

Memorandum



CITY OF DALLAS

DATE December 1, 2016

TO The Honorable Mayor and Members of the City Council

SUBJECT Dallas Police and Fire Pension (and Related Pay Referendum Issues)

On Wednesday, December 7, 2016, the City Attorney, City Controller, Director of Human Resources, Deloitte, and I will brief City Council on the Dallas Police and Fire Pension (and Related Pay Referendum Issues). We 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

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
Joey Zapata, Assistant City Manager
Mark McDaniel, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council



DALLAS POLICE & FIRE PENSION **AND RELATED PAY REFERENDUM ISSUES**

City Council Briefing | December 7, 2016



The Story

The Problem: Three Issues

Police and Fire Pay (Meet and Confer)

- Increased pay needed to keep starting salaries competitive
- BUT**
- Once fully implemented in year 4, will add **\$89M/year** to FY 16 P/F compensation of \$599M

Pay Referendum

- One-time pay raise vs a continuous pay differential; plaintiffs allege the differential should be maintained forever
- In 2005, State removed City's Sovereign immunity by redefining how a city agreement can be made
- Could be \$4B hit for back pay (**\$230M/year** debt service) plus **\$330M/year** going forward

Pension

- State set up flawed system, gave control to beneficiaries
- P/F voted themselves benefits and overly generous features (COLA, DROP interest, Supplement)
- **\$6B** current exposure; 46% from features
- Current pension ask is nearly **\$99M/year** more than the **\$124M/year** taxpayers already contribute

What's Needed

Police and Fire Pay (Meet and Confer)

Approve new agreement

Most uniform employees
(57%) will receive at least
a 25% pay increase over
3 years

Pay Referendum

State officials must
reaffirm sovereign
immunity to protect
taxpayers

While not imminent,
along with other P/F
costs, failure to do so
could bankrupt the City

Pension

State must address the
following:

- Change governance
where City/taxpayers
have a veto vote (as well
as members)
- While preserving
constitutionally protected
benefit (CPB), redesign
plan to be fair
- Adjust future payouts for
long-term equity

City to provide more
financial support

The Challenge

It all adds up:

Meet and Confer

+ Pay Referendum

+ Pension

= Dallas taxpayers pay for it all

City Budget in Brief

While we refer to the City's Budget as \$3.1B, actually:

- \$1.2B is the current year general fund budget which supports much of what people relate to:
 - Police, Fire, Parks, Libraries, Streets, etc.
 - Police and Fire's footprint is **\$733M** or 61% of that budget
 - \$615M of this is for Police and Fire compensation

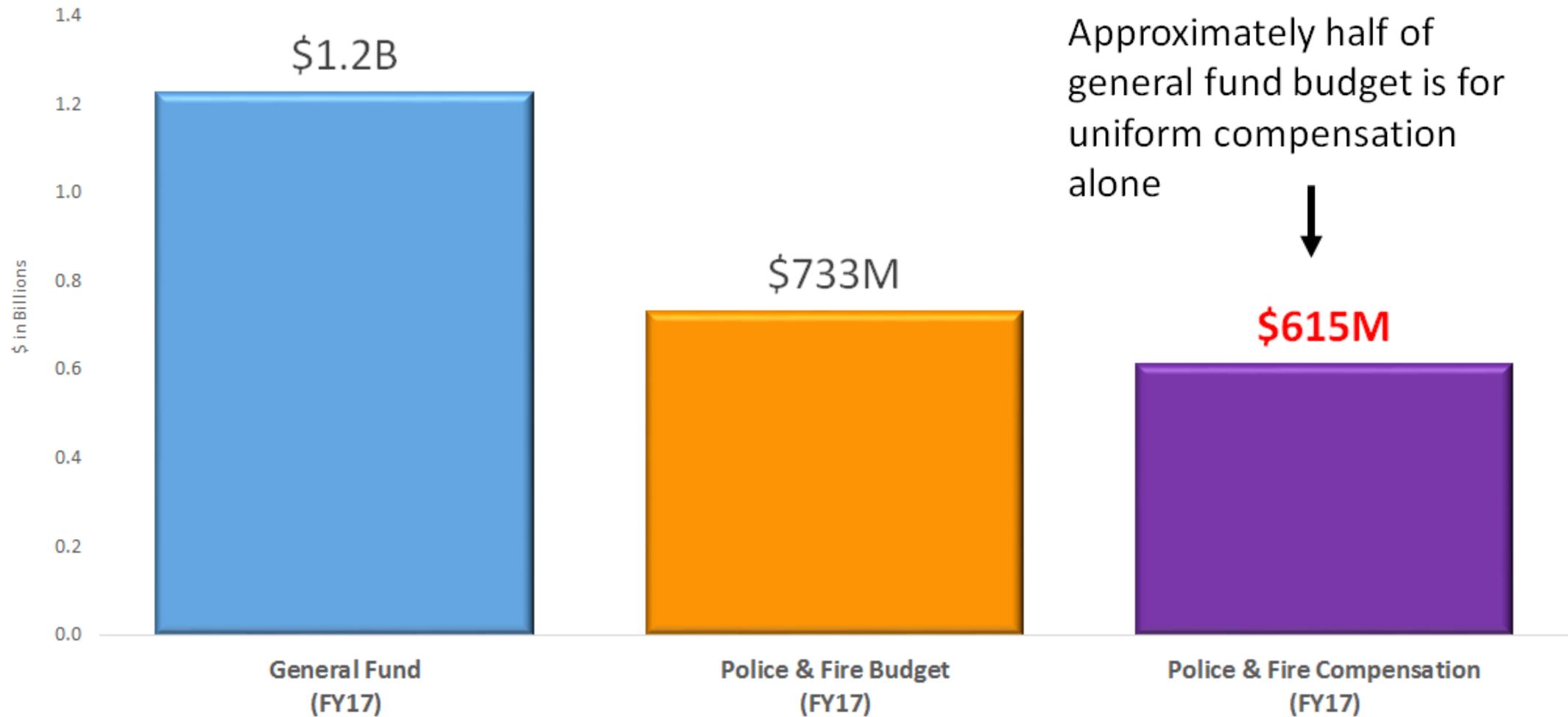
From some context:

Streets*:	\$102M
Parks & Rec:	\$95M
Library:	\$30M

Council is struggling with decisions on a needed bond program

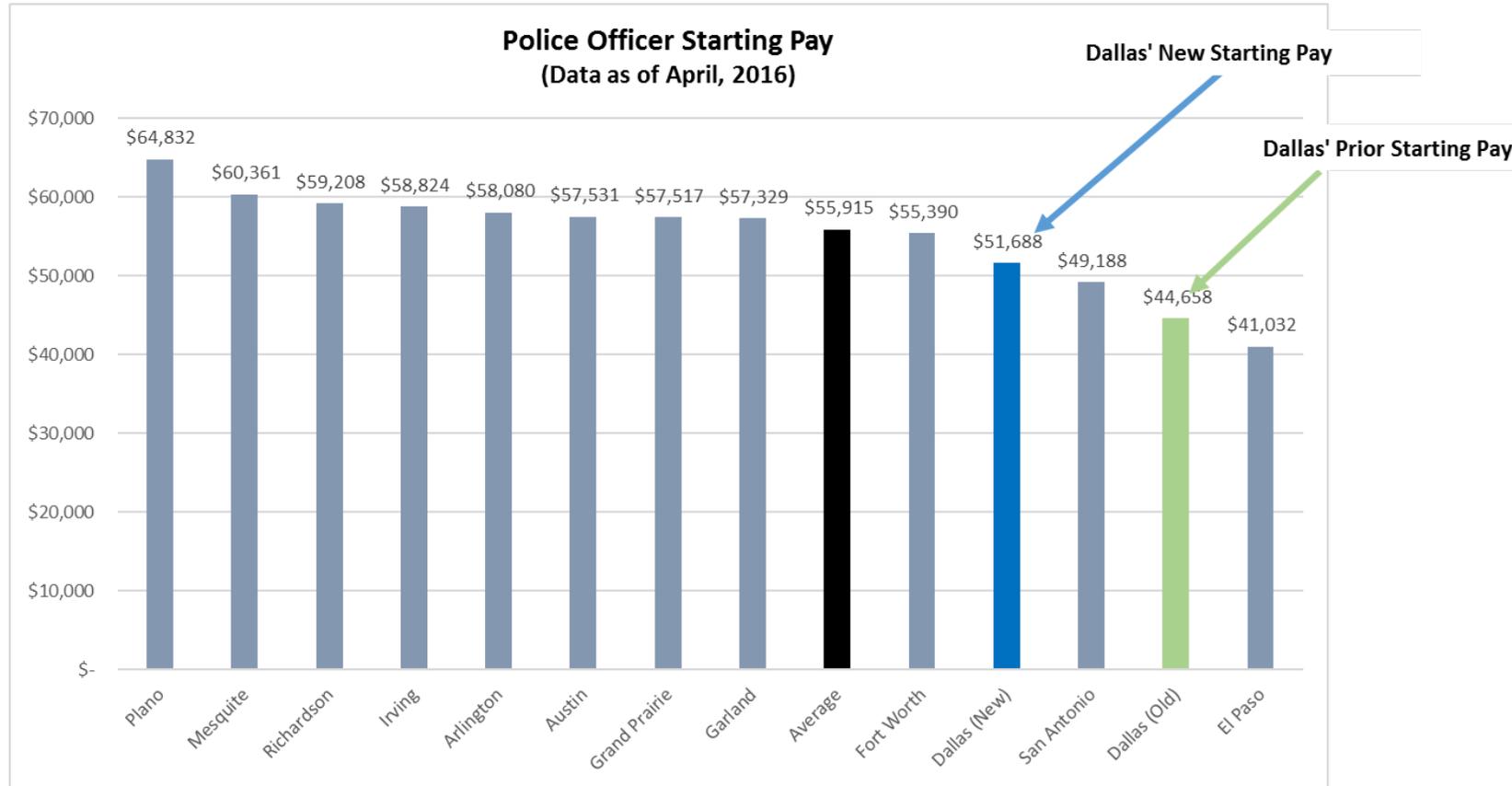
- Needs inventory is \$10.4B
- Of that, the needs inventory for street repair is **\$5.3B**

Public Safety Consumes Majority of General Fund Budget



Police and Fire Pay Meet and Confer Agreement

Police Officer Starting Pay

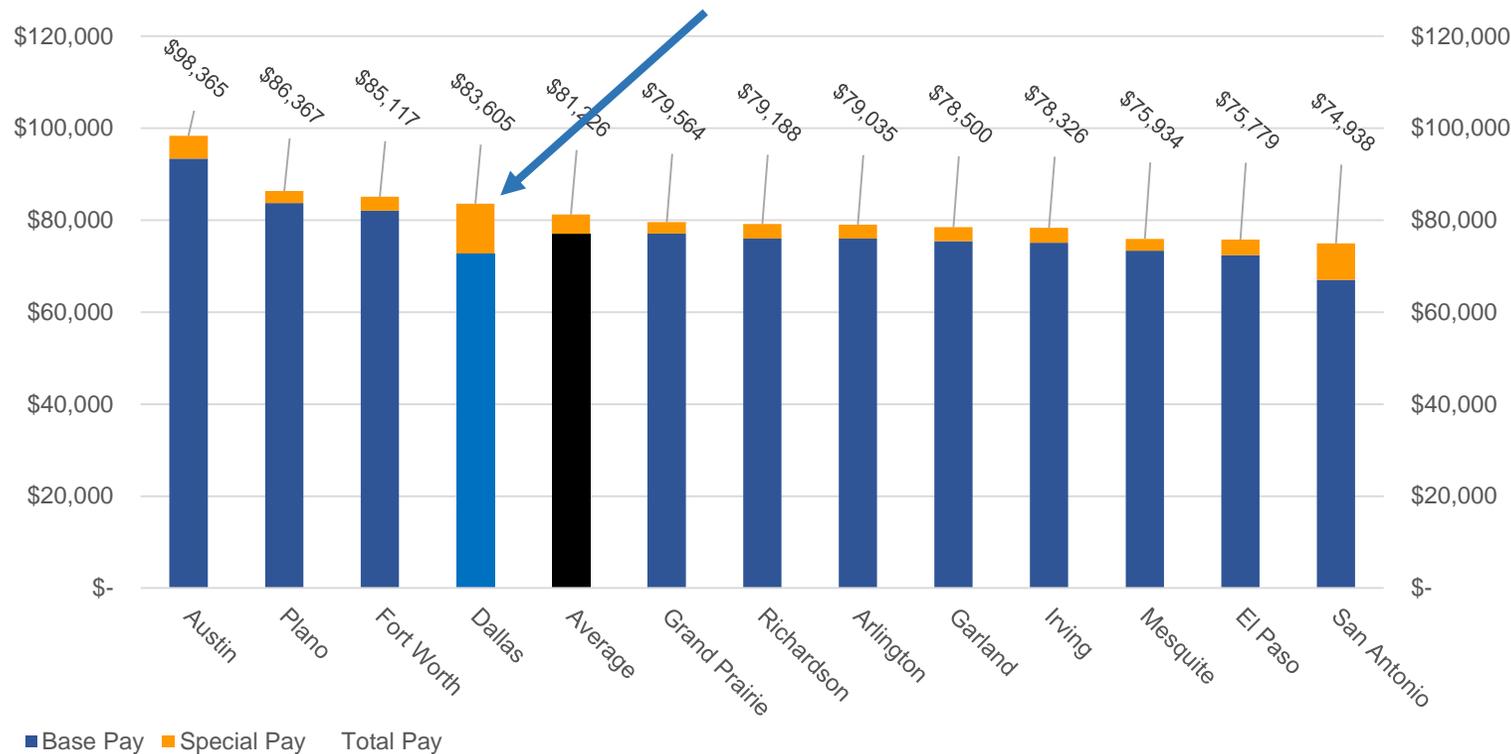


Dallas' starting pay for police officers has been significantly below market

With new Meet & Confer agreement, starting pay will be more competitive

Police Officer starting pay (with bachelor's degree) will be **\$55,288**

Top Pay for Police Officer Rank



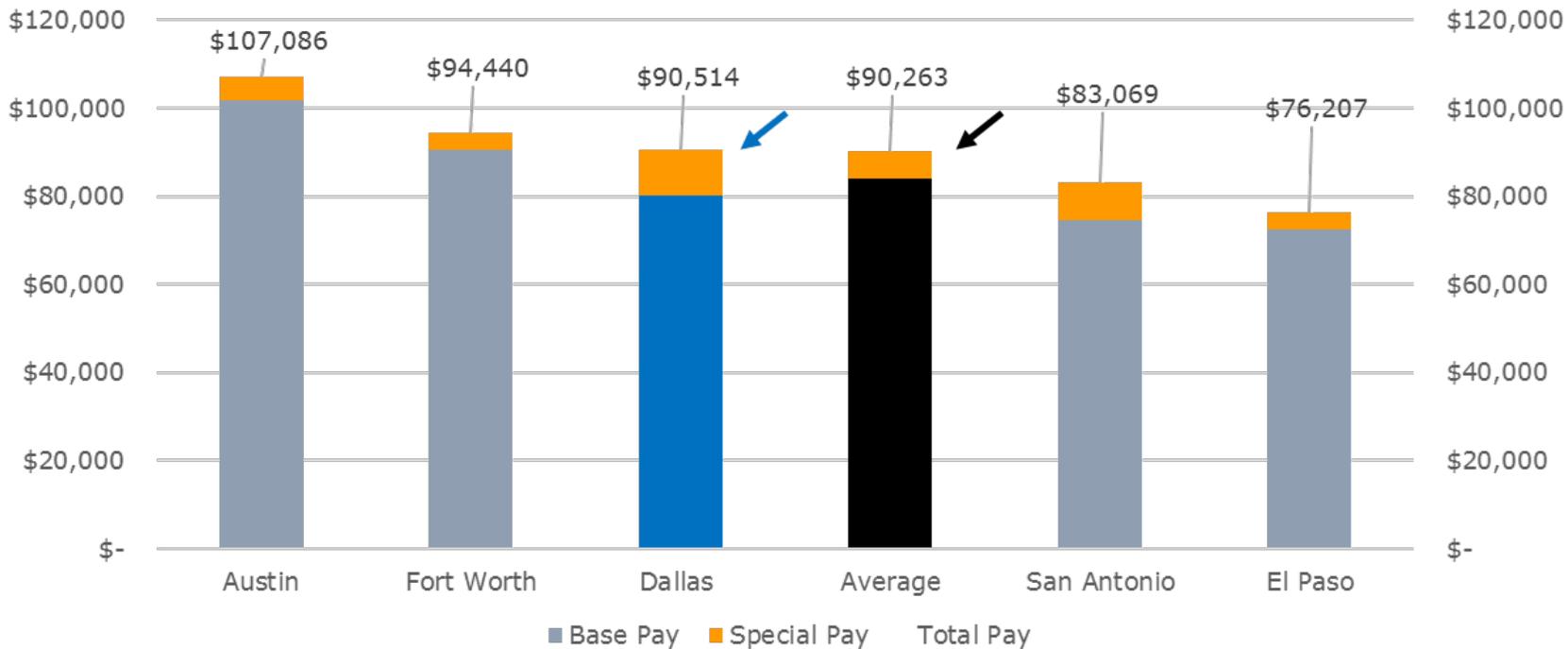
Dallas provides significant compensation in the form of “Special Pay” including:

- Education pay \$3,600/year
- Certification pay \$7,200/year

With Special Pay, Dallas’ pay for senior officers is very competitive with the market

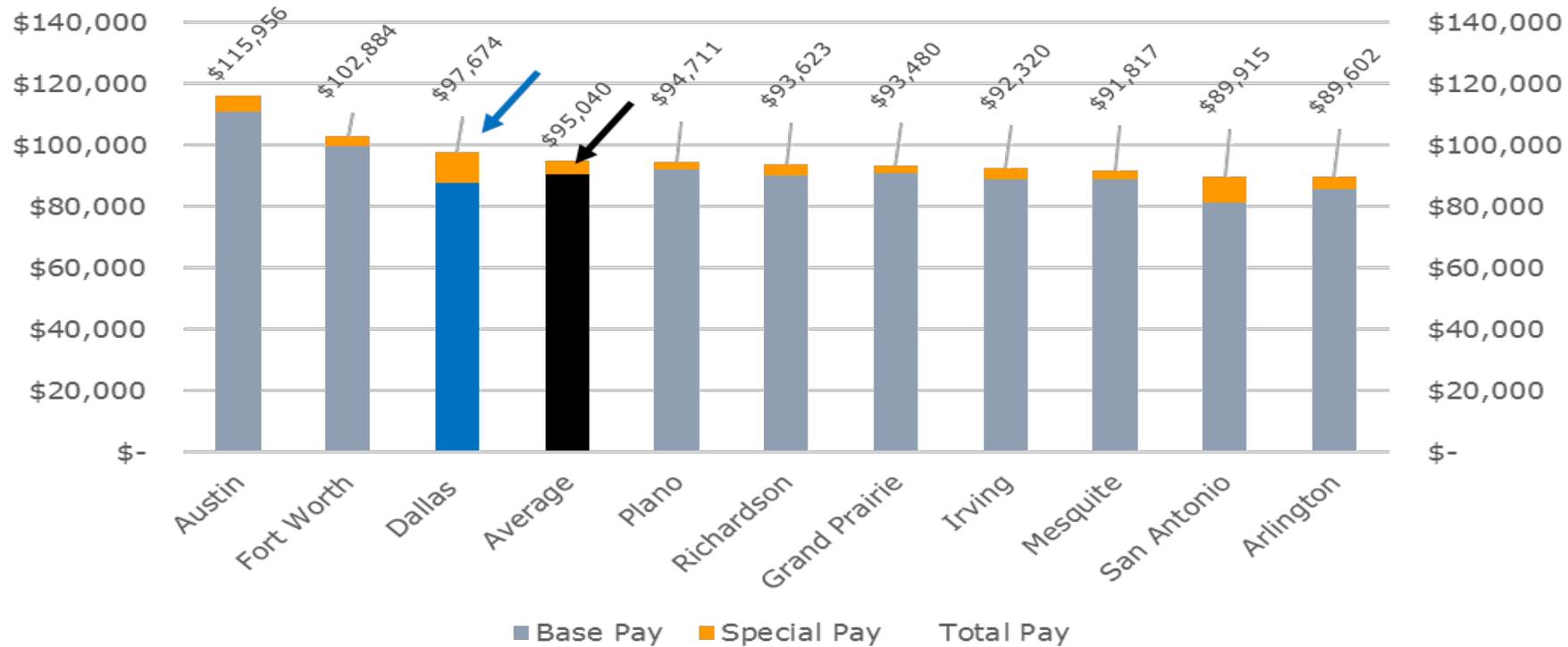
- 16% - Percent of Police Officers who are currently topped out
- 21% - Percent of Police Officers who will be topped out after a double step
- 28% - Percent of Police Officers who will top out with 2-1-2

Top Pay for Senior Corporal Rank



- 31% - Percent of Senior Corporals who are currently topped out
- 40% - Percent of Police Officers who will be topped out after a double step
- 61% - Percent of Police Officers who will top out by the end of the three year Meet & Confer Agreement
- NOTE: Dallas has more Senior Corporals (1400) than it does Police Officers (1100)

Top Pay for Sergeant Rank



- 47% - Percent of Sergeants who are currently topped out
- 62% - Percent of Sergeants who will be topped out after a double step
- 87% - Percent of Sergeants who will top out by the end of the three year Meet & Confer Agreement

Top Pay for Lieutenant Rank



- 58% - Percent of Lieutenants who are currently topped out
- 72% - Percent of Lieutenants who will be topped out after a double step
- 97% - Percent of Lieutenants who will top out by the end of the three year Meet & Confer Agreement

Police Hiring and Staffing Levels

FY2011-12 through FY2016-17

Fiscal Year	Sworn Strength (Budgeted)	Sworn Strength (Actual - 10/1)	Sworn Hired	Sworn Attrition	Percentage Attrition	Hired Above Attrition	Sworn Strength (Actual - 9/30)
2011-12	3,524	3,511	196	-188	5.4%	8	3,519
2012-13	3,524	3,519	192	-215	6.1%	-23	3,496
2013-14	3,546	3,496	231	-204	5.8%	27	3,523
2014-15	3,511	3,523	209	-242	6.9%	-33	3,490
2015-16	3,520	3,490	142	-294	8.4%	-152	3,338
2016-17	3,613	3,338	TBD	TBD	TBD	TBD	TBD

Fire Hiring and Staffing Levels

FY2011-12 through FY2016-17

Fiscal Year	Sworn Strength (Budgeted)	Sworn Strength (Actual - 10/1)	Sworn Hired	Sworn Attrition	Percentage Attrition	Hired Above Attrition	Sworn Strength (Actual - 9/30)
2011-12	1,924	1,738	212	-77	4.4%	135	1,873
2012-13	1,907	1,873	90	-93	5.0%	-3	1,870
2013-14	1,938	1,876	82	-88	4.7%	-6	1,870
2014-15	1,969	1,870	119	-86	4.6%	33	1,903
2015-16	1,975	1,903	90	-123	6.5%	-33	1,870
2016-17	1,937	1,870	TBD	TBD	TBD	TBD	TBD

Meet and Confer Agreement Renegotiated

Needed to address market competition, but it will cost:

- **\$16.3M** in FY16-17
- **\$47.1M** in FY18
- **\$73.7M** in FY 19 (3-year agreement)

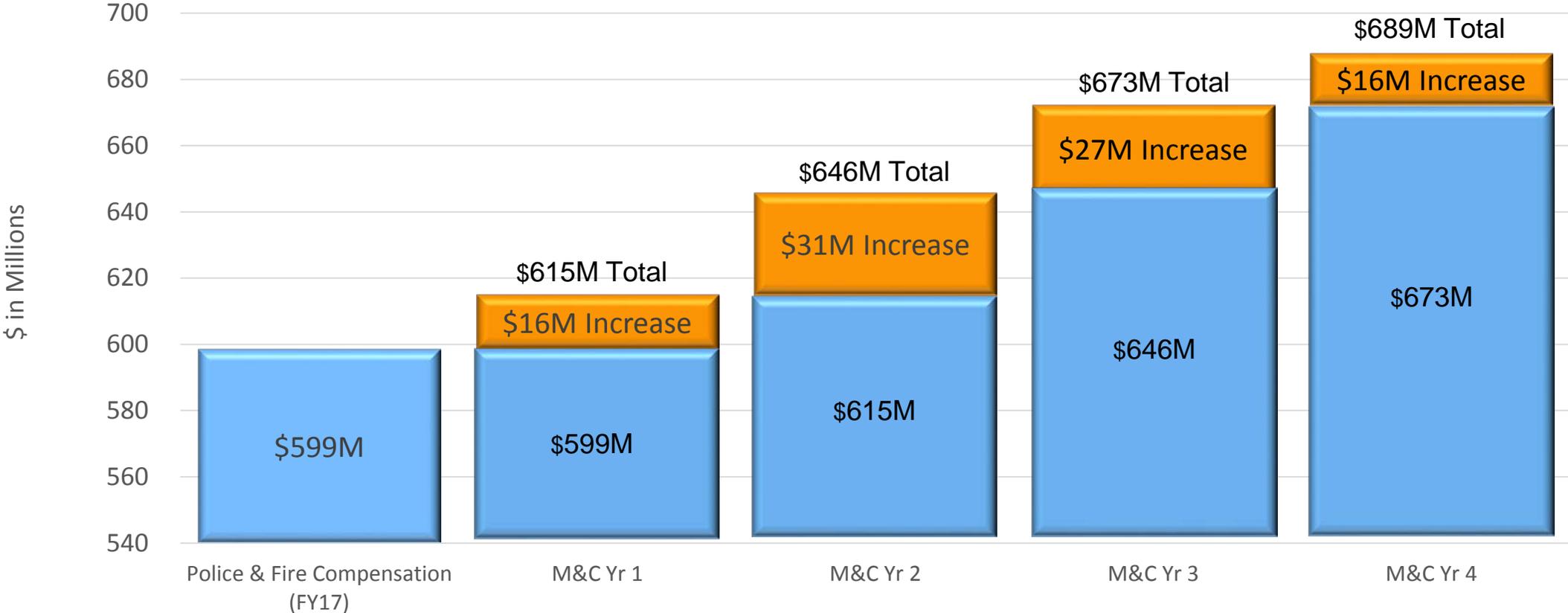
Once fully implemented in year four, will be an **\$89M/year increase** to FY16 Police and Fire compensation budget of **\$599M**

- Does not include funding for any additional officers

For the first time, Meet and Confer agreement recognizes:

- Ordinance for the duration of the agreement overrides the 1979 Pay Referendum ordinance, which has been our position
- the potential harm of the Pension Fund crisis
- Council to consider agreement on Dec. 14th

Meet and Confer Agreement: Phased increase to \$89M



Pay Referendum Litigation

Pay Referendum Litigation 101: It's a lawsuit

The Dispute:

- Whether a 1979 City Referendum requires the City to **forever maintain the pay differential (same % pay increase for all members every time there's a raise)**
- Allegation is that it would apply to all uniformed ranks including Chief's forever
- Cost would be an additional **\$330M/year**
 - Every new police or fire chief would impact every member

The Litigation:

- Involves six cases with two class actions that includes all police and fire sworn employees since 1990
- The legal fight has continued since 1994

Pay Referendum Litigation 101: It's a lawsuit

The City's position:

- We've argued that the referendum was a one-time fix to address Police and Fire salaries, which we did
- Dramatic turn of events happened in 2005:
 - The State passed legislation which drew into question the City's sovereign immunity
- This new legislation:
 - Prolonged litigation with additional immunity issues to be determined
 - Greatly increased the City's exposure
- To fix this, the Legislature needs to reverse their 2005 legislative changes to reaffirm the City's sovereign immunity

Pay Referendum Litigation 101: It's a lawsuit

Why talk about Pay Referendum?

Possible exposure is **\$4B** for back pay and at least **\$330M/year** ongoing

If City loses these cases, first casualty is Pension Fund

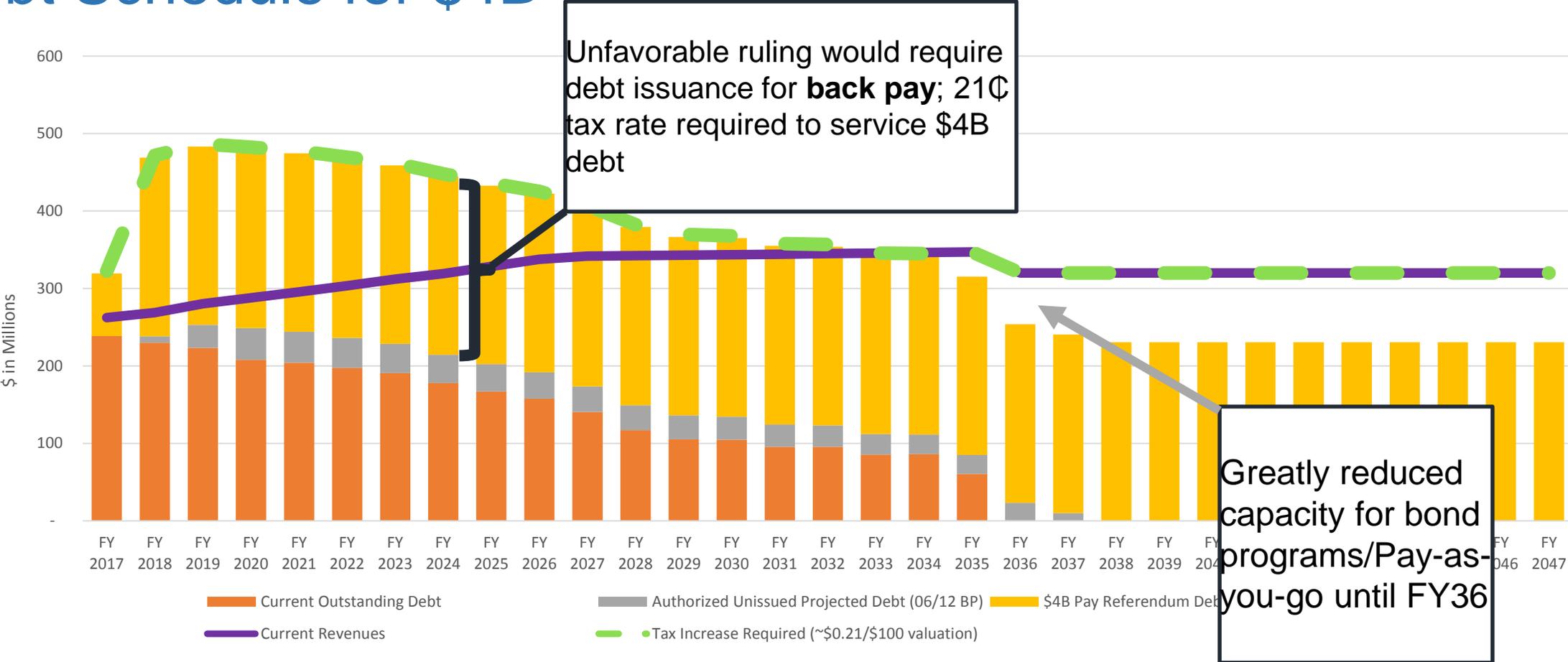
- Awardees receiving back pay would expect an immediate increase in their constitutionally protected benefit

Fiscal impacts to City could be catastrophic:

- Destroys bonding capacity to address other City needs and aspirations
- General Fund budget would be relegated to Police and Fire only
- **While not imminent,** judgments could push City into bankruptcy

Impact of Unfavorable Ruling on Police & Fire Pay:

Debt Schedule for \$4B



The Dallas Police and Fire Pension System (DPFS)

The DPFP System: Major Components

Assets (**\$2B**) & Liabilities (**\$6B**)

Constitutionally Protected Benefit*

Features*:

- COLA (annual)
 - Addresses cost of living increase
- DROP (monthly)
 - Serves as a savings account while working for City
 - COLA and interest are applied
- Supplement (monthly)
 - Intended to address cost of health care

The DPFP System: **Background**

1916: City first created a retirement plan for police and fire, by ordinance.

1933: State of Texas enacted a statute which:

- Still governs the plan today
- Delegates authority to members
 - This allows them to amend the plan in any way, including their own benefits and several other features

The DPFP System: Board of Trustees

Statute provides for 7 members:

- 2 police officers
 - 2 firefighters
 - 3 City Council Members
- Trustees (CMTs)

1996: Members changed the board to 10, with 4 CMTs

2001: Members changed board to 12, with 4 CMTs

November 13, 2016:

- Five members sued the Pension
- Alleged that members did not have authority to add more than 7 trustees, per statute

The DPFP System: Council Member Trustees (CMTs)

Experts at the Pension told CMTs that everything was fine

When CMTs pressed for more complete answers, the Pension Fund attacked them:

- Pension refused to release documents to Mayor Mike Rawlings and former CMT Tennell Atkins; CMT Atkins had to retain personal counsel to obtain documents which revealed Pension was, in fact, overvaluing its assets
- Pension attorneys hired a social media consultant to attack the Mayor and opponents of Museum Tower and sway public opinion
- Pension leaders authorized a forensic investigation on CMT Scott Griggs after he publicly criticized the Pension

The DFPF System: Key Pension Amendments

Approved by Pension Board, Pension Members and State

1989:

- **4%** simple cost of living adjustment (COLA) every year
- Supplement to help address medical costs

1992-1993:

- Deferred Retirement Option Plan (**DROP**)

The DPFP System: Key Pension Amendments

Approved by Board and Members **only**

1998:

- Started a guaranteed return of 8% - 10% interest on DROP

1999:

- Expanded DROP to include retirees

DPFP System: Major components

Assets (**\$2B**) & Liabilities (**\$6B**)

- Constitutionally Protected Benefit*
- Features*:
 - COLA (annual)
 - Addresses cost of living increase
 - 4% since 1989
 - DROP (monthly)
 - Serves as a savings account while working for City
 - COLA and interest are applied
 - Supplement (monthly)
 - Intended to address cost of health care
 - 3% since 1989

Assets: Contributions and Investments

Contributions: Pension Background

- 1984 voter referendum, still in effect, sets maximum contributions of **28.5%** for City and **9%** for members
- Change beyond maximum amounts requires legislative change or voter approval

City

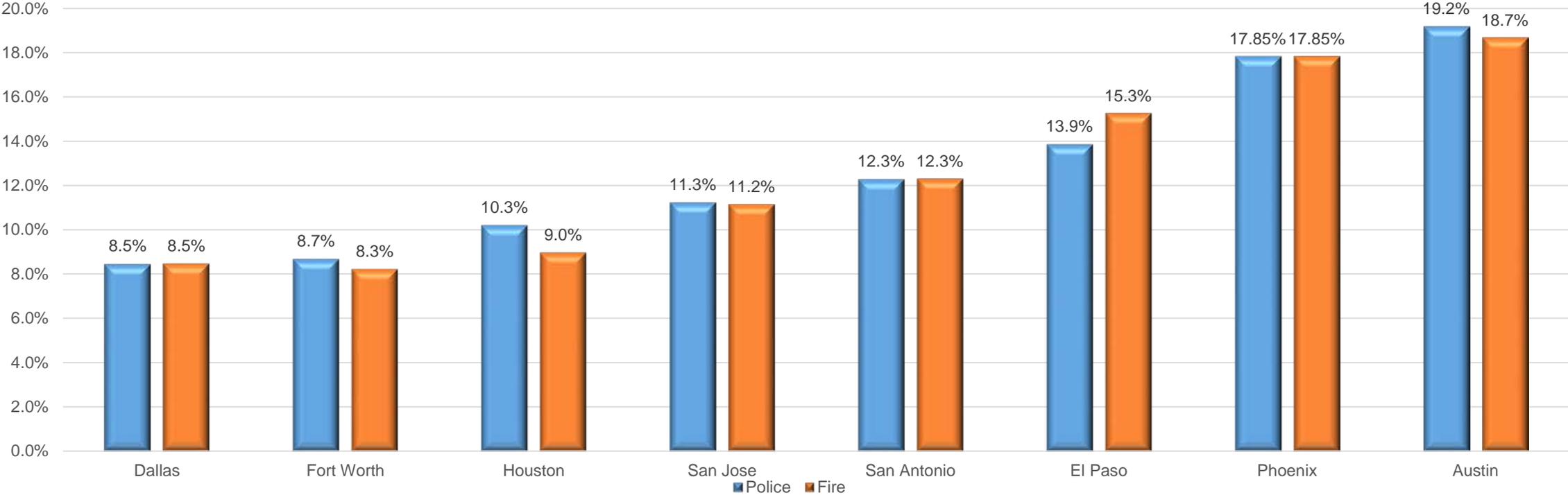
- Current contribution: **27.5%** of total *compensation* (base salary + overtime, special pay, etc.)
- Represents **83%** of total contributions
- This year's budget includes funding for City to increase to **28.5% (\$4.3M)**

Members

- Current contribution: **8.5%** of *computation* pay (base salary), employees in DROP only contribute **4%**
- Represents **17%** of total contributions
- Members' contribution rate lags index cities

Contributions: Uniform Employees

Employee contribution rate required by DPF is lower than the peer group of cities.



*The contributions shown above for Phoenix Fire & Police and Austin Police include 6.20% Social Security contributions.

**Unfortunately, the Fund had a
flawed investment strategy**

Investment History

The Dallas Morning News

Dallas, Texas, February 2013

Dallas police-fire pension fund has \$400 million bet on luxury real estate

The Dallas Morning News

Dallas, Texas, June 2014

Dallas police and fire pension paid \$27 million for Arizona land it's about to sell for \$7.5 million

The Dallas Morning News

Dallas, Texas, January 2014

Feud over Dallas police-fire pension audit threatens to boil over

Forbes

Dallas, Texas, September 2016

Alternative investments gone wrong: The Story of the Dallas Police Pension Plan

The Dallas Morning News

Dallas, Texas, Sept 2014

Real estate losses near \$200M for Dallas police, fire pension fund

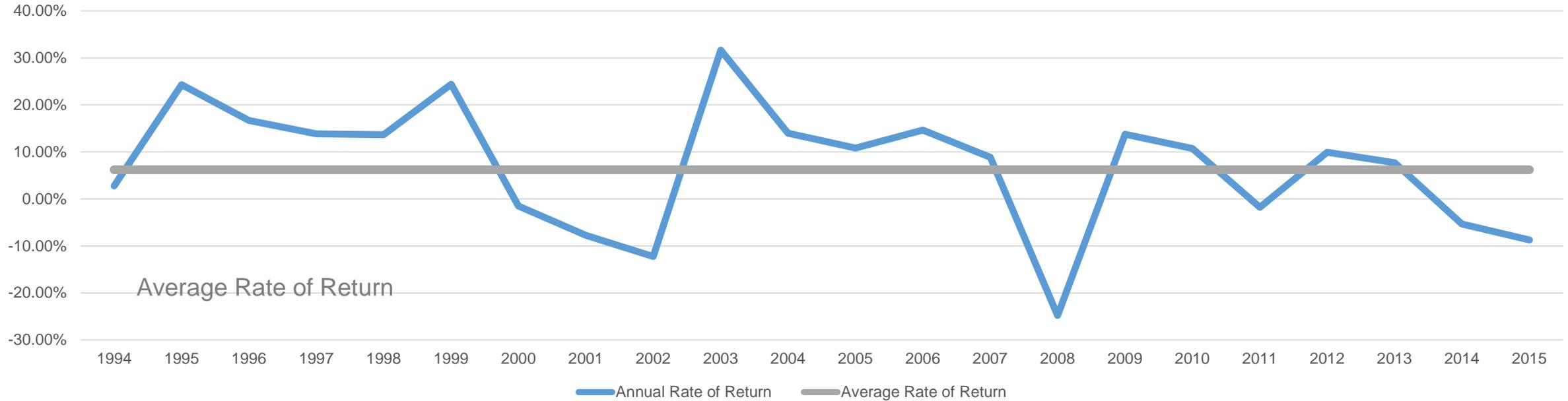
The Dallas Morning News

Dallas, Texas, January 2015

Review of Dallas police-fire pension confirms overvaluation of real estate



Investment History



Pension earnings averaging only 6.23%

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Annual Rate of Return	2.78%	24.33%	16.69%	13.84%	13.68%	24.39%	(1.52%)	(7.76%)	(12.26%)	31.65%	13.96%	10.81%	14.64%	8.85%	(24.80%)	13.78%	10.72%	(1.78%)	9.92%	7.70%	(5.35%)	(8.47%)

Pension Investment Value Changes



Current Investments (as of 10/31)

Asset Class	Target	Actual
Equity	30.00%	27.65%
Fixed Income	33.00%	15.57%
Real Assets (incl Real Estate)	25.00% (12.00%)	42.19% (24.00%)
Other	10.00%	7.60%

Equity Performance YTD through 10/31: **3.72%**

Fixed Income Performance YTD through 10/31: **13.79%**

The Fund is **only investing in liquid assets currently** and is working to sell assets to increase liquidity.

Unfortunately, the Fund had a flawed investment strategy

More unfortunately, they approved for themselves overly generous features, while lowering benefits for newer hires

Liabilities

The City's objective:
**Maintain a defined benefit plan for
Police and Fire sworn staff**

Constitutionally Protected Benefit



Constitutionally Protected Benefit (CPB)

How it's worked:

- It's the pension payment from the formula for earned service
- For most* that formula has been the retirement monthly payment based on **years of service** times highest 3 years of pay times 3%

Problem:

- Because of poor investment returns and overly generous features, the CPB has been lowered for newer recruits through the creation of additional tiers

City Plan Objective:

- Protect the CPB

Features Liabilities: **COLA, DROP, Supplement**

Plan Feature: Cost of Living Adjustment (COLA)

How it's worked:

- Since 1989, set at a guaranteed COLA of 4% simple

Problem:

- The benefit for retirees between 1991 and 2010 is now about 20% higher than it would be using the Consumer Price Index (CPI)
- 31% of \$6B plan liability is attributable to COLA
- Among 8 peer group cities, half offer COLA tied to an inflation index; others give none or Ad Hoc

City Plan

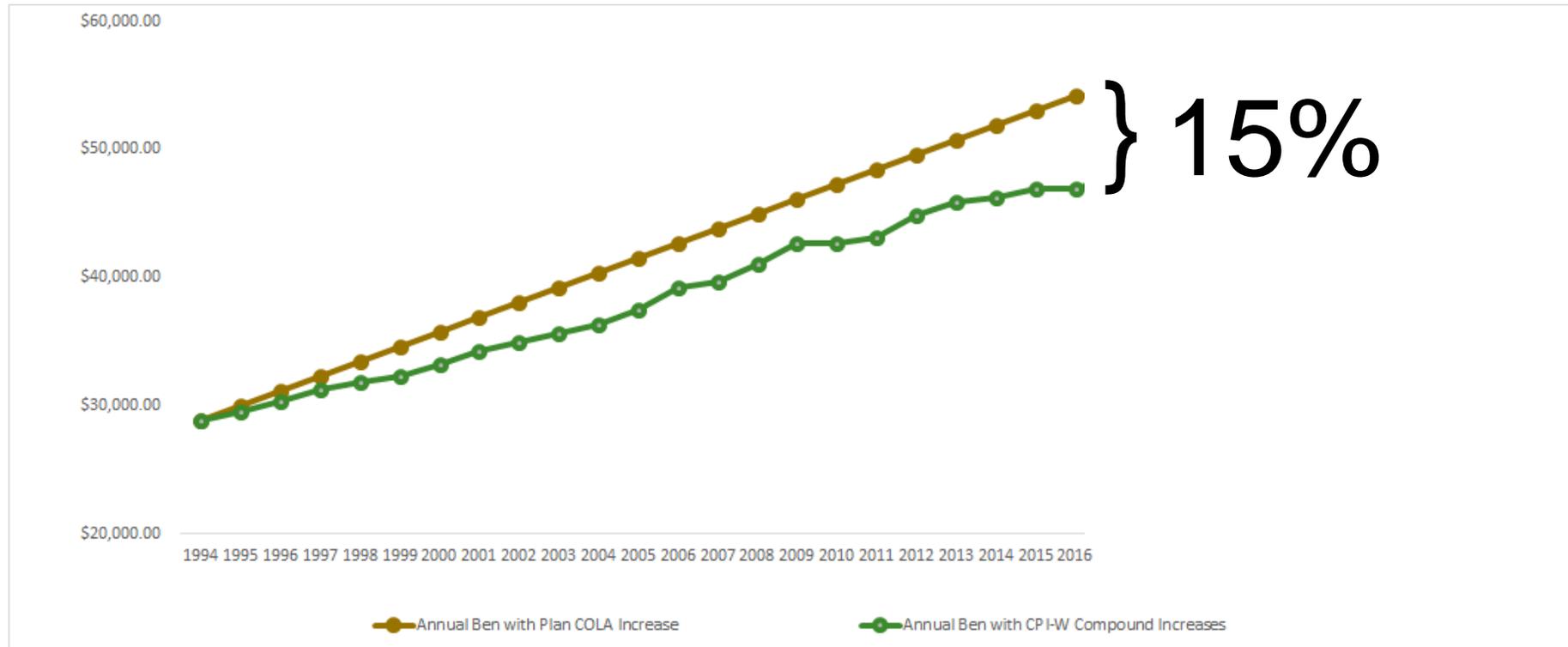
Objective:

- Get to a fair increase in the CPB – one that keeps up with inflation

Plan Feature: COLA

The example below illustrates a retiree who retired in Jan. 1994 with a CPB of \$2,400/month.

The COLA provided since 1994 creates a payment in 2016 that is 15% higher than it would have been using CPI.



Plan Feature: Deferred Retirement Option Program (DROP)

How it's worked:

- Enables an employee to receive both regular paychecks and CPB
- CPB and Supplement deposited into account
- Applies 4% COLA each year to DROP deposits
- Adds interest on DROP account balances (CPB, COLA and Supplement) and it compounds daily – as long as participants have an account balance

Problem:

- Again, COLA credited was about 20% higher than inflation
- DROP interest varied from 8-10% from 1994-2014, currently 6%
- 14% of the plan liability (\$6B) is attributable to DROP interest

City Plan Objective:

- Protect the CPB deposited into DROP

Plan Feature: **Deferred Retirement Option Program (DROP)**

Among peer group cities, Dallas has most generous DROP

Fort Worth, San Antonio and El Paso offer no interest on DROP. Austin and Houston do not offer interest on DROP for Police.

Dallas DROP accounts were credited between 8-10%, with an average compound annual growth rate of 8.9%

Plan Feature: Deferred Retirement Option Program (DROP)

\$4.3M

Highest DROP
account value

\$597,000

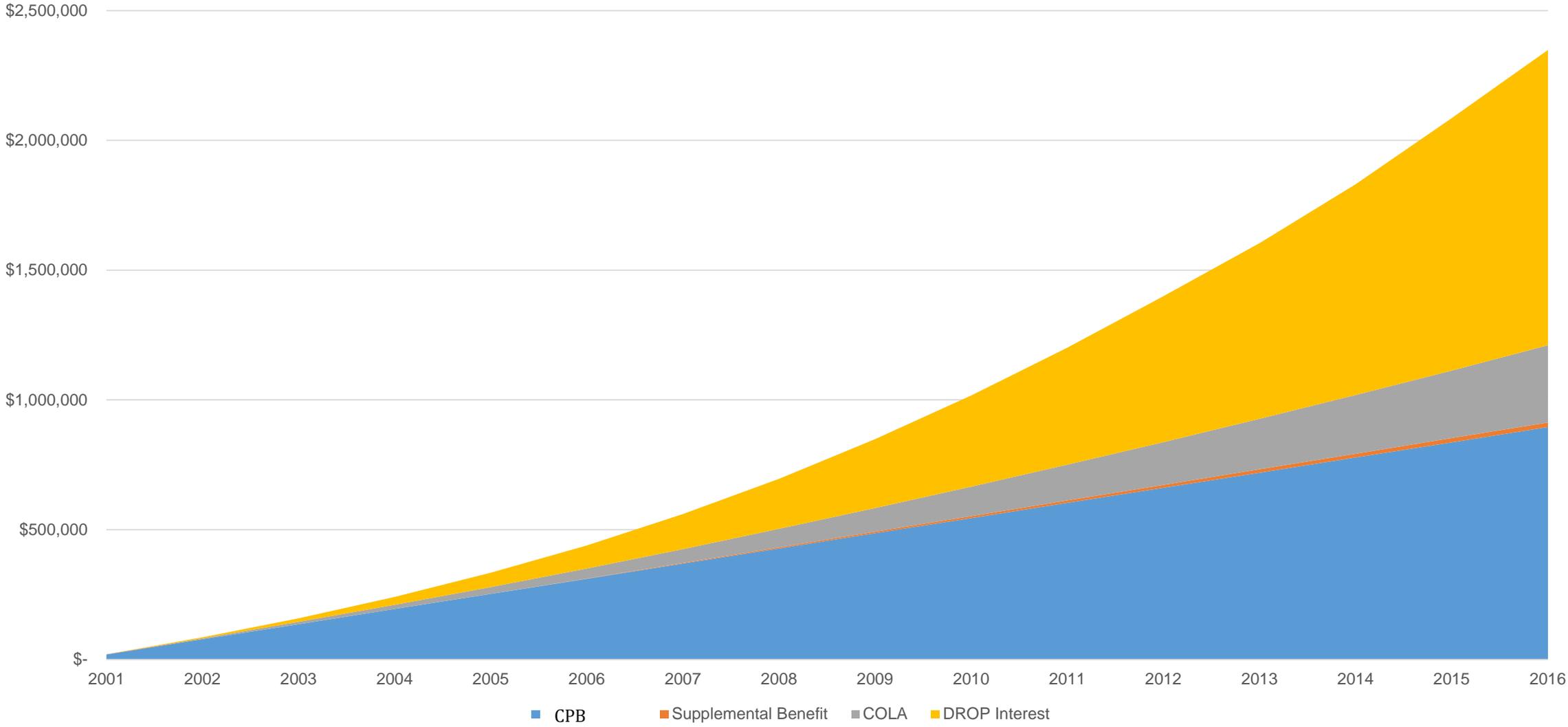
Average DROP
account value

517

Number of accounts
over \$1M*

There are 3,067 DROP accounts.

DROP Balances Growing at Exponential Rate



Making the Problem Worse:

2016 Lump sum withdrawals

Recent withdrawals (almost \$500M since mid-August) have greatly increased the vulnerability of the fund

Examples of the “Run on the Bank,” single withdrawals:

- Sept. 23 \$1,762,961
- Oct. 7 \$2,004,086
- Nov. 10 \$1,465,126

Making the Problem Worse:

Recent lump sum DROP withdrawals

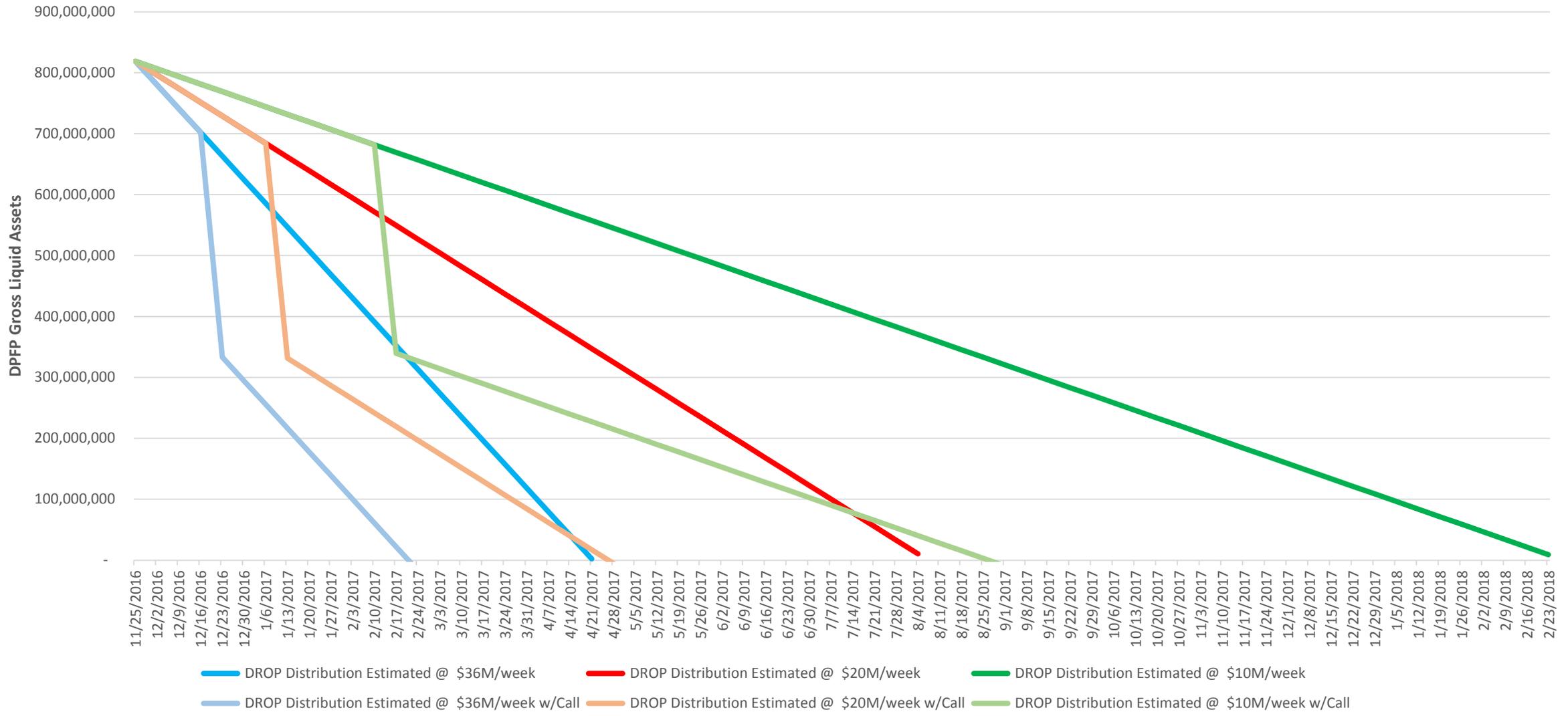
Total paid in 2015	\$80,572,000
Total paid in 2016, YTD (47 wks)	\$588,746,707
Total paid Jan. 1 – Aug. 12, 2016 (32 wks)	\$94,772,975
Total paid Aug. 13 – Nov. 24, 2016 (15 wks)	\$493,973,732

Making the Problem Worse:

Recent lump sum DROP withdrawals

Average weekly paid in 2015	\$1,549,462
Average weekly paid in 2016 YTD	\$12,526,526
Average weekly paid thru Aug. 12, 2016 (32 wks)	\$2,961,655
Average weekly paid Aug. 13 – Nov. 24, 2016 (15 wks)	\$32,931,582

Gross Liquid Assets as of 11/25/16 - Under Varying DROP Scenarios



Impact of Immediate DROP Withdrawals on Solvency

Segal, the Pension's own actuary, calculated the funded ratio at 45.1% on January 1, 2016.

It projected the Pension would be completely insolvent – **meaning out of money** – by 2030.

We knew if DROP participants altered their behavior and withdrew their money from the DROP in an immediate lump-sum, the system would be insolvent as early as calendar year [2027](#).

Impact of Immediate DROP Withdrawals on Solvency

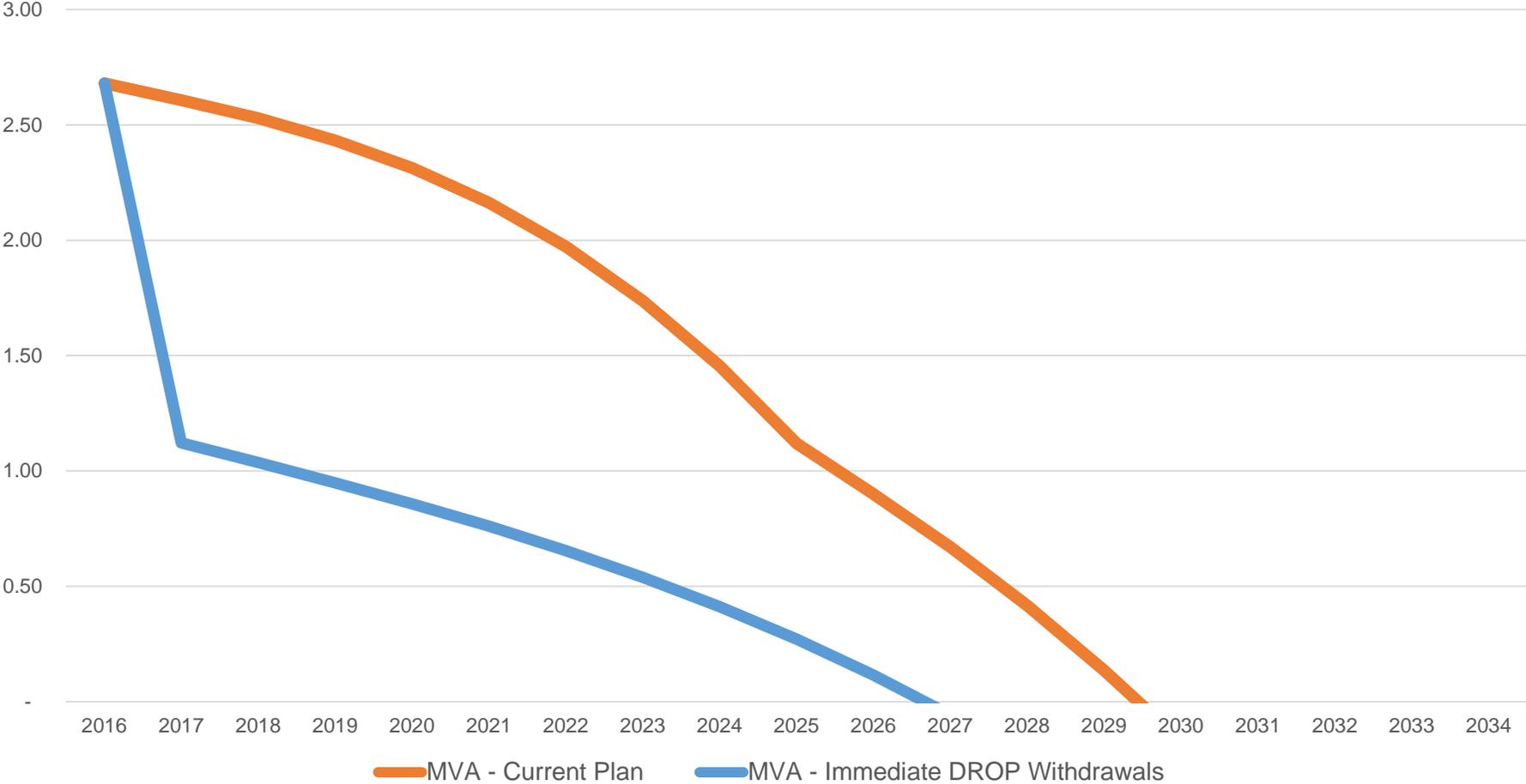
Unfortunately, the “run on the bank” happened

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

Under the current plan, contributions only cover about 60% of the money the Pension System pays out each month to pensioners and beneficiaries

Impact of Immediate DROP Withdrawals on Solvency

- The graph below illustrates the market value of assets (MVA) projected to December 31st of each year.



The projections included in this document are based significantly on the actuarial assumptions used to develop those projections. The assumptions used are the same as those used in the January 1, 2016 actuarial valuation prepared by Segal Consulting, the DPFP retained actuary, except as noted throughout. There will be differences between forward-looking information and actual results because actual experience will almost certainly be different than assumed, and those differences may be material.

Plan Feature: Supplement

How it works:

Pension pays a supplement to help address medical costs – greater of \$75 or 3% of the original CPB payable to the member

Problem:

1% of plan liability is attributable to the supplement

City Plan Objective:

Protect the CPB, of which the supplement is not a part

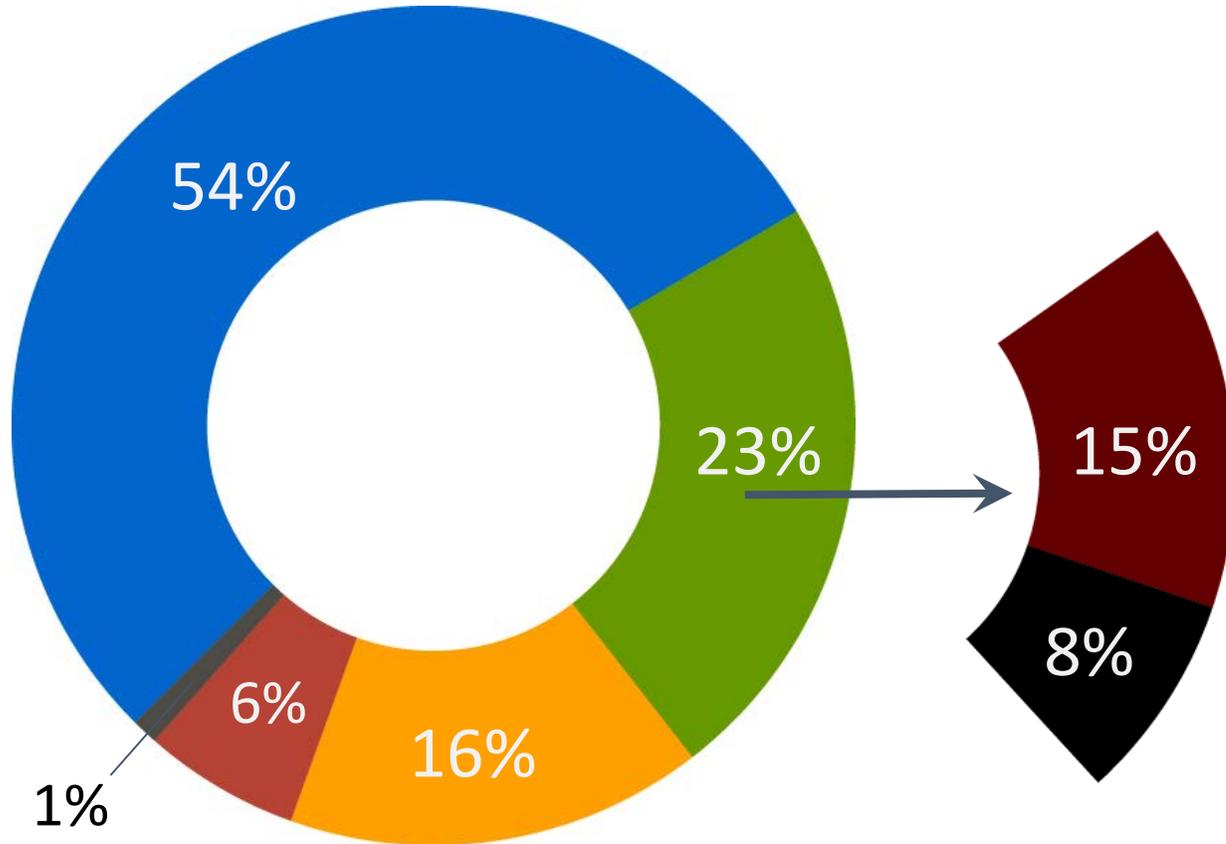
Features Threaten the Fund's Ability to Pay CPB

Together, COLA and DROP interest account for **almost half** of the Fund's total liabilities (**\$6B**)

Much of that liability accrued between 1994 and now

- **23%** of the total liability exposure (\$6B)

Allocation of \$6B Liability



- Benefit
- Past* COLA & Drop Interest
- Future COLA
- Future DROP Interest
- Medical Supplement
- Past COLA
- Past DROP Interest

**Past: 1994 - Present*

Unfortunately, the Fund had a flawed investment strategy

More unfortunately, they approved for themselves overly generous features, while lowering benefits for newer hires

Now the Fund wants Dallas taxpayers to bail out the pension

DPFP Pension System Proposed Plan

What is the Pension Fund doing?

Pension prepared a plan to be presented to its members

- Addressed less than half of its liabilities
- Members sued the Pension to stop the election on the plan amendments

Pension has taken no action to cease DROP withdrawals (which it has the power to do)

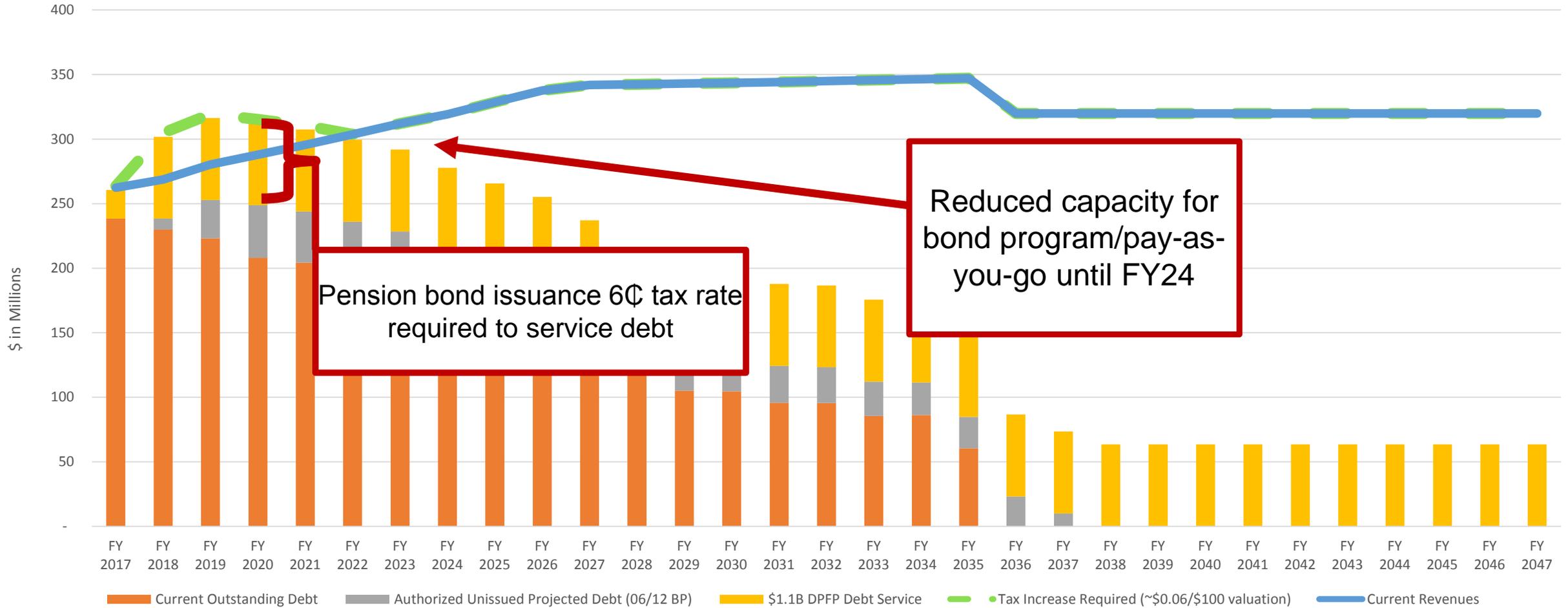
- Pension has sent an invoice for \$36M to the City to pay for the Pension's administrative expenses
- Pension has asked the City to make a one-time \$1.1 billion payment in 2018

Pension's Ask of City Taxpayers

Despite the fact that Dallas taxpayers have made every payment as provided in State law (unlike Houston) and set aside funds in the current fiscal year to go the maximum provided in the statute, their ask has been for City taxpayers to cash-infuse the fund with \$1.1B to address any remaining fiscal need

\$1.1 B would cost approximately **\$65M** per year to service that debt

Request from DPFP: Debt schedule for \$1.1B would require 6¢ tax rate increase



Save the Pension The City of Dallas Proposed Plan Design

What Has the City Been Doing?

Held many discussions with the Pension's leadership regarding possible solutions and needed action

Provided for additional funding in budget anticipating an increase of the City's contribution to the maximum of **28.5%**

Investigated numerous legal strategies that would help provide a path to a fair resolution

Explored many options:



What Has the City Been Doing?

Obtained third party review of the Pension, its liabilities and possible fixes (Deloitte)

- Provided new projections based on most recent available data
- Analyzed effect of Fund's plan amendment proposal
- Analyzed possible solutions and helped to design fix

Developed website that details the City of Dallas Proposed DPFP Plan

The plan provides a secure, stable retirement for our public safety employees

Guiding Principles of “Save the Pension”

- Preserve the constitutionally protected benefit already earned
- Develop a Pension Plan that is market-competitive for current and future sworn staff – enable City to attract and retain officers
- Redesign the features to be fair:
 - Including COLA for all that addresses inflation
 - Preserving DROP deposits
 - Making prior DROP COLA and interest increases fair
- Seek to incent financial behaviors that will be positive for Members and the Fund
- Recognize that the City will have to increase its contribution
- Ensure effective plan governance that requires future plan/benefit changes to be made only after all parties have a say, including the employees and taxpayers

Save the Pension

Resolves \$3.5B in unfunded liabilities in 30 years

Funded Ratio **immediately** Improves



We're in this with you. Let's Save the Pension.

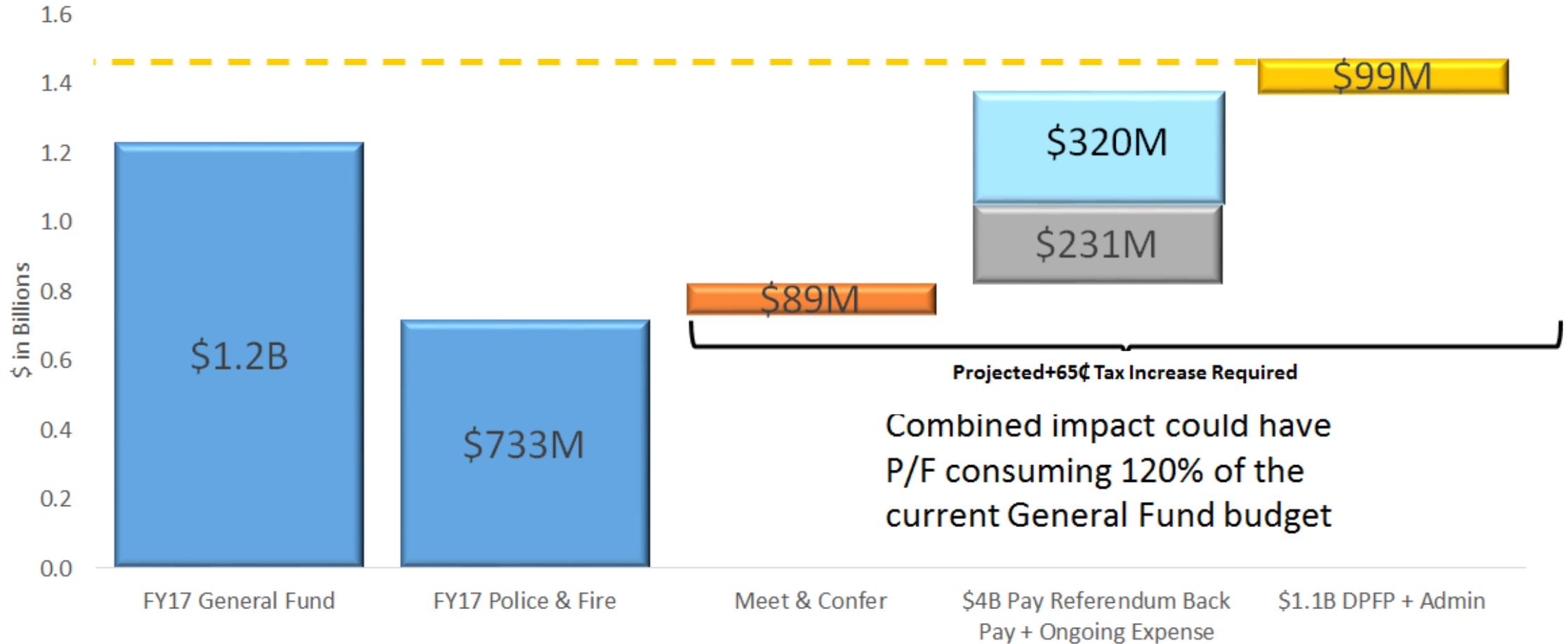
We will all need to contribute:

- Current employees
- Active DROP members
- Retirees
- Taxpayers

We will also need to make changes, [including cuts and enhancements](#), to provide a fair and attractive Pension for our officers and firefighters

To Save the Pension within the next 30 years, we will need to change the future multiplier for all employees, adjust features of the plan, and raise contribution rates

Recap: It's all connected



Save the Pension: A call to action

Uniform employees:

- Visit SaveThePension.com beginning Wednesday, Dec. 7 for more information
- Attend upcoming town hall meetings

Taxpayers:

- Visit our website beginning Dec. 7 to learn about the potential financial impact on the City
- Contact your state officials to fix the pension and reverse their 2005 actions
- [Continue to support and honor our Police and Fire employees](#)

State legislature:

Fix the flawed pension system:

- Redesign benefit and features
- Adjust future payouts
- Give City Council and taxpayers veto power, along with pension members
- Reverse the 2005 action on sovereign immunity

Questions

APPENDIX

Summary of City of Dallas Police & Fire Pension System Current Plan Provisions

	Benefit Feature	Tier 1 participants	Tier 2 participants	Tier 3 participants
1.	Employee Group	Current active employees hired on or before December 31, 2006	Current active employees hired on or after January 1, 2007 and on or before March 1, 2011	Current active employees hired after February 28, 2011
2.	Base benefits	3.0% of average 3 year pay times service (average 5 year pay prior to 2000)	Same as Tier 1 participants	2.0% of average 5 year pay for the first 20 years, 2.5% for the next 5 years and 3.0% thereafter
3.	Supplemental benefits	Greater of 3% or \$75 per month with supplement amount being applied to member's benefit at age 55	Same as Tier 1 participants	Same as Tier 1 participants
4.	COLA	4.0% simple COLA; begins October 1 after DROP entry or retirement; COLA included in DROP	Ad-hoc	None
5.	Normal Retirement Age	Age 50 with at least 5 years of service	Same as Tier 1 participants	Age 55 with at least 10 years of service

Summary of City of Dallas Police & Fire Pension System Current Plan Provisions

	Benefit Feature	Tier 1 participants	Tier 2 participants	Tier 3 participants
6.	Deferred Retirement Option Plan (DROP)	Members in active service who are retirement eligible may elect to enter the DROP. The DROP benefit provides a lump sum payment based on pay and service as of the DROP retirement date times the number of months elected in exchange for a reduced monthly benefit. The monthly benefit is based on pay and all service as of the DROP retirement date.	Same as Tier 1 participants	Same as Tier 1 participants
7.	Historical DROP interest	Inception of DROP (1993) through September 1998, actuarial valuation discount rate. October 1998 through September 2001, 10-year Treasury Bond rate, with floor of 8% and ceiling of 10%. October 1, 2001 through September 2015, 10-year investment return average. From inception of DROP through September 2011, interest rate could not increase or decrease more than 25 basis points per year.	Same as Tier 1 participants	Same as Tier 1 participants
8.	Current DROP interest	Currently earning 7% interest changing to 6% at October 2016, 5% at October 1, 2017 and 0% at October 1, 2018 (based on triggers in place) with interest continuing throughout DROP and DROP benefit payable as a lump sum. There is no time limit for participation in DROP.	Same as Tier 1 participants	Same as Tier 1 participants

Other Provisions for Public Safety Employees in Peer Group

City	Employee Group (Hired before X)	Normal Retirement (Age/Service, Rule of X)	Early Retirement (Age/Service, Rule of X)	Vesting Period	Social Security Participation
Dallas (Tier 1)	Hired before 1/1/2007	50/5	45/5 or 20 YOS	10 Years	No
Dallas (Tier 2)	Hired between 1/1/2007 and 2/28/2011	50/5	45/5 or 20 YOS	10 Years	No
Dallas (Tier 3)	Hired after 2/28/2011	55/10	N/A	10 Years	No
Austin	All employees	Police: Age 62; 55/20; 23 YOS Fire: Age 50 or 25 YOS	Police: N/A Fire: 45/10 or 20 YOS	10 Years	Police: Yes Fire: No
Houston	Police: Sworn in after 10/9/2004 Fire: All employees	Police: 55/10 Fire: 20 YOS	N/A	10 Years	No
Fort Worth	Police: Hired on or after 1/1/2013 Fire: Hired on or after 1/10/2015	Police: 65/5; 25 YOS; Rule of 80 Fire: 65/5 or Rule of 80	50/5	5 Years	No
San Antonio	All employees	20 YOS	N/A	20 Years	No
Phoenix	Hired on or after 1/1/2012	52.5/25	10 YOS	10 Years	Yes
San Jose	Police: Hired on or after 8/4/2013 Fire: Hired after 1/2/2015	60/10	50/10	10 Years	No
El Paso	Police: Hired on or after 6/30/2007 Fire: Hired on or after 6/30/2007	50/25	N/A	10 Years	No

Other Provisions for Public Safety Employees in Peer Group

City	Benefit Formula	Normal Form of Payment	Benefit Supplement
Dallas (Tier 1)	3.0% x Avg 3-yr Pay x Svc	50% Joint and Survivor	Greater of \$75 or 3% of the monthly benefit payable to the Member
Dallas (Tier 2)	3.0% x Avg 3-yr Pay x Svc	50% Joint and Survivor	Greater of \$75 or 3% of the monthly benefit payable to the Member
Dallas (Tier 3)	Sum of (i) 2% x Avg 5-yr Pay x Svc [max 20] (ii) 2.5% x Avg 5-yr Pay x (Svc > 20) [max 5] (iii) 3% x Avg 5-yr Pay x (Svc > 25)	50% Joint and Survivor	Greater of \$75 or 3% of the monthly benefit payable to the Member
Austin	Police: 3.2% x Avg 3-yr Pay x Svc Fire: 3.3% x Avg 3-yr Pay x Svc	Police: Single Life Annuity Fire: 75% Joint and Survivor	N/A
Houston	Police, sum of (i) 2.25% x Avg 3-yr Pay x Svc [max 20] (ii) 2.00% x Avg 3-yr Pay x (Svc > 20) Fire, sum of (i) 50% x Avg 3-yr Pay [First 20 YOS] (ii) 3% x Avg 3-yr Pay x (Svc > 20) [max 10] If less than 20 YOS: 1.7% x Avg 3-yr Pay x Svc	100% Joint and Survivor	Effective 1/1/2011, additional monthly benefit of \$150 (Insurance Subsidy)
Fort Worth	Normal Retirement: 2.5% x Avg 5-yr Pay x Svc Early Retirement: 2.25% x Avg 5-yr Pay x Svc	Single Life Annuity	N/A
San Antonio	Sum of (i) 2.25% x Avg 3-yr Pay x Svc [max 20] (ii) 5% x Avg 3-yr Pay x (Svc > 20) [max 7] (iii) 2% x Avg 3-yr Pay x (Svc > 27) [max 3] (iv) 0.5% x Avg 3-yr Pay x (Svc > 30)	100% Joint and Survivor	Medical Premiums: equivalent of 100% lower cost plans available to active employees; Dental Premium: 100% covered by the City
Phoenix	2.5% x Avg 5-yr Pay x Svc (max 80%) If less than 25 YOS, reduce by 4% per year	100% Joint and Survivor	\$150 / \$100 for Non-Medicare / Medicare Eligible Members \$170 - \$260 for Dependents (Insurance Subsidy)
San Jose	2% x Avg 3-yr Pay x Svc	Single Life Annuity	100% of lowest single or family medical and dental premium available to active City employees
El Paso	2.5% x Avg 3-yr Pay x Svc	75% Joint and Survivor	N/A



COLA Provisions for Public Safety Employees in Peer Group

Half of the cities in the peer group offer automatic COLA. COLAs for the cities of Houston, San Antonio, Phoenix and San Jose are tied to an inflation index. The cities that offer ad hoc COLAs have not offered a COLA in the past several years except for Forth Worth, where participants had been allowed to choose between a 2% guaranteed COLA program and an Ad-Hoc COLA program.

City	COLA	Formula*	Special Conditions
Dallas (Tier 1)	Yes	4% simple interest based on original benefit amount	None
Dallas (Tier 2)	Ad hoc only	None	None
Dallas (Tier 3)	None	None	None
Austin	Ad hoc only	None	None
Houston	Yes	Police: 80% of CPI-U, min 2.4%, max 8% Fire: 3%	None
Fort Worth	None	None	None
San Antonio	Yes	75% of CPI	None
Phoenix	Yes	Based on plan's funded status: Minimum 2%, maximum 4%	Prior year asset return > 10.5% funded ratio > 60%
San Jose	Yes	CPI, maximum 1.5%	None
El Paso	None	None	None

* Soem plans pay 13th and/or 14th checks.

DROP Provisions for Public Safety Employees in Peer Group

All but the city of San Jose in the peer group offer DROP to employees. The city of Phoenix's DROP has been closed to new members since 2011. Among the cities that offer DROP, DFPF offers comparatively the most generous DROP in terms of interest rate and DROP length.

City	Interest Rate	Drop Period	Comments
Dallas (Tier 1)	7%, grading down to 5% after 10/1/2017	Unlimited	Eligible to participate at age 50
Dallas (Tier 2)	7%, grading down to 5% after 10/1/2017	Unlimited	Eligible to participate at age 50
Dallas (Tier 3)	7%, grading down to 5% after 10/1/2017	Unlimited	Eligible to participate at age 55
Austin	Police: 0% Fire: 5%, compounded	Police: Capped at 60 months Fire: Capped at 7 years	Police: Eligible to participate after 23 years of service Fire: Eligible to participate at early retirement date
Houston	Police: 0% Fire: Based on 5-year average fund's earnings/losses*	Police: Unlimited Fire: Interest earning period capped at 10 years, participation period capped at 13 years	Police: Lump sum payment of \$5,000 to DROP at retirement Fire: Increase in annuity of 2% per year of DROP up to 20%
Fort Worth	0%	Capped at 60 months	Eligible to participate at normal retirement date
San Antonio	0%	Capped at lesser of 60 months or the number of months of service in excess of 20 years	Back DROP only
Phoenix	7.50% beginning 7/1/2015	Capped at 60 months	Closed to new members hired after 2011
San Jose	N/A	N/A	DROP not offered
El Paso	0%	Capped at 36 months	Back DROP only

* Monthly benefit increases 2% for every year of DROP participation up to a maximum of 20%

Liability Allocation

The table below estimates the breakdown of the liability (\$ Millions) by participant group and benefit type. For Tier 1 active participants and annuitants, a significant portion of the liability is due to COLA and DROP interest provisions.

Status	Annuity Base Benefits	Annuity Supplemental Benefits	Annuity COLA	DROP – Base	DROP – Supplemental	DROP-COLA	DROP - Interest	Total
Tier 1 Active	\$975	\$15	\$594	\$495	\$15	\$68	\$256	\$2,418
Tier 2 Active	55	1	0	23	1	0	6	86
Tier 3 Active	11	0	0	2	0	0	1	14
Total Active	\$1,041	\$16	\$594	\$520	\$16	\$68	\$263	\$2,518
Retirees	\$1,101	\$45	\$970	\$291	\$9	\$71	\$525	\$3,012
Beneficiaries	145	6	106	13	0	3	23	296
Disabled	38	1	34	0	0	0	0	73
Deferred Retirees	17	0	6	0	0	0	0	23
Total Inactive	\$1,301	\$52	\$1,116	\$304	\$9	\$74	\$548	\$3,404
Total	\$2,342	\$68	\$1,710	\$824	\$25	\$142	\$811	\$5,922
% of Total	40%	1%	29%	14%	0%	2%	14%	100%

- The liability split shown above assumes that all participants enter into DROP at their unreduced retirement age, that they receive no additional benefit accruals under the base or supplemental benefits while in DROP, and there are no withdrawals or transfers to 401(k) throughout the calculation period.
- The retiree liability split for DROP benefits was calculated based on the original benefit at the time of entry into DROP, assuming no withdrawals and that contributions to the DROP stopped at the earlier of the valuation date or age 70. The beneficiary split was calculated using the same ratio as the retiree liability split due to insufficient information.

Liability Breakout by Past and Future Components

	Annuity COLA			DROP COLA			DROP Interest		
Status	Past	Future	Total	Past	Future	Total	Past	Future	Total
Tier 1 Active	\$126	\$468	\$594	\$30	\$38	\$68	\$88	\$168	\$256
Tier 2 Active	0	0	0	0	0	0	0	6	6
Tier 3 Active	0	0	0	0	0	0	0	1	1
Total Active	\$126	\$468	\$594	\$30	\$38	\$68	\$88	\$175	\$263
Retirees	\$600	\$370	\$970	\$71	\$0	\$71	\$361	\$164	\$525
Beneficiaries	65	41	106	3	0	3	16	7	23
Disabled	22	12	34	0	0	0	0	0	0
Deferred Retirees	0	6	6	0	0	0		0	0
Total Inactive	\$687	\$429	\$1,116	\$74	\$0	\$74	\$377	\$171	\$548
Total	\$813	\$897	\$1,710	\$104	\$38	\$142	\$465	\$346	\$811
% of Total	48%	52%	100%	73%	27%	100%	57%	43%	100%