

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS



City of Dallas

AD HOC COMMITTEE ON PENSIONS June 6, 2024

Cheryl D. Alston, Executive Director
David K. Etheridge, Deputy Executive Director
Employees' Retirement Fund of the
City of Dallas

Background/History



HISTORY	Established in 1944	
TYPE PLAN	Single employer defined benefit 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. Dallas ERF does not have a Deferred Retirement Option Program (“DROP”). Cost of Living Adjustments based on Consumer Price Index (CPI)	
BOARD CONSULTANTS	Actuary:	Gabriel Roeder Smith & Company
	Investment Consultant:	Wilshire
	Legal Firms:	BakerHostetler LLP Foster Garvey PC Locke Lord LLP

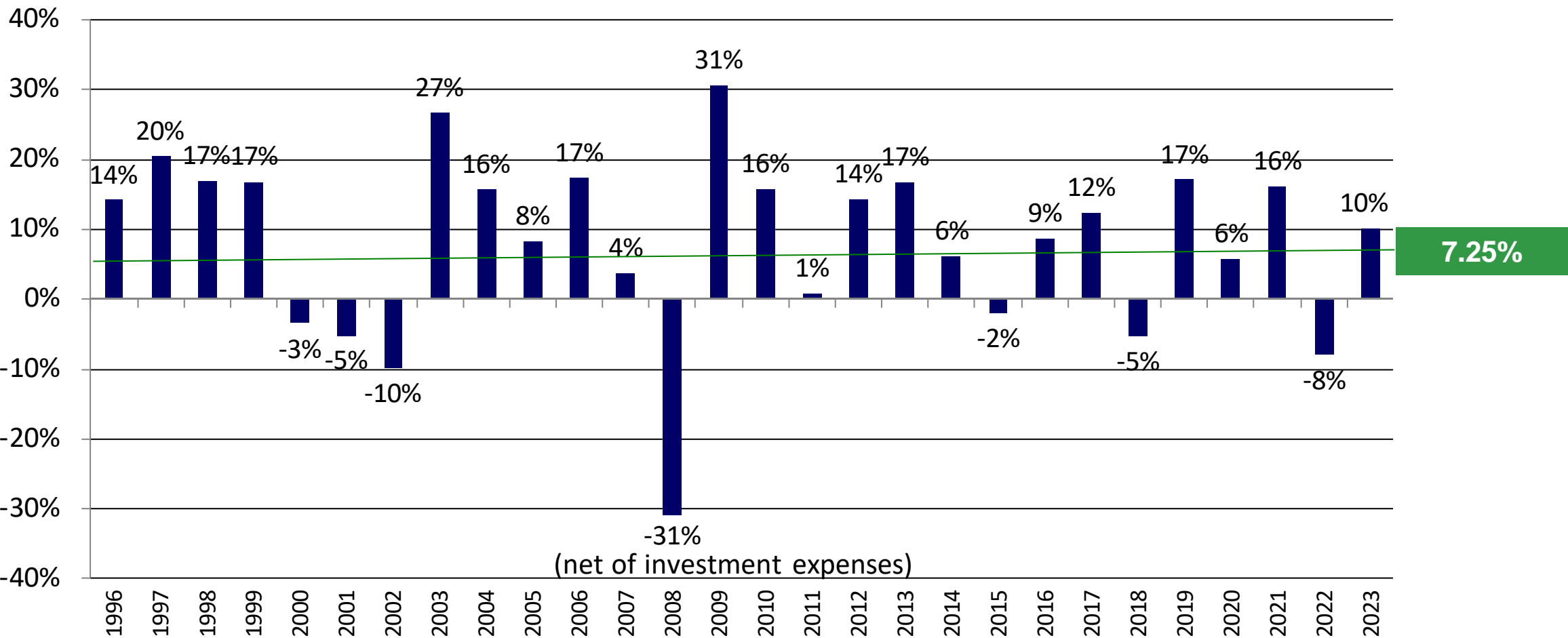


Dallas ERF has a Long-Term Horizon

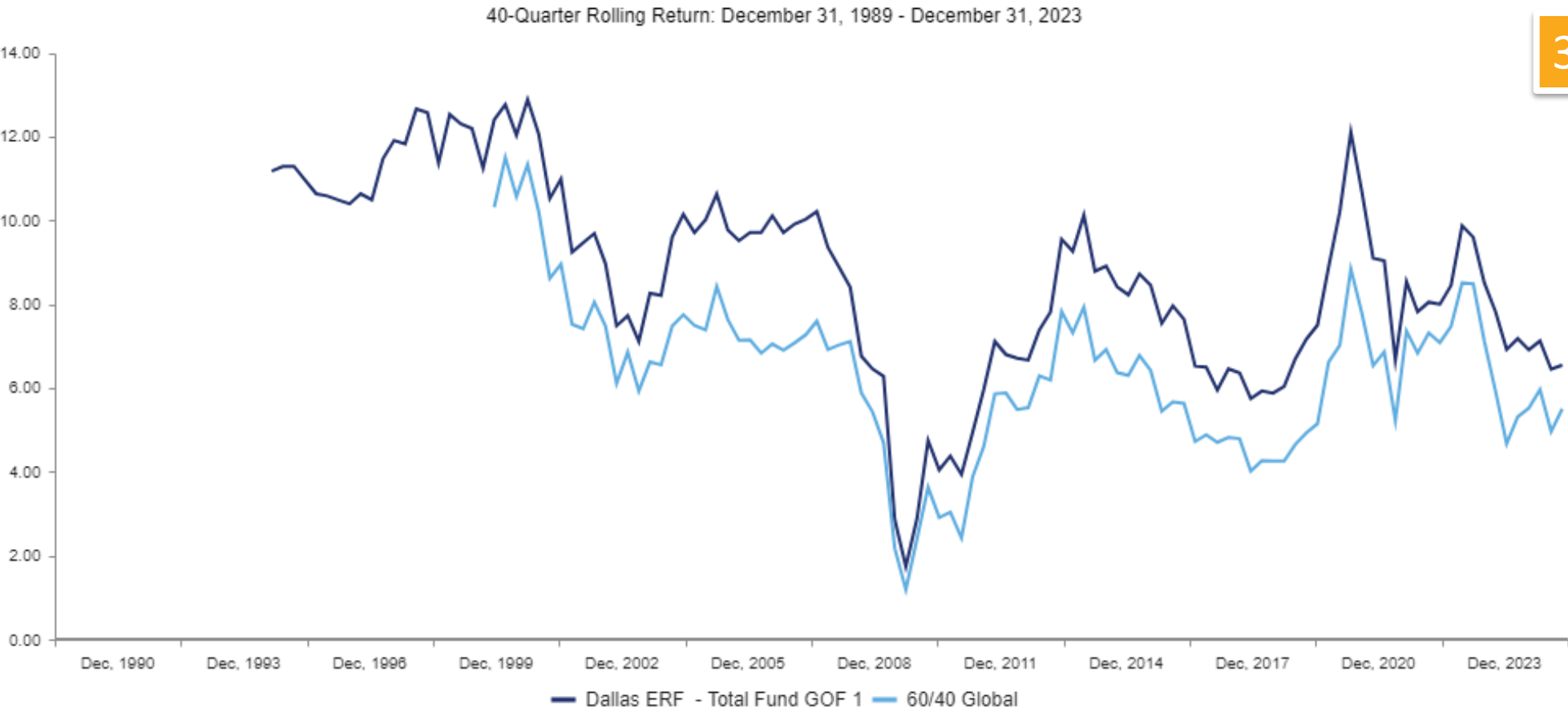


Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.
Guide to the Markets – U.S. Data are as of March 31, 2021.

Long Term Investment Performance - 25 Year History



Relative Performance: Dallas ERF vs. Global 60/40



34 - Year History

+ Quarterly data; Net of Investment Management Fees



ERF At A Glance



- ❑ Dallas ERF recognized as “Visionary of the Year” by Institutional Investor Magazine in May 2024
- ❑ Fund is in good standing
 - Conservative Global Investment Portfolio with 80% valued daily
 - Investment Returns as of 12/31/2023
 - 1-year return – 10.1%
 - 10-year return – 6.0%
 - From 1985 – 8.7%
- ❑ Assets under Management (12/31/2023) – \$3.65 billion
- ❑ Actuarial Valuation conducted annually, most recently as of 12/31/2023
- ❑ Experience study conducted every five years, and the most recent study was conducted in 2020.
- ❑ An independent peer review audit of the ERF’s actuary is conducted every five years.
- ❑ Funded ratio (actuarial assets divided by actuarial accrued liability) - 70% as of 12/31/2023*

****The City’s payroll growth increased by 5.3% greater than the assumption of 2.5% which increased the unfunded liability and thus reduced the funding level.***

ERF Members Facts & Figures as of 12/31/2023



Average Annual Benefit
\$42,789

Annual Benefit Paid to Beneficiaries
\$327 Million

ERF Employee Member Headcount
7,894

ERF Retiree Headcount
7,914

Percent of ERF Active Members
who are Dallas Residents
44%

Percent of ERF Retirees
who are Dallas Residents
35%

900+ Active Employees eligible to
retire Leave payout = \$11.7M est.
(as of 01/05/2024)

Tier B Restricted Prior Service
Participants = **410**



ERF Membership Statistics as from 12/31/2022 to 12/31/2023



- ❑ Oldest employee born in 1939 - **84 years old**
- ❑ Youngest employee born in 2005 - **18 years old**
- ❑ **900+** employees are eligible to retire
- ❑ Oldest service retiree born in 1922 - **101 years old**
- ❑ Oldest beneficiary born in 1912 - **111 years old**
- ❑ Disabled retiree has been in payment status for 58 years - **91 years old**
- ❑ **19** Service retirements have been in payment status for more than 40 years (member or joint annuitant)



How Do Civilian Employees' Serve the City of Dallas?



CODE ENFORCEMENT OFFICERS (PAY RANGE: \$42,485 - \$55,748)

- The Code Enforcement Officer investigates, inspects, and enforces municipal, land development, and property maintenance codes.

MAINTENANCE WORKERS III (PAY RANGE: \$40,035 - \$48,157)

- The Senior Maintenance Worker performs a variety of skilled difficult or complex maintenance tasks in field and ground maintenance for the City;
 - ✓ Parks and Recreation - Repair of parks, playgrounds, facilities, public spaces, and landscaping
 - ✓ Water Department - Repairs water lines regionally
 - ✓ Public Works Department - Performs asphalt/pothole repair

WATER PLANT OPERATORS (PAY RANGE: \$45,085 – \$64,535)

- The Water Plant Operator performs operational activities at a water purification plant, wastewater treatment plant, or at a system of pumping stations to ensure water supply meets customer needs and quality meets established guidelines of regulatory agencies.

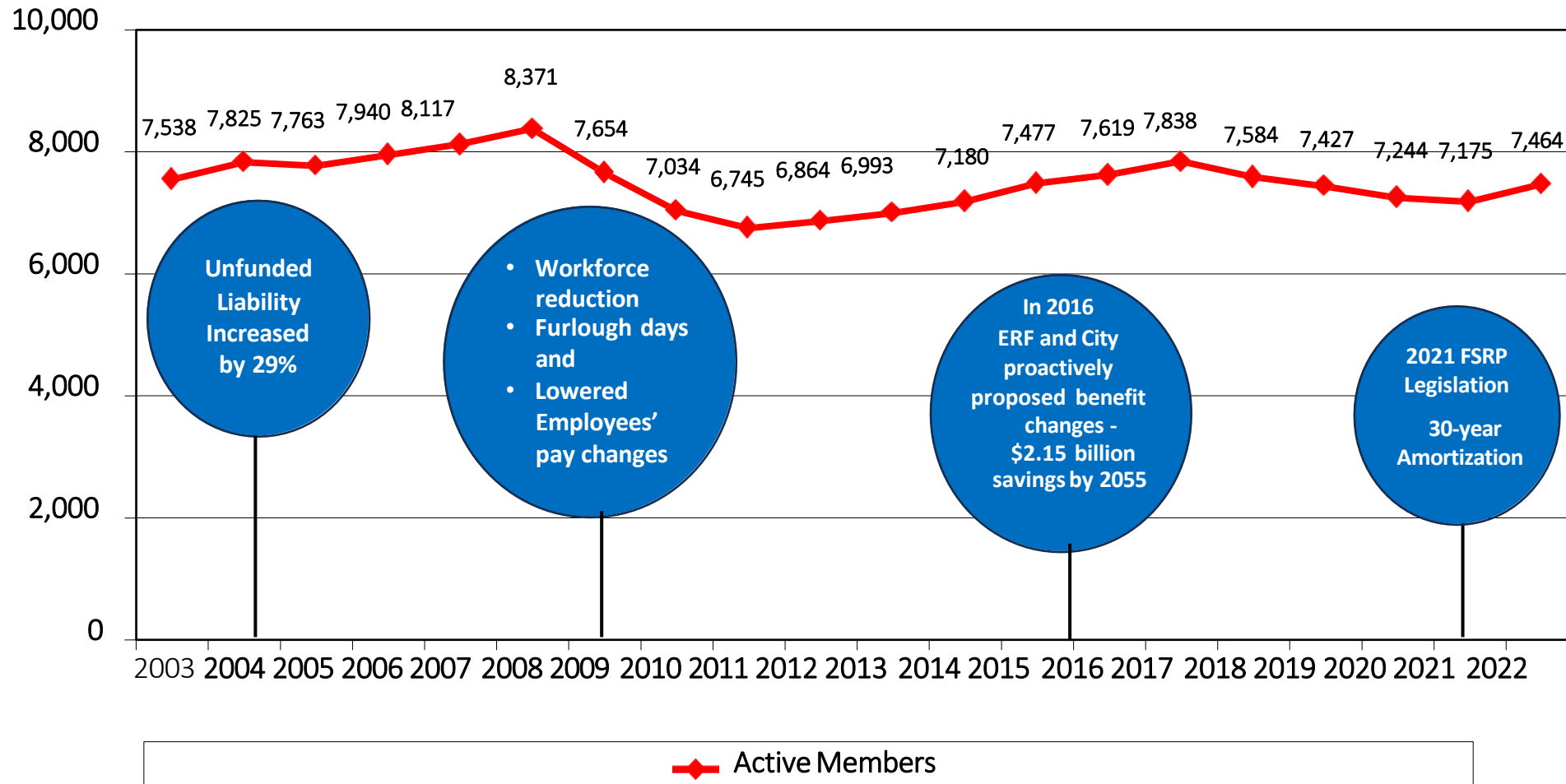
311 CUSTOMER SERVICE AGENT II (PAY RANGE: \$42,485 - \$55,748)

- The Customer Service Agent II provides non-emergency communication and response to residents requesting city services.

Civilian base pay was below market value as of 2023.



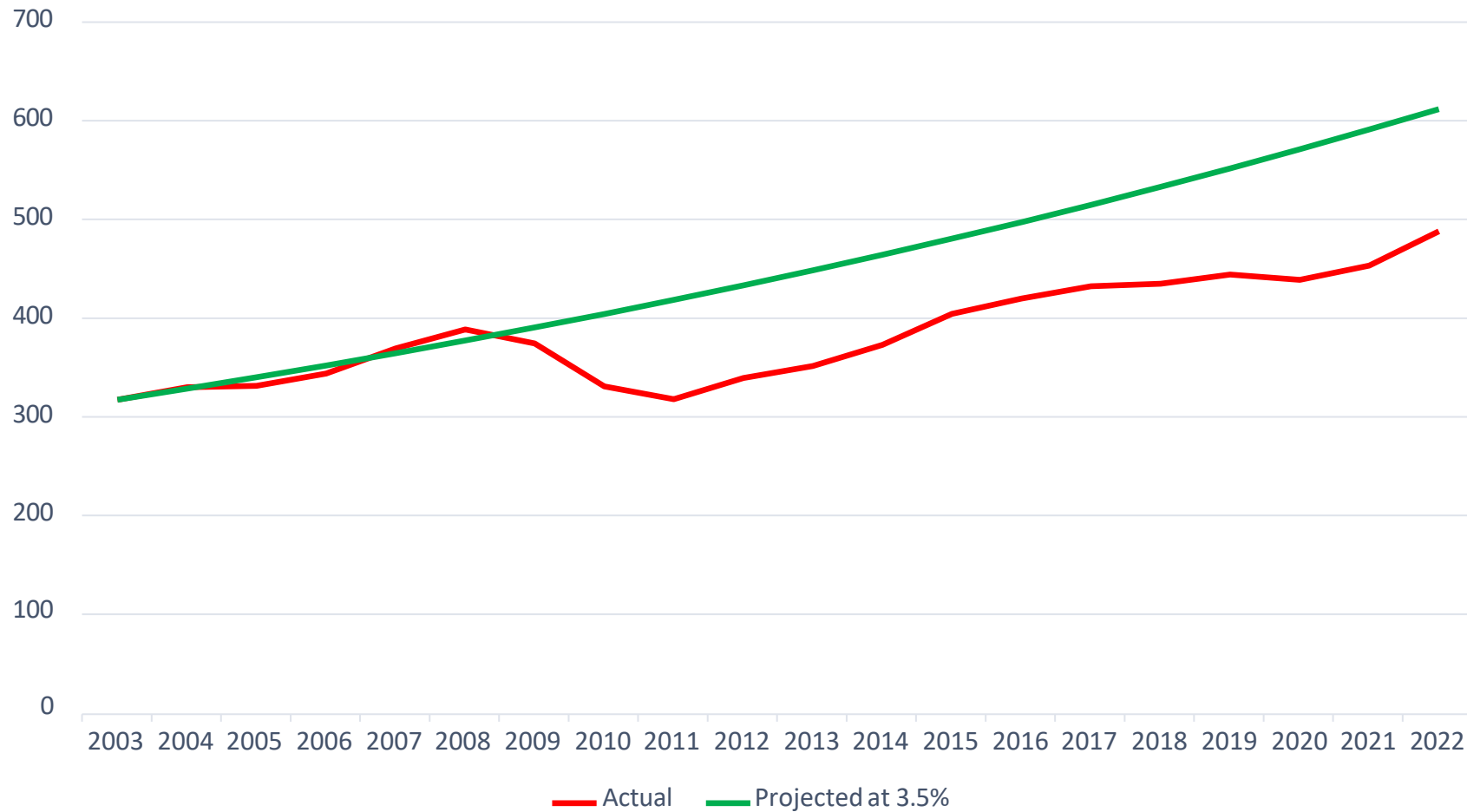
Impact of Decrease in Active Employees



Note: active membership increased 4.0% versus last year



Actual Versus Projected Payroll Growth



**Total
cumulative
decrease in
payroll from
2008 to 2022:
\$1.3 billion**



2016 Cost Impact of Studies



DALLAS EMPLOYEES' RETIREMENT FUND BENEFIT CHANGES FOR NEW HIRES

As of 12/31/2023
18.58%
(10% reduction)

Preliminary Normal Cost Rate (NC%) as of 12/31/2015

20.36%

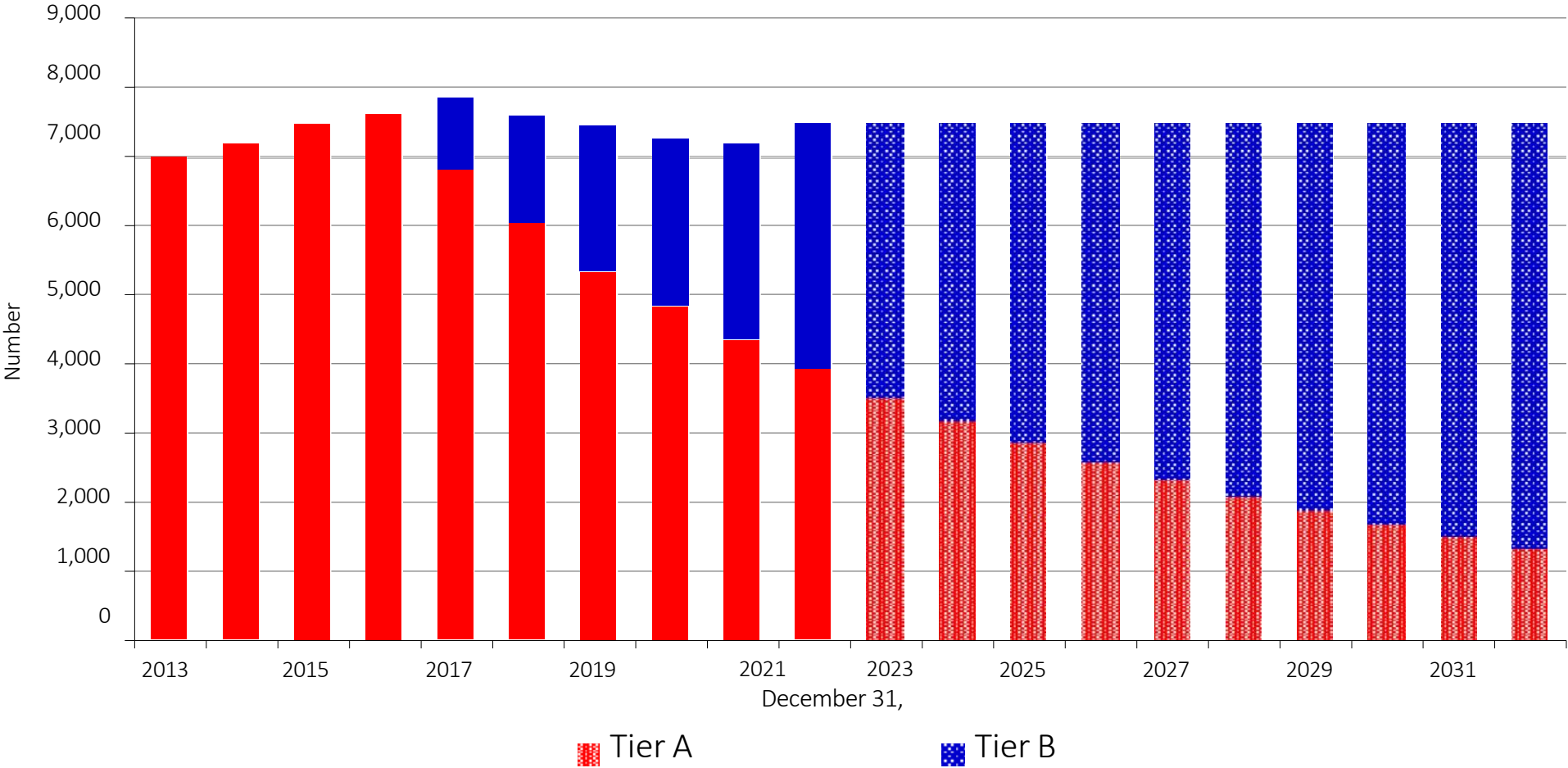
Study # and Description of Benefit Modification	Decrease in NC%	Percentage Decrease
1. Age 65 with 5 years of service Normal Retirement and	4.90%	24.1%
2. CPI COLA, with maximum of 3.00% (valued as 2.50% COLA)	0.62%	3.0%
3. Average Monthly Earnings period changed from 3 to 5 years	0.62%	3.0%
4. Normal Form of payment changed to life only annuity	1.00%	4.9%
5. Elimination of \$125 health supplement	0.70%	3.4%
6. <u>Benefit multiplier changed from 2.75% to 2.50%</u>	<u>1.58%</u>	<u>7.8%</u>
7. Combination of all prior Scenarios	7.91%	38.9%

\$2.15 billion in savings through 2055

Projected Active Membership



Projected Number of Tier A and Tier B Employees



Tier A = 42%
Tier B = 58%
(as of May 2024)



CONSIDERATIONS & ACTION PLAN

Funding Soundness Restoration Plan Requirements



Section 802.2015(d) of the TX Government Code provides that the Dallas ERF must formulate a revised funding soundness restoration plan (FSRP). The PRB's guidelines in response to the Government Code are:

- 1) the system's (ERF) actuarial valuation shows that the plan's expected funding period exceeds 30 years but is less than or equal to 40 years; and
- 2) the system (ERF) is:
 - (A) adhering to an existing funding soundness restoration plan that was formulated before September 1, 2025; or
 - (B) implementing a contribution rate structure that uses or will ultimately use an actuarially determined contribution structure and the system's actuarial valuation shows that the system is expected to achieve full funding.

Therefore, by adhering to a FSRP before 9/1/25, the ERF would be eligible for the exception that allows analysis to be based on a 30 year period.

Risk / Alternative to Implementing after September 1, 2025

- ☐ Dallas ERF will lose the benefit of the special exception, which means the funding period moves from a 30 to a 25-year amortization schedule and increases the cost significantly.
- ☐ Missing September 1, 2025 will cost the City an additional \$150 million over 10 years.



Assumptions

- ❑ The following scenarios are based on the December 31, 2023 ERF Actuarial Valuation
- ❑ All ADCs shown are level contribution rates that produce full funding over 30 years from 12-31-2025
 - The level contribution rate includes the debt service, which means that the debt service is paid out of the level contribution rate until the debt service is retired; then all of the contribution rate goes to the ERF
- ❑ The market value of assets is assumed to grow at 7.25%
 - Deferred investment losses are recognized
- ❑ The payroll is assumed to grow at approximately 3.0% per year
- ❑ All scenarios assume that the maximum contribution rate under Chapter 40A will increase beginning in 2025
 - 2% per year until it no longer applies at which point it is eliminated

Contribution Calculation



	<u>2022</u>	<u>2023</u>
1. Prior Adjusted Total Obligation Rate	36.00%	36.00%
2. Actuarially Required Contribution Rate	34.61%	35.50%
3. Debt Service		
a) Scheduled Debt Service Payment	\$ 38,843,241	\$ 40,142,080
b) Projected Payroll	\$453,934,344	\$488,516,155
c) Pension Obligation Bond Credit (a/b)	8.56%	8.22%
4. Current Total Obligation Rate (2+3c)	43.17%	43.72%
5. Current Adjusted Total Obligation Rate	36.00%	36.00%
6. Allocation of Contribution Rates for Fiscal Year Beginning October 1 st		
a) Employee (5 x .37)	13.32%	13.32%
b) City (5 x .63)	22.68%	22.68%
7. City Contribution to Fund (6.b. – 3.c)	14.12%	14.46%



Considerations / Action Plan



- ☐ Eliminate the maximum contribution cap of 36.00% of pay from Chapter 40-A effective October 1, 2025, for the valuation period and replace it with the Actuarially Determined Contribution (ADC) rate in the annual Valuation Report.
- ☐ Increase the employee contribution rate to a maximum of Tier A=14.00% (\$1.6 Million); Tier B=13.32%
- ☐ Select the appropriate amortization schedule to meet budget expectations.
 - Any lump sum contribution from the City, at any point in time will have a positive effect on the City's contribution rate as determined by the actuary.
- ☐ The consideration does not include a request for Bonds.
- ☐ Amend draft changes to Chapter 40A by June 2024. City Council votes in August 2024 to establish a November 2024 referendum for Dallas Voters to consider.
- ☐ Contribution rates for the City of Dallas and ERF Members go into effect January 1st (calendar) or October 1 (fiscal).

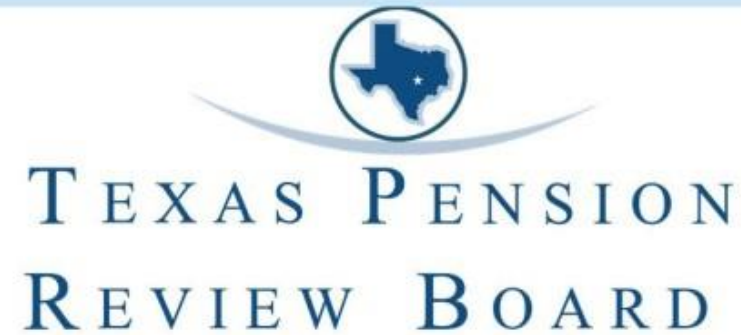


Board Recommendation: Increase Tier A Members Contribution by 0.68%

ERF BOARD RECOMMENDATION:

- Assumes the member contribution rate will be 37% of the total contribution.
- This scenario assumes an actuarially determined contribution (ADC). It has a five-year step-up plan and requires the City to increase its contribution by 2% for the first five years.
- It also assumes that Tier A employees will pay 0.68% more than Tier B employees.
- The contribution rate for employees will be capped as follows:
 - Tier A = 14.00% of pay
 - Tier B = 13.32% of pay

FSRP Preliminary Determination



February 8, 2024

Employees' Retirement Fund of the City of Dallas

Re: 2024 Preliminary Funding Soundness Restoration Plan (FSRP)

We are writing to notify you that the Pension Review Board (PRB) has received your materials submitted for preliminary review to fulfill the FSRP requirements, including the separate analysis. The PRB staff actuary has reviewed this analysis and determined it is consistent with actuarial standards of practice and that, if adopted as presented, the system would be projected to be 100 percent funded by 2055, which would meet the 30-year required funding period as of September 1, 2025. Please note this letter is a **preliminary determination only** and does not constitute a final approval of the FSRP.

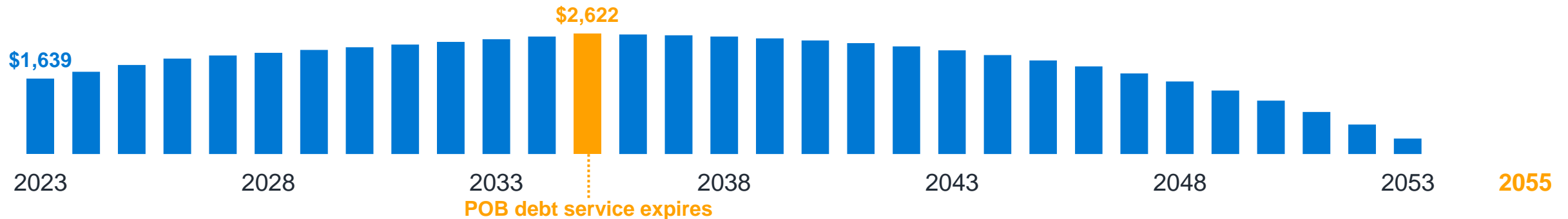
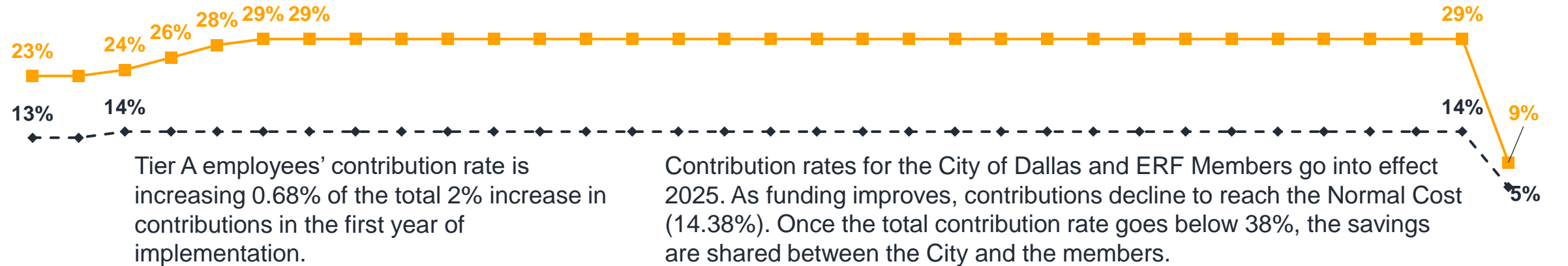


City Contribution Phase- In



Five Year “phase-in” begins in 2025

■ Unfunded Liability ■ City Contribution Rate - ♦ - Employee Contribution Rate



5-Year Projection of City Contributions - ERF Board Recommendation

Projected City Contributions \$ in millions
Includes POB Debt Service Payment

	Current State			Board Recommendation (Increase Tier A contribution by 0.68%)		
Year	City Contribution to ERF	Debt Service on Pension Obligation Bonds	Total	City Contribution to ERF	Debt Service on Pension Obligation Bonds	Total
2025	\$79.2	\$44.8	\$124.0	\$85.5	\$44.8	\$130.4
2026	81.9	46.2	128.1	96.8	46.2	143.0
2027	84.6	47.6	132.2	108.5	47.6	156.1
2028	87.2	49.1	136.3	120.7	49.1	169.8
2029	89.9	50.6	140.5	133.5	50.6	184.1
Assumptions						
Contribution Cap			36%			Removed
Tier A: <ul style="list-style-type: none">• Contribution Rate• Benefit Multiplier			13.32% 2.75%			14.0% 2.75%

Average increase in Tier A member contribution due to member rate increasing from 13.32% to 14.00% is \$515 (annually).

Alternative Scenario:

Cap the COLA for All Retirees and Reduce the Multiplier for Tier A Active Members

CITY STAFF REQUESTED AN ADDITIONAL SCENARIO:

❑ Assumes the member contribution rate will be 37% of the total contribution rate be capped as follows:

- 13.32% of pay for Tier A
- 13.32% of pay for Tier B
- In addition, this scenario assumes the benefit multiplier for all service earned beginning January 1, 2026, will be 2.5% (applies to Tier A and Tier B)
- COLA maximum to 3.0% effective January 1, 2026, for all members (including current retirees)
- Cost savings for City contributions in five years is approximately \$10 million; and cost savings over 30 years is approximately \$300 million.

Potential Risks:

- **Potential \$11.4 Million payout to 900+ current employees who are eligible to retire**
- **Reduction in workforce reduces contributions to ERF and increases liabilities thus, eliminating savings**

Summary



- ❑ ERF has averaged a long-term investment performance exceeding 7.25% since 1985.
- ❑ In 2016, the Dallas City Council and the ERF Board were proactive for researching more than 40 scenarios and reduced benefits for new hires resulting in a \$2.15 Billion savings over 30 years.
 - The City Council, ERF Board and the Dallas voters reduced benefits
 - 69% of the Dallas Voters approved the amendment to Dallas City Code Chapter 40A

ERF Board Recommendation

- Assumes the member contribution rate will be 37% of the total contribution.
 - This scenario assumes an actuarially determined contribution (ADC). It has a five-year step-up plan and requires the City to increase its contribution by 2% for the first five years.
 - It also assumes that Tier A employees will pay 0.68% more than Tier B employees.
 - The contribution rate for employees will be capped as follows:
 - Tier A = 14.00% of pay
 - Tier B = 13.32% of pay
- ❑ In February 2024, the Pension Review Board gave a preliminary determination regarding the Funding Soundness Restoration Plan.

PRB Preliminary Determination:

We are writing to notify you that the Pension Review Board (PRB) has received your materials submitted for preliminary review to fulfill the FSRP requirements, including the separate analysis. The PRB staff actuary has reviewed this analysis and determined it is consistent with actuarial standards of practice and that, if adopted as presented, the system would be projected to be 100 percent funded by 2055, which would meet the 30-year required funding period as of September 1, 2025. Please note this letter is a **preliminary determination only** and does not constitute a final approval of the FSRP.

- ❑ With City Council approval, it is recommended that the proposed plan be placed on the November 2024 ballot for Dallas Voters' consideration.

Proposed Chapter 40A Amendment Timeline - Revised





City of Dallas

Appendix

Q1 2024 Correlation Matrix

	Equity						Fixed Income						Real Assets						
	US Stock	Dev ex-US Stock	Emg Stock	Global ex-US Stock	Global Stock	Private Equity	Cash	Core Bond	LT Core Bond	TIPS	High Yield	Private Credit	Dev ex-US Bond (Hdg)	US RES	Global RES	Private RE	Cmdty	Real Assets	US CPI
Compound Return (%)	4.50	5.50	5.75	5.85	5.10	7.65	4.00	5.05	5.00	4.35	6.25	8.20	3.05	5.80	5.95	6.15	6.30	6.90	2.30
Expected Risk (%)	17.00	18.00	26.00	19.00	17.05	29.65	0.75	4.70	9.85	6.00	10.00	12.75	4.00	17.50	16.45	13.90	16.00	12.60	1.75
Cash Yield (%)	1.35	2.90	2.45	2.75	1.90	0.00	4.00	5.35	5.40	4.65	9.70	5.10	3.95	4.05	4.05	2.60	4.00	3.60	0.00
Growth Exposure	8.00	8.00	8.00	8.00	8.00	14.00	0.00	-0.90	-2.40	-3.00	4.00	5.10	-1.00	6.00	6.00	3.50	0.00	2.70	0.00
Inflation Exposure	-3.00	-1.00	3.00	0.10	-1.85	-4.25	0.00	-2.55	-6.85	2.50	-1.00	-1.50	-3.00	1.00	1.80	1.00	12.00	5.25	1.00
Correlations																			
US Stock	1.00																		
Dev ex-US Stock (USD)	0.81	1.00																	
Emerging Mkt Stock	0.74	0.74	1.00																
Global ex-US Stock	0.84	0.95	0.89	1.00															
Global Stock	0.95	0.91	0.84	0.94	1.00														
Private Equity	0.72	0.63	0.61	0.67	0.73	1.00													
Cash Equivalents	-0.05	-0.09	-0.05	-0.08	-0.06	0.00	1.00												
Core Bond	0.28	0.13	0.00	0.08	0.20	0.30	0.18	1.00											
LT Core Bond	0.31	0.15	0.01	0.11	0.24	0.31	0.11	0.94	1.00										
TIPS	-0.05	0.00	0.15	0.06	-0.01	-0.03	0.20	0.60	0.48	1.00									
High Yield Bond	0.54	0.39	0.49	0.46	0.53	0.31	-0.10	0.24	0.32	0.05	1.00								
Private Credit	0.67	0.55	0.57	0.59	0.67	0.44	0.00	0.24	0.30	0.00	0.75	1.00							
Dev ex-US Bond (Hdg)	0.16	0.25	-0.01	0.16	0.17	0.26	0.10	0.67	0.65	0.39	0.26	0.22	1.00						
US RE Securities	0.57	0.47	0.44	0.49	0.56	0.49	-0.05	0.17	0.22	0.10	0.56	0.61	0.05	1.00					
Global RE Securities	0.63	0.56	0.54	0.59	0.64	0.55	-0.05	0.17	0.21	0.11	0.60	0.67	0.04	0.97	1.00				
Private Real Estate	0.55	0.45	0.45	0.49	0.54	0.50	-0.05	0.19	0.25	0.09	0.57	0.62	0.05	0.78	0.77	1.00			
Commodities	0.25	0.34	0.39	0.38	0.32	0.28	0.00	-0.03	-0.03	0.25	0.29	0.29	-0.10	0.25	0.28	0.25	1.00		
Real Assets	0.61	0.62	0.66	0.68	0.66	0.56	-0.03	0.24	0.26	0.32	0.64	0.69	0.05	0.78	0.83	0.76	0.62	1.00	
Inflation (CPI)	-0.10	-0.15	-0.13	-0.15	-0.13	-0.10	0.10	-0.12	-0.12	0.15	-0.08	0.00	-0.08	0.05	0.04	0.05	0.44	0.21	1.00

Dallas ERF - Benchmarking



Asset Class	Target	Benchmark
Domestic Equity	12.00%	Russell 2000 Index, S&P 500
International Equity	11.50%	MSCI ACWI ex US, MSCI EAFE
Global Equity	5.00%	MSCI ACWI
Global Low Volatility Equity (GLV)	10.00%	MSCI ACWI Min Vol Index
Private Equity	10.00%	
Total Growth/Equity	48.50%	
Global listed Infrastructure	5.00%	FTSE Global Listed Infrastructure, Alerian MLP
Real Estate Investment Trust (REIT)	2.50%	Wilshire US Real Estate Securities Index
Private Real Estate	7.50%	
Total Inflation Hedging	15.00%	
Global Fixed Income	17.50%	
Opportunistic Credit	4.00%	
High Yield	10.00%	FTSE High Yield Market Capped Index
Marketable Alternatives	2.50%	HFRI Event Driven Total Value Index, HFRI Relative Value Total Index
Private Credit	2.50%	
Total Risk Reduction / Mitigation	36.50%	
Total	100.00%	

A benchmark should be representative of the investment it is chosen to represent, the asset class.

Example

Domestic Equity Composite
Benchmark reflects managers at target percentage

Small Cap – Russell 2000 (22%)
Large Cap – S&P 500(78%)

Growth of \$1: Dallas ERF vs. Global 60/40



+ Quarterly data; Net of Investment Management Fees



- ❑ The goal of asset allocation is to select a diversified mix of suitable asset classes that minimize risk for a given level of expected return.

- ❑ Key Determinants
 - Return Expectations
 - Cash Flow
 - Risk Tolerance
 - Liabilities
 - Financial Goals

- ❑ Every organization makes the appropriate decisions for their situation.

Governance - Dallas ERF Board Composition



- ❑ The Board of the Employees' Retirement Fund of the City of Dallas is composed of seven Trustees consisting of:
 - (A) three persons appointed by the City Council: Henry Talavera (Chair), Dr. John Peavy III (Vice Chair), and T. Dupree Scovell
 - (B) three employee members from different departments of the City who are elected by members of the Retirement Fund - Carla D. Brewer, Tina Richardson, and Sunil King; and
 - (C) the City Auditor (ex-officio) – Mark Swann.
- ❑ Dallas ERF Trustees are charged with fiduciary responsibilities to act solely in the best interest of the Fund's membership.

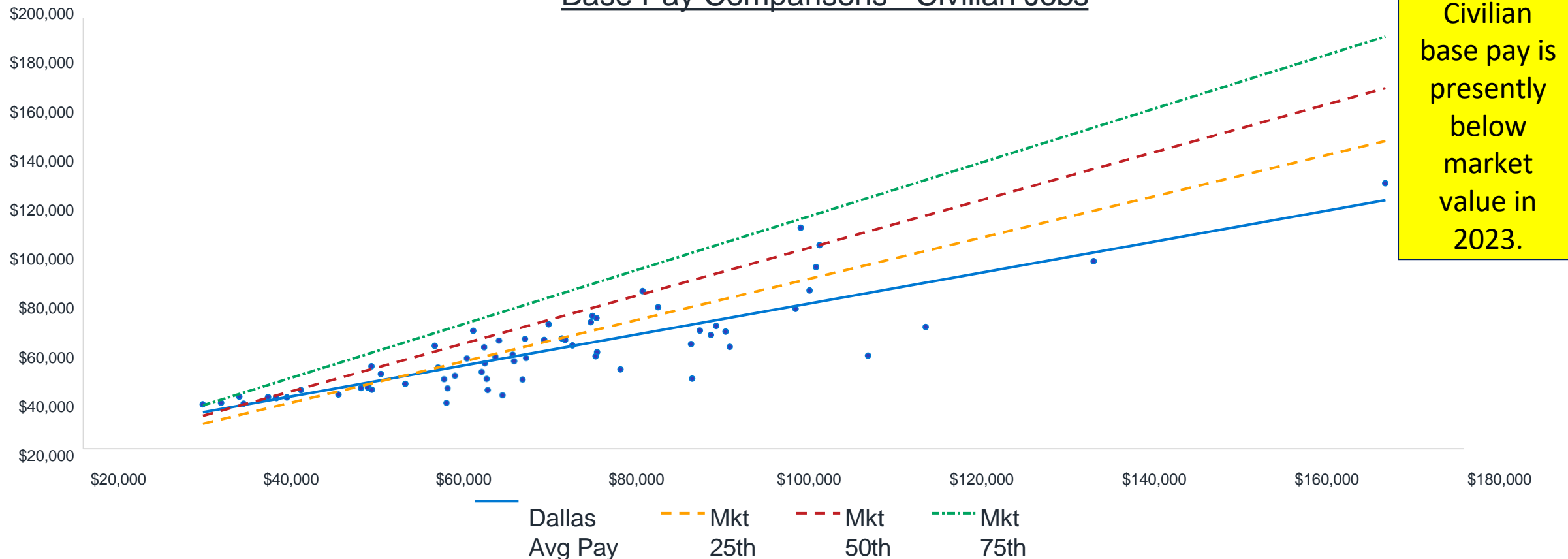


2023 Market Study Results for City of Dallas Civilian Base Pay



- ❑ Base salaries for civilian jobs average **15% below the 50th percentile** and **4% below the 25th percentile**.
- ❑ Base salaries decline in competitiveness as pay increases.

Base Pay Comparisons - Civilian Jobs



Dallas ERF Provides Two Tiers of Benefits



TIER A BENEFITS

PLAN ENTRY - By or Before December 31, 2016

MULTIPLIER - 2.75%

NORMAL RETIREMENT - Age 60

SERVICE RETIREMENT - 30 Years of Service

RULE OF 78 - Unreduced

FINAL AVERAGE PAY - Best of 3 Years
or Last 36 Months

HEALTH BENEFIT SUPPLEMENT - Max \$125

MAXIMUM RETIREE COLA - 5%

RESTRICTED PRIOR SERVICE CREDIT - No
unless Returning after Forfeiting Contributions

LIFE - Not Reduced

JOINT & HALF BENEFIT - Not Reduced

JOINT & FULL BENEFIT - Reduced

TIER B BENEFITS

PLAN ENTRY - After December 31, 2016

MULTIPLIER - 2.50%

NORMAL RETIREMENT - Age 65
with 5 Years Service

SERVICE RETIREMENT - 40 Years of Service

RULE OF 80 - Reduced Before Age 65

FINAL AVERAGE PAY - Best of 5 Years
or Last 60 Months

HEALTH BENEFIT SUPPLEMENT - None

MAXIMUM RETIREE COLA - 3%

RESTRICTED PRIOR SERVICE CREDIT - Yes

LIFE - Not Reduced

JOINT & HALF BENEFIT - Reduced

JOINT & FULL BENEFIT - Reduced

**ERF significantly
reduced
employee
benefits in 2017.**