

Employees' Retirement Fund of the City of Dallas



City of Dallas

**Ad Hoc Committee on Pensions
October 12, 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)



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



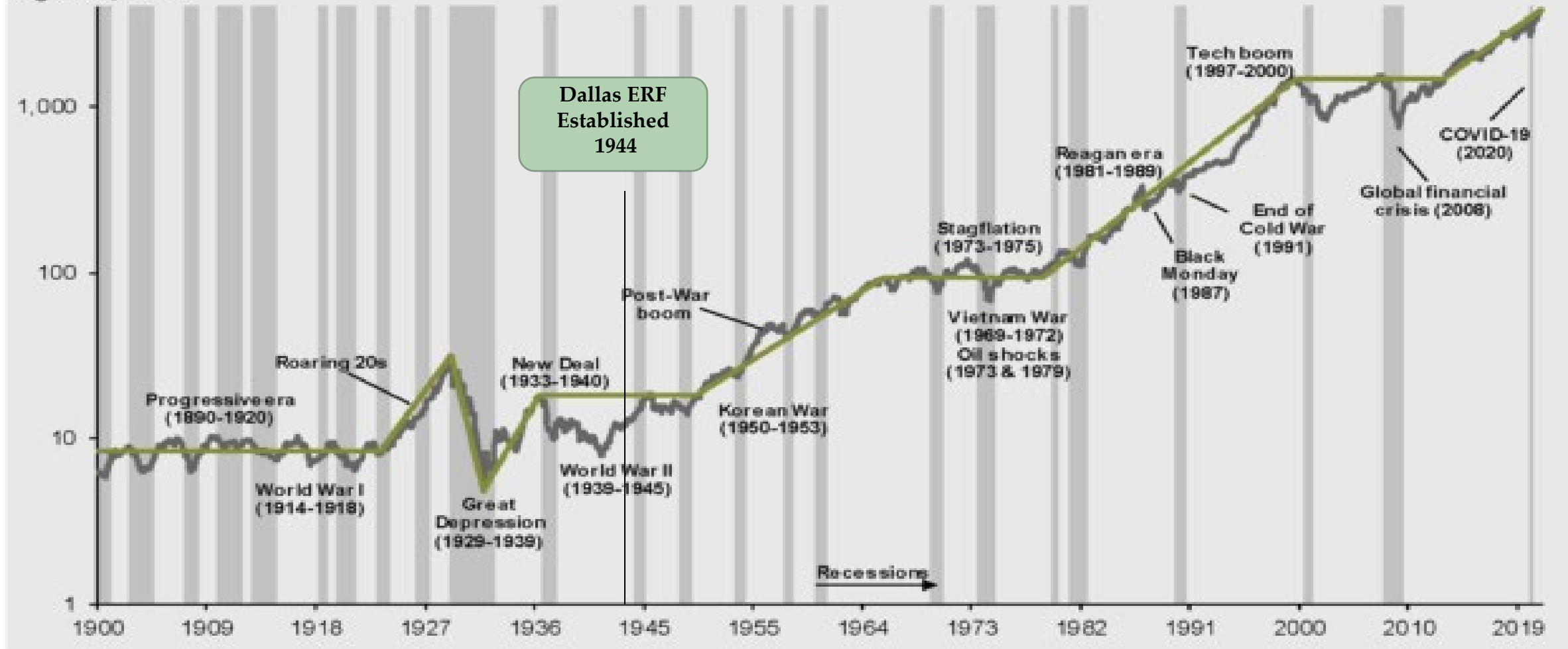
Dallas ERF has a long-term horizon



S&P Composite Index

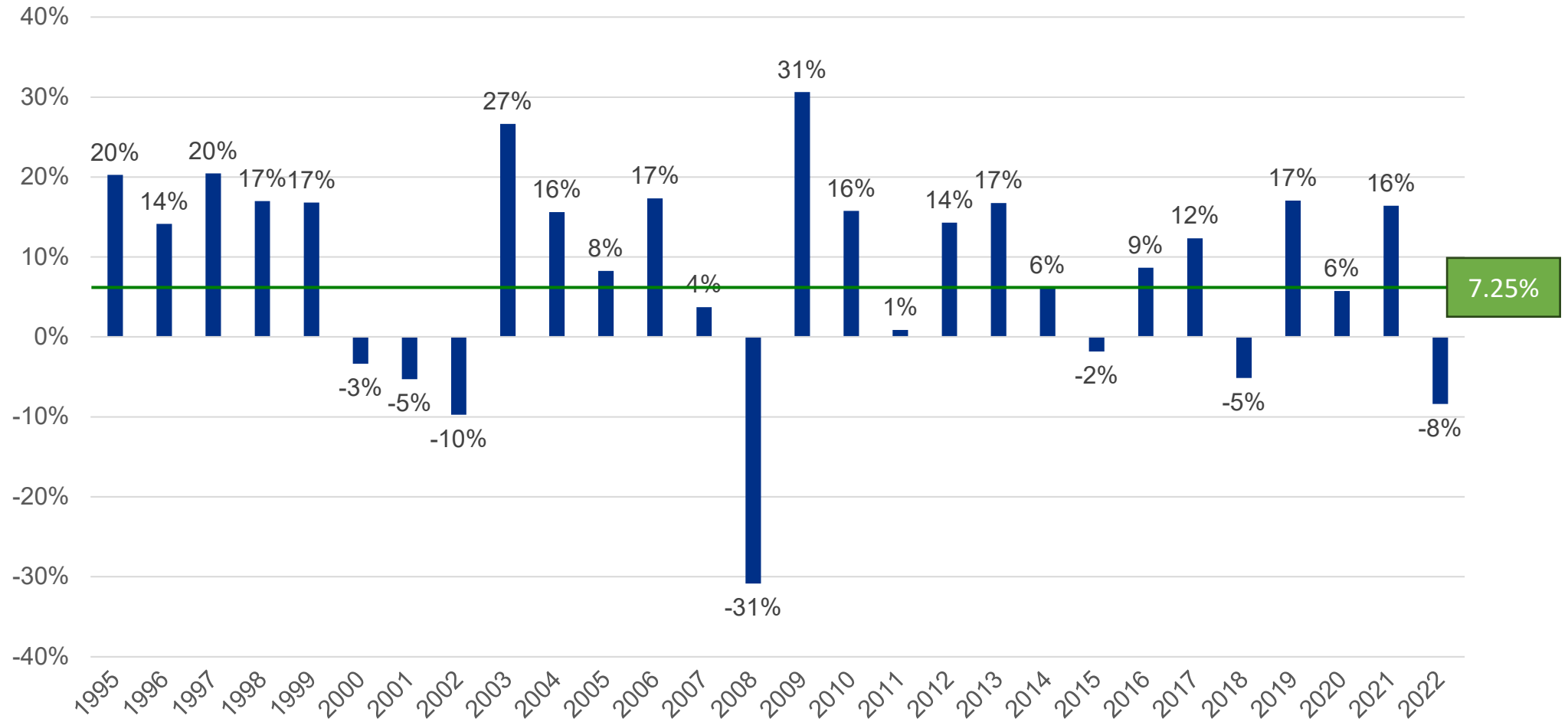
Log scale, annual

Stock Market Since 1900



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.
Guide to the Markets – U.S. Data are as of March 31, 2021.

Long-Term Dallas ERF Investment History



Fund's Target Asset Allocation by Economic Regime



Asset Class	Target
Domestic Equity	12.00%
International Equity	11.50%
Global Equity	5.00%
Global Low Volatility Equity	10.00%
Private Equity	<u>10.00%</u>
Total Growth/Equity	48.50%
Global listed Infrastructure	5.00%
Real Estate Investment Trust (REIT)	2.50%
Private Real Estate	<u>7.50%</u>
Total Inflation Hedging	15.00%
Global Fixed Income	17.50%
Opportunistic Credit	4.00%
High Yield	10.00%
Marketable Alternatives	2.50%
Private Credit	<u>2.50%</u>
Total Risk Reduction / Mitigation	36.50%
Total	100.00%



Dallas ERF Performance Results



- Conservative Global Investment Portfolio with 85% valued daily as of 06/30/2023
 - 1-year return – 7.16%
 - 3-year return – 8.27%
 - 10-year return – 6.59%
 - Since inception (1985) – 8.7%
- Assets under Management as of 06/30/2023 – \$3.605 billion
- Actuarial Valuation conducted annually on 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.



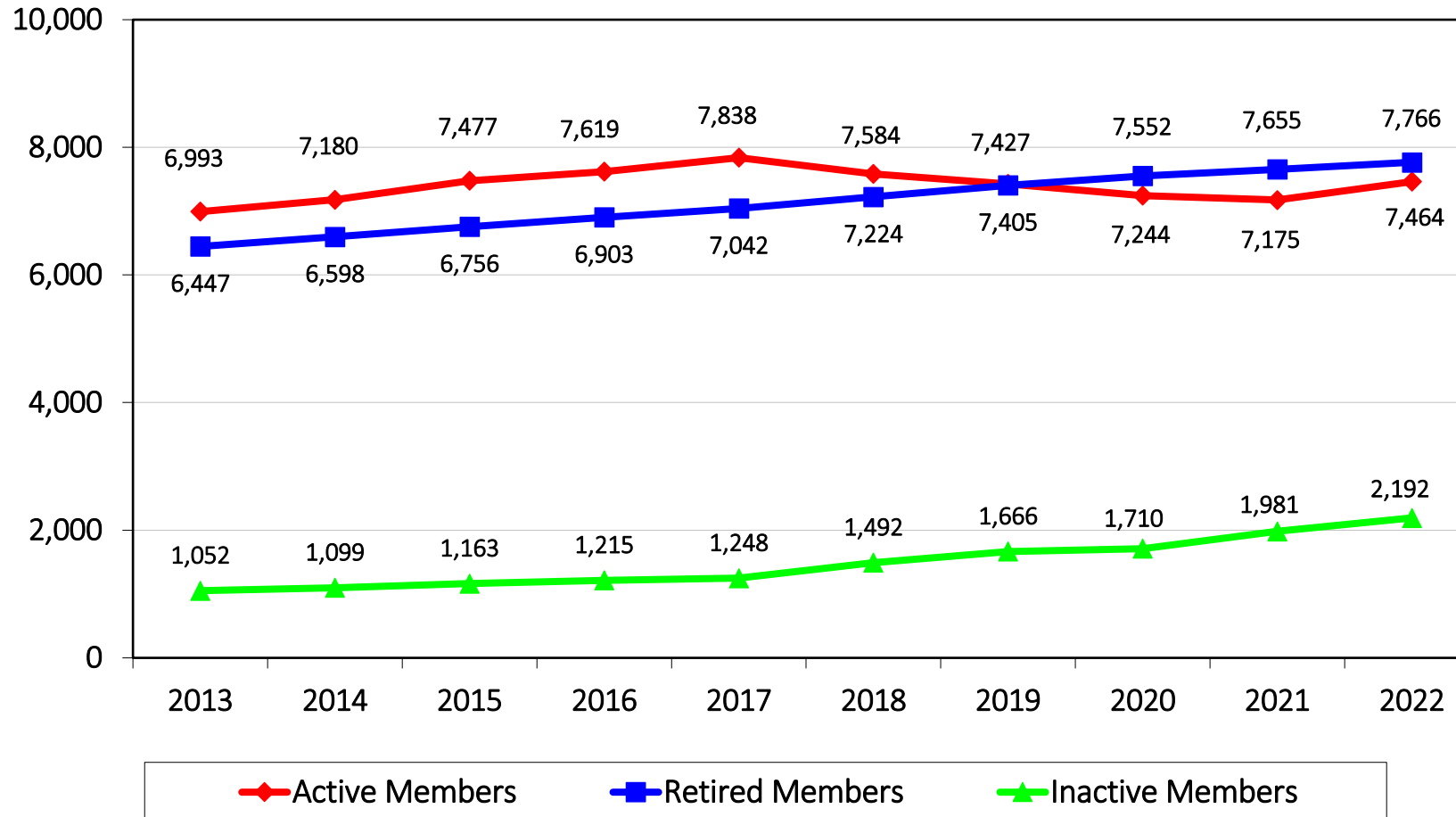
2022 Actuarial Valuation Summary



- Prepared as of December 31, 2022, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods
- Purposes:
 - Measure the actuarial liabilities of the ERF
 - Determine actuarial required contribution rate
 - Provide other information for reporting for Annual Comprehensive Financial Report
 - Explain changes in actuarial condition of the Fund
- Results
 - The unfunded liability was \$1.41 billion
 - The actuarial value of assets was \$3.866 billion
 - The actuarial value of liabilities was \$5.276 billion
 - Funded ratio (actuarial assets divided by actuarial accrued liability) – 73.1% as of 2022



Active and Retired Members



The average benefit paid to a member is **\$39,395**

Note: active membership increased 4.0% versus last year



Historical Changes to the Plan

2004 Study Committee



Issues and Recommendations

- A Study Committee was formed to review the financial situation of the Dallas ERF
- The Study Committee recognized a need to reduce the Unfunded Actuarial Accrued Liability (UAAL)
- Various options were considered
- The Study Committee recommended
 - Issuing Pension Obligation Bonds (POBs) to fully fund the UAAL
 - Maintaining the contribution rates at 63% from the City and 37% from employees
 - Adding automatic contribution rate adjustments
 - Applying the annual debt service payments on the POBs to the City's required contribution
 - Capping the total contribution rate at 36%



Contribution Calculation



	<u>2022</u>	<u>2023</u>
1. Prior Adjusted Total Obligation Rate	36.00%	36.00%
2. Actuarially Required Contribution Rate	34.61%	35.50%
3. Debt Service		
a) Scheduled Debt Service Payment	\$ 38,843,241	\$ 40,142,080
b) Projected Payroll	\$453,934,344	\$488,516,155
c) Pension Obligation Bond Credit (a/b)	8.56%	8.22%
4. Current Total Obligation Rate (2+3c)	43.17%	43.72%
5. Current Adjusted Total Obligation Rate	36.00%	36.00%
6. Allocation of Contribution Rates for Fiscal Year Beginning October 1 st		
a) Employee (5 x .37)	13.32%	13.32%
b) City (5 x .63)	22.68%	22.68%
7. City Contribution to Fund (6.b. – 3.c)	14.12%	14.46%



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)	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 Houston Muni	28.86%	6.20%	35.06%

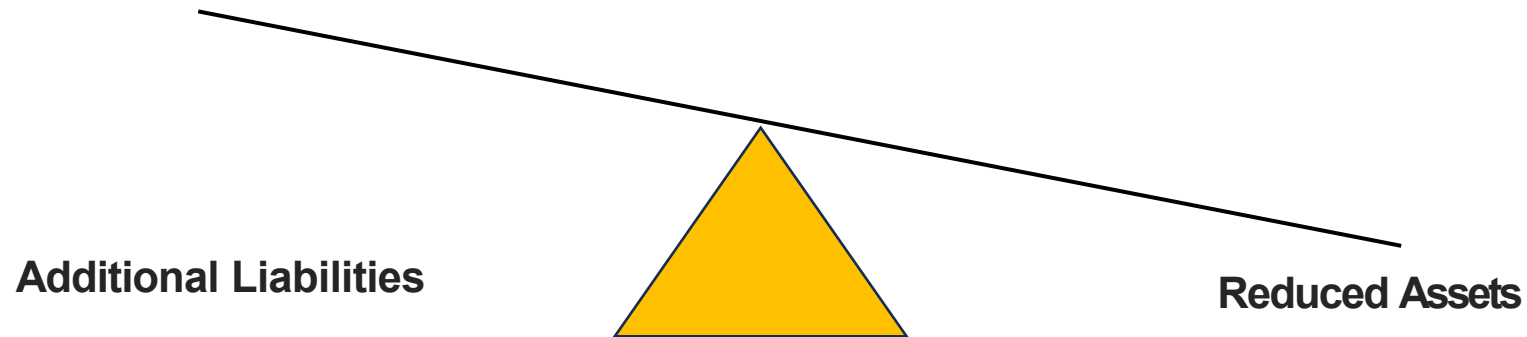


Factors that Impact Liabilities and Assets

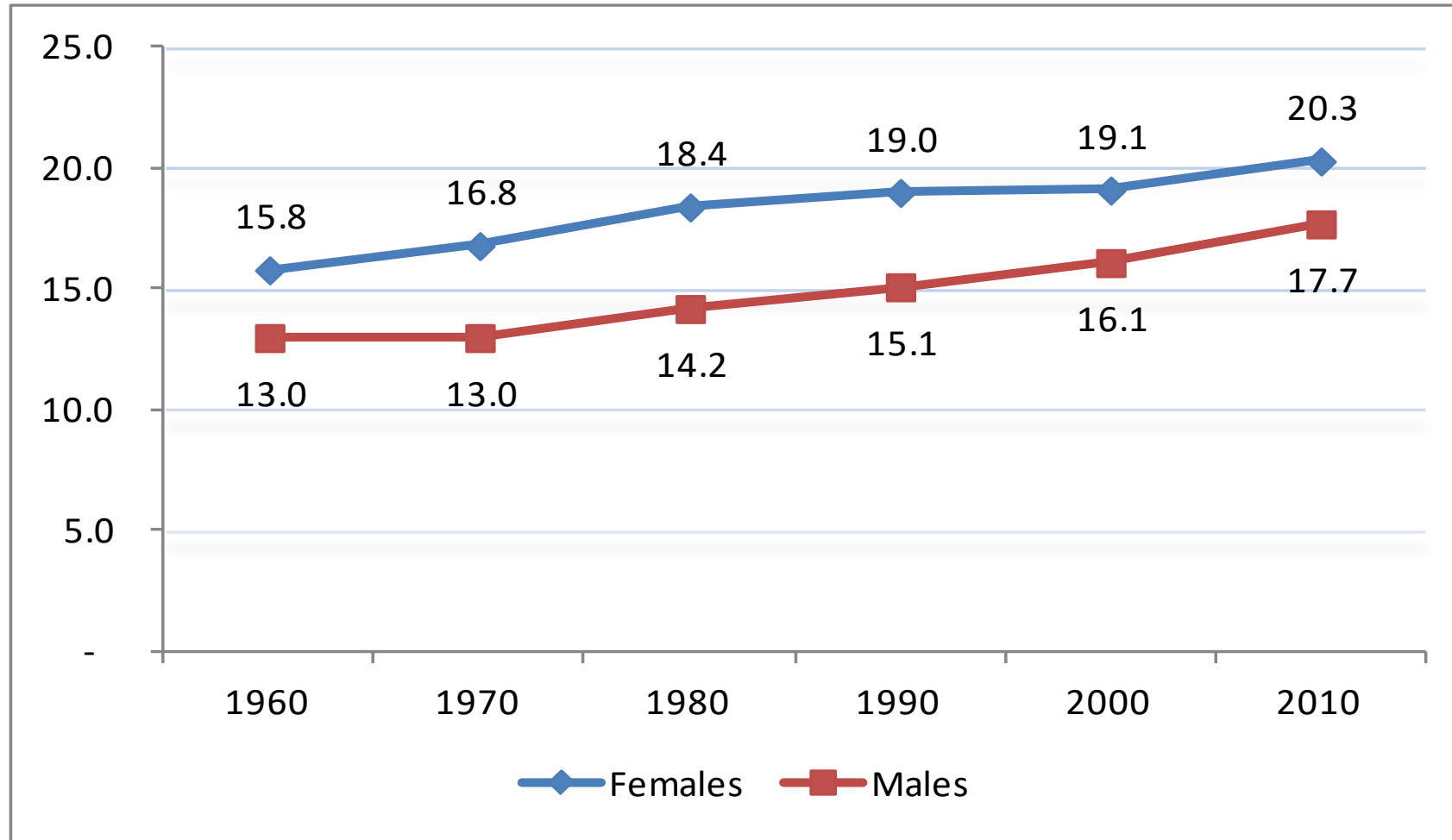


- Longer Life Expectancies
- Higher Inflation Rates
- Reduced Actuarial rate of return from 8.5% to 7.25% over time

- Reduced Actual Investment Return (lower stock market & interest rates)
- Lower payroll results in lower contributions to the Fund



The Workforce is living and working longer



Since 2010, life expectancies continue to increase. The latest published rates (2019) are 20.8 years for females and 18.2 years for males, both from age 65.



ERF Membership Statistics as of 12/31/2022



- Oldest employee born in 1939 (83 years old)
- Youngest employee born in 2004 (18 years old)
- Oldest service retiree born in 1922 (100 years old)
- Oldest beneficiary born in 1914 (108 years old)
- Disabled retiree has been in payment status for 57 years (age 90)
- 1,100+ employees are eligible to retire.
- 18 service retirements have been in payment status for more than 40 years (member or joint annuitant)



2015 Funding Soundness Restoration Plan (FSRPs)



Funding Soundness Restoration Plans (FSRPs) are developed by Texas public retirement systems and their sponsors to improve the funding status of pension plans.

The FSRP requirements were established by the Texas Legislature in 2015 and updated in 2021.

The background leading up to the plan is as follows:

- 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.
- Mortality tables measures life expectancy tied to the member's birth date and retirement date.
- Future generations are expected to live longer, and the new generational mortality table significantly increases life expectancy assumptions for them, thus increasing future pension liabilities.



2015 FSRP (continued)



- 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 and City Council.
- The PPSG met from October 2015 to March 2016, evaluated various scenarios and presented its recommendations which were to:
 - ❑ adjust benefits for new employees hired after December 31, 2016,
 - ❑ to address longevity and reduce normal costs by 36% and
 - ❑ reduce pension liabilities by \$2.15 billion over a 30-year period.



Dallas ERF Board, Dallas City Council and Dallas Voters worked together to amend 40A (Trust Plan)



- Chapter 40A Trust Plan 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 40A Trust Plan amendments.
 - ❖ Dallas ERF Board unanimously approved Tier B in August 2016.
 - ❖ Dallas City Council approved changes Tier B in August 2016.
 - ❖ City of Dallas voters approved changes in November 2016 (**69% of voters approved**), respectfully.
- Chapter 40A Trust Plan amendments became effective after January 1, 2017.



ERF Provides Two Tiers of Benefits



TIER A BENEFITS

PLAN ENTRY - 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 Pension

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

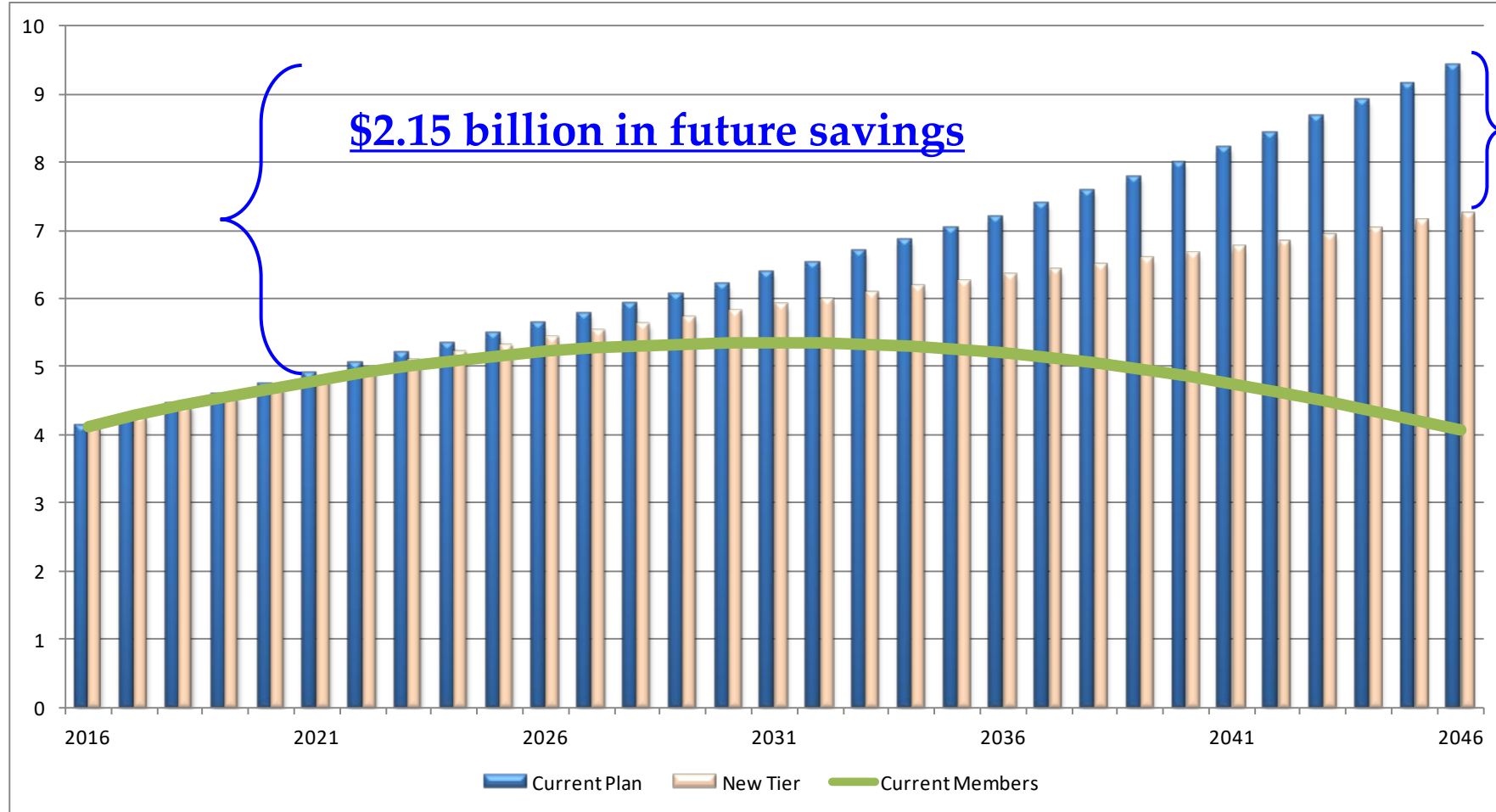
JOINT & FULL BENEFIT - Reduced



Benefit Changes Estimated Liability Reductions



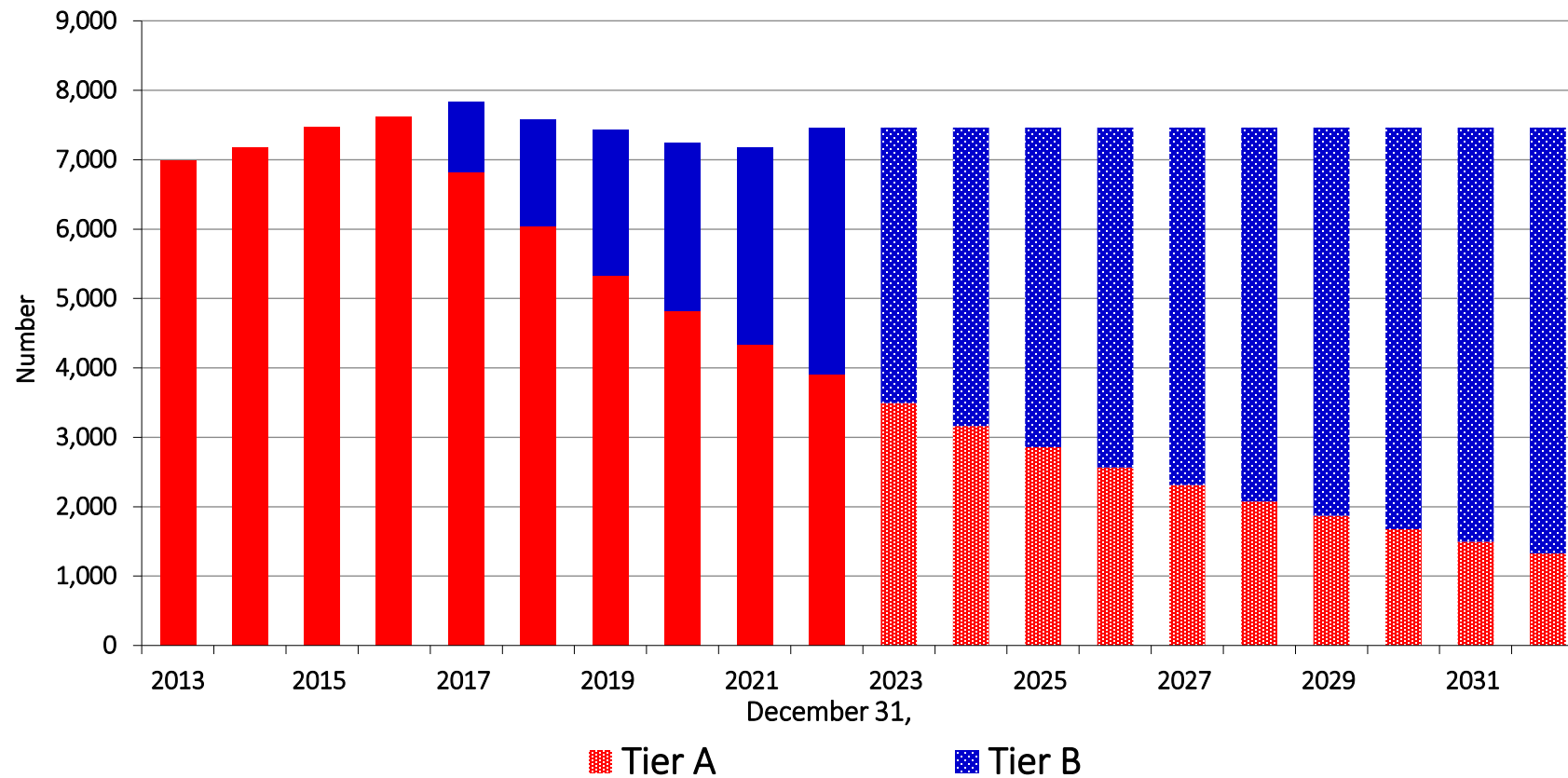
\$ in Billions



Projected Active Membership



Projected Number of Tier A and Tier B Employees



Tier A = 52%
Tier B = 48%



Changes have reduced the growth of future liabilities



Dallas Employees' Retirement Fund

Valuation Date	Normal Cost %	Change
12/31/2016	20.75%	
12/31/2017	20.04%	-0.71%
12/31/2018	19.56%	-0.48%
12/31/2019 ¹	19.05%	-0.51%
12/31/2019 ²	20.50%	1.45%
12/31/2020	20.11%	-0.39%
12/31/2021	19.71%	-0.40%
12/31/2022	19.17%	-0.54%



- **Normal Cost** is the annual cost of future pension benefits and administrative expenses assigned, under an actuarial cost method, for subsequent years and a valuation date.

- In 2019, the ERF Board adopted a more conservative assumption by reducing its investment rate of returns from 7.75% to 7.25%.
- The Normal Cost percentages increased with the new 2019 assumptions; however, the future normal cost is forecasted to be 15% as the Tier B participation increases.

¹ Based on old assumptions

² Based on new assumptions



In 2023, PRB established guidelines around new FSRP 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:

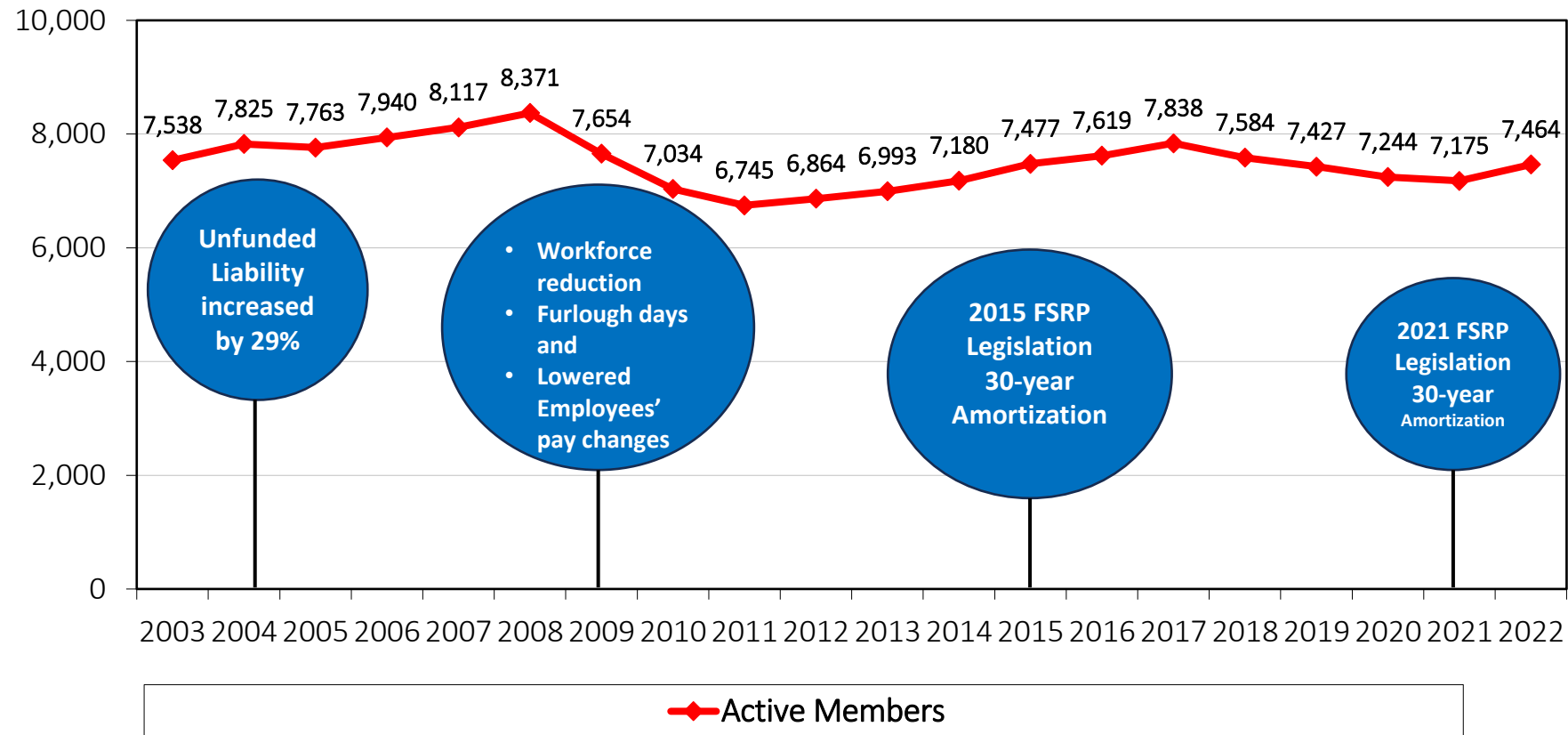
- 1) the system's (ERF) actuarial valuation shows that the plan's expected funding period exceeds 30 years but is less than or equal to 40 years; and
- 2) the system (ERF) is:
 - ☐ (A) adhering to an existing funding soundness restoration plan that was formulated before September 1, 2025; or
 - ☐ (B) 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.

Otherwise, the ERF will lose the benefit of the special exception, which means the funding period moves from 30 to 25 years.



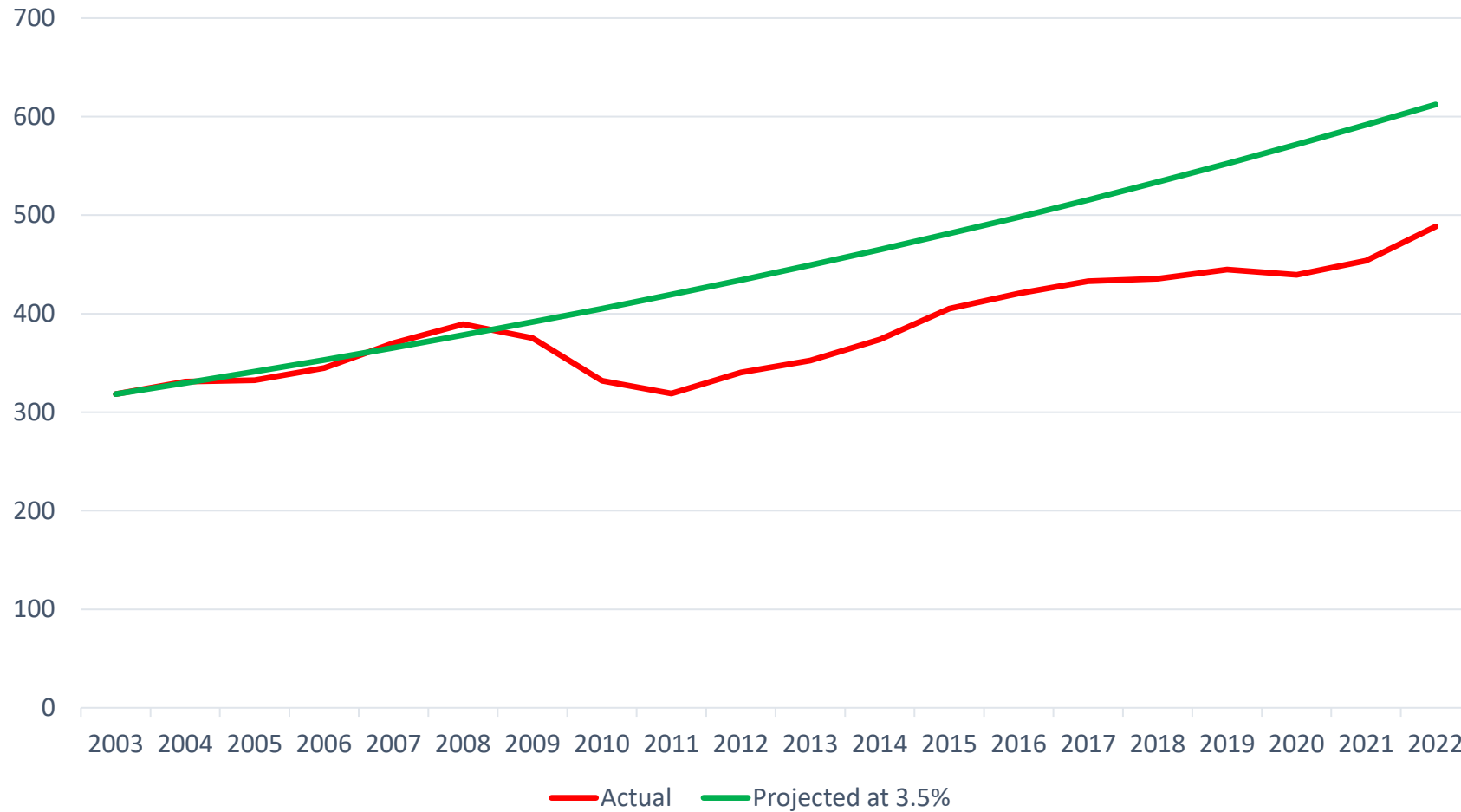
Impact of Decrease in Active Employees



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



2023 FSRP Study Group Scope



A seven-member Study Group comprised of executive-level staff from the City of Dallas and the ERF was formed.

Scope of Work included:

- Exploring various options to achieve a 30 to 40-year funding period,
 - Employees are contributing toward the sustainability of the Fund,
 - The current market environment makes POBs unattractive.
- Developing an implementation timeline,
- Working with all stakeholders to ensure approval of amendments to the plan document which achieve the necessary goals of keeping the plan sustainable.

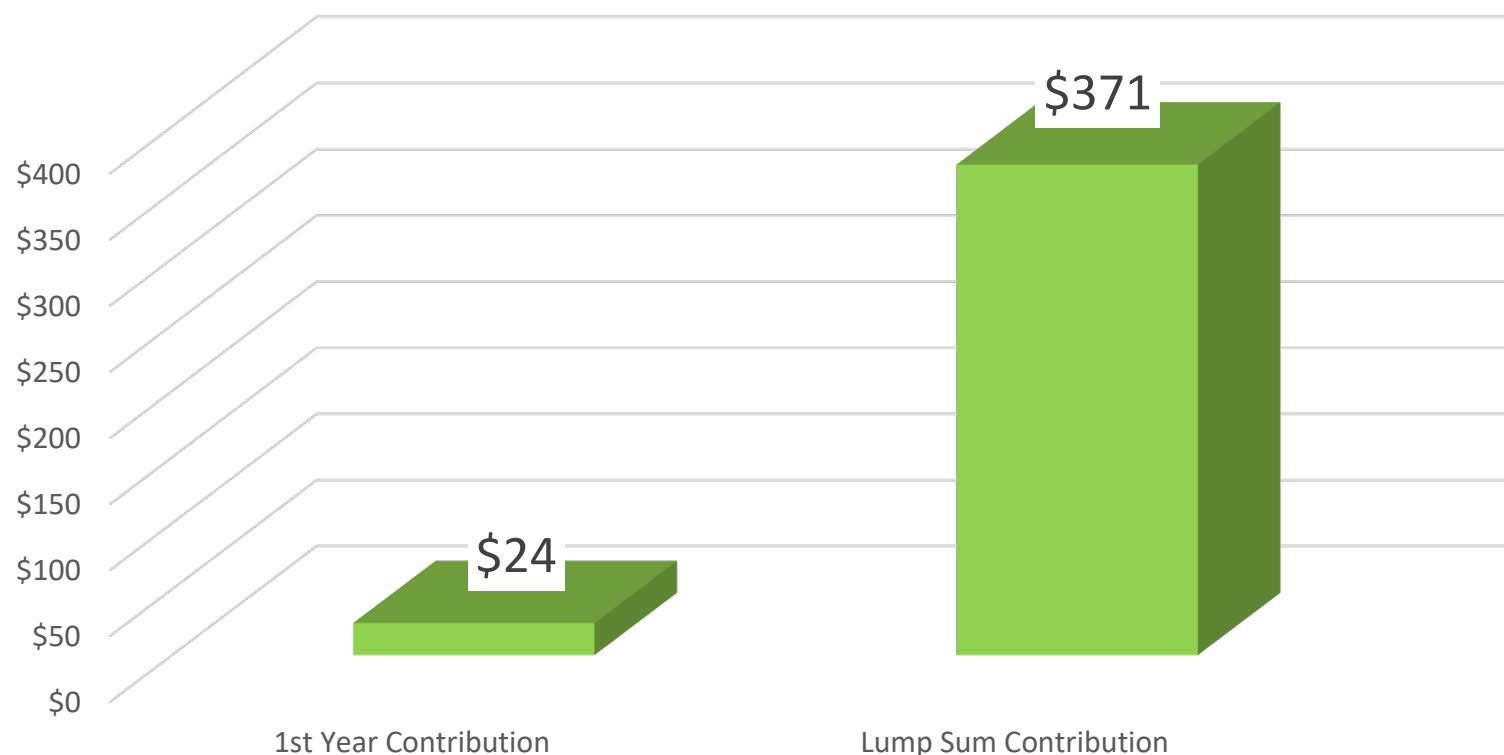
The Study Group held its inaugural meeting August 29, 2023, during which the ERF's actuaries, Gabriel Roeder Smith (GRS), presented an overview of the status of the fund.



Filling the Contribution Gap



Additional Contributions Versus Lump Sum (in \$ Millions)



Note 1: 1st Year Contribution is additional annual contribution to reach 30-year amortization period and assumes removal of the 36% cap.

Note 2: Lump Sum Contribution is the lump-sum amount to make current contributions adequate to reach 30-year amortization period.



Conclusion



- ☐ The investment program is conservative, diversified and appropriate.
- ☐ Payroll contributions are lower than expected due to decrease in active employees.
- ☐ In 2004, POBs worked to increase assets and lower the City's contributions.
- ☐ In 2016, Board, Council and Voters were proactive in adopting a Tier B plan.
- ☐ Tier B is effective in lowering costs over time. We are currently in year 7 of a 30-year plan.
- ☐ In 2021, State Legislature adopted new PRB-FSRP rules which moved the goal post to a 30-year amortization requirement.
- ☐ Based on current interest rate environment, ERF is not requesting additional POBs.
- ☐ Study Group will review options and implementation plan to comply with the FSRP requirements and report findings to the City. The goal is to meet the 9/1/2025 deadline to remain within a 30-40 year amortization requirement.





City of Dallas

Questions