



City of Dallas Pension Systems

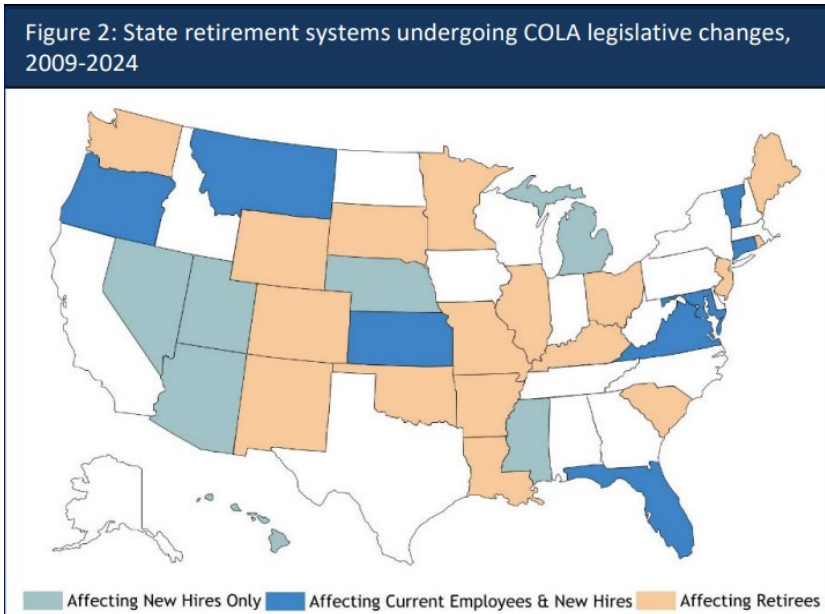
Cost of Living Adjustment (COLA) Discussion

Deloitte Consulting LLP
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National COLA Trends 2009 – 2024

As part of efforts to contain costs and to ensure the sustainability of public pension plans, and in response to a period of historically low rates of inflation that lasted for over a decade during and after the Great Recession, many states made changes to COLA provisions. Since 2009, **17 states** have changed COLAs affecting current retirees, **eight states** have addressed current employees' benefits, and **seven states** have changed the COLA structure only for future employees:



The table below summarizes the major COLA provisions for **State pension systems** across the country.

	Linked to Inflation	Linked to investment or funding factors	Linked to CPI and investment or funding factors	Fixed percentage or other factor	Total
Automatic	40	6	11	15	74
Ad-hoc	3	8	0	18	27
Total	43	14	11	33	101

Notes: COLAs for some employees of local governments who participate in statewide systems are discretionary based on the decision of individual local government. COLAs for some plans have been eliminated for the foreseeable future. These plans are not included in the table counts.

Source: NASRA Issue Brief: Cost-of-Living Adjustments, May 2024
 (<https://www.nasra.org/files/Issue%20Briefs/NASRACOLA%20Brief.pdf>)

COLA Structure of DPFP and ERF

Dallas (Fire and Police)

- *Current Funded Ratio: 39%*
- **Prior to 2017:** Tier 1 Automatic 4% COLA. Tier 2 Ad Hoc 4% COLA that must be approved by the Board
- **After 2017:** Ad Hoc COLA equal to the five-year average return less 5%, maximum of 4%. Funded status must be over 70% after application of COLA
- Including a COLA assumption in the projections of Actuarially Determined Contributions (ADC) results in the City pre-paying for future ad hoc COLAs that may or may not be granted

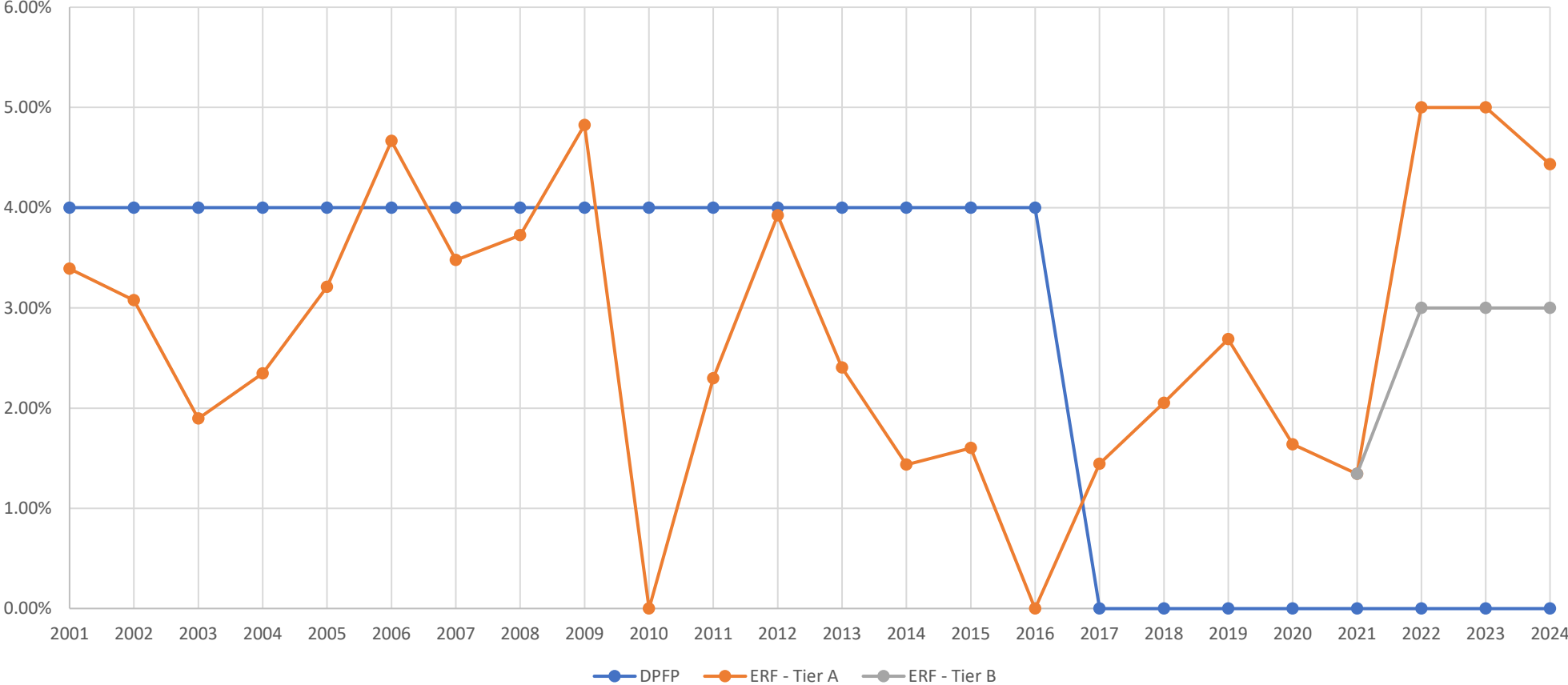
Dallas ERF (General)

- *Current Funded Ratio: 73%*
- COLA is automatic
- COLA is equal to CPI, with maximum of 5%/3% for Tier A/B respectively
- Given that the plan provides automatic COLAs tied to CPI, it is reasonable to include and pre-pay for future COLAs

The Governmental Accounting Standards Board GASB requires public pensions to disclose COLA assumptions, COLA type (automatic or ad hoc), and to factor in COLA costs in pension benefit projections for automatic and substantively automatic COLA. An ad hoc COLA is deemed '**substantively automatic**' when a **historical pattern exists** or when there is consistency in benefit increases relative to an inflation index.

Historical COLA for DPFP and ERF

ERF & DPFP COLA by Year



	DPFP	ERF - Tier A	ERF - Tier B
2001 - 2024 Average	2.67%	2.74%	N/A

COLA Structure of Peer Cities

Over the past several years, peer cities have generally been reducing COLA and/or heightening the approval process between Board/City/Legislature.

Forth Worth (Fire, Police, General)

- *Current Funded Ratio: 55%*
- **Prior to 2008:** 2% automatic COLA
- **2008:** All new hires get *Conditional Ad Hoc COLA**; retired members make irrevocable choice between guaranteed 2% COLA and Ad Hoc Variable COLA
- **2011:** Eliminated COLA for all new hires (2011 for General EE's, 2013 for Police, 2015 for Fire)
- **2018:** Eliminate COLA for benefit on future service after July 2019, and changed COLA to a Variable COLA for all future retirees who have not retired by 1/1/2021 (paid if current contribution rate exceeds the 30-year ADC for two consecutive years and the Variable COLA is approved by the *Board and City*, not to exceed 4%)

*Conditional Ad Hoc COLA is tied to Full-Funding Period:

Funding Period (Years)	COLA Increase
28.1 or Greater	0.0%
24.1 to 28.0	2.0%
18.1 to 24.0	3.0%
18.0 or less	4.0%

Houston (Fire and Police)

- *Current Funded Ratios: 96%/89% (Fire/Police)*
- **Prior to 2017:** Automatic COLA (3% for Fire, 80% of CPI-U, range of [2.4, 8.0%], for Police)
- **2017:** COLAs suspended for all retirees under age 70 for 2017-2020 due to financial hardships for the Plans
- **After 2020:** COLA remains automatic, but is tied to five-year average returns less 4.75%/5.00% (Fire/Police), with a maximum of 4%, payable to age 55+ only

Houston (General)

- *Current Funded Ratio: 69%*
- COLA have always been automatic
- **Prior to 2017:** Members hired before 1/1/05 received 3% COLA; members hired between 1/1/05 and 1/1/08 received 2% COLA; members hired after 1/1/08 receive no COLA.
- **2017:** All employees* (including those hired after 1/1/08) receive 50% of the five-year average return less 5.00%, with a maximum of 2%.

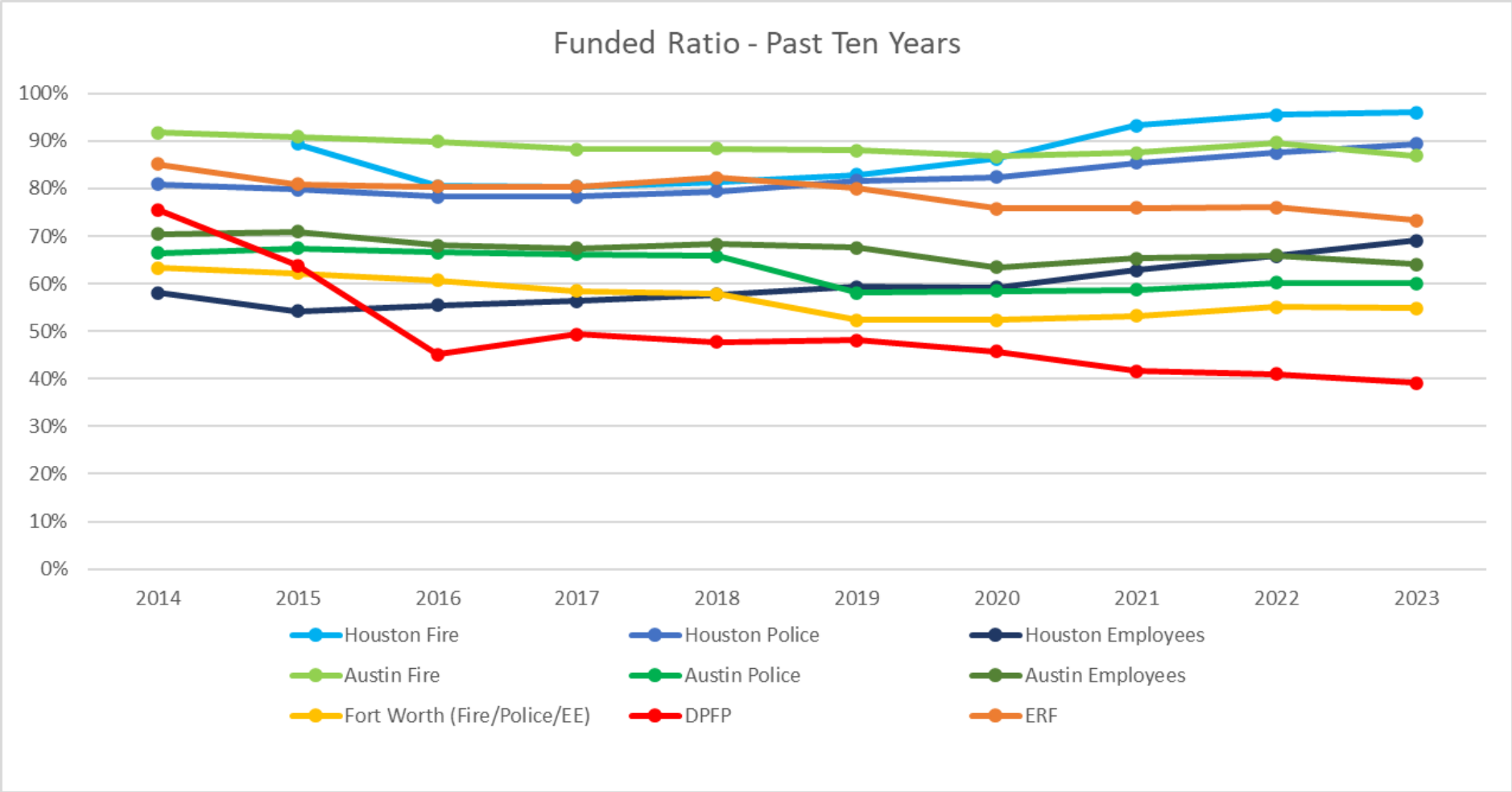
* Group D members who terminated prior to 2017 are not eligible for COLA

Austin (Police, Fire, General)

- *Current Funded Ratios: 60%/87%/64% (Police/Fire/General)*
- COLA have always been ad hoc
- **Police:**
 - COLA amount is recommended by actuary, maximum 6%
 - COLA is subject to Board, City, and Legislature approval (HB 4368 in 2021)
 - No COLA since 2007
- **Fire:**
 - COLA amount tied to CPI-U, can only be considered if Funded Ratio $\geq 80\%$ and Funding Period ≤ 25 Years for each year in 10-year projection after incorporating COLA.
 - COLA is subject to Board approval
- **General**
 - Similar to Police, but with added requirements contingent on funded ratio / funding period
 - No COLA since 2002
- See appendix for history of actual COLA's.

COLA Structure of Peer Cities

Peer cities have reduced COLA, despite being better funded than DPF



- Austin Fire, Austin Police, Austin EE's, Fort Worth, and Dallas ERF are 12/31 valuation dates; 2023 above aligns to 12/31/22 Valuation.
- Houston Fire, Houston Police, and Houston EE's are 7/1 valuation dates; 2023 above aligns to 7/1/23 Valuation.
- DPF is a 1/1/ valuation date; 2023 above aligns to 1/1/23 Valuation.

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Appendix



COLA Structure of Peer Cities

Plan	Most Recent Funded Ratio	Automatic / Ad Hoc	Amount	Other Risk-Sharing Conditions	Approval Process	Assumed COLA by Fund Actuary
DPFP – Pre-2017	39%	Automatic – Tier 1 Ad Hoc – Tier 2	4%	N/A	Board	4%
DPFP – Post-2017		Ad Hoc	Five-Year Avg Return less 5%, maximum of 4%	Funded Status must be > 70% after application of COLA	Board	1.5% after 70% Funded
Dallas ERF	73%	Automatic	CPI, max 5%/3% for Tier A/B	N/A	N/A – Automatic	2.50% (Tier A) 2.20% (Tier B)
Austin – Police	60%	Ad Hoc	Recommended from Actuary, maximum 6%	N/A	Board, City, Legislature (effective 1/1/22)	Zero
Austin – Fire	87%	Ad Hoc	CPI-U, does not apply to Early Retirement before Normal Retirement Date	Before COLA can be considered for approval, the following must be certified by Fund Actuary: <ul style="list-style-type: none"> Funded Ratio \geq 80% for each year in 10-year projection after incorporating the COLA Funding Period \leq 25 Years for each year in 10-Yr projection, after incorporating the COLA 	Board	Zero
Austin – Employees	64%	Ad Hoc	Recommended from Actuary, maximum 6%	Before COLA can be considered for approval, the following must be certified by Fund Actuary: <ul style="list-style-type: none"> Funded Ratio $>$ 80% after incorporating the COLA Funding Period is \leq 20 Years after incorporating the COLA Actual Employer Contribution \geq ADC after incorporating the COLA Board has reviewed sensitivity/stress testing 	Board, City, Legislature (effective 9/1/23)	Zero

COLA Structure of Peer Cities

Plan	Most Recent Funded Ratio	Automatic / Ad Hoc	Amount	Other Risk-Sharing Conditions	Approval Process	Assumed COLA by Fund Actuary
Houston – Fire	95%	Automatic	Five-Year Avg Return less 4.75%, maximum of 4%, payable to age 55+ only	Suspended for 2017-2020 for those under 70	N/A – Automatic	2.25%
Houston – Police	89%	Automatic	Five-Year Avg Return less 5.00%, maximum of 4%, payable to age 55+ only	Suspended for 2017-2020 for those under 70 Board can reduce COLA if ADC is above Corridor Midpoint	N/A - Automatic	2.00%
Houston - General	66%	Automatic	50% of Five-Year Avg Return less 5.00%, maximum of 2%		N/A – Automatic	1.00%
Fort Worth – Fire/Police/General	55%	Combo / No COLA	Tier 1*: 2% or <i>Conditional Ad Hoc COLA</i> if retired before 1/1/21, Variable if retired after 1/1/21 Tier 2*: None	Conditional Ad Hoc COLA is tied to Funding Period: <ul style="list-style-type: none"> • 0% if FP > 28 Years • 2% if 24 < FP < 28 • 3% if 18 < FP < 24 • 4% if FP < 18 Variable COLA if current contribution rate exceeds the 30-year ADC for two consecutive years, not to exceed 4%	Variable COLA: Board, City	2.00% for Simple Portion Variable built into dynamic projections
San Antonio Fire & Police	89%	Automatic	75% of CPI Board may approve a 13 th /14 th check	<ul style="list-style-type: none"> • COLA is automatic • Board may approve a 13th/14th check if 5-yr return exceeds assumed RoR by 100bp (13th check) or 300 bp (14th check) 	N/A – Automatic (COLA) Board – 13 th /14 th check	2.25% 0.1% liability load for 13 th /14 th check
El Paso Police/Fire	81%	Automatic	Tier 1: 3% Tier 2: None	N/A	N/A – Automatic	3% for Tier 1

* Tier 1: Hired before 7/1/11 (EE's), 1/1/13 (Police), or 1/10/15 (Fire)

Austin Police, Fire, and General – COLA History

Year	Fire	Police	General
2024	0%	Not Available	Not Available
2023	0%	Not Available	Not Available
2022	5.40%	0%	0%
2021	1.40%	0%	0%
2020	1.70%	0%	0%
2019	2.30%	0%	0%
2018	2.20%	0%	0%
2017	1.50%	0%	0%
2016	0%	0%	0%
2015	1.30%	0%	0%
2014	\$64/month	0%	0%
2013	\$93/month	0%	0%
2012	0%	0%	0%
2011	0%	0%	0%
2010	0%	0%	0%
2009	0%	0%	0%
2008	0%	0%	0%
2007	0%	1.75%	0%
2006	\$100/month	0%	0%
2005	\$32/month	0%	0%
2004	0%	1.75%	0%
2003	0%	3.00%	0%
2002	2.10%	1.50%	2.50%
2001	3.40%	3.00%	3.50%
2000	2.60%	3.00%	0.00%



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