITIONAL POLICY PARAMETERS

- No deferrals into non-active members' DROP accounts after January 2017
- Installment payments cease after February 2017
- Required Annual Distribution eliminated
- No limitation on the number of rollovers annually
- All distributions through ACH or Rollovers no check processing/handling
- QDROs and Survivor accounts follow the same distribution rules as Retirees
- Distribution requests are valid until modified
- > Balances under \$200 will be distributed via ACH and not available for rollover
- Distribution applications for new retirees follow the same deadlines as others. For example, a member retiring on the April 13th agenda must have their request in by March 31st to be included in the April distribution pool. This application will become part of the retirement process.
- Hardship rules and a process have been incorporated into the policy
- > All outstanding DROP Lump Sum requests and existing Installment requests are void
- > The Board reserves the right to amend the policy if it is in the best interest of the Fund to do so

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