City of Dallas

Dallas Police and Fire Pension System (DPFPS): Funding Soundness Restoration Plan Discussion and Recommendation

September 4, 2024

Jack Ireland
Chief Financial Officer

Purpose

- Review Texas Pension Review Board (PRB) funding requirements
- Discuss City staff's recommendation for a Funding Soundness Restoration Plan (FSRP) for Dallas Police and Fire Pension System (DPFPS)
- Provide next steps

PRB Requirements

- City of Dallas has one* primary employer defined-benefit pension plan that provides retirement, disability, and death benefits for permanent police and fire uniform employees of the City
  - Dallas Police and Fire Pension System (DPFPS)
- Texas Pension Review Board (PRB) is mandated to oversee all Texas public retirement systems based on Chapter 802 of the Texas Government Code
  - PRB's funding guidelines require that actual contributions should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability over as brief a period as possible, but <u>not to exceed 30 years</u>
  - As of January 1, 2023, DPFPS is projected to be fully funded in 82 years

*Note: DPFPS has a Supplemental Plan for Chiefs which captures additional pay above their highest civil service grade/step. This presentation does not include information regarding the Supplemental Plan.

PRB Requirements

- HB3158 (2017) which amended Article 6243 of the Texas Civil Statute mandates that DPFPS board must adopt a funding plan that complies with the 30-year amortization period requirements of Section 802 of the Texas Government Code and submit it to the PRB by November 1, 2024
- DPFPS board and City is required to formulate and submit Funding Soundness Restoration Plans (FSRP) to comply with 30-year amortization requirements to PRB prior to September 1, 2025 in accordance with Chapter 802 of Texas Government Code

DPFPS – HB3158 Actions

- Texas Legislature passed HB3158 in 2017 to address DPFPS financial solvency, near-term issues, and provide bridge to a long-term solution by 2025
- Change of governance – from police and fire and City Council dominated board; to 6 mayoral appointees and 5 trustees elected by the members (including 1 police officer and 1 fire fighter)
- Changes were made to employee contribution rate and City’s fixed-rate contributions, and provided 7 years of “floor” for City’s contributions
- Future benefits were reduced for active employees, retirees, and beneficiaries
    - Prior to 2017, DROP accounts had floor of 6% interest annually regardless of actual earnings (guaranteed interest was higher prior to 2014)
    - Prior to 2017, COLA was 4% every year
    - Since 2017, all COLA suspended until DPFPS is stabilized and funding is 70%
- HB3158 requires a plan be submitted to PRB by November 1, 2024 that achieves full-funding in 30-years, but does not require any change to benefits

DPFPS – City Staff Recommendations

- Implement Actuarial Determined Contribution (ADC) methodology which adjusts annually to recognize actual experience, and include five-year step up
  - Five-year step up allows City to better manage impact on budget and other needs/priorities of the City
  - Satisfies HB3158 requirements and accomplishes PRB requirements to be fully-funded in 30-years
- No change to employee contribution rates
- No change to benefit structure as outlined in HB3158

DPFPS – City Staff Recommendations

- COLA After 70% Funded:
  - Continue requirement to be 70% funded before ad hoc simple COLA is available as outlined in HB3158

- **Previous staff recommendation**
- Modify COLA methodology from being based on investment returns as outlined in HB3158 to instead being based on CPI not to exceed 1.75%*
  - No cost change to HB3158 actuarial modeling
- In future, increase COLA to an amount not to exceed 3%, contingent on either lump sum contribution or additional revenue stream from the City*

- **Revised staff recommendation**
- No change to HB3158 COLA requirements or methodology
- HB3158 COLA methodology depends on investment returns, not inflation, and is based on five-year average return, minus 5%, with maximum of 4%
- This is consistent with DPFPS revised recommendation on August 8, 2024
  - "Above 70% funding: the COLA is granted per the current language in the statute"

*Note: May require legislative change.

DPFPS – City Staff Recommendations

- Supplemental Pay Before 70% Funded:
  - Offer supplemental pay to bridge 2025 to 2046 (forecast 70% funding threshold)
  - Supplemental pay before achieving 70% funding is above and beyond HB3158 requirements
  - 1% increase in 2025 to be added to retiree base pension
  - Additional 1% per year as stipend (not added to base), contingent on DPFPS having positive returns

DPFPS – City Staff Recommendations

Oversight Concept	Recommended Language from Changes to Chapter 40-A
Provide oversight of expenses that will increase DPFPS unfunded liability and increase cost to City	Changes to the actuarial assumptions, including, but not limited to, the discount rate, that increases the retirement fund liability must be approved prospectively by the board and the city council. Settlement of any lawsuit by the retirement fund that increases the retirement fund liability must be approved prospectively by the board and the city council.
Establish guardrails to mitigate year-over-year cost increases	After the applicable phase-in period defined, if in any fiscal year the actuarially determined contribution rate (excluding the January 1, 2025 unfunded actuarially accrued liability 30-year amortization schedule) exceeds plus or minus five percent of the actuarially determined contribution rate (excluding the January 1, 2025 unfunded actuarially accrued liability 30-year amortization schedule) specified by the January 1, 2025 actuarial valuation, the excess amount will be amortized over a period of 20 years or until January 1, 2055, whichever is later. If the city council determines that the fund is projected to be fully funded in over 30 years, the city council may, in its sole discretion, waive this paragraph. The board may make a recommendation to city council requesting that city council waive this paragraph.
Establish process for managing differences in ADC calculations	Annually, the fund and the city will each calculate an actuarially determined contribution rate for the following fiscal year. The city will accept the rate that is determined by the fund's actuary and presented to the board, except, if the difference between the rates that are calculated by the actuaries of the city and the fund is greater than three percent, the fund and the city shall engage in a 30-day reconciliation period. If, within such period, the actuaries of the city and the fund reconcile the results of their respective calculations of the actuarially determined contribution rate for the applicable fiscal year, the rate that was calculated by the fund's actuary shall be accepted by the city and the fund. If no such resolution is reached within the 30-day reconciliation period, an average of the rates, determined by the actuaries of the city and the fund, will be used to determine the city's contribution for the upcoming fiscal year.

DPFPS – Comparison of Recommendations

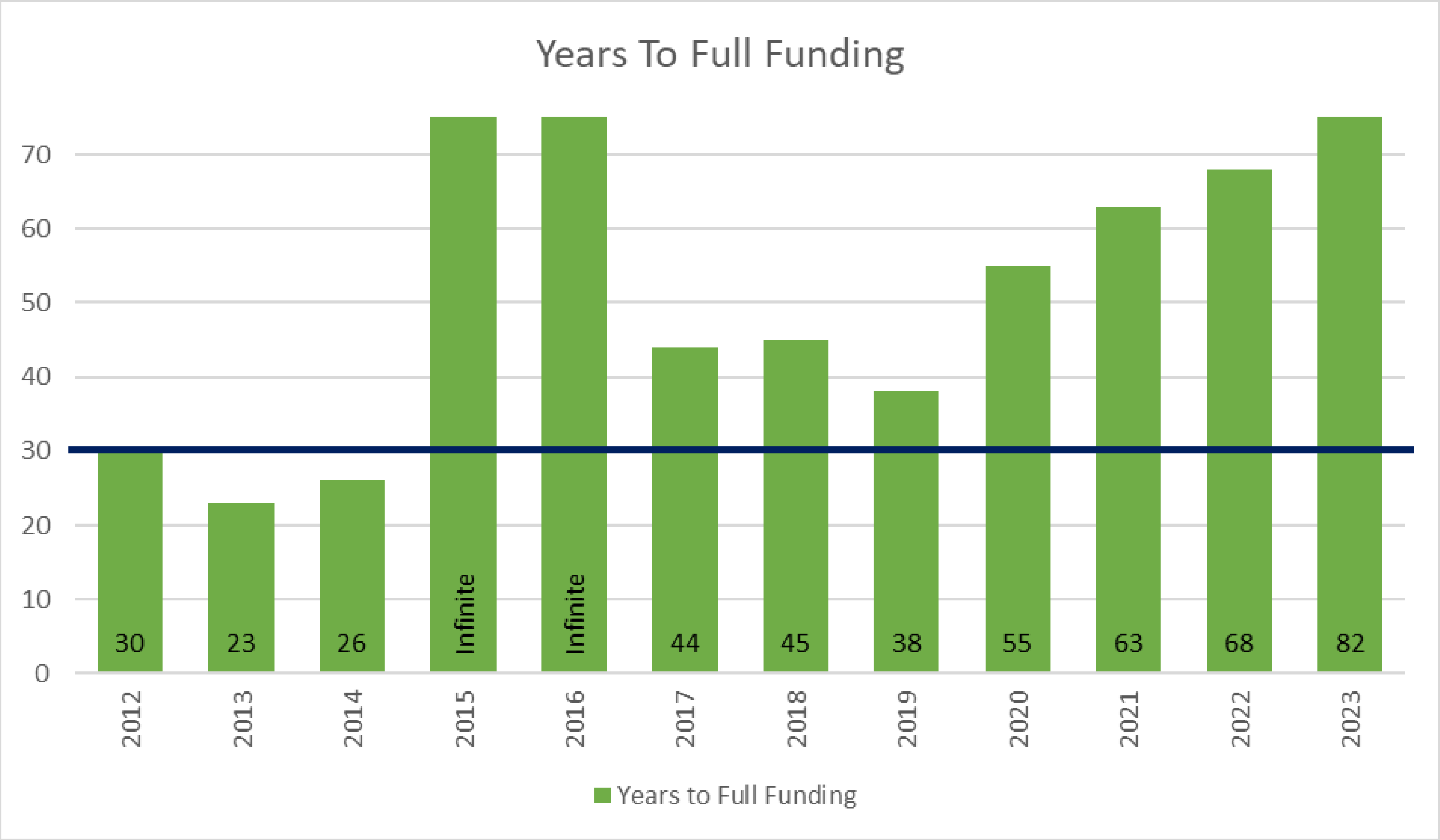
	Status Quo	City Staff Recommendation	DPFPS Staff Plan Prior to August 8, 2024	DPFPS Revised Plan August 8, 2024
Contribution Methodology Note: State/PRB requires full funding within 30-years.	• City contribution is 34.5% of pay. • Achieves full funding in 82-years and does not comply with State PRB requirements. • 30-year cost = $7.9 billion.	• ADC with 5-year step-up. • Achieves full funding in 30-years. • 30-year cost = $11.06 billion.	• ADC with 3-year step-up. • Achieves full-funding in 30-years. • 30-year cost = $10.97 billion.	• ADC with 3-year step-up. • Achieves full-funding in 30-years. • 30-year cost = $10.97 billion.
COLA After 70% Funded Note: COLA is included in HB3158 once DPFPS achieves 70% funding.		• Maintain COLA as defined in HB3158 based on 5-year average rate of return minus 5%, not to exceed 4%. • 30-year cost = no additional cost. Note: City staff previous recommendation was to modify future COLA methodology to be based on CPI instead of return on investment. See slide 7.	• Modify current ad hoc COLA to 1.5% automatic. • New COLA based on 70% Purchasing Power (Cheiron). • 30-year cost = adds $412.5 million.	• Maintain COLA as defined in HB3158 based on 5-year average rate of return minus 5%, not to exceed 4%. • 30-year cost = no additional cost.
Supplemental Pay Before 70% Funded Note: Above and beyond requirements of HB3158.		• Supplemental pay - 1% increase to pension base in 2025. • Supplemental pay - 1% per year stipend 2026 until 70% funded contingent on positive return. • 30-year cost = adds $136 million.	• Supplemental Pay which increases in pay each year ($5 x year of service x year retired since 2017). • 30-year cost = adds $233.2 million.	• Annually grant Immediate Partial COLA calculated as the market value funded percentage multiplied by increase in CPI, with maximum of 1.5%. • 30-year cost = $826.8 million.
Total Cost to City over 30-years	**$7.9 billion**	$11.06 billion + $136 million = **$11.2 billion**	$10.97 billion + $412.5 million + $233.2 million = **$11.6 billion** $400 million more than City's recommendation	$10.97 billion + $826.8 million = **$11.8 billion** $600 million more than City's recommendation

DPFPS – Next Steps

- September 4 – City Council briefing
- September 11 – City Council action to approve Funding Soundness Restoration Plan
- By end of September – Submit City Council approved Funding Soundness Restoration Plan to Pension Review Board

Appendix

DPFPS – Funding Status

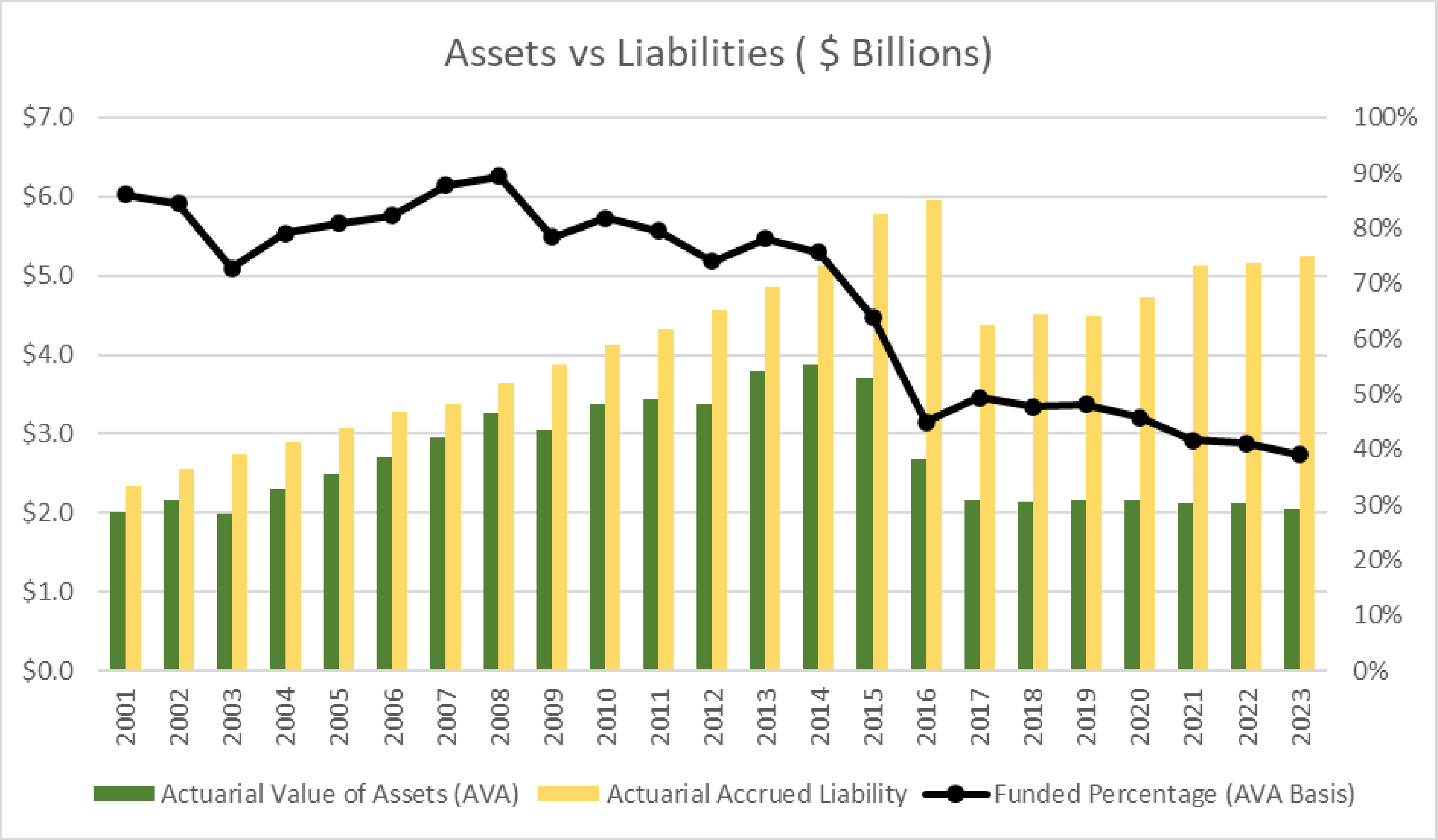


As of January 1, 2023, DPFPS is projected to be fully funded in 82 years.

HB3158 requires a funding plan be submitted to PRB by November 1, 2024.

PRB requires a FSRP be submitted by September 1, 2025 that achieves full-funding within 30-year.

DPFPS – Funding Status



As of January 1, 2023, DPFPS is 39.1% funded.

HB3158 requires DPFPS to be 70% funded in order to provide COLA.

Dallas Police and Fire Pension System (DPFPS): Funding Soundness Restoration Plan Discussion and Recommendation

City of Dallas

September 4, 2024

Jack Ireland
Chief Financial Officer