

Memorandum



CITY OF DALLAS

DATE May 13, 2016

TO The Honorable Mayor and Members of the City Council

SUBJECT Employees Retirement Fund: Proposed Changes to Chapter 40A

On Wednesday, May 18, 2016, the City Council will be briefed on the "Employees Retirement Fund: Proposed Changes to Chapter 40A". The briefing is attached for your review.

Please let me know if you need additional information.


for Jeanne Chipperfield
Chief Financial Officer

Attachment

cc: Honorable Mayor and Members of the City Council
AC 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
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council



Employees' Retirement Fund
of the City of DALLAS

City Council Briefing

May 18, 2016

**Employees' Retirement Fund:
Proposed Changes to Chapter 40A**



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



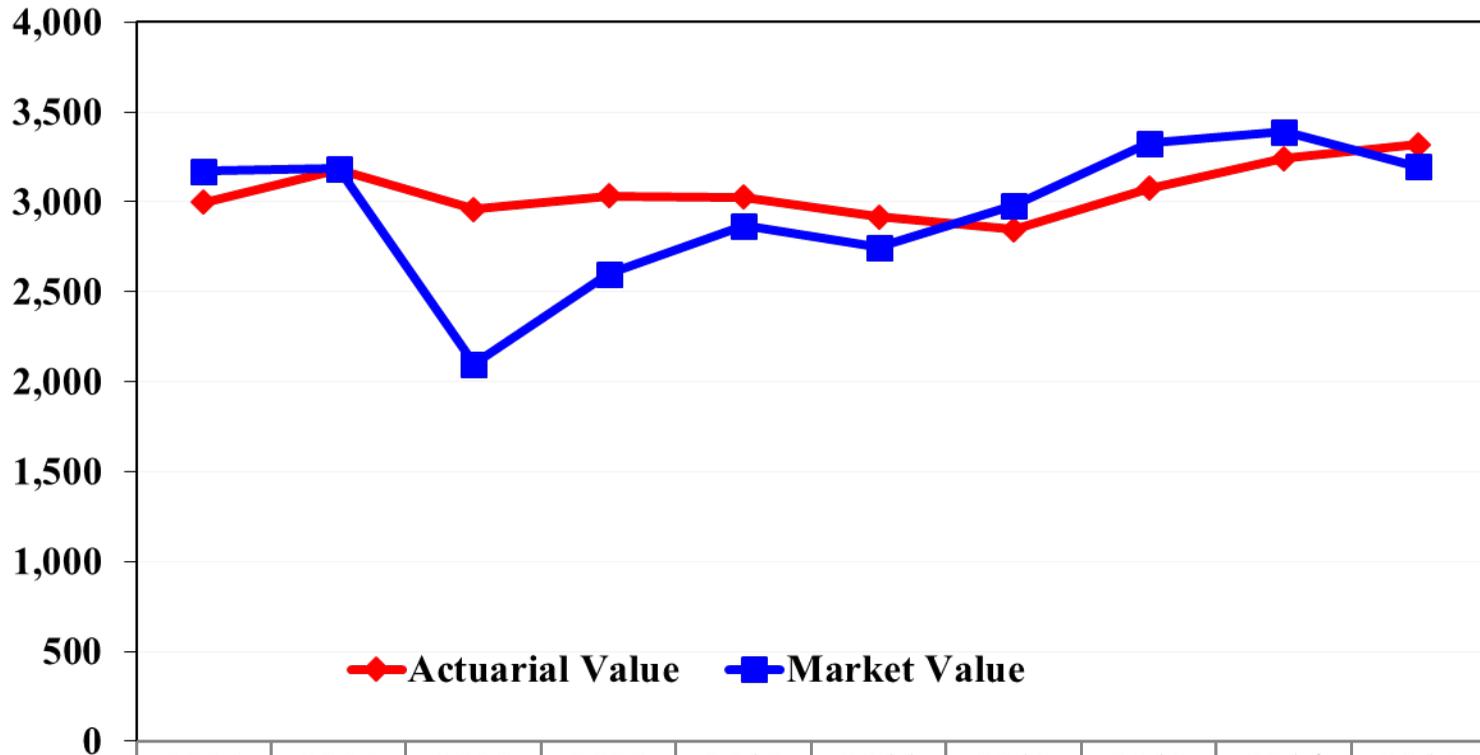
Appropriate Checks and Balances are in Place

- 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.
 - City of Dallas conducted a five-year peer review on assets and liabilities in 2015.



Historical Asset Values

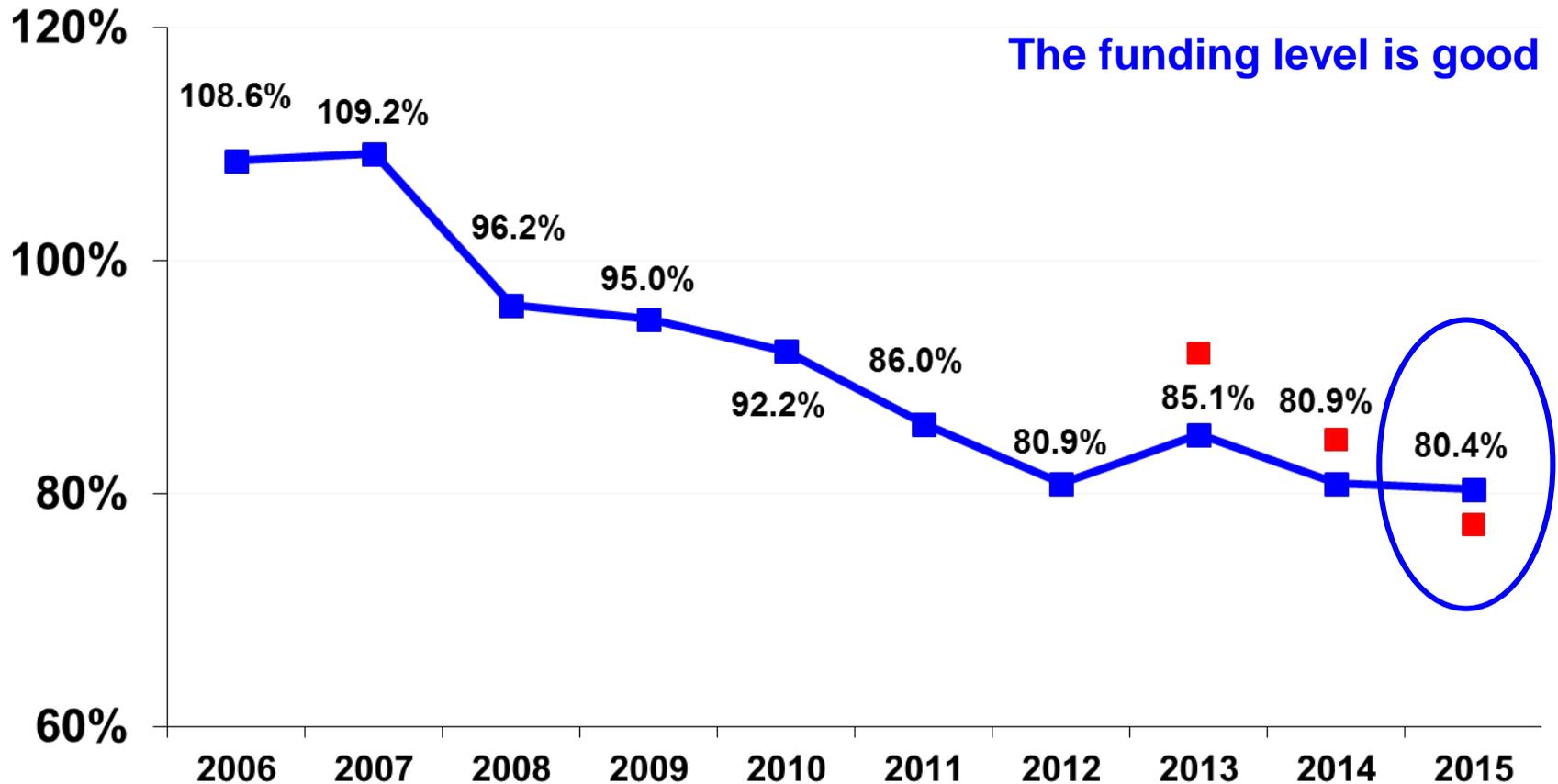
\$Millions



	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



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%.



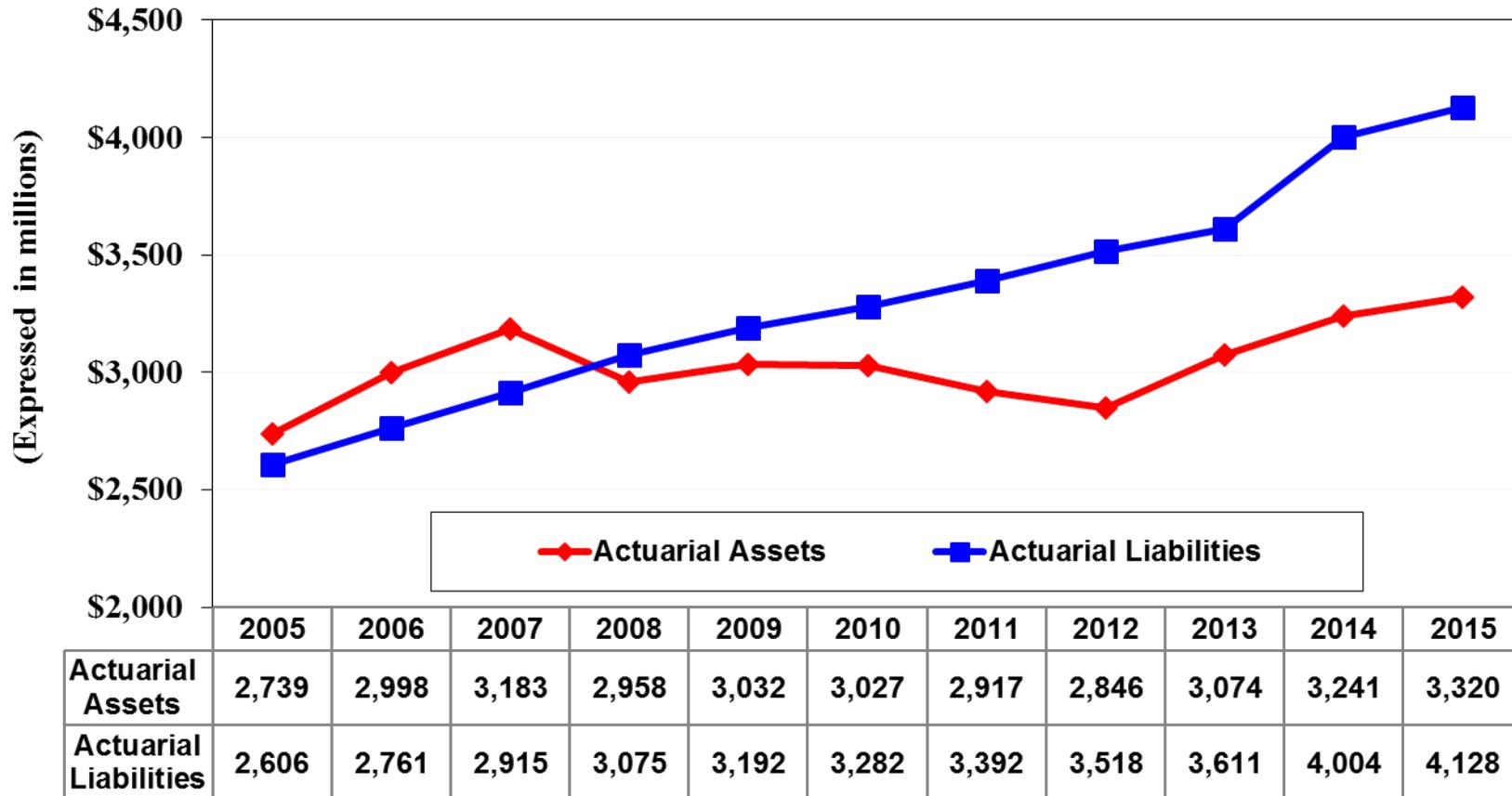
Comparison of Large City's Funding Levels

City	Funding Level	Fiscal Year End Date
City of Dallas – ERF	80.4%	12-31-2015
City of El Paso ERF	79.0%	08-31-2015
City of San Diego	75.6%	06-30-2015
City of Austin ERF	68.0%	12-31-2015
City of Ft. Worth ERF	62.0%	12-31-2014
City of Phoenix	55.4%	06-30-2015
City of Houston MEPS	54.0%	06-30-2015



Liabilities vs. Assets

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





Current Benefit Plan Overview

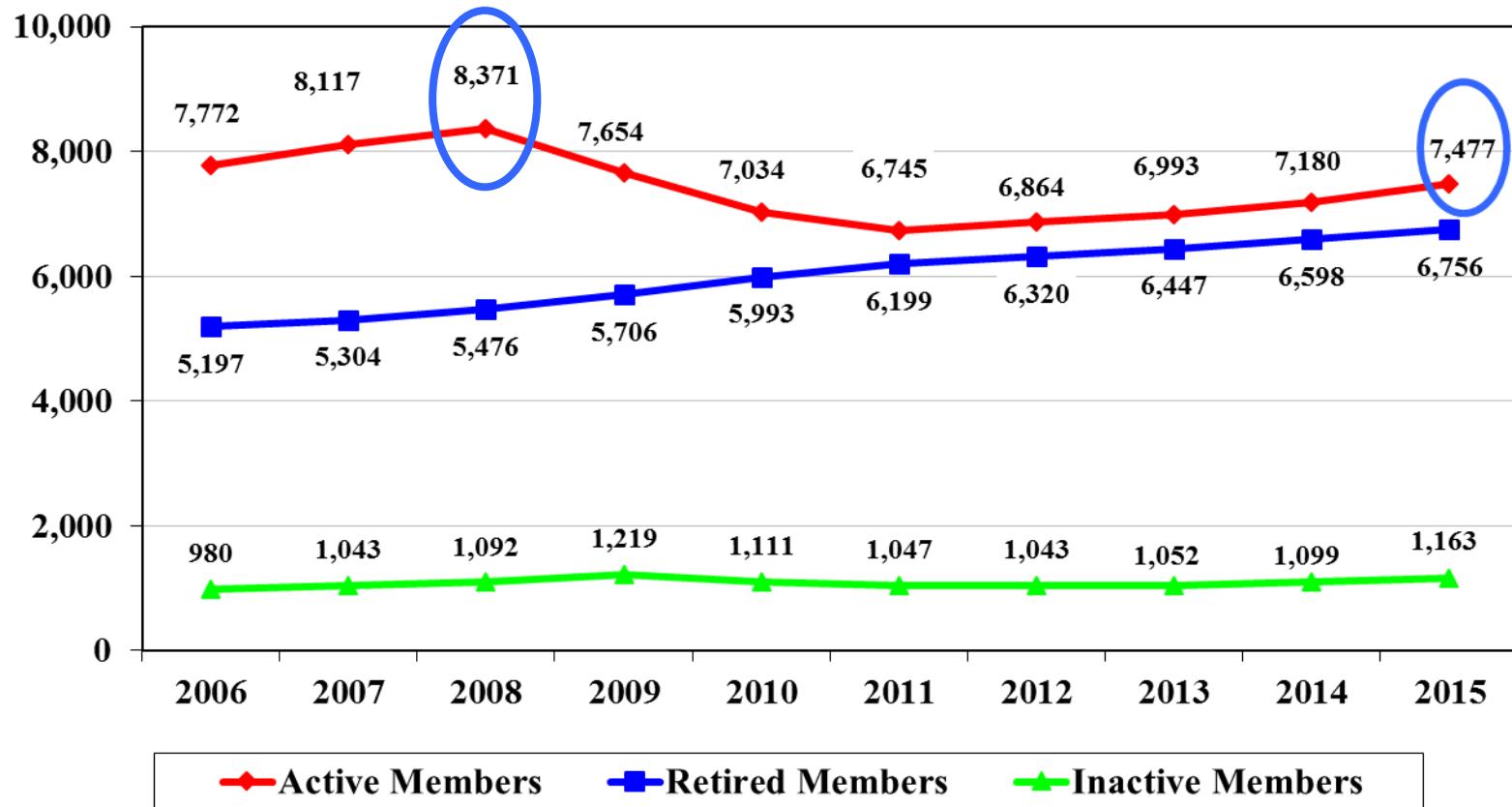
Who Is Eligible for ERF Pension Benefits?

- All non-uniformed, permanent City of Dallas employees are members of the Employees' Retirement Fund (Fund).
- Employees who are not eligible to participate in the Fund include:
 - Contract employees
 - Temporary employees
 - Uniformed employees of the police or fire department
- City of Dallas elected officials cannot be active City of Dallas employees



Active Members and Retired Members

Reducing employee headcount reduces the contributions to the Fund





Membership – Actives and Inactives

- **Average age of active members is 46.1, compared to 46.4 last year**
 - Oldest active employee was born in 1928
 - Youngest employee was born in 1997

- **Average years of service is 10.0, compared to 10.5 last year**
 - Longest working current active employee has over 47 years of service
 - 17 employees have worked over 36.4 years

- **The oldest living retirees:**
 - Oldest service retiree was born in 1911 (age 104)
 - Service retiree receiving payments the longest, retired in 1972 (43 years ago)
 - Oldest surviving beneficiary was born in 1914 (age 102)



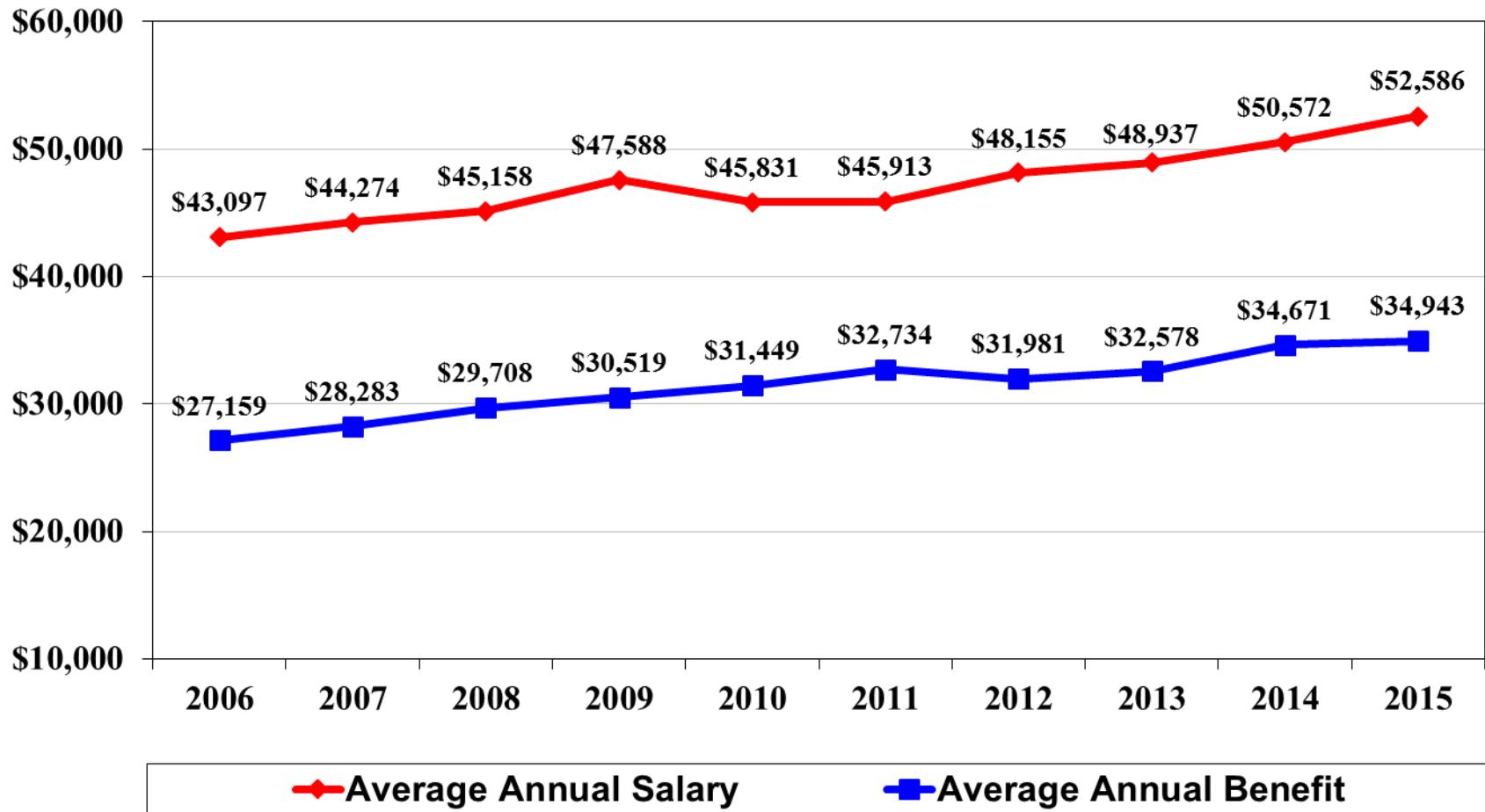
Retirement Benefit Review

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 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 equal 78



Average Salary and Average Benefit





Proposed Benefit Changes

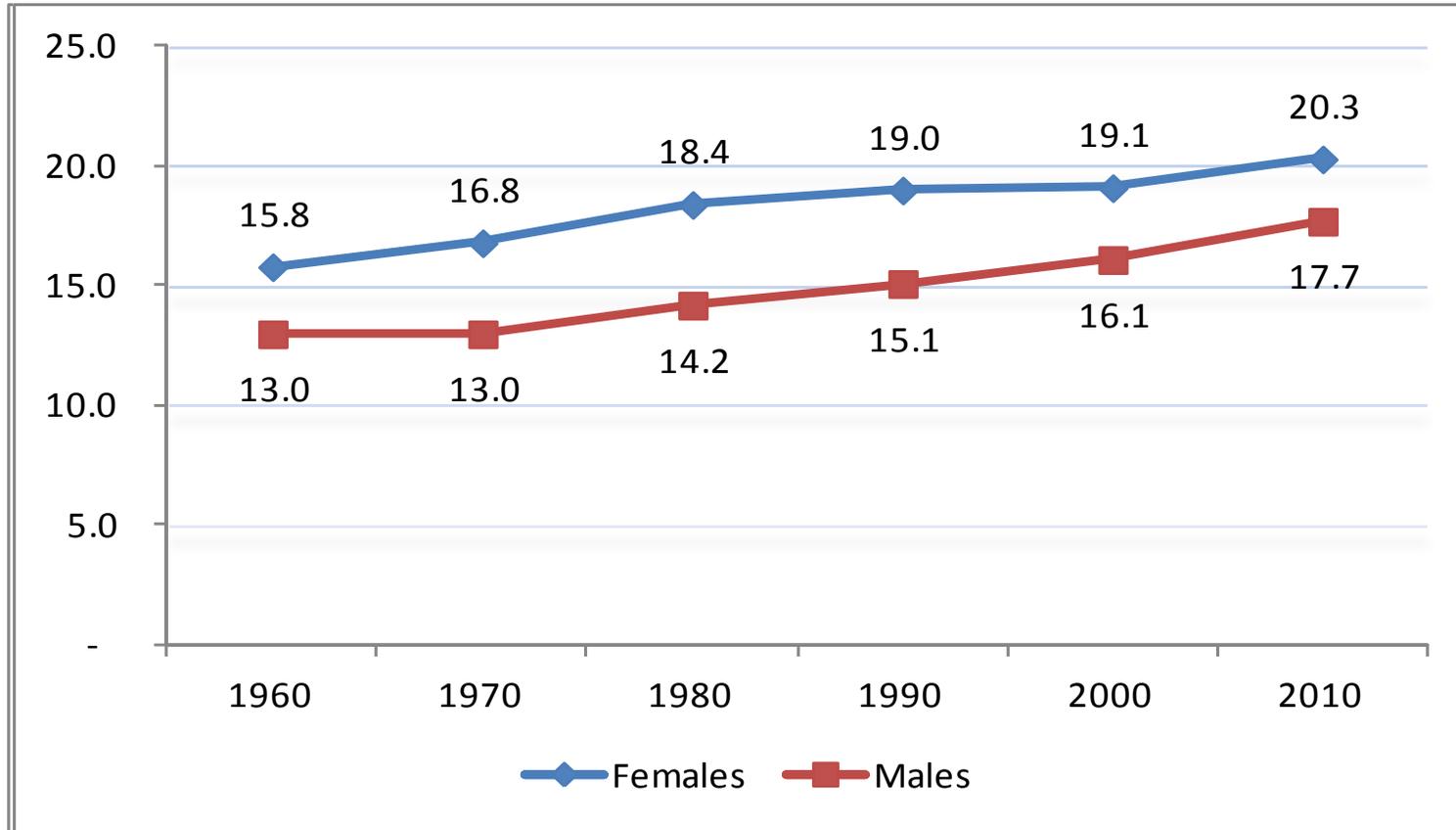


2014 Experience Study Review

- In 2014, the Board requested a five year experience study.
- 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 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.



More Conservative Assumptions - Better Positions the Fund for the Future

- 2015 Actuarial 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 new generational mortality demographic assumption changes (including mortality) 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)

- As a result of the adopted 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.



Proposed Changes to 40A (Financial Impact)

Benefit Factors	Proposed Benefit Changes for New Employees Only
Retirement Eligibility	<ul style="list-style-type: none">• Changed from Age 60 to 65 w/5 years of credited service• From 36.36 years to 40 years of service (unreduced)• Rule of 78 (unreduced) to Rule of 80 (actuarially reduced < 65 years of age)
Benefit Multiplier	<ul style="list-style-type: none">• Change from 2.75% to 2.5%
CPI Cost of Living Adjustment (COLA)	<ul style="list-style-type: none">• Reduced from maximum of 5% to 3%
Average Monthly Earnings	<ul style="list-style-type: none">• Changed from 3 to 5 year average
Normal Form of Payment	<ul style="list-style-type: none">• Changed from Joint & Survivor 50% to Life Only; all options have a 10 year guarantee. Members may purchase Joint & Survivor 50% & Joint & Survivor 100%
Health Benefit Supplement	<ul style="list-style-type: none">• Eliminate \$125 monthly Health Supplement



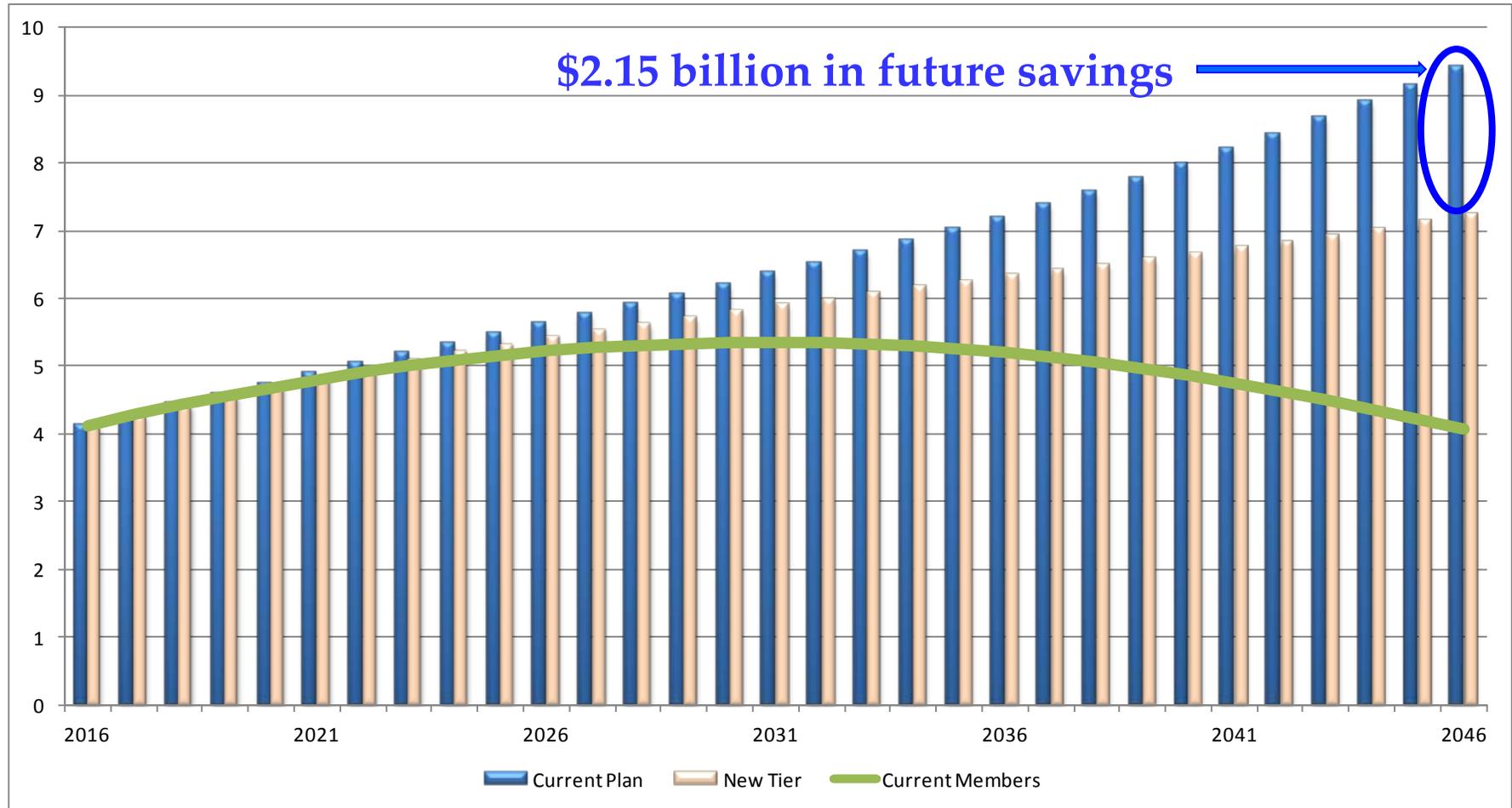
Proposed Changes Reduced Normal Cost by 36.3%

Normal Cost	Current Normal Cost = 20.36%
	Total Reduction to Normal Cost = <u>-7.40%</u>
	Proposed Normal Cost = 12.96%



Proposed Changes Reduce Liabilities by \$2.15 Billion

\$ in Billions





Comparison of Retirement Provisions for Municipal Employees of Large Texas Cities

<u>City</u>	<u>NC%</u>	<u>Member Rate</u>	<u>Multiplier</u>	<u>Normal Retirement</u>	<u>Auto COLA</u>	<u>Soc Sec</u>
Austin	12.35%	8.00%	2.50%	62&30	No	Yes
Dallas (Current)	20.36%	13.32%	2.75%	Age 60 Rule of 78	Yes Based on the CPI & Non- Compounding	No
Dallas (New Tier)	12.96%	13.32%	2.50%	65&5, 40 YOS Rule of 80	Yes Based on the CPI & Non- Compounding	No
Ft. Worth	12.57%	8.25%	2.50%	65&5,	No	No
Houston - HMEPS	5.85	0.00%	1.8% for 25,	R80 age 62&5	No	Yes
San Antonio	12.25%	6.00%	1% thereafter TMRS*	60&5, 20 YOS	No. Ad hoc	Yes
El Paso	14.20%	8.95%	2.25%	60&7, 35 YOS	No. Ad hoc	Yes

Reducing the normal cost to 12.96% provides a conservative comparison to the large Texas Cities



Retirement Calculation Example

Benefit Factors	Current Plan	Proposed Benefit Changes for New Employees Only
Employee Contribution Rate	13.32%	13.32%
Average Annual Salary	\$50,000.00	\$50,000.00
Employee's Age	60	65
Years of Credited Service	25	25
Multiplier	2.75%	2.50%
Annual Pension Benefit	\$ 34,375.00	\$31,250.00
Health Benefit Supplement (\$125/monthly)	<u>\$ 1,500.00</u>	<u>N/A</u>
Annual Benefit	\$35,875.00	\$31,250.00
Monthly Benefit	\$ 2,989.58	\$ 2,604.17



ERF Value of a Pension Benefit

Retirement Factors	Current Plan (Benefit Payments)	Proposed Plan (Benefit Payments)
Average Annual Salary	\$50,000.00	\$50,000.00
Years of Credited Service	25	25
Multiplier	2.75%	2.50%
Monthly Benefit	\$ 2,989.58 (With health supplement)	\$ 2,604.17 (Without health supplement)
Member's annual pension	\$35,875.00	\$31,250.00
Member's accumulated pension 20 years after retirement	\$717,500.00*	N/A
Member's accumulated pension 23 years after retirement	N/A	\$718,750.00*

**This amount does not include annual cost of living adjustments*



Chapter 40A Amendment Process

- 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.



Timeline for City Code Chapter 40A Changes

Action Plan	Date
Chapter 40A Approval by Dallas ERF Board	May 10, 2016
Briefing to City Council	May 18, 2016
Chapter 40A Agenda Item for Dallas City Council	June 15, 2016
Chapter 40A Ballot Agenda Item for Dallas City Council	June 15, 2016
Chapter 40A Ballot Item for Dallas Voters	November 8, 2016
Anticipated New 40A Benefit Tier Start Date	January 1, 2017



Summary

- The Dallas ERF Board is being proactive and conservative by recommend the new Tier:
 - Addresses people living longer in retirement by raising the normal retirement age from 60 to 65 years and changing the Rule of 78 to the Rule of 80.
 - Lowers the Fund's normal cost by 36% (from 20.36% to 12.96%).
 - Decreases long term liabilities approximately \$2.15 billion over a 30 year period.
 - Provides an adequate retirement pension for future employees who do not participate in Social Security.
 - Strengthens the overall trust in the Plan for all members.
 - On June 15, 2016, City Council will be presented two agenda items for consideration:
 - Amendments to City Code 40A
 - A special election item scheduled for November 8, 2016
 - The action steps presented are prudent and fiscally responsible and enable the long term viability of the plan.



Appendix



ERF Trustee Board Established A Study Committee

- In 2015, the ERF Trustee Board established the Pension Plan Study Group (PPSG).
- The group's research team consisted of the following:
 - John Jenkins, Chair; Carla Brewer, Vice Chair; Craig Kinton, Trustee;
 - Cheryl Alston, Executive Director; David Etheridge, Deputy Director; Kay Watson, Pension Officer; Susan Oakey, Pension Officer;
 - Gabriel Roeder and Smith – Board's Actuary; and
 - Strasburger & Price – Board's Legal Counsel.
- The PPSG established a scope of work to include the following:
 - Evaluate the life expectancy of retirees at age 65 and beyond using actuarially based data;
 - Research and study plan designs that would reduce liability over time;
 - Conduct a statewide comparison of pension plans that exclude social security benefits;
 - Establish a series of benefit reduction plans for new hires only;
 - Report findings to the ERF Trustee Board.
- The PPSG met from October 2015 to March 2016 and evaluated sixteen different scenarios to establish a recommendation to the ERF Trustee Board.



Comparison to Other Texas Cities

Member Contributions				City Contributions			
City	DB Plan	Social Security	Total	DB Plan (NC% Only)	DB Plan UAAL%*	Social Security	Total
Austin	8.00%	6.20%	14.20%	4.35%	13.65%	6.20%	24.20%
Dallas (Current)	13.32%	0.00%	13.32%	7.04%	15.64%	0.00%	22.68%
Dallas (New Tier)	13.32%	0.00%	13.32%	0.00%	22.68%	0.00%	22.68%
Ft. Worth	8.25%	0.00%	8.25%	4.32%	15.66%	0.00%	19.98%
Houston HMEPS	0.00%	6.20%	6.20%	5.85%	23.51%	6.20%	35.56%
San Antonio	6.00%	6.20%	12.20%	6.25%	4.51%	6.20%	16.96%
El Paso	8.95%	6.20%	15.15%	5.25%	8.80%	6.20%	20.25%



Summary of Proposed Changes to 40A

City Code 40A	Operational Changes
40A-2 CREATION OF THE RETIREMENT FUND AND BOARD OF TRUSTEES; COMPOSITION AND OFFICERS OF THE BOARD	<ul style="list-style-type: none">• Board to meet as often as necessary but no less often than quarterly.• If only one person is nominated for an elective board position, there is no requirement to hold an election.
40A-3 TERMS AND REMUNERATION OF THE BOARD	<ul style="list-style-type: none">• Board terms will be staggered.
40A-4.2 INVESTMENT CUSTODY ACCOUNT	<ul style="list-style-type: none">• Expands the investment custody definition to include brokerage firms as defined by Texas State Law.
40A-9 ACTUARIAL ASSUMPTIONS	<ul style="list-style-type: none">• Actuarial assumptions will be established and approved by the board based on recommendations by the fund's actuary.• Commuted value payouts will be calculated using the 5-yr average of the 10-yr treasury bond.



Summary of Proposed Changes to 40A Continued

City Code 40A	Benefit Changes
40A-10 CREDITED SERVICE; COMPUTATION OF BENEFITS	<ul style="list-style-type: none">• Tier B benefit multiplier is 2.5%.
40A-10.1 RESTRICTED PRIOR SERVICE CREDIT	<ul style="list-style-type: none">• Tier B members may be granted vesting credit for prior service performed for another governmental entity.
40A-11 CREDITED SERVICE FOR EMPLOYMENT BEFORE A BREAK IN SERVICE	<ul style="list-style-type: none">• The interest rate for repayment of contributions for Tier B members is highest actuarial rate of return during the withdrawal period.
40A-15 RETIREMENT	<ul style="list-style-type: none">• Tier B Retirement Eligibility:• Normal retirement at age 65 with 5 years service.• Early retirement under Rule of 80.• Service retirement after 40 years service.
40A-16 RETIREMENT PENSION	<ul style="list-style-type: none">• Tier B Benefits:• Early retirement will be actuarially reduced.• Both Joint & One Half and Joint & Full survivor options will be actuarially reduced.



Summary of Proposed Changes to 40A Continued

City Code 40A	Benefit Changes
40A-17 DISABILITY RETIREMENT	<ul style="list-style-type: none">• Tier B members are only eligible for disability retirement if they are not eligible for normal, early or service retirement.
40A-18 DISABILITY RETIREMENT PENSION	<ul style="list-style-type: none">• Minimum payable pension for service-connected disability increased from \$500 to \$1,000.
40A-21 DEATH BENEFITS BEFORE RETIREMENT	<ul style="list-style-type: none">• Minimum payable pension for service-connected death increased from \$500 to \$1,000.
40A-27 HEALTH BENEFIT SUPPLEMENTS	<ul style="list-style-type: none">• Eliminated for Tier B members.
40A-28 COST-OF-LIVING ADJUSTMENT TO BENEFITS	<ul style="list-style-type: none">• COLA for Tier B members calculated based on Consumer Price Index change of up to 3%.



Formula for Calculating the Benefit

Service Credit in Years (Full & Partial)

X Multiplier (2.75%)

**X Average Monthly Pay
(3 highest years of service)**

= Calculated Monthly Benefit



Retirement Calculation Example

Benefit Factors	Current Plan
Employee Contribution	13.32%
Average Annual Salary	\$50,000
Employee's Age	60
Years of Credited Service	25
Multiplier	2.75%
Annual Pension Benefit	\$34,375
Health Care Supplement (\$125/monthly)	<u>\$ 1,500</u>
Annual Benefit	\$35,875
Monthly Benefit	\$ 2,989.58



ERF Value of a Pension Benefit

Member's Monthly Pension– Age Retirement	\$ 2,989.58
Member's annual pension	\$ 35,875.00
At Age 80 (20 years post retirement), the member's accumulated pension	\$ 717,500.00*
At Age 85 (25 years post retirement), the member's accumulated pension	\$896,875.00*

**This amount does not include annual cost of living adjustments and is for illustrative purposes only*