

Memorandum



CITY OF DALLAS

DATE June 24, 2016

TO The Honorable Members of the Transportation and Trinity River Project Committee:
Lee M. Kleinman (Chair), Deputy Mayor Pro Tem Erik Wilson (Vice-Chair), Sandy Greyson,
Mayor Pro Tem Monica R. Alonzo, Adam Medrano, and Casey Thomas II

SUBJECT Employee Retirement Fund: Proposed Changes to Chapter 40A

On Monday, June 27, 2016, you will be briefed on the Employee Retirement Fund: Proposed Changes to Chapter 40A. The briefing materials are attached for your review.

Please contact me if you have any questions. Thank you.

A handwritten signature in black ink, appearing to read 'Mark McDaniel'.

Mark McDaniel
Assistant City Manager

c: Honorable Mayor and Members of the City Council
A.C. Gonzalez, City Manager
Christopher D. Bowers, Interim 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
Joey Zapata, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council



Employees' Retirement Fund
of the City of DALLAS

Employees' Retirement Fund: Proposed Changes to Chapter 40A

**Transportation & Trinity River Project Committee
June 27, 2016**





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").



Governance - Dallas ERF Board Composition

- The Board of the Employees' Retirement Fund City of Dallas is composed of seven members consisting of:
 - (A) three persons appointed by the City Council who may be City Council members - Lee Kleinman, Dr. John Peavy III and Randy Bowman;
 - (B) three employee members from different departments of the City who are elected by members of the retirement fund - John D. Jenkins (Chair), Carla D. Brewer (Vice Chair), and Tina Richardson; and
 - (C) the City Auditor (ex-officio) – Craig Kinton.
- Most appointees are from the private sector and have significant investment experience.



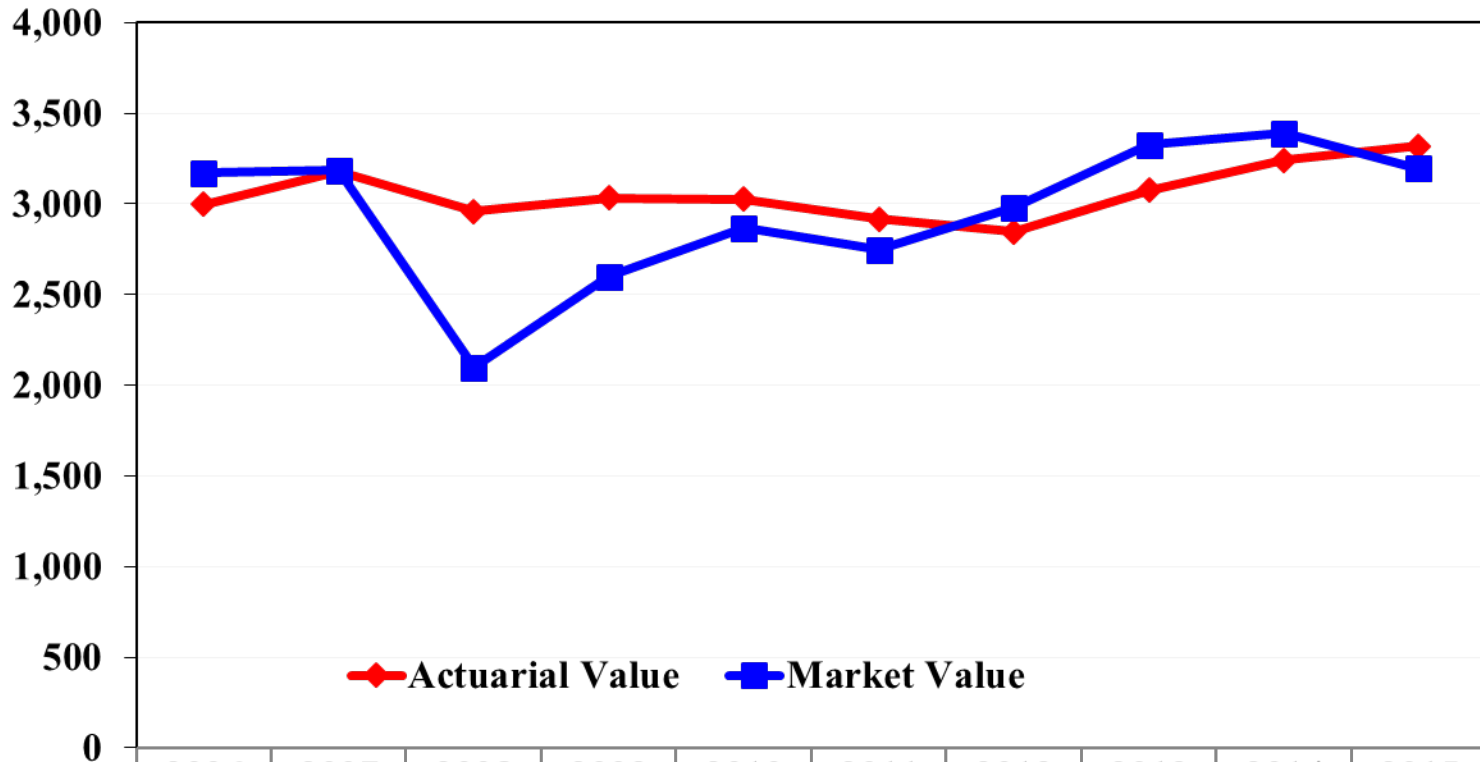
Appropriate Checks and Balances are in Place

- Appropriate checks and balances are in place:
 - 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.



Historical Asset Values

\$Millions

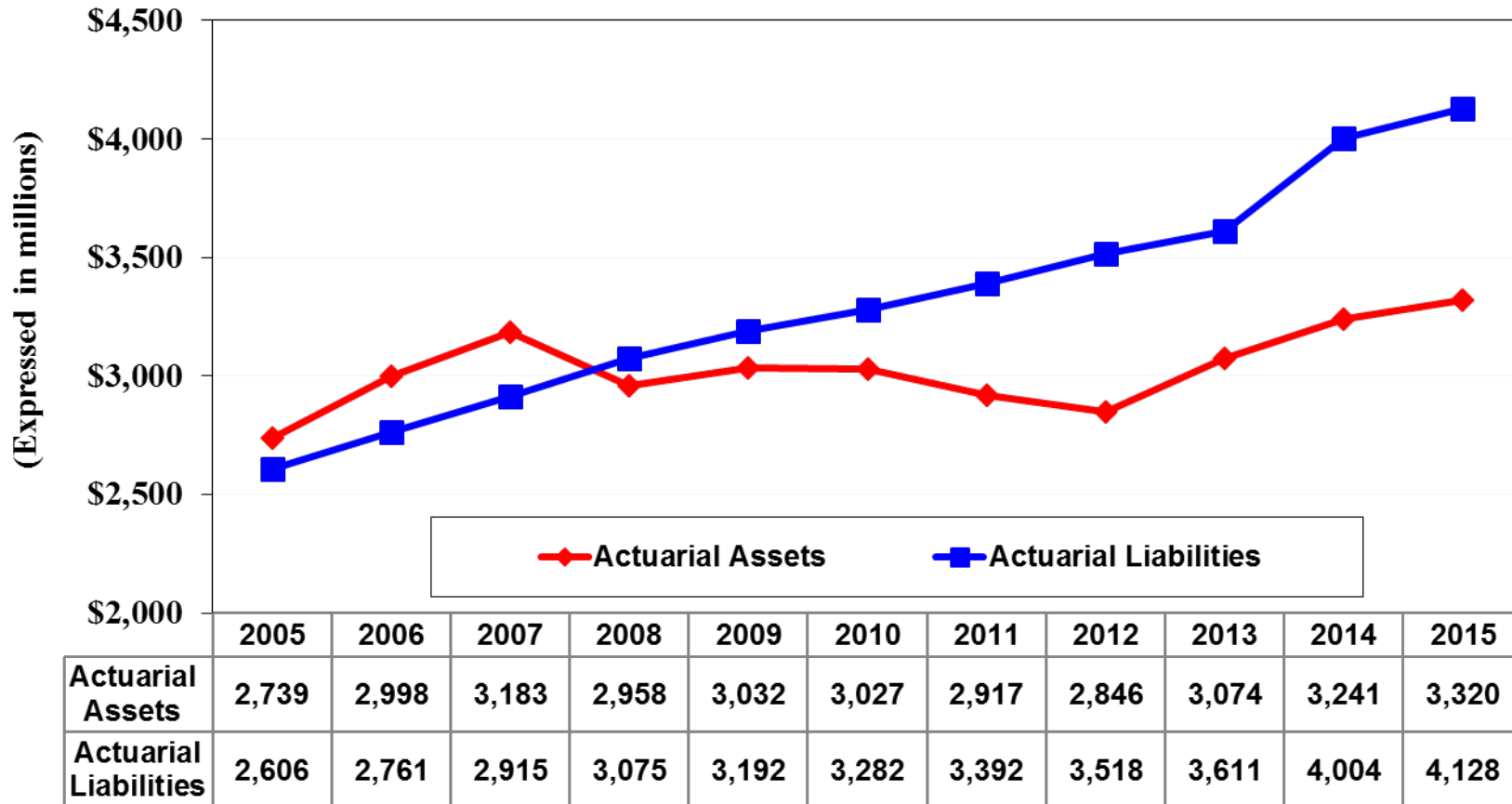


	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actuarial Value	2,998	3,183	2,958	3,032	3,027	2,917	2,846	3,074	3,241	3,320
Market Value	3,172	3,185	2,097	2,600	2,868	2,748	2,980	3,325	3,391	3,195



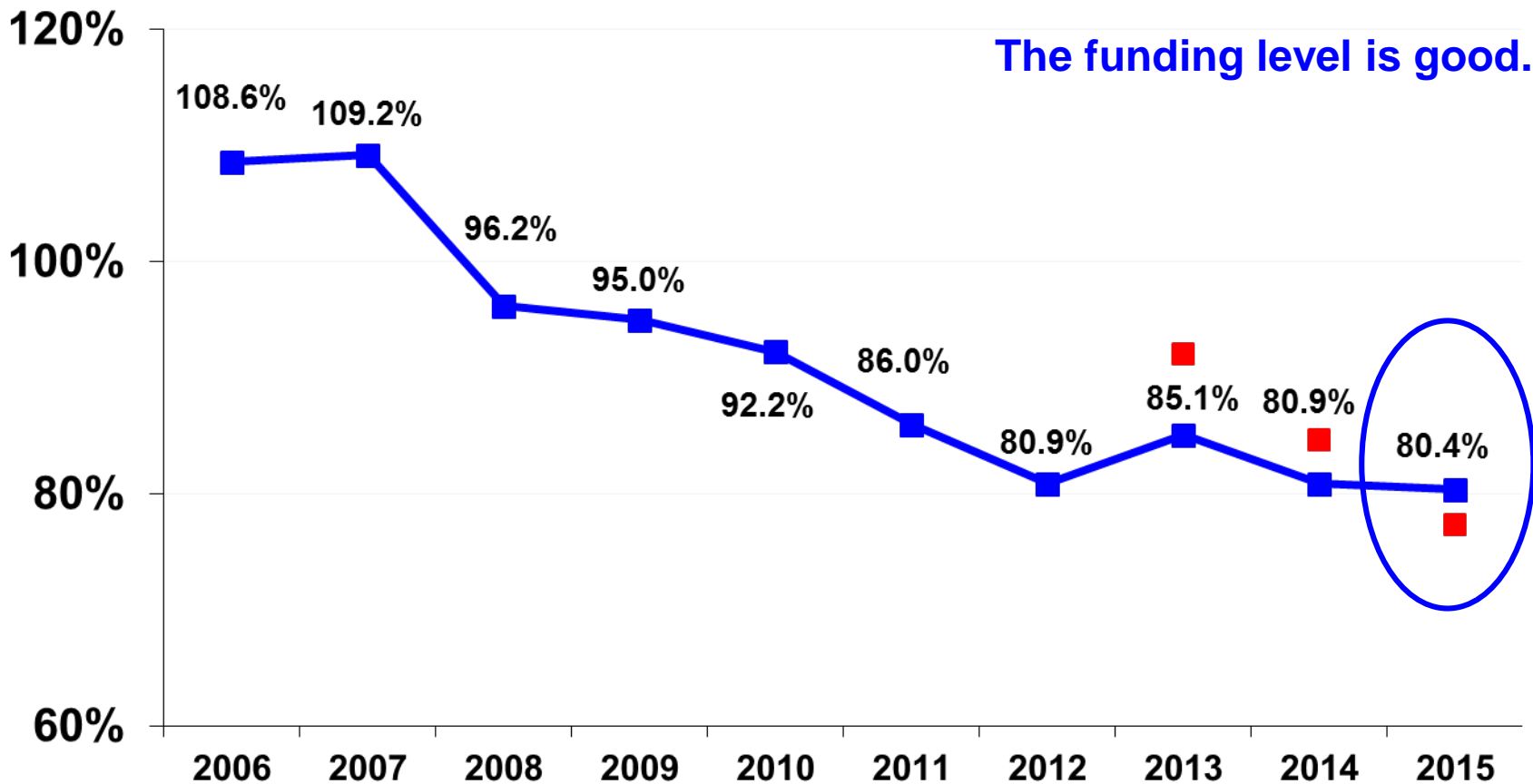
Liabilities vs. Assets

Liabilities are growing, but the changes that are being proposed will reduce future liabilities.





Historical Funded Ratios



- Funded ratio using market value of assets as of December 31, 2013 is 92.1 %.
- 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%.



What is GASB 67/68?

- Governmental Accounting Standards Board (GASB) Statements No. 67 & No. 68 describe the disclosure information that must be included in the financial statements of public sector pension systems and their sponsors.
- These rules became effective for the City of Dallas with the 2015 fiscal year end reporting.
- The most significant difference between the new statements and the prior statements is that the plan sponsor now must recognize the Net Pension Liability (NPL) on its balance sheet.



GASB 67 NPL Calculation

- The NPL is the Total Pension Liability (TPL) less the market value of assets.
 - TPL is similar to the actuarial accrued liability (AAL).
 - If the GASB “Single Discount Rate (SDR) Test” is passed then for ERF, the TPL would equal the AAL.
- GASB Test – a proscribed cash flow model using
 - Current market value of assets,
 - Projected benefit payments for current members,
 - Projected contributions of current members, and
 - Projected City contributions not associated with future member’s cost of benefits (excludes future members’ normal costs).
- If projected assets go to zero before all benefit payments are made, then remaining payments are discounted at municipal bond rate.

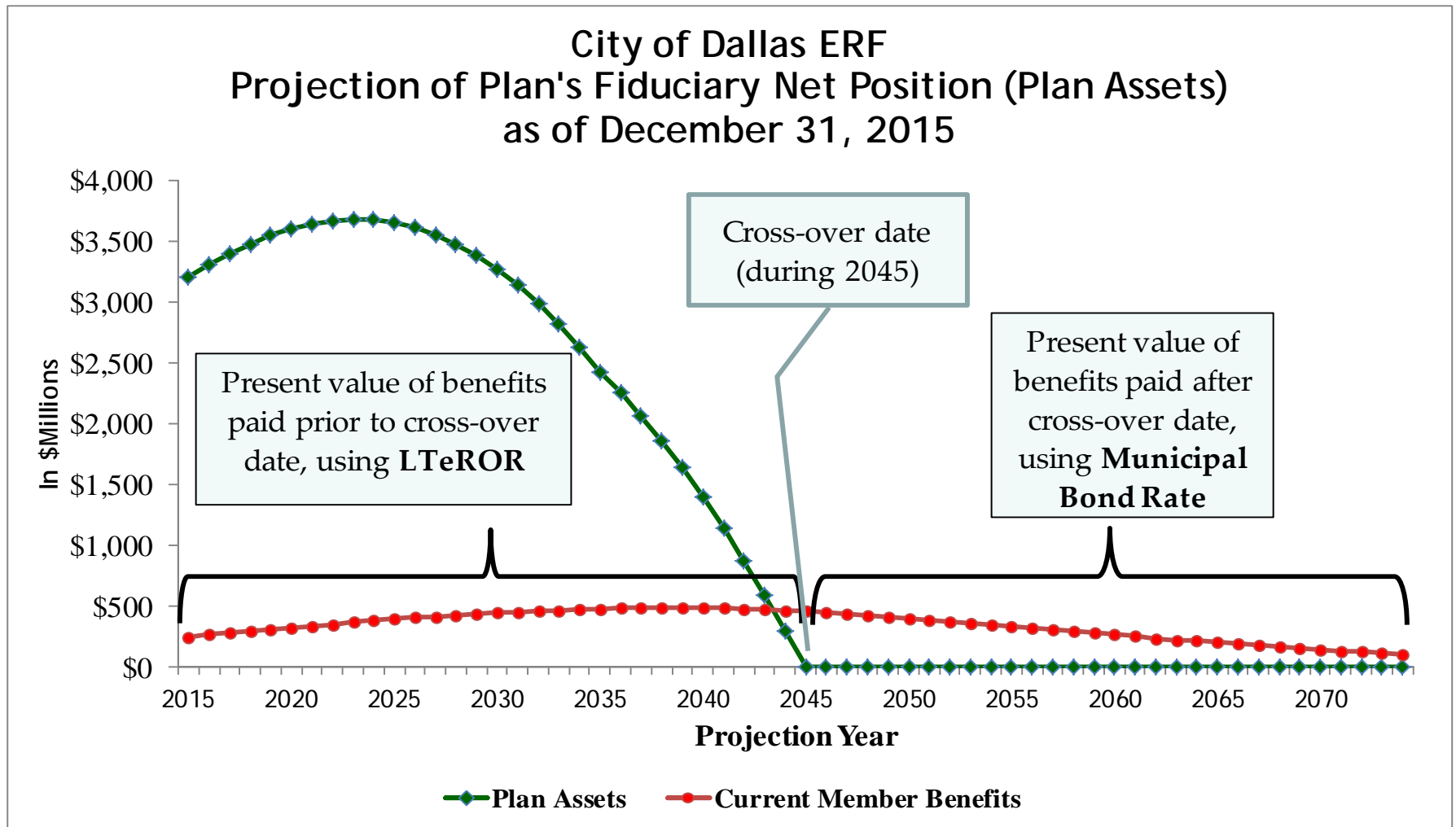


GASB 67 NPL Calculation

- The NPL can be very volatile due to:
 - The use of the market value of assets – year to year fluctuations in the market value of assets flow directly into the NPL;
 - Bouncing back and forth between passing and failing “SDR Test” and
 - Changes in the municipal bond rate from year to year if required to use a blended discount rate.
- Last year Dallas ERF passed the SDR test and used the long-term rate of return (8%) for the SDR.
- This year Dallas ERF did not pass the SDR test and was required to use a blended discount rate.
 - Projected benefit payments through 2045 were discounted at 8%.
 - Projected benefit payments after 2045 were discounted at 3.57%.
 - The single discount rate equivalent is 5.76%.
 - The TPL determined with a 5.76% discount rate is \$1.2 billion greater than if an 8.0% rate had been used.



Single Discount Rate – Accounting Purposes





Current Unfunded Liability Cost

- Based on the December 31, 2015 actuarial valuation, the unfunded liability of the ERF was \$808 million.
 - \$935 million if the market value of assets is used.
- Based on the December 31, 2015 GASB 67/68 report, the NPL was \$2.165 billion.
- What is the unfunded liability?
 - If the ERF received \$935 million, then the ERF would be fully funded (\$0 unfunded liability) on a market value of asset basis.
 - The NPL would also be \$0.
- **The ERF Board is proposing benefit changes to the Chapter 40A effective January 1, 2017 for new hires only. If the proposed benefit changes had been effective January 1, 2016, the ERF would have passed the SDR test and the NPL would have been \$935 million.**



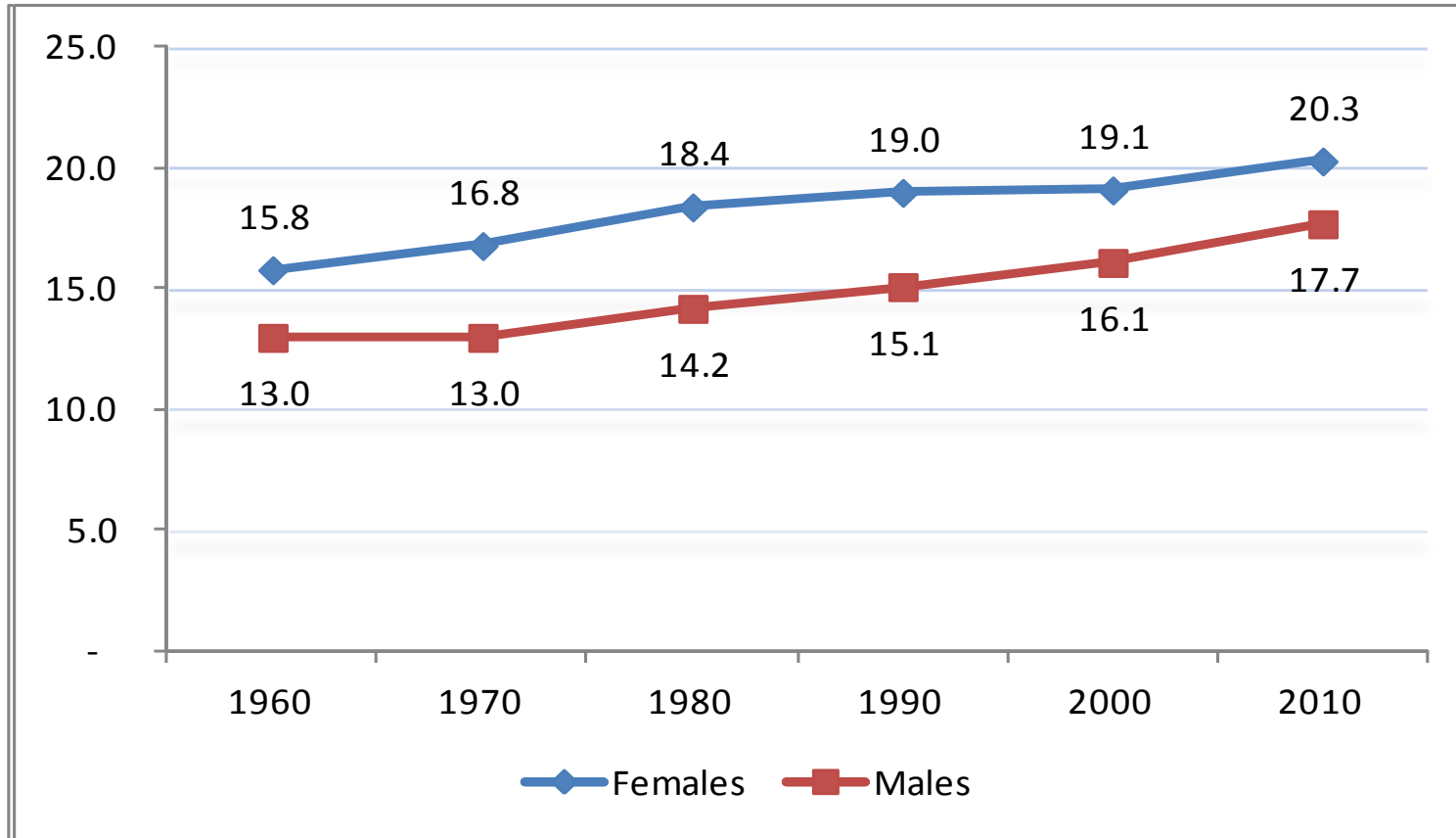
Retirement Benefit Review

Benefit Factors	Current Benefit Plan
Retirement Eligibility	<ul style="list-style-type: none">○ Age 60○ 30 years of Credited Service (actuarially reduced before age 50)○ Rule of 78 Early Retirement (unreduced at age 50)*○ Disability Retirement○ Contributing members vest at 5 years○ Inactive members with 5 years can retire at age 60
Death Benefit	<ul style="list-style-type: none">○ Joint & 100% (actuarially reduced)○ Joint & 50% (unreduced)○ Ten-Year Guarantee (unreduced)
Cost of Living Adjustment (COLA)	<ul style="list-style-type: none">○ Maximum of 5% based on Consumer Price Index (CPI)
Highest Average Earnings	<ul style="list-style-type: none">○ 3-year average

*** Rule of 78 eligibility occurs when the member's age plus the years of service equals 78.**



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.

Membership – Actives and Inactives

- **Average age of active members is 46.1, compared to 46.4 last year:**
 - Oldest active employee was born in 1934 (82 years old), and
 - Youngest employee was born in 1997 (19 years old).
- **Average years of service is 10.0, compared to 10.5 last year:**
 - Longest working current active employee has over 48 years of service and
 - 17 current active employees have worked over 36.4 years.
- **The oldest living retirees:**
 - Oldest retiree was born in 1911 (age 105);
 - Oldest retirement was a disability retirement in 1965 (50 years ago) and
 - Oldest surviving beneficiary was born in 1914 (age 102).



More Conservative Assumptions - Better Positions the Fund for the Future

- 2015 Actuarial Valuation reflects the Board's adoption of new assumptions:
 - Decrease in discount rate to 8.00%. Discount rate change increased liabilities by \$106 million and
 - Adoption of new generational mortality demographic assumptions increased liabilities by \$187 million.

- The adoption of more conservative assumptions above represents almost \$293 million of the current \$800 million Unfunded Actuarial Accrued Liability (UAAL).

- Based on the new assumptions, the Employees' Retirement Fund's normal cost for the current plan year increased to 20.36% of payroll for FYE 2015.

- 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.



Conservative Assumptions Highlighted Longevity

- In 2015, Dallas ERF adopted more conservative assumptions, lowering the actuarial rate of return and adopting a new mortality table called *generational mortality* recommended by the Society of Actuaries.
- A *generational mortality table* is one that takes projected future *mortality* improvement into account for each individual member. Instead of basing everyone's benefits on the same factors, life expectancy is tied to the member's birth date and retirement date.
- The younger generations (Gen Y & Z) are expected to live longer and the new generational mortality table significantly increases life expectancy assumptions for them, thus increasing future pension liabilities.
- In 2015, the ERF Trustee Board established the Pension Plan Study Group (PPSG). The PPSG established a scope of work that included the following:
 - Evaluated the life expectancy of future retirees at age 65 and beyond using actuarially based data;
 - Researched and studied plan designs that would reduce pension liability over time;
 - Conducted a statewide comparison of pension plans;
 - Recommended a series of benefit reduction plans for new hires; and
- Reported its findings and recommendations to the ERF Trustee Board.
- The PPSG met from October 2015 to March 2016, evaluated sixteen different scenarios and presented its recommendations to adjust benefits for new employees hired one or after January 1, 2017 to address longevity and reduce normal costs by 36% and reduce pension liabilities by \$2.15 billion over a 30 year period.



Proposed Changes to Chapter 40A (Financial Impact)

Benefit Factors	Proposed Benefit Changes for New Employees Only (Hired on January 1, 2017 and After)
Retirement Eligibility	<ul style="list-style-type: none">• Change from Age 60 to 65 w/5 years of credited service• From 30 years to 40 years of service (unreduced)• Rule of 78 (unreduced) to Rule of 80 (actuarially reduced < 65 years of age)• Inactive members have options to participate in Tier A or Tier B if they return to work.
Benefit Multiplier	<ul style="list-style-type: none">• Reduce from 2.75% to 2.5%
CPI Cost of Living Adjustment (COLA)	<ul style="list-style-type: none">• Reduce from a maximum of 5% to a maximum of 3%
Average Monthly Earnings	<ul style="list-style-type: none">• Change from 3 to 5 year average
Survivor Benefits	<ul style="list-style-type: none">• Change from Joint & 50% survivor to Life Only as the normal form of retirement• All survivor benefits continue to have a 10 year guarantee• Now Joint & 50% survivor benefits, like Joint & 100% survivor benefits, will be actuarially reduced
Health Benefit Supplement	<ul style="list-style-type: none">• Eliminate \$125 monthly Health Supplement



Proposed Changes Reduce Normal Cost by 36.3%

Current Normal Cost = 20.36%

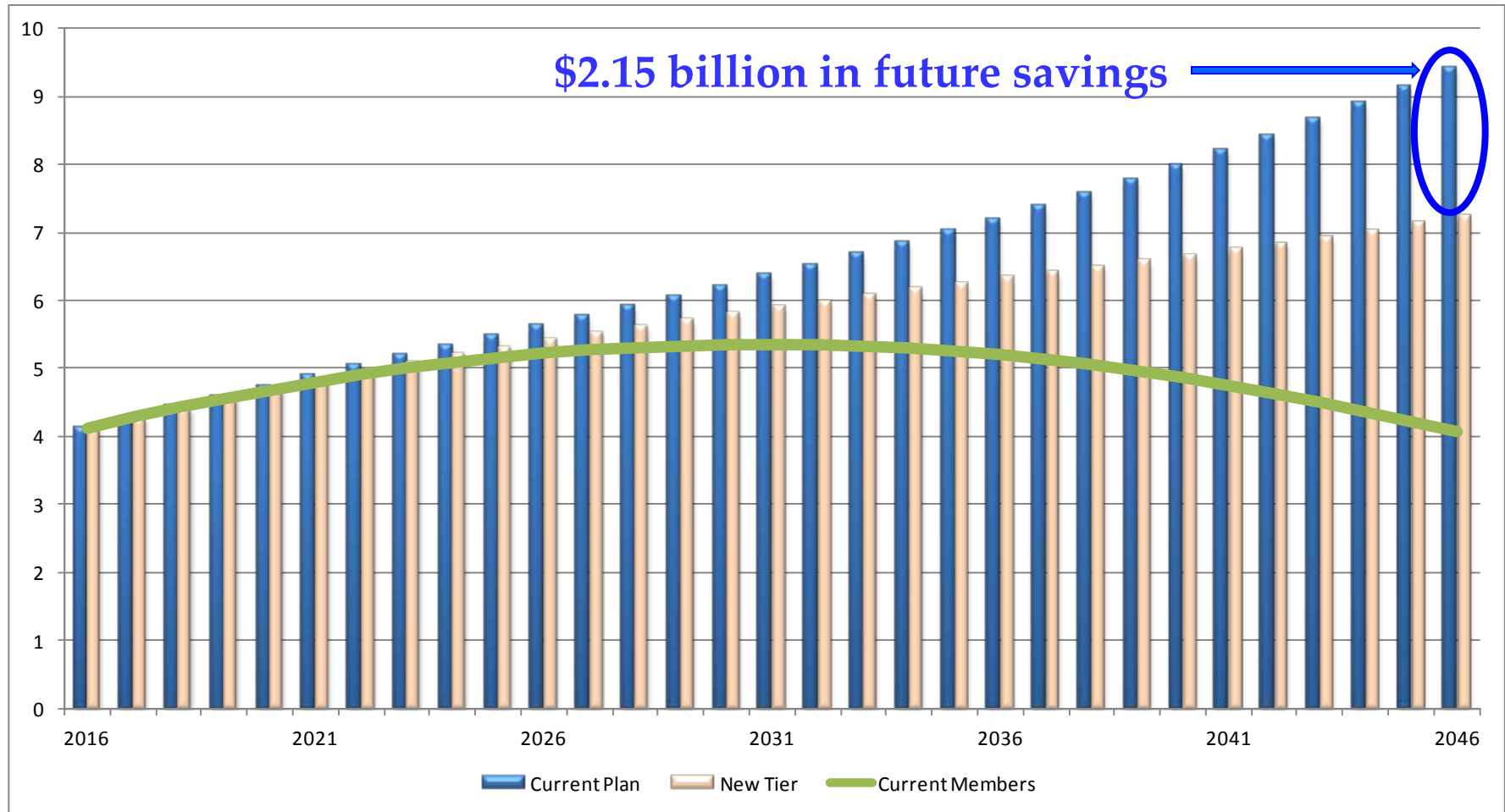
Total Reduction to Normal Cost = -7.40%

Proposed Normal Cost = 12.96%



Proposed Changes Reduce Liabilities by \$2.15 Billion

\$ in Billions





Timeline for City Code Chapter 40A Changes

Action Plan	Date
Chapter 40A Approval by Dallas ERF Board	May 10, 2016
Transportation & Trinity River Project Committee Briefing	June 27, 2016
Briefing to City Council – Pending City Attorney’s Review	August, 2016
Chapter 40A Agenda Item for Dallas City Council	August, 2016
Chapter 40A Ballot Agenda Item for Dallas City Council	August, 2016
Chapter 40A Ballot Item for Dallas Voters	November 8, 2016
Anticipated New Chapter 40A Benefit Tier Start Date	January 1, 2017