

# Memorandum



CITY OF DALLAS

DATE November 25, 2015

TO The Honorable Mayor and Members of the City Council

SUBJECT Employees' Retirement Fund Overview

On Wednesday, December 2, 2015, the City Council will be briefed on the Employees' Retirement Fund Overview. The briefing will be presented by Cheryl Alston, Executive Director of the Employees' Retirement Fund of the City of Dallas. The briefing is attached for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "Jeanne Chipperfield".

Jeanne Chipperfield  
Chief Financial Officer

## Attachment

c: A.C. Gonzalez, City Manager  
Warren M.S. Ernst, City Attorney  
Craig D. Kinton, City Auditor  
Rosa A. Rios, City Secretary  
Daniel F. Solis, Administrative Judge  
Ryan S. Evans, First Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager  
Joey Zapata, Assistant City Manager  
Mark McDaniel, Assistant City Manager  
Eric D. Campbell, Assistant City Manager  
Sana Syed, Public Information Officer  
Elsa Cantu, Assistant to the City Manager



Employees' Retirement Fund  
of the City of DALLAS

## **Employees' Retirement Fund of the City of Dallas Overview**

December 2, 2015



# Agenda

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- Background
- Key Financial Data
- Benefit Overview
- Investment Overview
- Funding History



## Background

Authority	Chapter 40-A 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 civilian employees of the City of Dallas.
Governance	Seven member board consisting of three persons appointed by the City Council, and 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

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- 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 - Honorable Lee Kleinman, Dr. John Peavy III
  - (B) three employees from different departments of the City who are elected by members of the retirement fund and who are members of the retirement fund - Carla Brewer (Chair), John Jenkins (Vice-Chair) and Tina Richardson
  - (C) the City Auditor (ex-officio) – Craig Kinton
- Most appointees are from the private sector with significant investment experience



## Appropriate Checks and Balances are in Place

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- Appropriate checks and balances are in place:
  - Grant Thornton conducts annual financial audit. Dallas ERF has the same auditor as the City of Dallas.
  - Gabriel Roeder Smith & Company conducts annual actuarial valuation and an experience study every five years.
  - Actuarial Peer Review conducted every three years by third party actuary mandated per Chapter 40A
  - City of Dallas conducted a five-year peer review on assets and liabilities in 2015.



## Chapter 40A Amendment Process

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- Chapter 40A requires all interested parties to approve any changes –Dallas ERF Board, Dallas City Council and the voters of the City of Dallas.
  - Except as provided in Subsection 35(b) of this section, this chapter may not be amended except by a proposal initiated by either the board or the city council that results in an ordinance approved by the board, adopted by the city council, and approved by a majority of the voters voting at a general or special election.
  - (b) A provision of this chapter, other than this section, that is determined by the board to require amendment in order to comply with federal law may be amended by ordinance of the city council, without voter approval, upon recommendation of the board.
  
- Texas Constitution Article XVI, Section 66(d)
  - May not reduce or otherwise impair service, disability retirement benefits or death benefits of a retirement system accrued (**earned**) by a person.
  - The political subdivision or subdivisions and the retirement system that finance benefits under the retirement system are jointly responsible for ensuring that benefits under this section are not reduced or otherwise impaired.



# Recent Board Actions

Employees' Retirement Fund

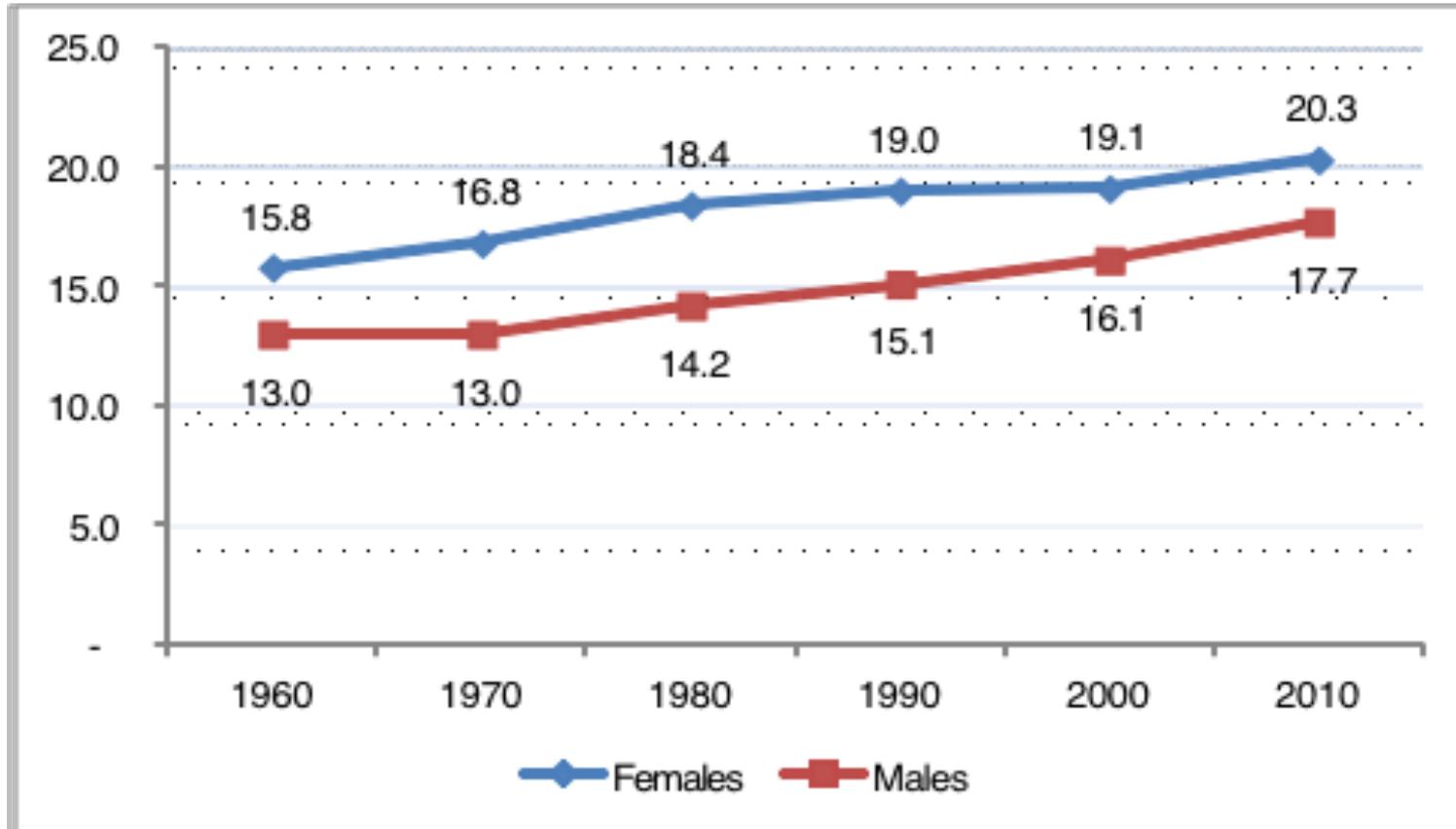
of the City of DALLAS

- In 2014, Board requested five year experience study conducted one year early
- Experience study answers these questions for each assumption
  - ▶ What was the Plan's actual experience?
  - ▶ How does that compare with current assumptions?
  - ▶ Is a change warranted?
- Types of Assumptions
  - **Economic assumptions** - Price inflation (CPI), Investment return, Payroll growth rate (for plans as a whole), Investment Rate (also used as the discount rate)
  - **Demographic assumptions** - Mortality, Disability Retirement, Other terminations
  - **Actuarial Methods** - Funding Method, Asset Smoothing Method



# Life Expectancy for the General US Population - from Age 65

Employees' Retirement Fund  
of the City of DALLAS



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



## More Conservative Assumptions Better Positions The Fund for the Future

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- 2015 Valuation reflects Board's adoption of the new assumptions
  - Decrease in discount rate to 8.00%. Discount rate change increased liabilities by \$106 million
  - Adoption of generational mortality improvement. Demographic assumption changes (including mortality) increased liabilities by \$187 million
- Conservative assumptions increased liabilities by \$293 million



# Adoption of More Conservative Assumptions better positions the Dallas ERF for the Future

Item	12/31/2013 Valuation	12/31/2014 Preliminary Results	Proposed Demographic Assumptions	(3), and Lower Real Return*
Scenario	(1)	(2)	(3)	(4)
Real Return	5.25%	5.25%	5.25%	5.00%
Inflation	3.00%	3.00%	3.00%	3.00%
Investment Return	8.25%	8.25%	8.25%	8.00%
Normal Cost rate	17.57%	17.64%	19.33%	20.29%
Accrued Liability	\$3,611	\$3,711	\$3,898	\$4,004
AVA	\$3,074	\$3,241	\$3,241	\$3,241
Unfunded Liability	\$537	\$470	\$657	\$763
Funded Ratio	85.1%	87.3%	83.1%	80.9%



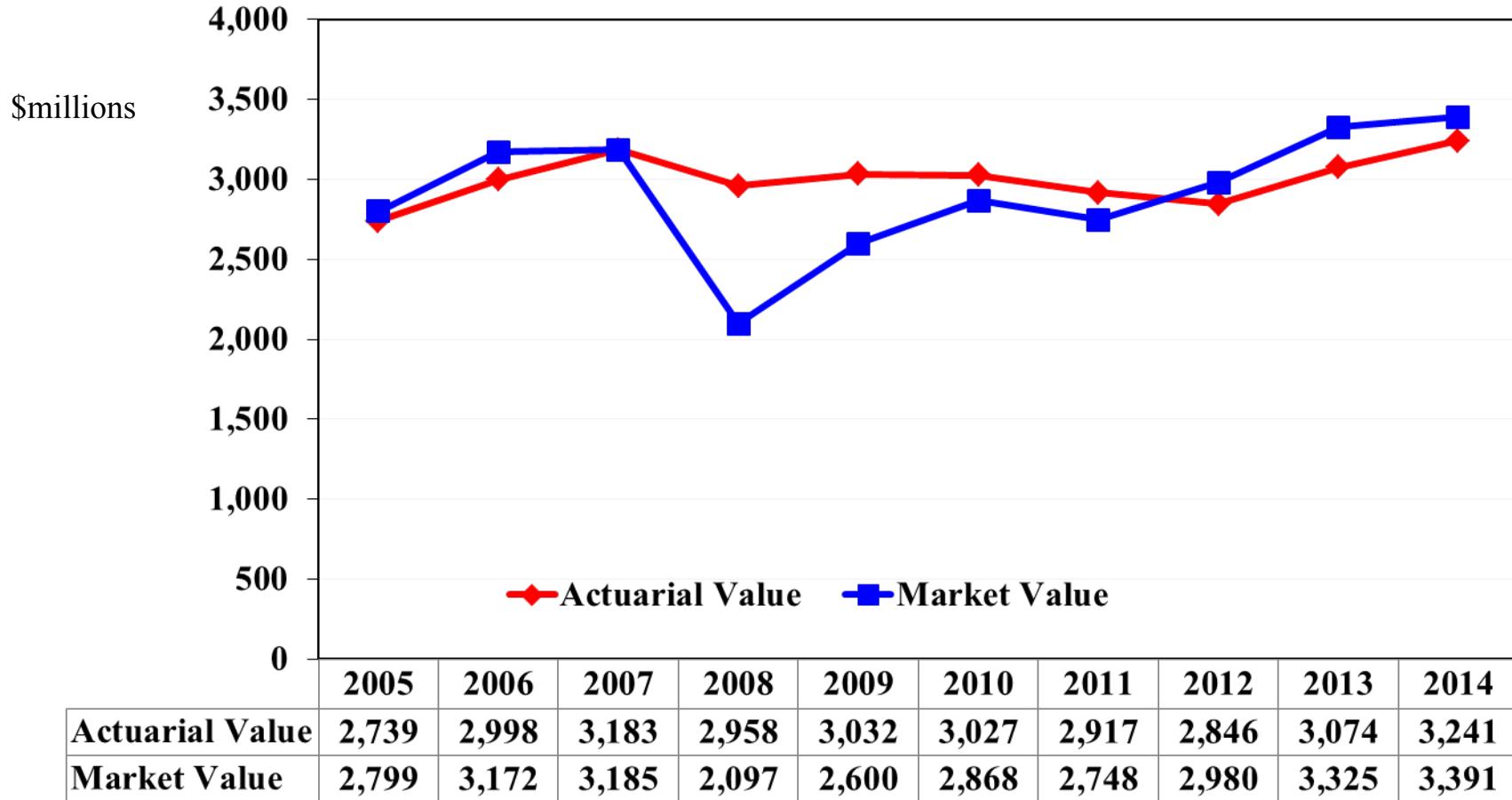
- *Funded Ratio is the ratio of pension assets to liabilities.*
  - *Impact of generational mortality table adopted lowered the Funded Ratio 4%.*
  - *Reduction of real return of 5.25% to 5.0% lowered the Funded Ratio 2%.*
  - *Overall, changes made the Fund more conservative.*



# KEY FINANCIAL DATA

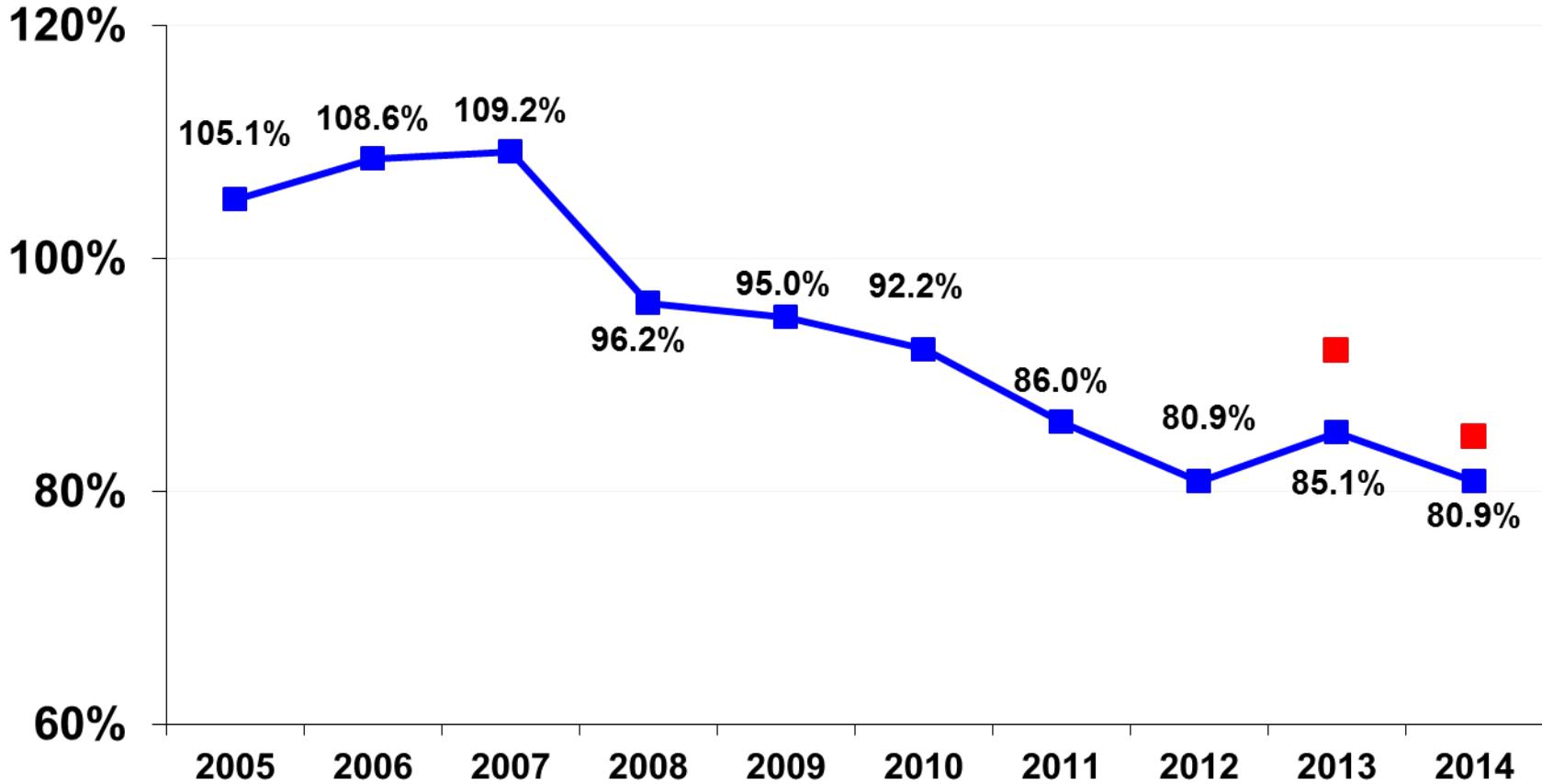


# Historical Asset Values





# Historical Funded Ratios

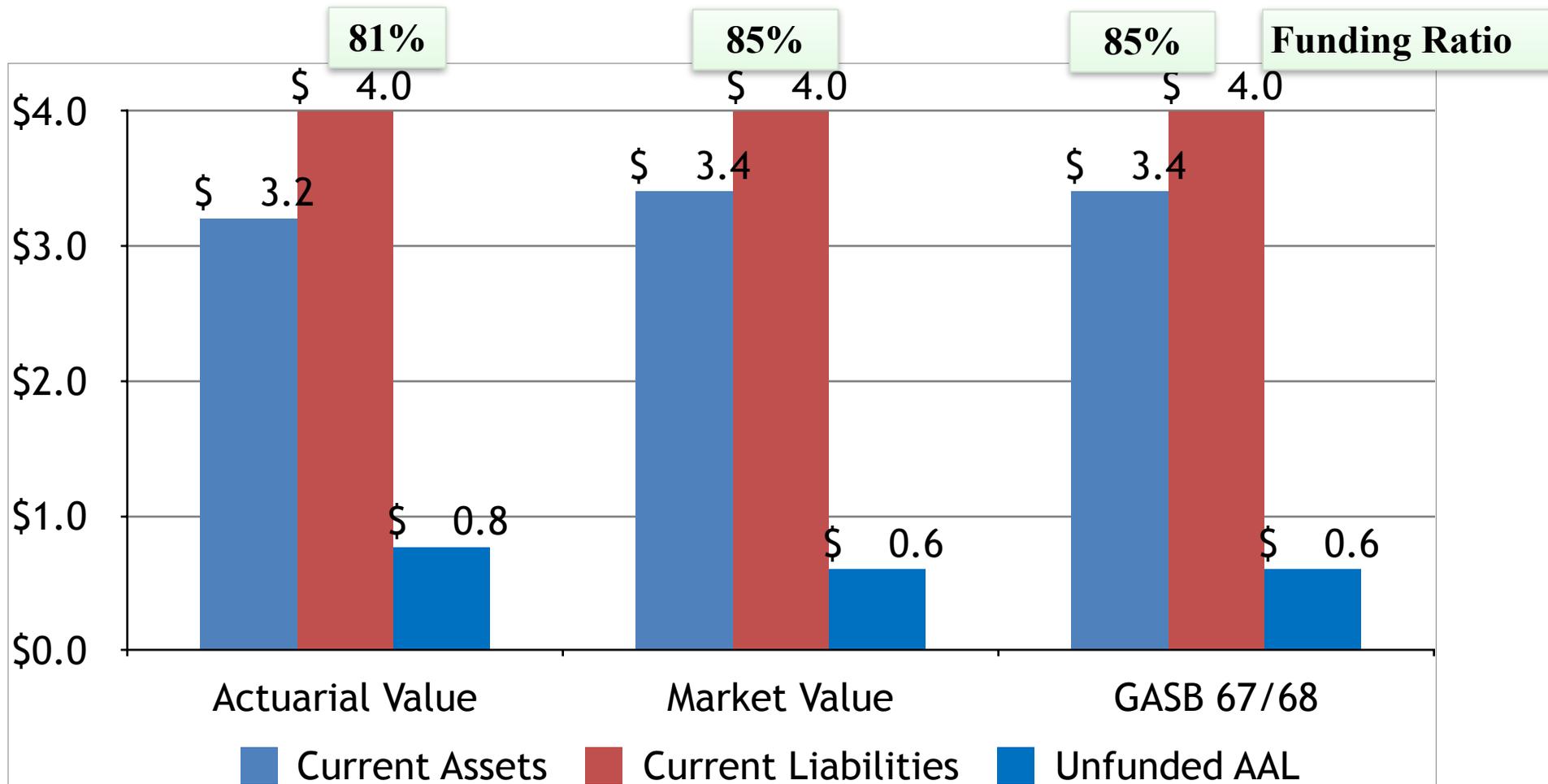


Funded ratio using market value of assets as of December 31, 2013 is 92.1%.

Funded ratio using market value of assets as of December 31, 2014 is 84.7%.



# ERF Assets, Liabilities and Funding Level

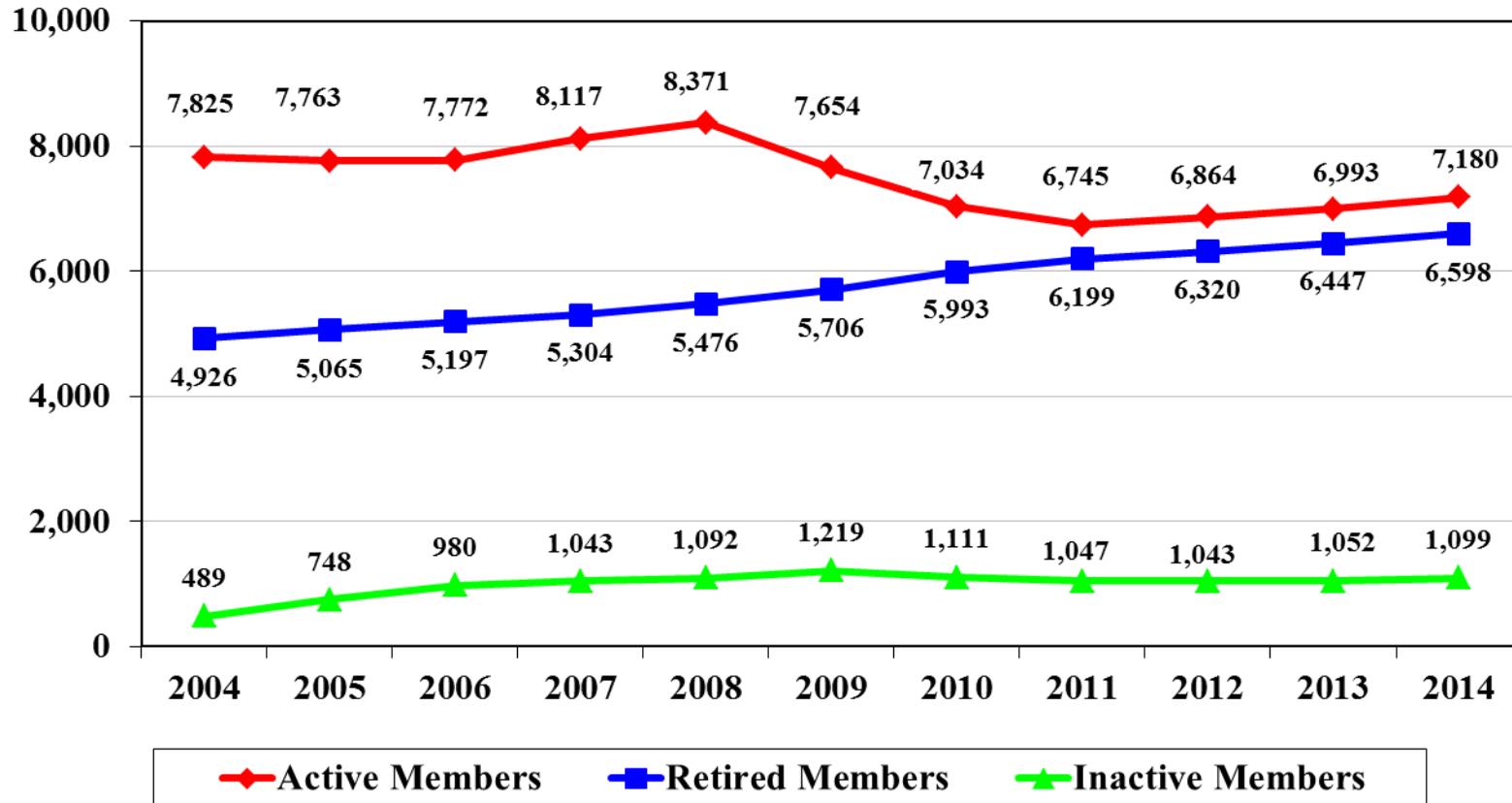




# BENEFIT OVERVIEW



# The Fund has given a benefit promise to over 14,000 families in the DFW area



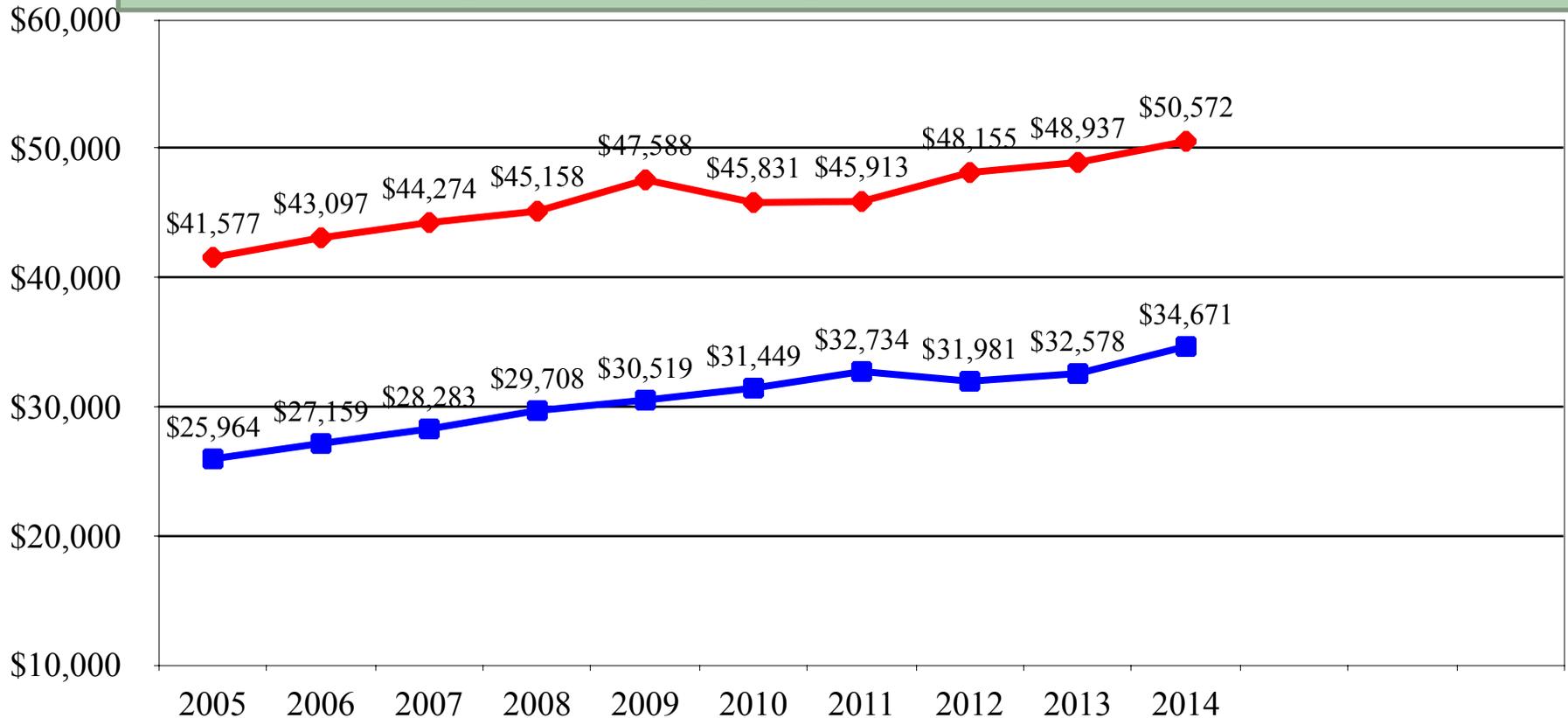
Note: active membership increased 2.7% over last year

**Note: The number of active employees - 15% lower than the high point in 2008 and 9% lower than 2004. Result is lower contributions into the Plan due to lower payroll and increased contribution rates.**



# Average Salary and Average Benefit

- ERF benefits are conservative and have not changed in over 20 years
- City of Dallas Employees do not participate in Social Security



◆ Average Annual Salary

■ Average Annual Benefit



# INVESTMENT OVERVIEW



# Periodic Table of Returns

Employees' Retirement Fund

of the City of DALLAS

**Over 90% of a portfolio's return is attributable to the asset allocation decision.**

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Emrg Mrkts 34.5%	REITs 36.0%	Emrg Mrkts 39.8%	Core Bond 5.2%	Emrg Mrkts 79.0%	MLPs 35.9%	MLPs 13.9%	Emrg Mrkts 18.6%	U.S. Equity 33.1%	REITs 31.8%
Commodities 21.4%	Emrg Mrkts 32.6%	Commodities 16.2%	T-Bills 2.0%	MLPs 76.4%	REITs 28.6%	U.S. TIPS 13.6%	Developed 17.9%	MLPs 27.6%	U.S. Equity 12.7%
Developed 14.0%	Developed 26.9%	MLPs 12.7%	U.S. TIPS -2.3%	High Yield 58.2%	Emrg Mrkts 19.2%	REITs 9.2%	REITs 17.6%	Developed 23.3%	Core Bond 6.0%
REITs 13.8%	MLPs 26.1%	U.S. TIPS 11.6%	High Yield -26.2%	Developed 32.5%	U.S. Equity 17.2%	Core Bond 7.8%	U.S. Equity 16.1%	High Yield 7.4%	MLPs 4.8%
U.S. Equity 6.4%	U.S. Equity 15.8%	Developed 11.6%	Commodities -35.6%	REITs 28.6%	Commodities 16.8%	High Yield 5.0%	High Yield 15.8%	REITs 1.9%	U.S. TIPS 3.6%
MLPs 6.3%	High Yield 11.9%	Core Bond 7.0%	MLPs -36.9%	U.S. Equity 28.3%	High Yield 15.1%	U.S. Equity 1.0%	U.S. TIPS 7.0%	T-Bills 0.1%	High Yield 2.5%
T-Bills 3.1%	T-Bills 4.8%	U.S. Equity 5.6%	U.S. Equity -37.2%	Commodities 18.9%	Developed 8.2%	T-Bills 0.1%	MLPs 4.8%	Core Bond -2.0%	T-Bills 0.0%
U.S. TIPS 2.8%	Core Bond 4.3%	T-Bills 5.0%	REITs -39.2%	U.S. TIPS 11.4%	Core Bond 6.5%	Developed -11.7%	Core Bond 4.2%	Emrg Mrkts -2.3%	Emrg Mrkts -1.8%
High Yield 2.7%	Commodities 2.1%	High Yield 1.9%	Developed -43.1%	Core Bond 5.9%	U.S. TIPS 6.3%	Commodities -13.3%	T-Bills 0.1%	U.S. TIPS -8.6%	Developed -4.5%
Core Bond 2.4%	U.S. TIPS 0.4%	REITs -17.5%	Emrg Mrkts -53.2%	T-Bills 0.2%	T-Bills 0.1%	Emrg Mrkts -18.2%	Commodities -1.0%	Commodities -9.5%	Commodities -17.0%

Source: Wilshire Associates



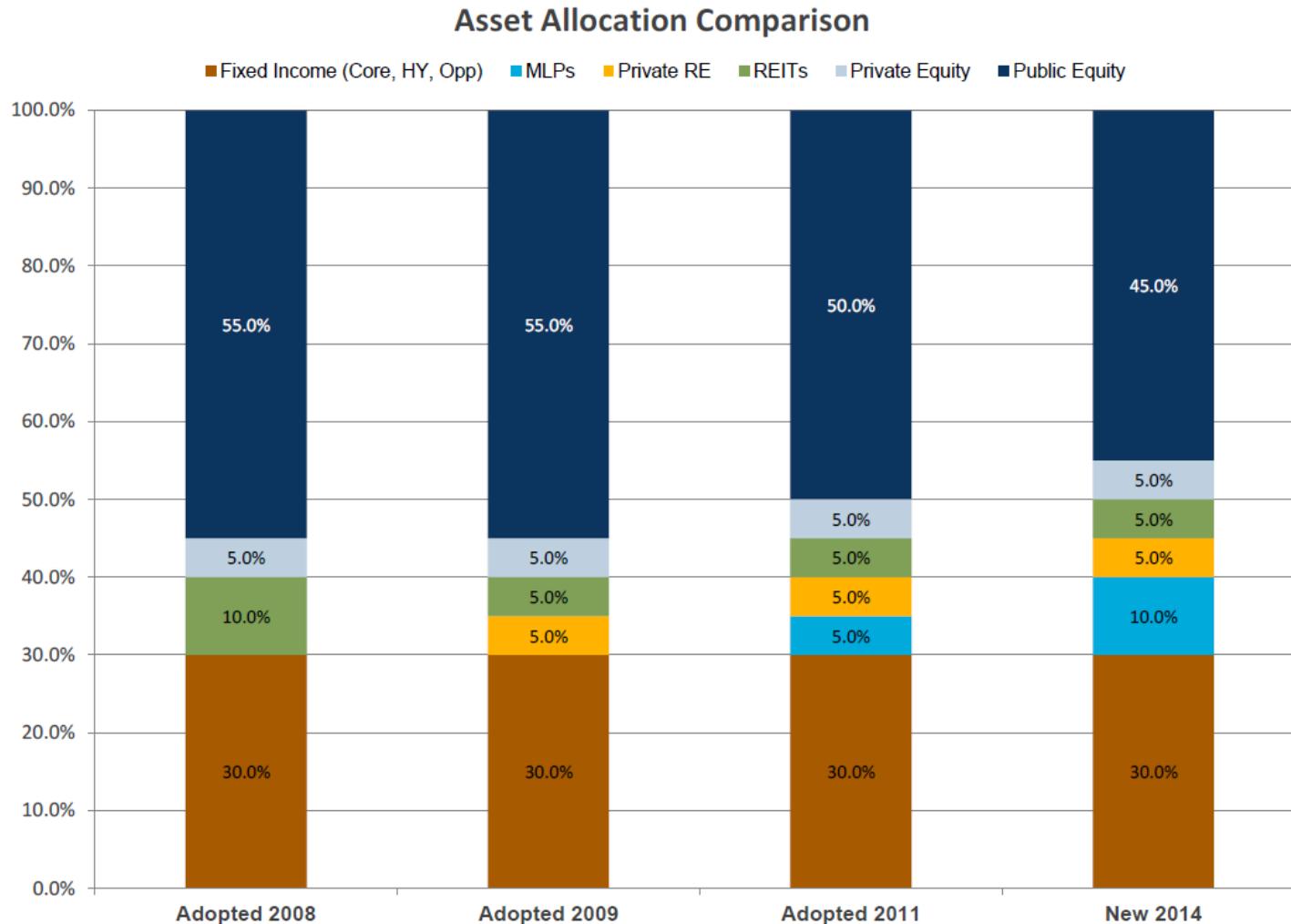
## Investment Philosophy and Strategic Objectives

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- Board reviews asset allocation annually.
- Asset Allocation focuses on return, risk and liquidity.
- New policy portfolio increases the overall diversification of the Fund and reduces the reliance on public equities to drive future returns
- 90% of the portfolio is publicly traded and liquid. Private equity target allocation is 5% and Private Real Estate is 5%.
- Fund began investing in private real estate in August 2010. Fund invested in Core Real Estate funds which are high quality properties in major metropolitan areas that are substantially leased (90% or better), low leverage (25% or less) and generate good stable income.
- Five Year Real Estate Return as of 12/31/2014 (includes REITS) = 16.1% net of fees.



# Asset Allocation Comparison



Source: Wilshire Associates

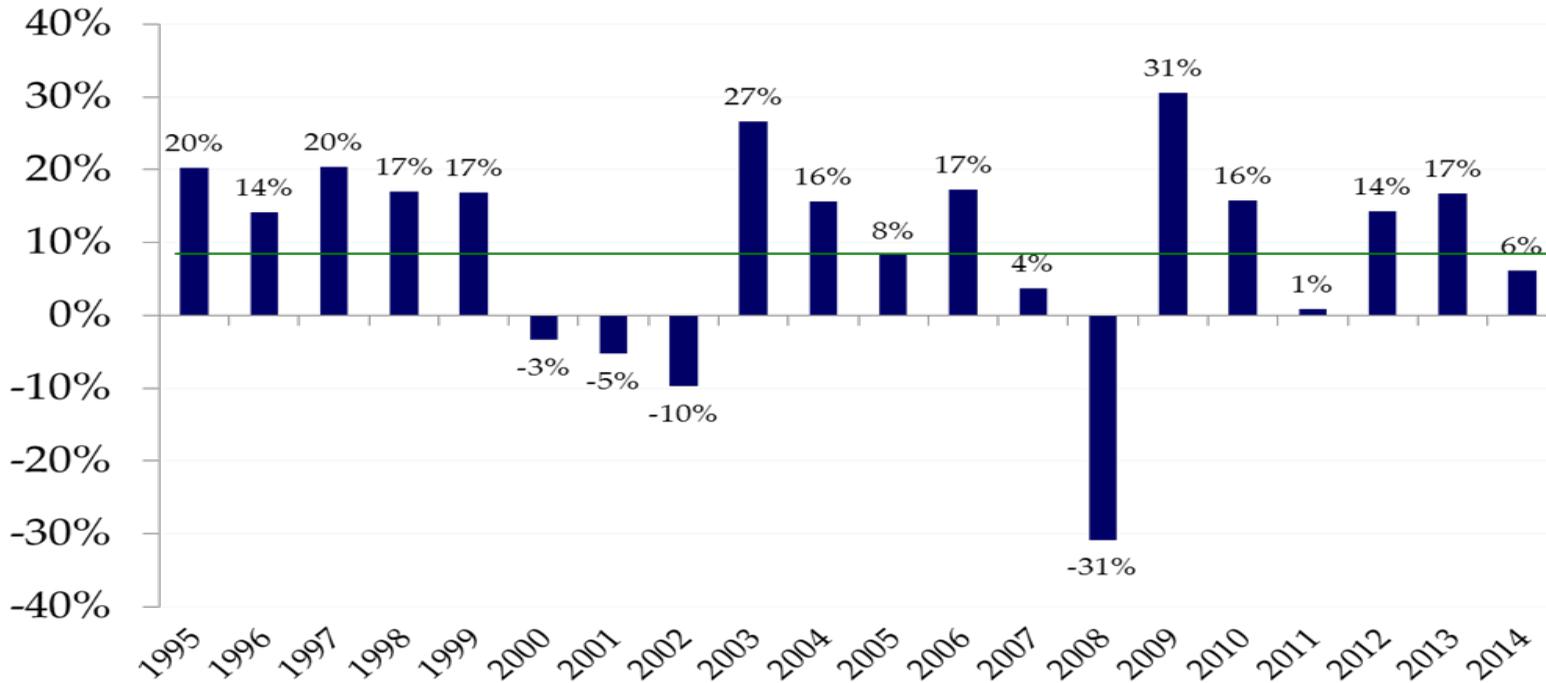


# Dallas ERF Investment Results

Employees' Retirement Fund

of the City of DALLAS

- Dallas ERF has a conservative investment program



Actuarial Rate  
8%

10-year average arithmetic average return as of 12-31-2014: 8.29%

20-year average arithmetic average return as of 12-31-2014: 9.78%



# FUNDING HISTORY



# Funding History

Employees' Retirement Fund  
of the City of DALLAS

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- City Council Appointed Study Committee researched all retirement options in 2004.  
Conclusions
  - Current contribution rates will not support future benefit payments – contributions need to be increased
  - Pension Obligation Bonds (“POB”) should be issued to lessen the cost
  - Future City and employee contribution adjustments should be automatic
- **November 2004** – Citizen vote on Plan amendments passed (71%)
- **January 2005** – Issued \$533 M of pension obligation bonds (“POB”) (based on 2003 supplemental valuation actuarial report). All-in Cost 5.41%
- **October 2005** – Contributions for employees and City are adjusted as prescribed in the revised ERF Plan document. POB Debt Service is included in the contribution rate calculation for the City and the employees. Employees pay 37% of the required contribution rate.
- **May 2007** – City reconvened Study Committee to review plan results. ERFSC stated plan is on course and did not recommend any changes.



# Dallas ERF Has Provided Benefits For 71 Years

Employees' Retirement Fund  
of the City of DALLAS

## 1944



Approximately 2,500 employees worked for the City of Dallas. Pensions ranged from \$4 to \$224 a month.

### Average Prices in 1944



21¢ a gallon



Home \$8,600



62¢ a gallon



9¢ a Loaf



1944



2014

## 2014



Currently about 7,000 employees work for the City of Dallas. Pensions average about \$2,900 a month.

### Average Prices in 2014



\$3.80 a gallon



Home \$218,200



\$4.28 a gallon



\$1.98 a Loaf

\* Average prices based on statistics from United States Department of Labor, Bureau of Labor Statistics and [www.thecostofliving.com](http://www.thecostofliving.com).



## Conclusion

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- ERF has a governance structure with seven trustees representing members, the City, and the private sector with finance or investment experience.
- ERF has a conservative investment program
  - 20-year return is 9.78% (arithmetic)
  - The City of Dallas employees choose a life of community service essential to the City rather than private sector careers that often provide better overall compensation (higher salary, bonuses, etc.)
  - Average ERF annual retiree benefit - \$34,671
  - City of Dallas employees do not participate in Social Security
- Employees pay 37% of the required contribution rate.



## Conclusion

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- The Board continues to proactively review benefit policy and investment policy to focus on the overall health of the Fund.
- The Board is researching a tier for only new employees that will focus on longevity and potentially reduce future projected actuarial accrued liabilities over 30 years.
- The Employees' Retirement Fund City of Dallas is working well for the City, its employees, and the taxpayers
  - Funded Ratio (Actuarial Value) – 81%
  - Funded Ratio (Market Value) – 85%