

Memorandum



CITY OF DALLAS

DATE January 13, 2017
TO The Honorable Mayor and Members of the City Council
SUBJECT Police and Fire Pension Update

On Wednesday, January 18, 2017, Larry Casto, City Attorney, and I will brief the City Council on Police and Fire Pension Update. The briefing is attached 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

Attachment

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



POLICE and FIRE PENSION UPDATE

CITY COUNCIL BRIEFING JANUARY 18, 2017



Current Status of the Dallas Police and Fire Pension (DPFP) Finances

Current Investments as of 12/31/16 (unaudited)

Asset Class	Target	Actual (as of 12/31/16)
Equity	25%	6.70%
Fixed Income	28%	10.07%
Real Assets (incl Real Estate)	25% (12%)	45.01% (25.54%)
Private Investments	10%	18.17%
Cash and Cash Equivalents	2%	14.26%
Other	10%	5.79%

Historically Out of Balance

Made Worse by Recent Liquidations

Equity Performance: **6.54%**

Fixed Income Performance: **13.78%**

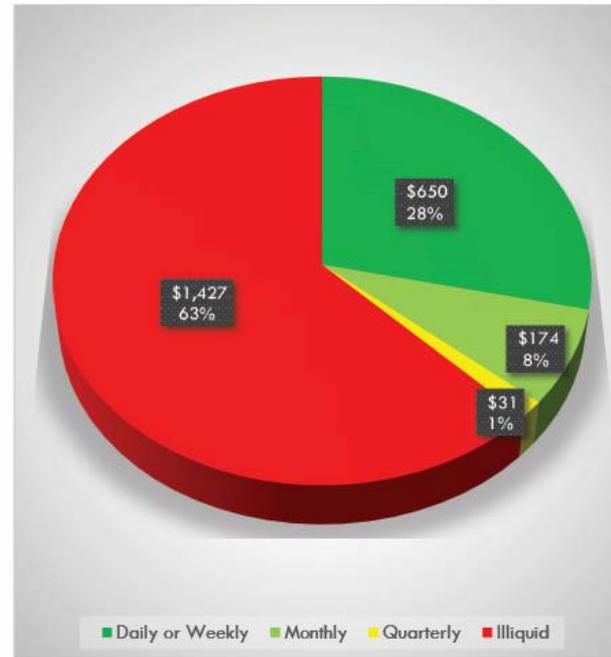
While these returns are good, they represent only **16.77%** of the whole portfolio

We will not know the 2016 return on some other assets for several months

Current Snapshot – Plan Assets and DROP as of 1/10/17

DPFP Investment Assets	
Gross Asset Value	\$ 2,281,521,748
Less: DPFP Debt	130,000,000
Net Assets	2,151,521,748
Total Liquid Assets (30 day liquidity or less)	824,262,533
DROP Assets and Obligations	
Retiree DROP	702,663,633
Active DROP	358,560,348
Total DROP Assets	1,061,223,981
Benefit Activity	
Monthly Benefit Payments	18,420,000
Less: Monthly Contributions	11,000,000
Monthly Net Benefit Outflow (a)	7,420,000
Minimum Annual Distributions (b)	69,372,000
2017 Required Min. Distributions (RMDs) (c)	6,900,000
Total Reserve	
12-mos Total Benefit Activity ((a*12)+b+c)	165,312,000
Commitment to Repay Real Estate Debt*	190,000,000
DPFP Debt	130,000,000
Unfunded Capital Commitments	155,442,848
12-mos Operating & Investment Expenses	20,000,000
Total Reserve	660,754,848

LIQUIDITY OF DPFP GROSS INVESTMENT ASSETS



* - DPFP has a capital commitment obligation to repay \$190m of company level debt of a real estate operating company investment, which matures in May 2017, but could be called once DPFP net plan assets drop below \$2 billion.

Status of Negotiations with DPFP Board

Taxpayer Plan to Save the Pension

On December 9, City sent to State Legislature draft legislation designed to:

- Provide a secure, stable retirement for all
- Encourage positive financial behavior
- Help recruiting efforts - be market competitive
- Ensure effective checks and balances
- Raise contributions

Resolves \$3.5B in unfunded liabilities in 30 years

Funded Ratio **immediately** Improves

Current: 36%  Immediate: 50%  30 Yrs: 100%

City's Plan to Save the Pension: Who Contributes What

	Contributions
Fixing the Features:	
<ul style="list-style-type: none">Recalculating high DROP interest rates, COLAs, and health care supplement to rates comparable to other pensions	\$959 M
<ul style="list-style-type: none">Making equity adjustments and requiring DROP balances to be paid as annuities rather than lump sums	\$926 M
Current Employees:	
<ul style="list-style-type: none">Changing the retirement age and other benefit calculations	\$73 M
<ul style="list-style-type: none">Increasing Member contributions to 13.5% of computation pay (\$53 M annually)	\$1.6 B
Taxpayers:	
<ul style="list-style-type: none">Increasing taxpayer contributions to 34.5% of computation pay (\$135 M annually)	\$4.1 B

DPFP Plan Amendment Election Failed

The DPFP plan:

- Addressed less than half of the liabilities
- Requested \$1.1 billion from taxpayers
 - 130% tax increase
 - Average tax bill from \$1,502 to \$3,469

On December 17, 2016, voting on the DPFP Plan amendments ended.

DPFP members failed to approve moderate changes to the Plan.

**DPFP Board Meeting
January 12, 2017
Action on DROP Withdrawals**

Deferred Retirement Option Program (DROP): By the Numbers

9,600	total plan membership
3,025	total retirees
\$56,400	average annual pension benefit (Nov 2016)
3,067	number of DROP accounts (both retiree and active)
\$597,000	average DROP account value
517	number of accounts over \$1M, about 17% of the number of DROP accounts
\$4.3M	highest DROP account value

2016 Lump Sum Withdrawals

\$520M withdrawals August 19 – December 2 greatly increased the vulnerability of the fund

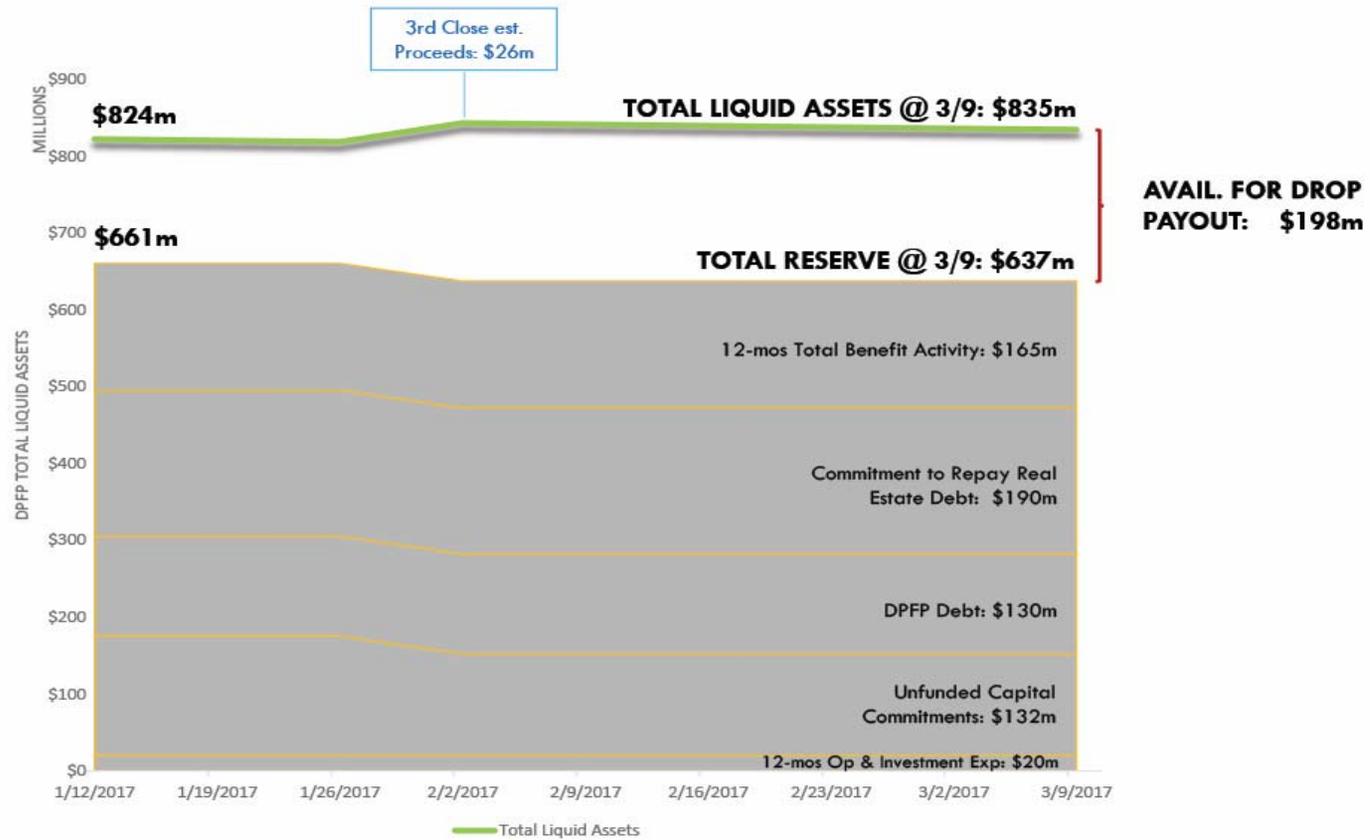
The DPFP Board did not take steps to protect the fund until facing legal action:

On December 8, the fund “dropped the gate”

On December 21, the judge allowed the Board to make \$2.2 million in monthly DROP payments

On January 12, the Board approved a revised DROP distribution policy

DROP Policy Liquidity Analysis



Impact of Immediate DROP Withdrawals & the Board's Action on January 12 on Solvency

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

Recent analysis indicates the fund could actually become insolvent in **as little as 5-7 years** because of DROP withdrawals, liquidation of assets, and poor return on investments

Next Steps

Rapidly Changing Situation

Public Reaction: Taxpayers are concerned about the prospect of higher taxes, further street degradation, or loss of City services

We are keeping the public informed on [SaveThePension.com](https://www.savethepension.com)
The Mayor and Council Members are making public presentations

Police and Fire Associations: Very helpful and supportive of all efforts to save the pension. Recognize current and future sworn employees should be protected.

Rapidly Changing Situation

We will bring new information to the Council as we can regarding:

- Conversations with legislative partners
- Ongoing negotiations with the DPFP Board
- Planning for possible mediation
- Working with police and fire associations
- New information on DPFP finances
- Further rating agency actions
- Other alternatives under development

Questions

APPENDIX

DROP POLICY ADDENDUM SUMMARY

January 12, 2017



POLICY DISTRIBUTION PARAMETERS

- ▶ Benefit Distributions:
 - ▶ Monthly retirement benefit payments will continue to be made at the end of each month according to the Plan
 - ▶ Continue to process refunds according to the Plan
- ▶ DROP Distributions per 1/12/17 Board action:
 - ▶ 4 Types of DROP account distributions – 1 is mandatory, 1 is a transition payment, 2 require an action by the member to opt into one or both,
 - ▶ 100% of the 2017 Required Minimum Distributions (RMD) to be paid as soon as possible
 - ▶ A total of \$6.6 million to be distributed to members with DROP lump sum requests on file which have not yet been paid; to be allocated to each requestor on a pro-rata basis, based on their requested amount. This is for requests received as of the time of the Board motion on 1/12.
 - ▶ Installment payments are made for January and February 2017, based on the November 30th amounts on file unless the member reduced the amount post-Nov 30th
 - ▶ For Distributees who have timely opted in to the Minimum Annual Distribution and/or Pro-rata distribution pool:
 - ▶ Pay Minimum Annual Distribution to members (Slide 3)
 - ▶ Monthly, if the Board certifies that excess liquidity exists, a pro-rata distribution will be made to members who have provided timely instructions to opt into the distribution pool (Slides 4-6)

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MINIMUM ANNUAL DISTRIBUTION

- ▶ A Distributee may elect to receive a Minimum Annual Distribution from his or her DROP account. The Minimum Annual Distributions works as follows:
 - ▶ 2017: \$30,000 is the maximum to be distributed per Distributee as a Minimum Annual Distribution in 2017. The distributee will receive either \$3,000 per month (March – December) as an ACH, or if a rollover is selected the money will be distributed semi-annually with \$12,000 distributed on June 30th and \$18,000 distributed on December 29th. To be eligible for the maximum in 2017, a completed request form must be received by DPFP by close-of-business February 28, 2017.
 - ▶ Requests received after February 28, 2017 will be eligible to receive \$3,000 per month for all months remaining after the month the completed request was received. The rollover/semi-annual option is not available for requests received after February 28, 2017.
 - ▶ 2018 and subsequent years: \$36,000 is the total to be distributed per Distributee. The Distributee will receive either \$3,000 per month (January – December) as an ACH or if a Rollover is selected \$18,000 on June 30th and \$18,000 on December 31st. To be eligible for the Minimum Annual Distribution in 2018 and subsequent years, a completed request must be received by DPFP by close-of-business November 30 of the prior year.
 - ▶ Distributees not meeting the November 30th deadline will not be eligible for a Minimum Annual Distribution in the following year. The only exception will be for new retirees who can opt in during the month that they first retire.

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RESERVE AMOUNT

The “Reserve Amount” will mean the amount the Board determines is necessary to satisfy the following obligations that are essential to DPF’s efficient administration:

- ▶ No less than 12 months of monthly annuity benefit payments, less monthly contributions for the same period;
- ▶ No less than 12 months of anticipated operating expenses;
- ▶ No less than 12 months of minimum annual distributions pursuant to Section 7 of this Addendum;
- ▶ All anticipated required minimum distributions for the coming year;
- ▶ All outstanding indebtedness; and
- ▶ All outstanding capital commitments for existing private market investments as well as other anticipated 12 months of investment-related expenditures.

The Reserve Amount is not a fixed sum and will vary as the needs associated with the obligations comprising the Reserve Amount change over time, including the amounts necessary to ensure that DPF can satisfy the Cash Requirements for the above items in an efficient and prudent manner.

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EXCESS LIQUIDITY AMOUNT

- ▶ Withdrawals from DROP accounts will be permitted only if for a given month (i) the total liquid assets held by DPFP exceed (ii) the Reserve Amount as of the date that the Board certifies the Reserve amount and the amount of minimum annual distributions anticipated to be paid for such month (the “Excess Liquidity Amount”).
- ▶ The Board will certify the Excess Liquidity Amount, if any, at its regular monthly meeting, beginning March 2017
- ▶ The Board may determine to not distribute Excess Liquidity Amounts if it so chooses in any month.

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PRO-RATA DISTRIBUTION

- ▶ Board certifies the Excess Liquidity Amount
- ▶ If the Board determines that a pro-rata monthly distribution will be made for the current month:
 - ▶ The total amount available will be divided on a pro-rata basis between each Distributee with a timely submitted DROP withdrawal request on file with DFPF as of the last day of the prior month
 - ▶ Each Distributee's share will be determined by multiplying the certified Excess Liquidity Amount for such month by a fraction, the numerator of which is the amount of such Distributee's DROP account, and the denominator of which is the total aggregate amount of all Distributees' DROP accounts that will participate in the distribution

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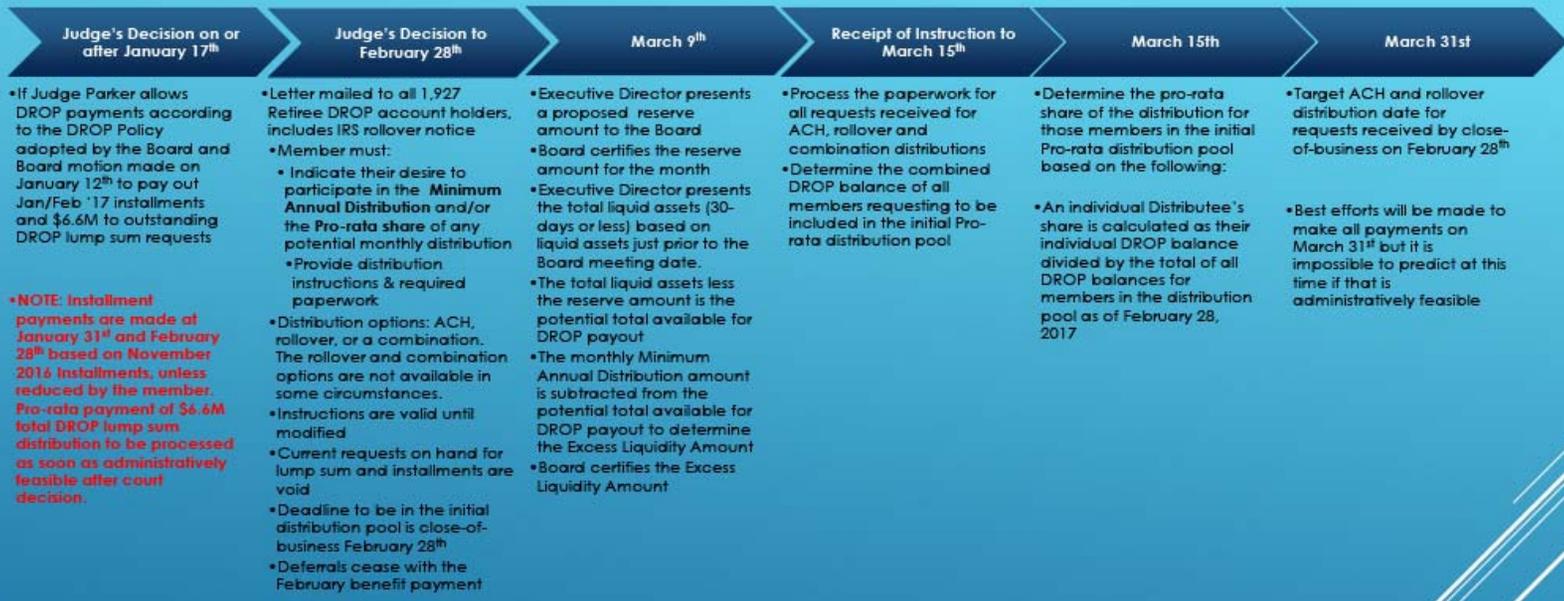


IMPORTANT NOTE

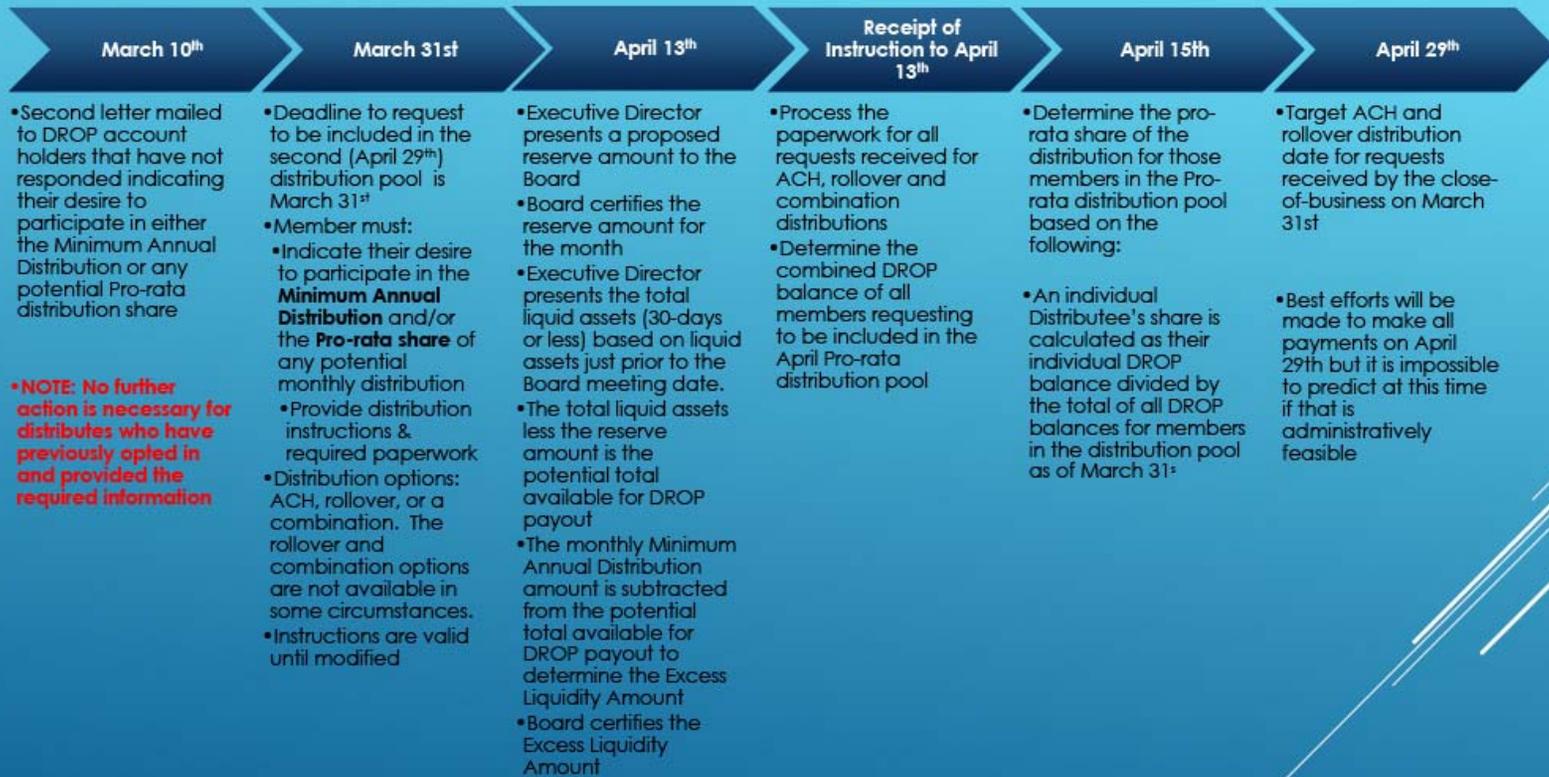
- ▶ All members should understand that we are in extraordinary times. The DROP Policy Addendum represents the Board's best attempt to follow the terms of the Plan in the discharge of its fiduciary duties with the current information at its disposal. There can be no assurance when distributions will be made and in what amounts. Furthermore, the Board may change the terms of the Policy if it determines after seeing how facts unfold that such changes are necessary to continue to properly fulfill its fiduciary duties. This may include changing the way distributions are made, changing, or dispensing with, the minimum annual distribution, changing the reserve amount or any other changes the Board may deem necessary.
- ▶ It is the desire of the Board that the Addendum will eventually be abandoned if a plan can be put into place to assure DPFP's solvency. Until such time, members will need to carefully pay attention to announcements from DPFP as such announcements may well affect your ability to receive funds from your DROP accounts.

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DROP DISTRIBUTION TIMELINE FOR THE **INITIAL** DISTRIBUTION IF ALLOWED BY THE COURT



DROP DISTRIBUTION TIMELINE FOR **SECOND** POSSIBLE DISTRIBUTION IF ALLOWED BY THE COURT. SUBSEQUENT DISTRIBUTIONS WILL FOLLOW A SIMILAR MONTHLY TIMELINE

ADDITIONAL POLICY PARAMETERS

- ▶ No deferrals into non-active members' DROP accounts after January 2017
- ▶ Installment payments cease after February 2017
- ▶ Required Annual Distribution eliminated
- ▶ No limitation on the number of rollovers annually
- ▶ All distributions through ACH or Rollovers – no check processing/handling
- ▶ QDROs and Survivor accounts follow the same distribution rules as Retirees
- ▶ Distribution requests are valid until modified
- ▶ Balances under \$200 will be distributed via ACH and not available for rollover
- ▶ Distribution applications for new retirees follow the same deadlines as others. For example, a member retiring on the April 13th agenda must have their request in by March 31st to be included in the April distribution pool. This application will become part of the retirement process.
- ▶ Hardship rules and a process have been incorporated into the policy
- ▶ All outstanding DROP Lump Sum requests and existing Installment requests are void
- ▶ The Board reserves the right to amend the policy if it is in the best interest of the Fund to do so

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