# Dallas Police and Fire Pension System

# State of the Fund

City of Dallas: Government Performance and Financial Management Committee

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# Goals of the Presentation

- To provide important information to the GPFM Committee about the funded status of DPFP.
    - Based on the 1/1/2022 Actuarial Valuation
- To provide a brief review of the actuarial impact of the legislative changes in 2017 (HB 3158) and a summary of the review required by Statute in 2024/2025.
- To be candid with the GPFM Committee about challenges to the funded status of the Plan.

DALLAS POLICE & FIRE PENSION SYSTEM

# Dallas Police & Fire Pension System (DPFP) - Overview

Purpose: Provide retirement, death and disability benefits to police and firefighters employed by the City of Dallas.

DPFP has two defined benefit pension plans.

- The Regular Plan covers all members through their civil service ranks.
  - Established by Texas Statutes
  - 99.2% of DPFP's assets and liabilities are in the Regular Plan.
  - Membership:
    - Active – 5,088
    - Retirees & Beneficiaries – 5,196
- Supplemental Plan is for the chiefs and captures the additional pay a member may have above their highest civil service grade/step.
  - Established by City Ordinance.  Benefit provisions follow the same structure as the Regular Plan.
  - 0.8% of DPFP assets and liabilities.
- This presentation includes information related to the Regular Plan only.

# Dallas Police & Fire Pension System (DPFP) - Governance

DPFP is an independent organization from the City of Dallas but is included in the City's financial statements and the City appoints the majority of the Board.

11-member Board of Trustees (restructured by HB 3158)

- 6 appointed by Mayor
- 1 Police Representative, elected by active members
- 1 Fire Representative, elected by active members
- 3 Non-members, selected by nominations committee representing 11 associations, elected by active members and retirees

- Trustees must have demonstrated financial, accounting, business, investment, real estate, or actuarial expertise
- An Investment Advisory Committee is required with the majority of the members being outside investment professionals and not Trustees.

# Funded Position Data

## 1-1-2022 Actuarial Valuation

| | |
|---|---|
| Total Actuarial Accrued Liability: | $5.2 billion |
| Market Value of Assets: | $2.2 billion |
| Unfunded Liability: | $3.0 billion |
| Funded % (Market Value): | 41.83% |

Projected year of full funding: 2090 (68 years)

- Assumes that **every year** all assumptions are met including the City Hiring Plan payroll projections from HB 3158 and 6.5% assumed rate of return.

The PRB requires funding period of less than 30 years. This requirement must be met by 2025.

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# Funded Position Data

## 1-1-2022 Actuarial Valuation

- City Actuarial Determined Contribution (ADC): 52.30%

  The ADC is the contribution needed each year to fund the plan in 23 years.

- Actual City Contribution in 2021: 38.73%

  Actual contributions include 34.50% of computation pay plus any additional amounts to meet the minimum contributions required in the Statute plus the additional $13 million required annually until 2025.

- Based on the adopted Funding Policy, the DPFP Board is required to notify the City that the actual City contributions have been more than 2% below the Actuarial Determined Contribution (ADC) for two consecutive valuations and, in such event, the Board must consider whether to recommend a contribution increase to the City. This valuation marks that second valuation benchmark.

Annual Adjustment (COLA): If all assumptions are achieved, the first time an annual adjustment (COLA) could be considered is 2073 (51 years).

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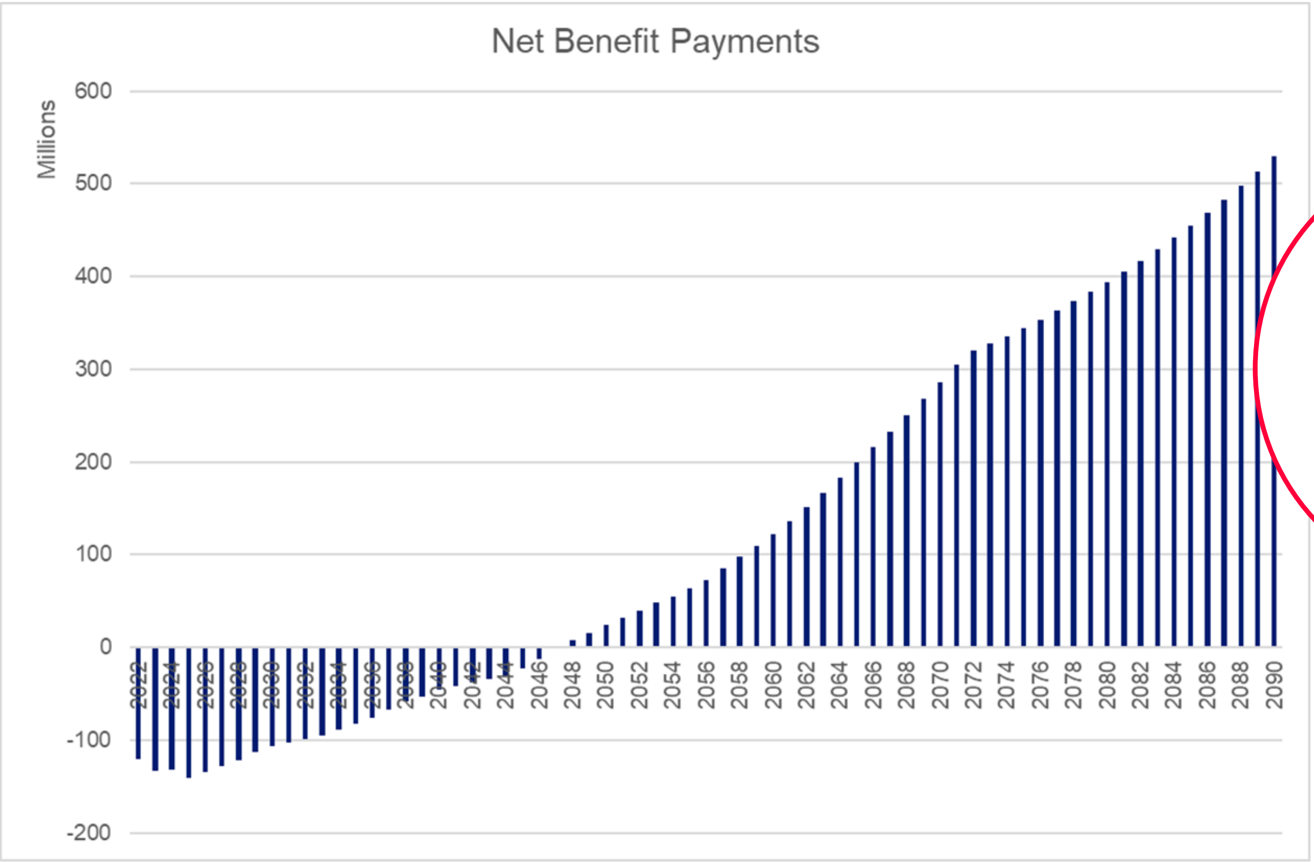
# Net Benefit Payments

Benefit payments exceed contributions until 2047 (Hiring Plan)

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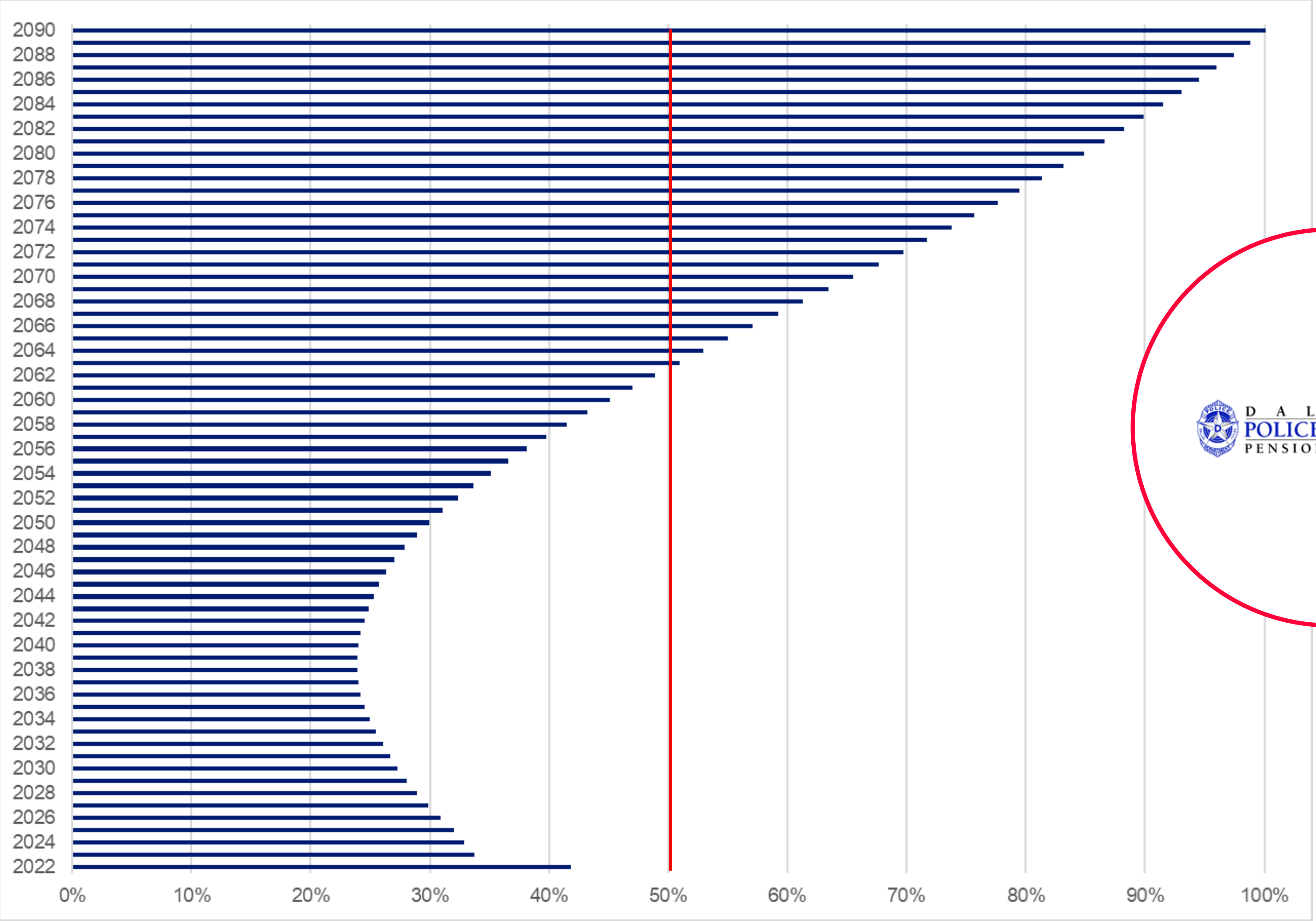
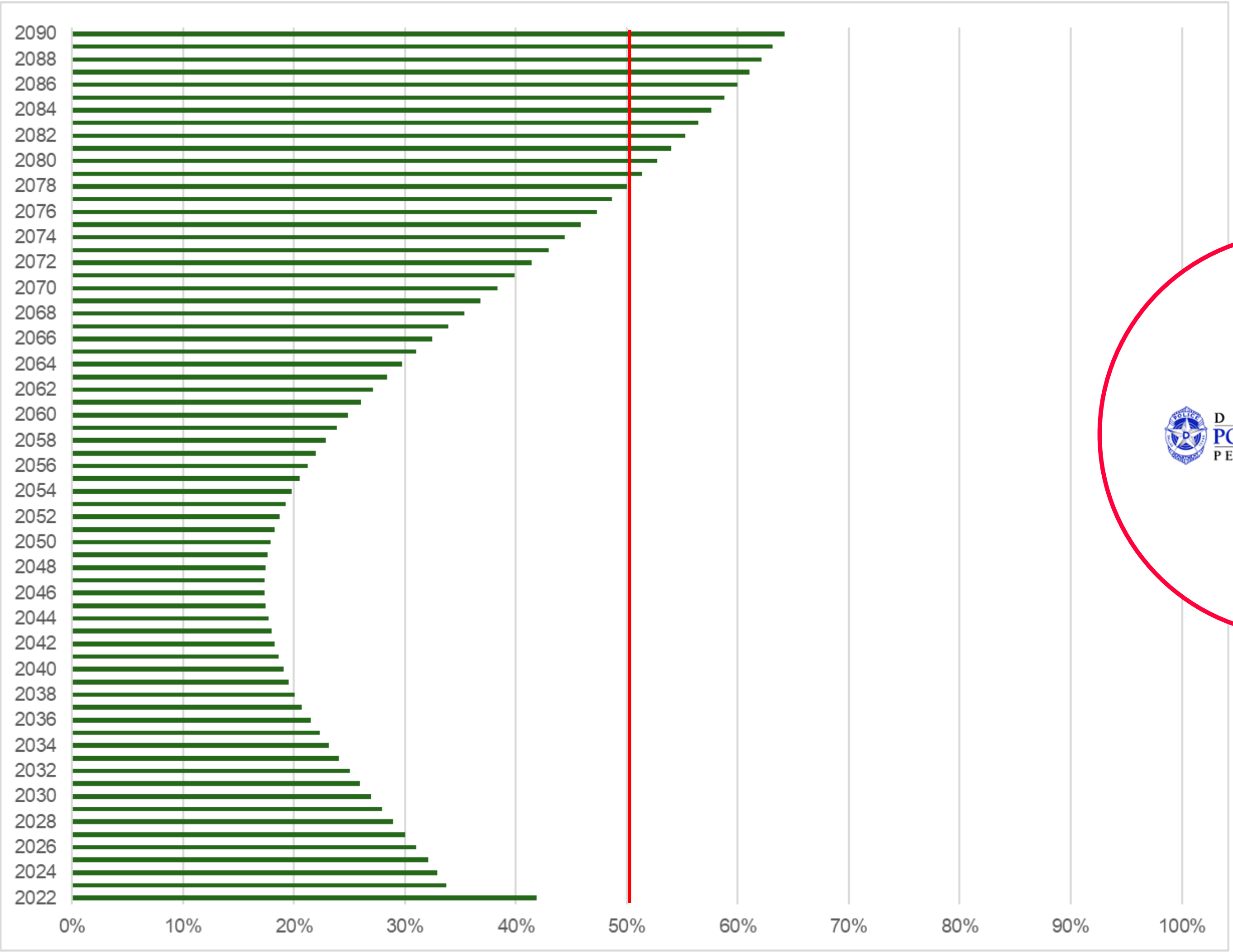
# Projected Funded Percentage

## City Hiring Plan Assumptions



# Projected Funded Percentage

2.5% growth on actual computation pay

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# 2024 Statutorily Required Analysis & Changes

1. Before 7/1/2024 the PRB must hire an independent actuary to analyze the most recently completed valuation.
2. The independent actuary submits a report to the PRB not later than 10/1/2024:
   - Conclusion regarding whether the pension meets State Pension Review Board pension funding guidelines; and
   - Recommendations regarding changes to benefits or to member or city contribution rates.
3. Not later than 11/1/2024, the DPFP Board shall adopt a plan that:
   - Complies with funding and amortization period requirement under 802 of the Government Code
   - Takes into consideration the actuary's recommendations.
4. Not later than 12/1/2024, the PRB submits a report to the legislature regarding the actions taken to comply with this section, the Actuary's report and the DPFP Board's rules adopted under item 3.
5. 1/14/2025 the Legislative session begins.

The funding level will not meet funding requirements in 2024 so changes will be required. The funding gap cannot be solved in any meaningful way by benefit cuts, employee contribution increases, or investment returns. The reason for this is due both to the small difference between the actuarial normal cost of benefits and employee contribution rate as well the large amount of the accrued liability that has already been earned.  The only viable solution is additional substantial funding from the City.

# 2017 Plan Changes

- During 2015 DPFP became aware that the Plan had significant funding issues.
- The funding issues caused by a combination of the plan design and investments results.
- DPFP and the City worked to develop a solution prior to the 2017 legislative session but were not able to come to an agreed upon solution.
- After a very difficult process, HB 3158 was adopted unanimously by the legislature. The City, DPFP and most of the associations supported the compromise legislation.
- Although the legislation contained massive changes to the benefits/contributions, it was known to all involved that this was a 7-year bridge and not a complete solution.
  - With the 2017 legislation the funded period was 44 years to full funding. The Plan was 49% funded and projected to decline for many years even if all the assumptions were met.
  - The legislation requires an actuarial analysis in 2024 to determine if the PRB requirements are met and if not, a solution must be adopted to meet the requirements.

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# 2017 Plan Changes

- The 2017 changes impacted retirees, current and future active members. These changes were not simply a new tier of benefits that impact only future employees.
- For active employees hired prior to 3-1-2011, their benefit is now bifurcated – the time earned prior to 9-1-2017 is at the higher benefit formula and the time after 8-31-2017 is earned at the lower benefit formula.
    - Employees hired after 2-28-2011 already had a lower benefit structure.

DALLAS POLICE & FIRE PENSION SYSTEM

| **Actuarial Data** | 2017 valuation **without** HB 3158 | 2017 valuation **with** HB 3158 |
|---|---|---|
| City Actuarial Determined Contribution $ | $250 million | $169 million |
| City Actuarial Determined Contribution % | 70% | 47% |
| Expected Member Contributions | $27 million | $35 million |
| Years to Full Funding | Insolvent in less than 15 years | 100% funded in 44 years |
| Funded % | 40% | 49% |
| Total Liability | $5.4 billion | $4.4 billion |
| Unfunded Liability | $2.2 billion | $3.2 billion |

# Risks & Challenges to the Funded Status

- If all assumptions are met **every year**, the funding percentage is projected to be very low for many years.
  - A significant loss in any year would likely result in an insolvency projection.
- Benefit payments exceed contributions by $100 million annually.
  - Meeting this liquidity demand has an impact on the investment allocation and reduces return potential.
- Payroll projections may be unachievable.
- The majority of the liability in the Plan has already been earned by the members and retirees. That portion of the liability would not be impacted by future changes.
- Adjustments to existing and future members benefits are not practical. The current member contribution of 13.5% is only 2% below the value of the benefit for new service earned.
- Investment returns can not solve the funding gap.