

MINUTES OF THE CITY COUNCIL COMMITTEE  
THURSDAY, NOVEMBER 9, 2023

23-0017

AD HOC COMMITTEE ON PENSIONS  
CITY COUNCIL CHAMBER, CITY HALL/VIDEO CONFERENCE  
MAYOR PRO TEM TENNELL ATKINS, PRESIDING

PRESENT: [7] Atkins, West, Moreno, Blackmon, Stewart, Mendelsohn, Willis

ABSENT: [1] Resendez

The meeting was called to order at 3:08 p.m. with a quorum of the committee present.

The meeting agenda, posted in accordance with Chapter 551, "OPEN MEETINGS," of the Texas Government Code, was presented.

After all business properly brought before the committee had been considered, the meeting adjourned at 4:44 p.m.

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Chair

ATTEST:

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City Secretary Staff

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Date Approved

The agenda is attached to the minutes of this meeting as EXHIBIT A.

The actions taken on each matter considered by the committee are attached to the minutes of this meeting as EXHIBIT B.

The briefing materials are attached to the minutes of this meeting as EXHIBIT C.

MINUTES OF THE CITY COUNCIL COMMITTEE  
THURSDAY, NOVEMBER 9, 2023

EXHIBIT A

**RECEIVED**

**2023 NOV-6 PM2:16**

**CITY SECRETARY  
DALLAS, TEXAS**

**City of Dallas**

*1500 Marilla Street  
City Hall, L1FN Auditorium  
Dallas, Texas 75201*

**Public Notice**

**230996**

**POSTED** CITY SECRETARY  
DALLAS, TX



**Ad Hoc Committee on Pensions**

**November 9, 2023**

**3:00 PM**

## 2023 CITY COUNCIL APPOINTMENTS

COUNCIL COMMITTEE	
<b>ECONOMIC DEVELOPMENT</b> Atkins (C), Narvaez (VC), Arnold, Bazaldua, Ridley, Stewart, West	<b>GOVERNMENT PERFORMANCE AND FINANCIAL MANAGEMENT</b> West (C), Blackmon (VC), Mendelsohn, Moreno, Resendez
<b>HOUSING AND HOMELESSNESS SOLUTIONS</b> Moreno (C), Mendelsohn (VC), Gracey, West, Willis	<b>PARKS, TRAILS, AND THE ENVIRONMENT</b> Stewart (C), Moreno (VC), Arnold, Bazaldua, Blackmon, Narvaez, West
<b>PUBLIC SAFETY</b> Mendelsohn (C), Stewart (VC), Atkins, Moreno, Willis	<b>QUALITY OF LIFE, ARTS, AND CULTURE</b> Bazaldua (C), Resendez (VC), Blackmon, Gracey, Ridley, Schultz, Willis
<b>TRANSPORTATION AND INFRASTRUCTURE</b> Narvaez (C), Gracey (VC), Atkins, Mendelsohn, Resendez, Schultz, Stewart	<b>WORKFORCE, EDUCATION, AND EQUITY</b> Schultz (C), Arnold (VC), Bazaldua, Blackmon, Resendez, Ridley, Willis
<b>AD HOC COMMITTEE ON ADMINISTRATIVE AFFAIRS</b> Atkins (C), Mendelsohn, Moreno,	<b>AD HOC COMMITTEE ON GENERAL INVESTIGATING AND ETHICS</b> Mendelsohn (C), Gracey, Johnson, Schultz, Stewart
<b>AD HOC COMMITTEE ON JUDICIAL NOMINATIONS</b> Ridley (C), Resendez, West	<b>AD HOC COMMITTEE ON LEGISLATIVE AFFAIRS</b> Mendelsohn (C), Atkins, Gracey, Narvaez, Stewart
<b>AD HOC COMMITTEE ON PENSIONS</b> Atkins (C), Blackmon, Mendelsohn, Moreno, Resendez, Stewart, West, Willis	<b>AD HOC COMMITTEE ON PROFESSIONAL SPORTS RECRUITMENT AND RETENTION</b> Gracey (C), Blackmon, Johnson, Moreno, Narvaez, Resendez, Schultz

(C) – Chair, (VC) – Vice Chair

Note: A quorum of the Dallas City Council may attend this Council Committee meeting.

## General Information

The Dallas Council Committees regularly meet on Mondays beginning at 9:00 a.m. and 1:00 p.m. in the Council Chambers, 6th floor, City Hall, 1500 Marilla. Council Committee agenda meetings are broadcast live on [bit.ly/cityofdallastv](http://bit.ly/cityofdallastv) and on Time Warner City Cable Channel 16.

Sign interpreters are available upon request with a 48-hour advance notice by calling (214) 670-5208 V/TDD. The City of Dallas is committed to compliance with the Americans with Disabilities Act. **The Council agenda is available in alternative formats upon request.**

If you have any questions about this agenda or comments or complaints about city services, call 311.

## Rules of Courtesy

City Council meetings bring together citizens of many varied interests and ideas. To insure fairness and orderly meetings, the Council has adopted rules of courtesy which apply to all members of the Council, administrative staff, news media, citizens and visitors. These procedures provide:

- That no one shall delay or interrupt the proceedings, or refuse to obey the orders of the presiding officer.
- All persons should refrain from private conversation, eating, drinking and smoking while in the Council Chamber.
- Posters or placards must remain outside the Council Chamber.
- No cellular phones or audible beepers allowed in Council Chamber while City Council is in session.

"Citizens and other visitors attending City Council meetings shall observe the same rules of propriety, decorum and good conduct applicable to members of the City Council. Any person making personal, impertinent, profane or slanderous remarks or who becomes boisterous while addressing the City Council or while attending the City Council meeting shall be removed from the room if the sergeant-at-arms is so directed by the presiding officer, and the person shall be barred from further audience before the City Council during that session of the City Council. If the presiding officer fails to act, any member of the City Council may move to require enforcement of the rules, and the affirmative vote of a majority of the City Council shall require the presiding officer to act." Section 3.3(c) of the City Council Rules of Procedure.

## Información General

Los Comités del Concejo de la Ciudad de Dallas se reúnen regularmente los lunes en la Cámara del consejo en el sexto piso del Ayuntamiento, 1500 Marilla, a partir de las 9:00 a.m. y la 1:00 p.m. Las reuniones de la agenda del Comité del Consejo se transmiten en vivo por la estación de [bit.ly/cityofdallastv](http://bit.ly/cityofdallastv) y por cablevisión en la estación *Time Warner City Cable Canal 16*.

Intérpretes para personas con impedimentos auditivos están disponibles si lo solicita con 48 horas de anticipación llamando al (214) 670-5208 (aparato auditivo V/TDD). La Ciudad de Dallas se esfuerza por cumplir con el decreto que protege a las personas con impedimentos, *Americans with Disabilities Act*. **La agenda del Ayuntamiento está disponible en formatos alternos si lo solicita.**

Si tiene preguntas sobre esta agenda, o si desea hacer comentarios o presentar quejas con respecto a servicios de la Ciudad, llame al 311.

## Reglas de Cortesía

Las asambleas del Ayuntamiento Municipal reúnen a ciudadanos de diversos intereses e ideologías. Para asegurar la imparcialidad y el orden durante las asambleas, el Ayuntamiento ha adoptado ciertas reglas de cortesía que aplican a todos los miembros del Ayuntamiento, al personal administrativo, personal de los medios de comunicación, a los ciudadanos, y a visitantes. Estos reglamentos establecen lo siguiente:

- Ninguna persona retrasará o interrumpirá los procedimientos, o se negará a obedecer las órdenes del oficial que preside la asamblea.
- Todas las personas deben abstenerse de entablar conversaciones, comer, beber y fumar dentro de la cámara del Ayuntamiento.
- Anuncios y pancartas deben permanecer fuera de la cámara del Ayuntamiento.
- No se permite usar teléfonos celulares o enlaces electrónicos (*paggers*) audibles en la cámara del Ayuntamiento durante audiencias del Ayuntamiento Municipal

"Los ciudadanos y visitantes presentes durante las asambleas del Ayuntamiento Municipal deben de obedecer las mismas reglas de comportamiento, decoro y buena conducta que se aplican a los miembros del Ayuntamiento Municipal. Cualquier persona que haga comentarios impertinentes, utilice vocabulario obsceno o difamatorio, o que al dirigirse al Ayuntamiento lo haga en forma escandalosa, o si causa disturbio durante la asamblea del Ayuntamiento Municipal, será expulsada de la cámara si el oficial que este presidiendo la asamblea así lo ordena. Además, se le prohibirá continuar participando en la audiencia ante el Ayuntamiento Municipal. Si el oficial que preside la asamblea no toma acción, cualquier otro miembro del Ayuntamiento Municipal puede tomar medidas para hacer cumplir las reglas establecidas, y el voto afirmativo de la mayoría del Ayuntamiento Municipal precisará al oficial que este presidiendo la sesión a tomar acción." Según la sección 3.3 (c) de las reglas de procedimientos del Ayuntamiento.

## **Handgun Prohibition Notice for Meetings of Governmental Entities**

"Pursuant to Section 30.06, Penal Code (trespass by license holder with a concealed handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a concealed handgun."

*"De acuerdo con la sección 30.06 del código penal (ingreso sin autorización de un titular de una licencia con una pistola oculta), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola oculta."*

"Pursuant to Section 30.07, Penal Code (trespass by license holder with an openly carried handgun), a person licensed under Subchapter H, Chapter 411, Government Code (handgun licensing law), may not enter this property with a handgun that is carried openly."

*"De acuerdo con la sección 30.07 del código penal (ingreso sin autorización de un titular de una licencia con una pistola a la vista), una persona con licencia según el subcapítulo h, capítulo 411, código del gobierno (ley sobre licencias para portar pistolas), no puede ingresar a esta propiedad con una pistola a la vista."*

"Pursuant to Section 46.03, Penal Code (places weapons prohibited), a person may not carry a firearm or other weapon into any open meeting on this property."

*"De conformidad con la Sección 46.03, Código Penal (coloca armas prohibidas), una persona no puede llevar un arma de fuego u otra arma a ninguna reunión abierta en esta propiedad."*

This City Council Ad Hoc on Pensions Committee meeting will be held by video conference and in the Auditorium, Floor L1 at City Hall.

The public may attend the meeting virtually; however, City Hall is available for those wishing to attend the meeting in person.

The Ad Hoc on Pensions Committee will be broadcast live on Spectrum Cable Channel 16 (English) and 95 (Spanish) and online at [bit.ly/cityofdallastv](https://bit.ly/cityofdallastv).

The public may also listen to the meeting as an attendee at the following videoconference link:  
<https://dallascityhall.webex.com/dallascityhall/j.php?MTID=m9fa9a9ecb027c1a9bfd9bbbb8336523>

### **Call to Order**

### **MINUTES**

1. 23-2936 Approval of the October 12, 2023 Ad Hoc Committee on Pensions Committee Meeting Minutes.

**Attachments:** Minutes

### **BRIEFING ITEMS**

- A. 23-2937 Actuarial Update, Funding Issues, and Cheiron Preliminary Report Relating to Dallas Police and Fire Pension System

### **ADJOURNMENT**

**EXECUTIVE SESSION NOTICE**

A closed executive session may be held if the discussion of any of the above agenda items concerns one of the following:

1. seeking the advice of its attorney about pending or contemplated litigation, settlement offers, or any matter in which the duty of the attorney to the City Council under the Texas Disciplinary Rules of Professional Conduct of the State Bar of Texas clearly conflicts with the Texas Open Meetings Act. [Tex. Govt. Code §551.071]
2. deliberating the purchase, exchange, lease, or value of real property if deliberation in an open meeting would have a detrimental effect on the position of the city in negotiations with a third person. [Tex. Govt. Code §551.072]
3. deliberating a negotiated contract for a prospective gift or donation to the city if deliberation in an open meeting would have a detrimental effect on the position of the city in negotiations with a third person. [Tex. Govt. Code §551.073]
4. deliberating the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee; or to hear a complaint or charge against an officer or employee unless the officer or employee who is the subject of the deliberation or hearing requests a public hearing. [Tex. Govt. Code §551.074]
5. deliberating the deployment, or specific occasions for implementation, of security personnel or devices. [Tex. Govt. Code §551.076]
6. discussing or deliberating commercial or financial information that the city has received from a business prospect that the city seeks to have locate, stay or expand in or near the city and with which the city is conducting economic development negotiations; or deliberating the offer of a financial or other incentive to a business prospect. [Tex Govt. Code §551.087]
7. deliberating security assessments or deployments relating to information resources technology, network security information, or the deployment or specific occasions for implementations of security personnel, critical infrastructure, or security devices. [Tex Govt. Code §551.089]



MINUTES OF THE CITY COUNCIL COMMITTEE  
THURSDAY, NOVEMBER 9, 2023

EXHIBIT B

OFFICIAL ACTION OF THE CITY COUNCIL COMMITTEE

NOVEMBER 9, 2023

Item 1: Approval of the October 12, 2023 Ad Hoc Committee on Pensions Committee Meeting Minutes

Councilmember Willis moved to adopt the minutes as presented.

Motion seconded by Councilmember Moreno and unanimously adopted. (Resendez absent)

OFFICIAL ACTION OF THE CITY COUNCIL COMMITTEE

NOVEMBER 9, 2023

BRIEFING ITEMS

Item A: Actuarial Update, Funding Issues, and Cheiron Preliminary Report Relating to Dallas Police and Fire Pension System

The following individuals briefed the committee on the item:

- Jack Ireland, Chief Financial Officer, City Manager's Office;
- Bill Hallmark, Consulting Actuary, Cherion;
- Elizabeth Wiley, Consulting Actuary, Cherion; and
- Jake Libauskas, Consulting Actuary, Cherion

MINUTES OF THE CITY COUNCIL COMMITTEE  
THURSDAY, NOVEMBER 9, 2023

EXHIBIT C

## Independent Actuarial Analysis and Recommendations

Preliminary Recommendations  
Based on 2022 Actuarial Valuation

November 9, 2023

Bill Hallmark, ASA, EA, FCA, MAAA

Elizabeth Wiley, FSA, EA, FCA, MAAA

Jake Libauskas, FSA, EA, FCA, MAAA



# Agenda



Background

Benefit and Contribution Considerations

Preliminary Recommended Alternatives

Questions

# Independent Actuarial Analysis



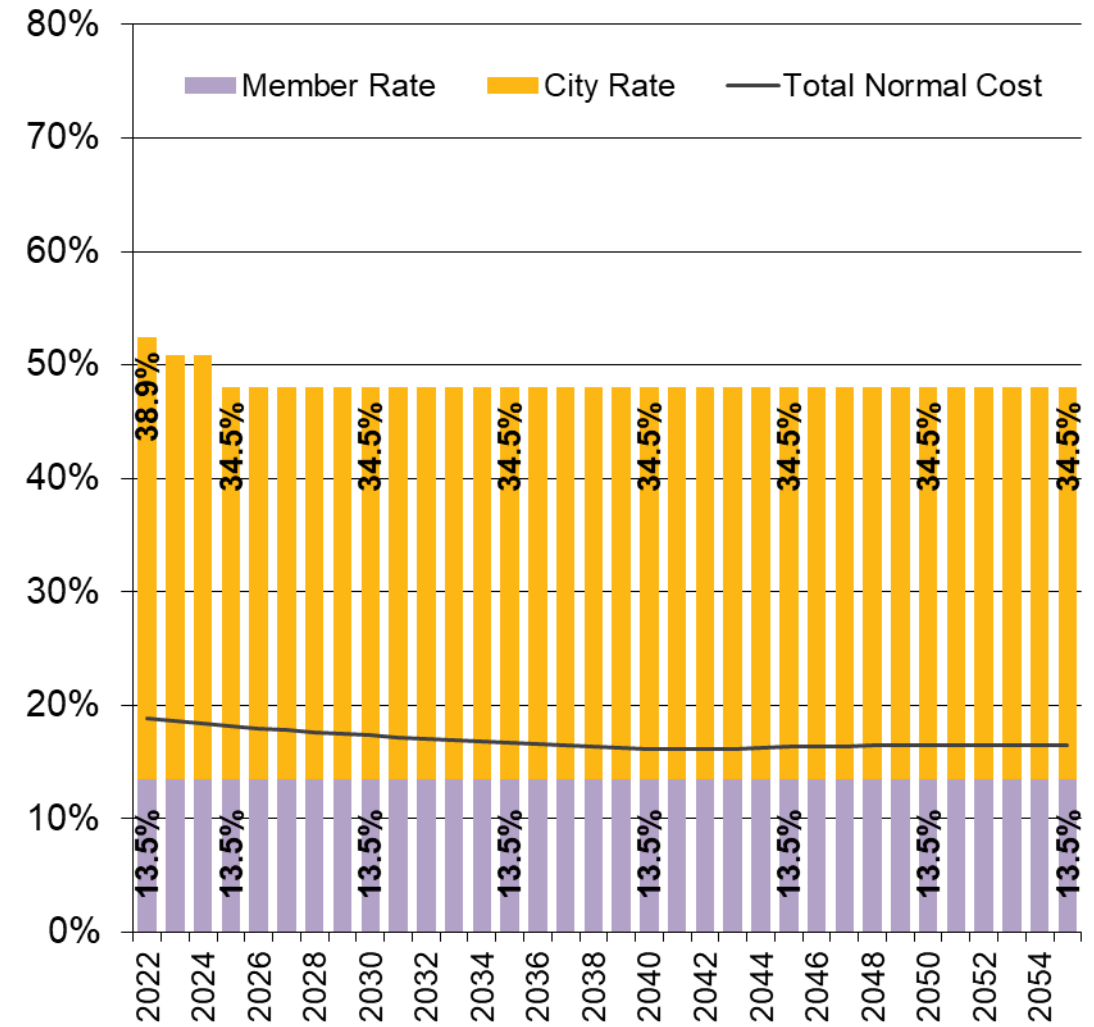
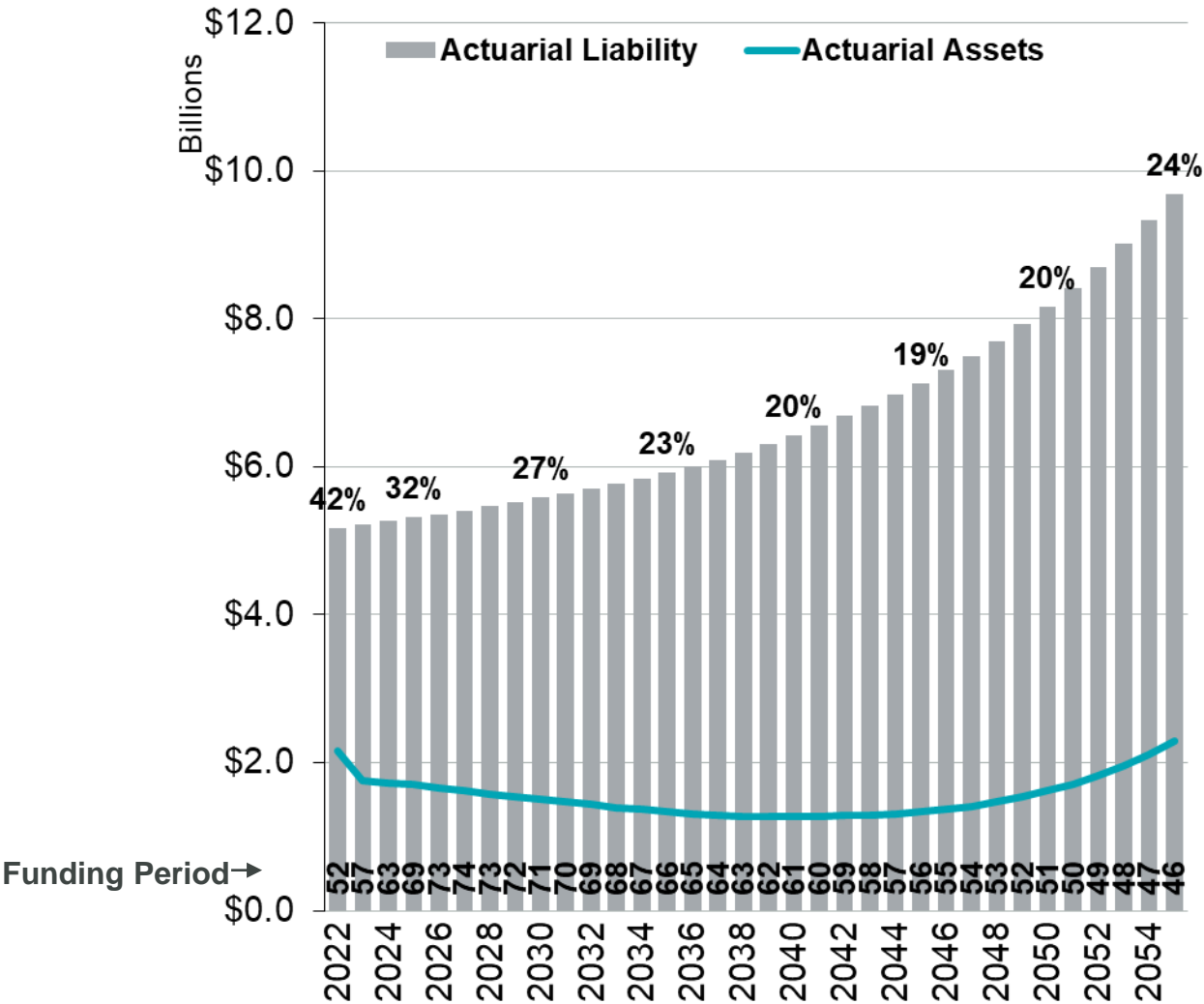
- Pension Review Board selected Cheiron as the Independent Actuary
- Analysis required
  - Does system meet funding guidelines of Chapter 802 of Texas Government Code?
    - Funding period achieved and maintained  $\leq 30$  years
  - Make recommendations regarding:
    - Changes to benefits
    - Changes to member contributions
    - Changes to City contributions
- Board action by 11/1/2024
  - Complying with funding requirements of Chapter 802
  - Taking into consideration recommendations of Independent Actuary



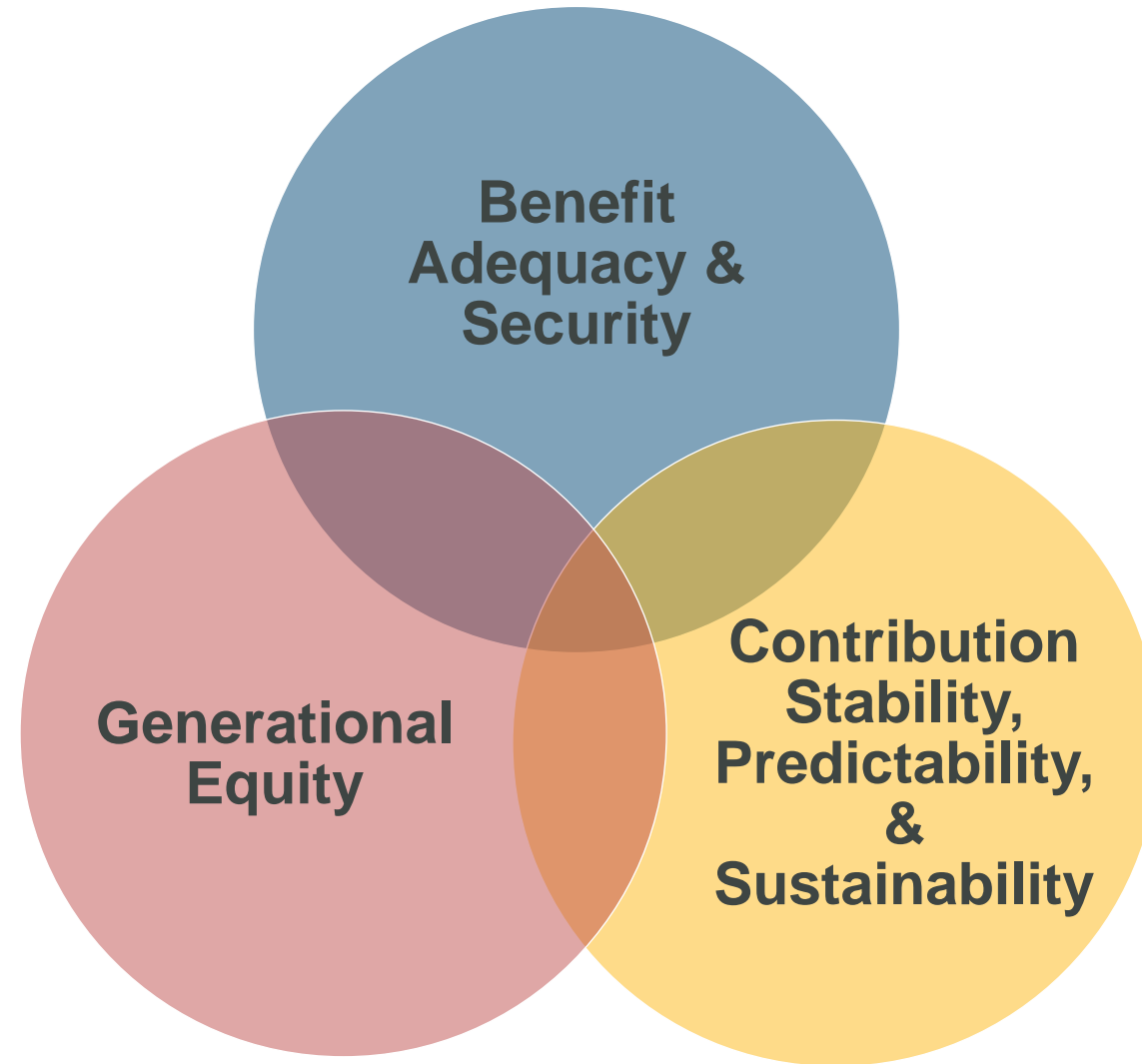
- ✓ Replicate 2022 Valuation Performed by Segal
- ✓ Build Interactive Models
- ✓ Develop Alternative Contribution/Benefit Scenarios (At least 3)
- Draft Report and Presentation Based on 2022 Actuarial Valuation
  - Feedback from Board
  - Refinement of Options
- Replicate 2023 Valuation Performed by Segal
- Preliminary Report and Presentation
- Final Report
  - Texas Pension Review Board
  - Dallas Police & Fire Pension System Board
  - City of Dallas

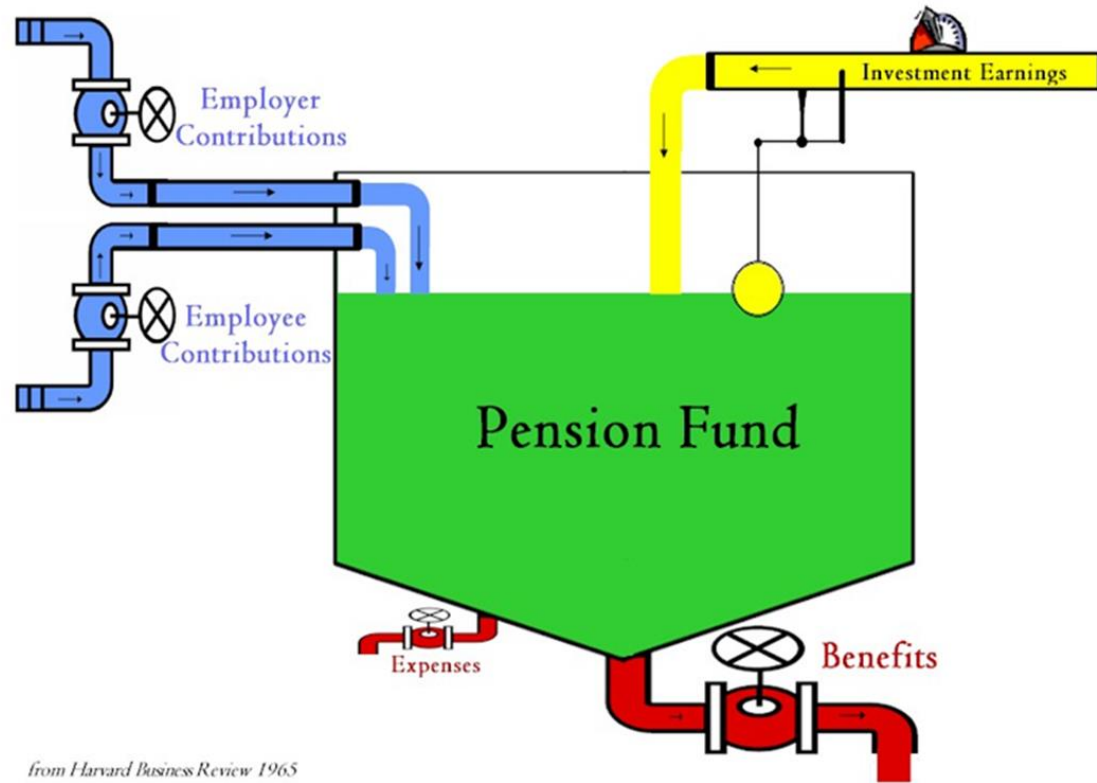


# Current Situation – 2022 Valuation Projections



# Any Solution Must Balance Competing Objectives





from Harvard Business Review 1965

$$\begin{aligned} & \text{Contributions} \\ & + \\ & \text{Investment Returns} \\ & = \\ & \text{Benefits} \\ & + \\ & \text{Expenses} \end{aligned}$$



- City's fixed rate contribution needs to move to an Actuarially Determined Contribution (ADC)
- Member contribution rate shouldn't increase any further and may need to decrease over time
- Member benefits
  - No change recommended to the benefit multiplier (2.5%) or retirement age (58)
  - Consider granting some COLAs sooner to protect the adequacy of retirees' lifetime income and to be competitive with other public safety plans

# Key Considerations for Alternative Scenarios

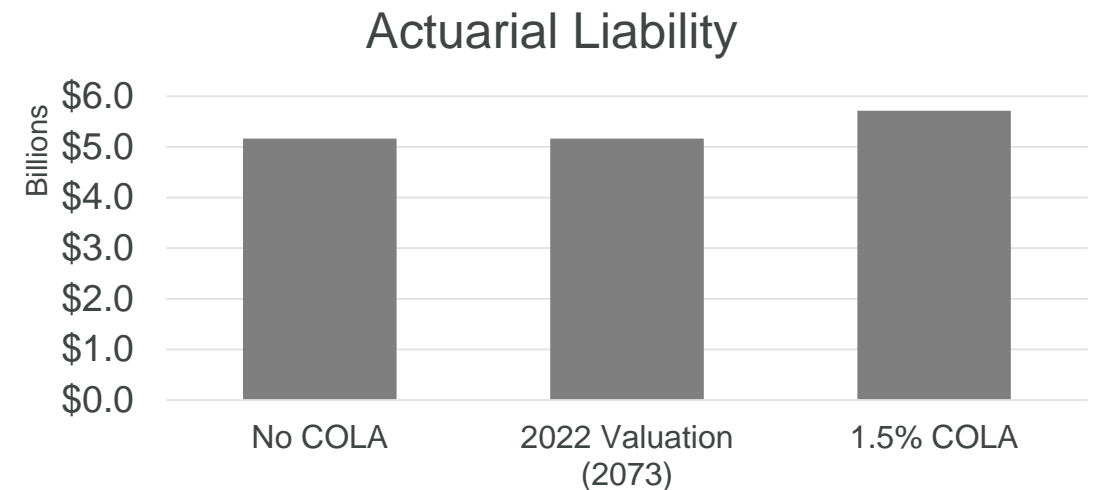
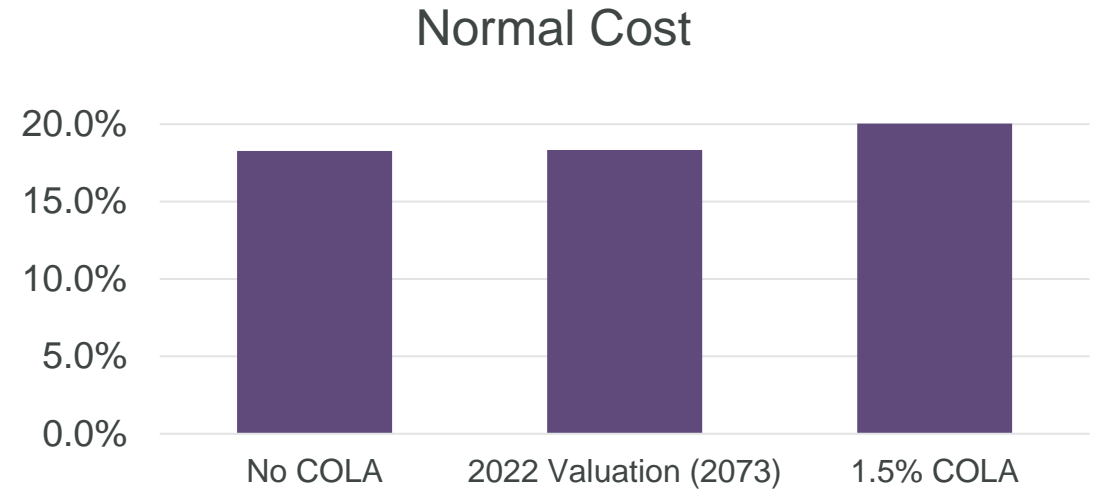


- Benefits need to be competitive
  - Not too high
  - Not too low
- Contributions need to be sufficient to meet funding guidelines
- Automatic adjustment mechanisms
  - Meeting funding guidelines now doesn't guarantee meeting them in the future
  - Current COLA provides some adjustment, but expected to be 0% for decades
  - Member and City contributions need to adjust to circumstances
- Any significant contribution adjustments should be in steps to allow time to adjust budgets

# Meeting Funding Requirements Increases COLA Liability



- Current COLA
  - Must be 70% funded
- 2022 Valuation COLA assumption
  - No COLA until 2073
  - Average COLA after 2073 = 1.5%
- Meeting funding requirements (30 years) necessitates exceeding 70% funded much earlier than 2073
  - COLA will be payable sooner
  - Liability & normal cost will thus increase





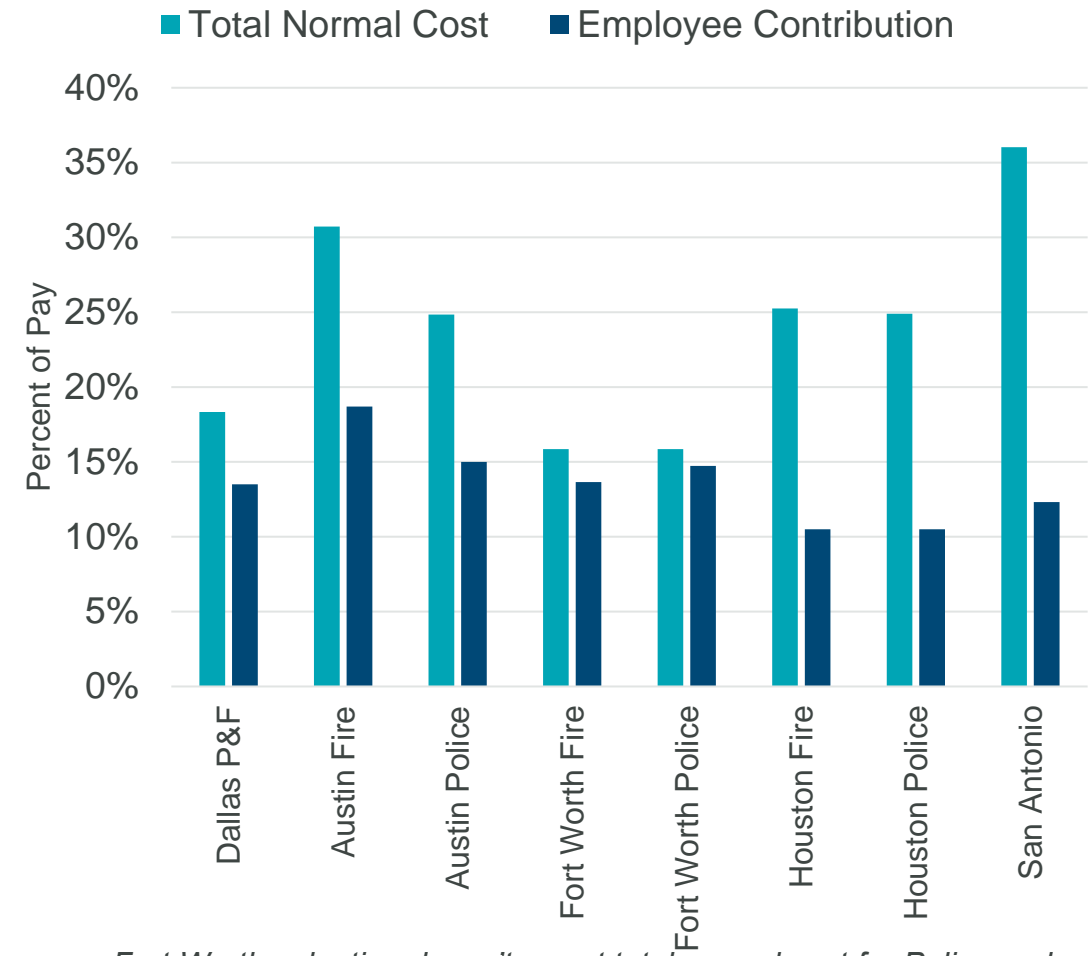
- City contributions will need to increase and remain higher for some time
- Structural Options Considered
  - Increase fixed rate
    - Fixed rates do not automatically adjust to meet the needs of the system
    - May be too high or too low depending on the system's experience
    - Rates can be adjusted by the legislature, but the process is cumbersome
    - Not recommended
  - Recommend Change to Actuarially Determined Contributions (ADC)
    - Adjust annually for actual experience
    - Eliminates risk of not meeting funding requirements in Chapter 802
  - One-time cash infusion would reduce future contribution requirements
    - Not part of our recommendation, but does not conflict with our recommendation

# Employee Contribution Rates (Most Recent Tiers)



- Current DPFPP employee contribution rate is over 70% of the total normal cost
  - Even higher percentage for new employees
  - Highest portion of normal cost in comparison group except for Fort Worth
  - Average of group is about 60%
    - Reflecting current temporary increases due to funded status for some Systems
- Hard to reduce employee contributions until better funded
  - DPFPP employee rate reduces to 50% of total normal cost once 100%+ funded
- Consider setting the employee contribution rate equal to 50% of total normal cost plus an additional amount based on funded ratio
  - Current rate remains the same
  - As funding improves, employee contribution rate would gradually decline

## Employee Contributions vs Normal Cost



*Fort Worth valuation doesn't report total normal cost for Police and Fire separate from general employees, but benefits are similar.*

November 9, 2023



# Benefit Change Considerations

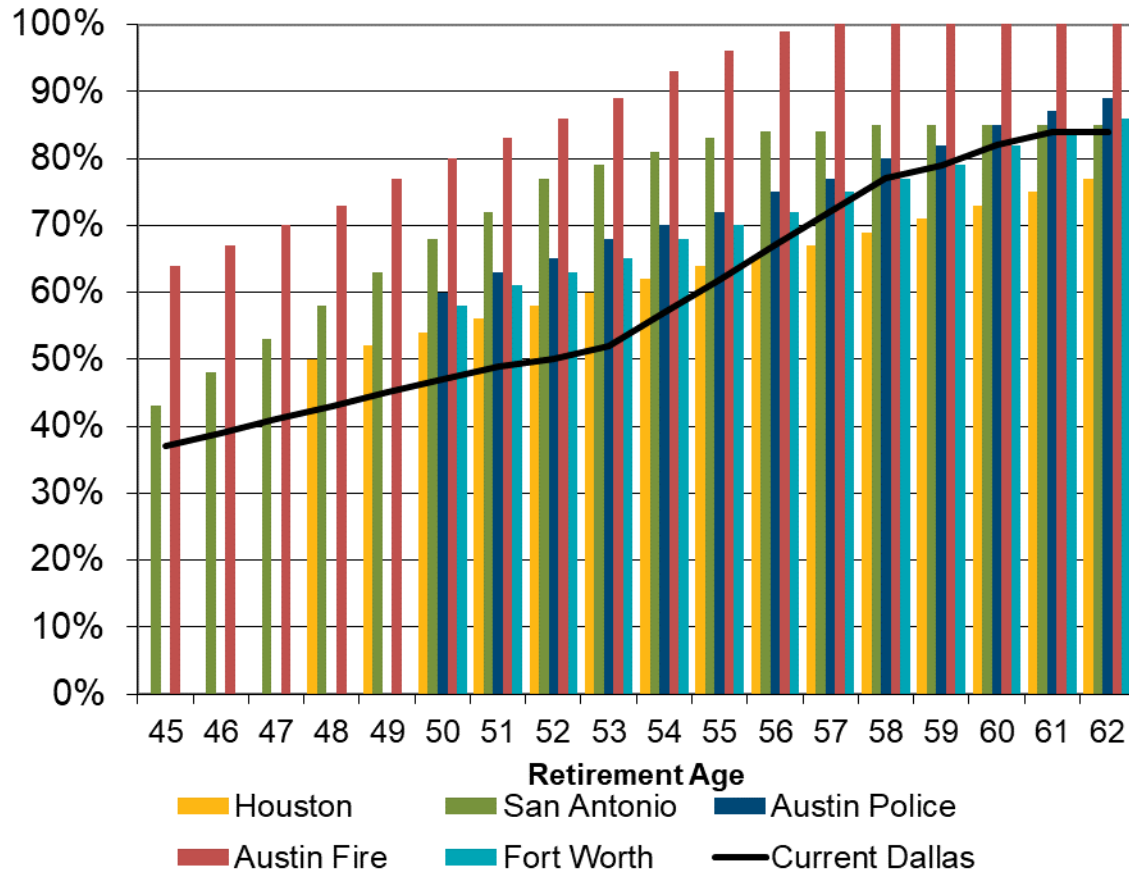


- Benefits have already been reduced
  - 2011 reductions – members hired after March 1, 2011
  - 2017 reductions
    - Benefit multiplier reduced and retirement age increased (service after September 1, 2017)
    - Supplemental benefit eliminated
    - COLA eliminated until 70% funded
- Key benefit changes considered
  - Multiplier
    - Currently maximum of 2.50%
    - Could further reduce (e.g., to 2.25%) for future service, but not recommended
    - No increase considered
  - Retirement age
    - Full benefits currently available at age 58
    - Could extend (e.g., to age 60) for future service, but not recommended
    - No earlier normal retirement age considered
  - COLA – currently projected to remain 0% until 2073
    - No further reductions considered
    - May consider providing some COLA earlier

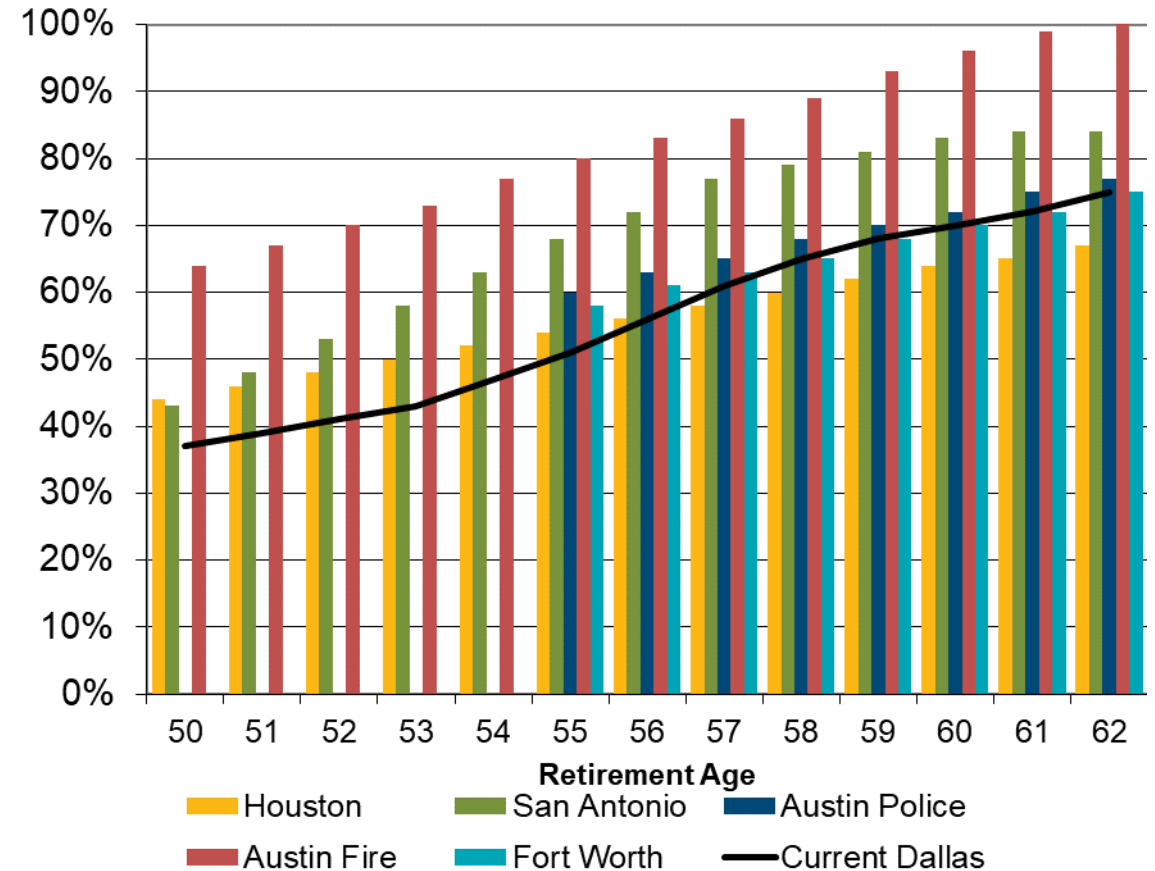
# Income Replacement Ratios\* – Most Recent Safety Tiers



## Hired at Age 25



## Hired at Age 30



Fort Worth Police can retire after 25 years of service, but Fire must satisfy the Rule of 80

\*Income replacement ratios are at retirement and do not reflect COLAs after retirement



- DPFPP members are not covered by Social Security
  - Social Security would provide a base level of benefit that is fully indexed to inflation
  - DPFPP benefits are generally higher than Social Security at retirement, but DPFPP benefits currently have no adjustment for inflation expected for 20+ years
- Lack of COLA may be an issue in attraction and retention of employees
- Current funding situation makes it difficult to provide a full COLA immediately
  - Consider an option to make some COLA available earlier

# Other System COLAs – Most Recent Tier



- Austin
  - Police – no COLAs permissible unless statutes amended by Legislature
  - Fire – ad hoc COLAs based on affordability under Board's COLA policy
- Ft. Worth – no COLA permissible without Legislative action
- Houston
  - Five-year average return minus 4.75%/5.00% (Fire/Police)
    - Minimum = 0.0%
    - Maximum = 4.0%
  - No funded ratio requirement
- San Antonio Fire & Police
  - 75% of CPI
  - Possible additional payments
    - 13<sup>th</sup> check if five-year average return exceeds assumption by at least 100 basis points
    - 14<sup>th</sup> check if five-year average return exceeds assumption by at least 300 basis points

# Overview of Recommended Alternative Scenarios



Scenario	1	2	3
	Graded ADC	Graded ADC Adjustable EE Rate	Graded ADC Adjustable EE Rate Partial COLA
<b>City Contribution</b>	<b>Actuarially Determined Contribution</b> Layered amortization grading up over a short period and back down at the end of 30 years		
<b>Employee Contribution</b>	13.5%	50% of normal cost + additional contribution depending on funded ratio	
<b>COLA</b>	Five-year return minus 5% If 70% funded Not more than 4%		Five-year return minus 5% times funded ratio Not more than 4%
<b>Benefit Multiplier (2.5%)</b>	No Changes Recommended		
<b>Retirement Age (58)</b>	No Changes Recommended		

# Actuarially Determined Contribution (ADC)



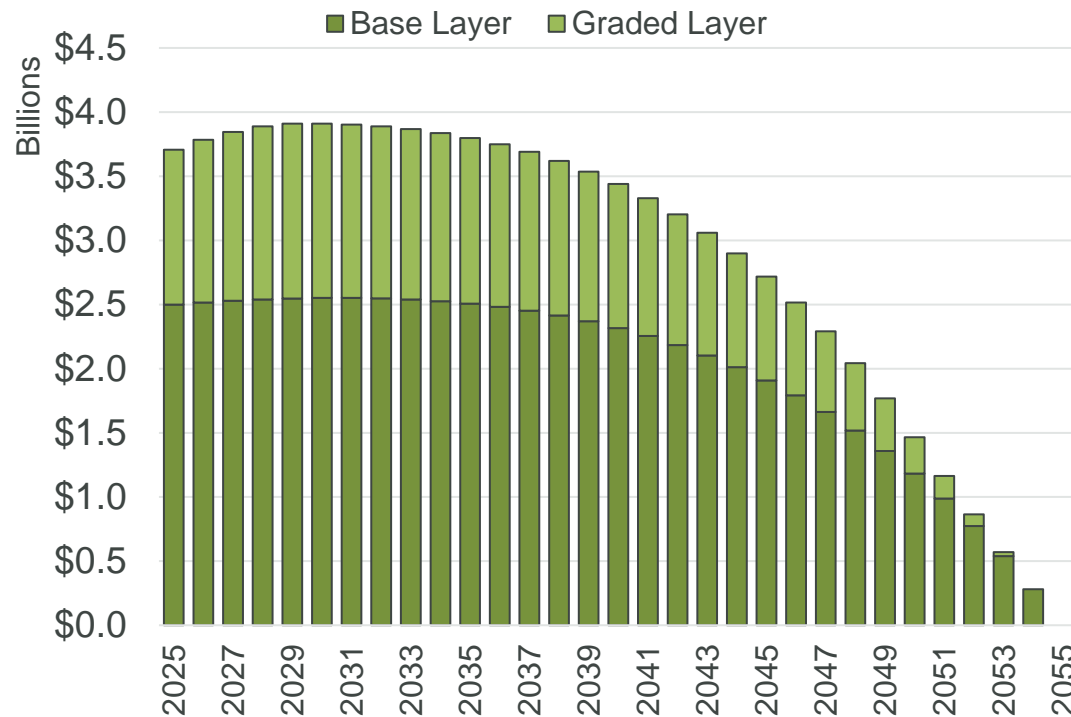
- Current fixed rate implicitly pays:
  - City's normal cost rate
    - City's expected cost of benefits attributable to the current year of service
  - An amount towards the Unfunded Actuarial Liability (UAL)
    - UAL payment is thus the excess of fixed rate over the City's normal cost rate
    - UAL payment is independent of actual UAL
- An ADC consists of the City's normal cost contribution plus an explicitly calculated payment on the UAL
  - Set City's normal cost as a percentage of pay
    - Designed to be a percentage of pay
  - Set City UAL payment as a dollar amount based on the amortization schedule
    - Designed to pay off UAL over a specified period
    - Independent of actual payroll

# UAL Amortization Schedule

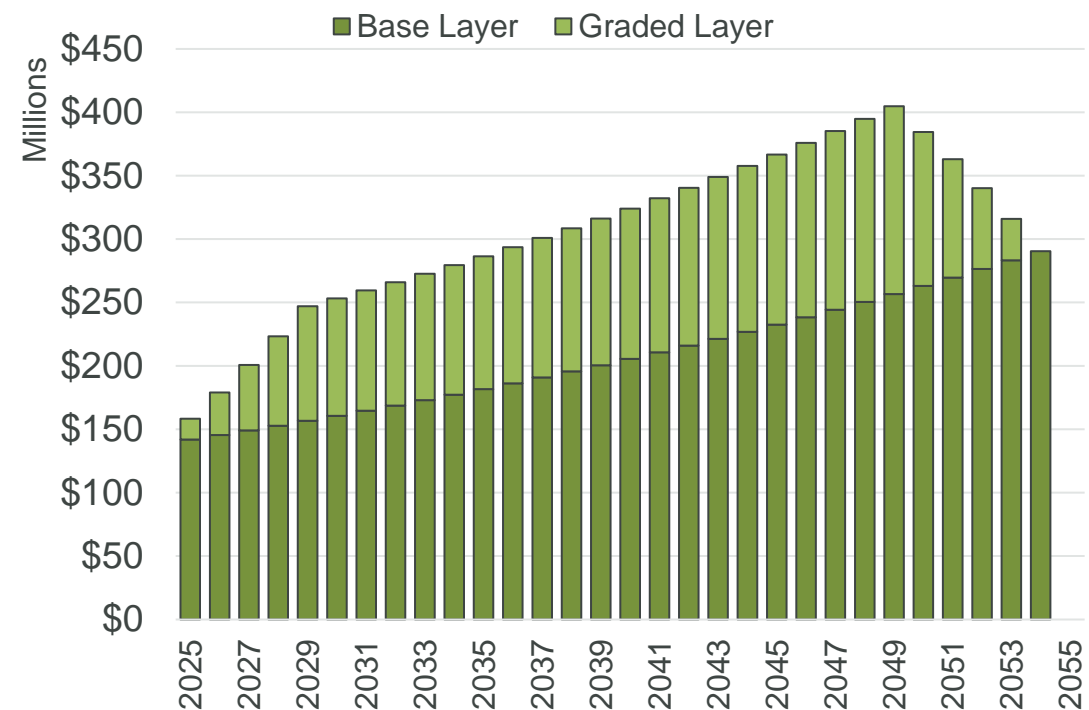


- Recommend amortizing the current UAL in two layers
  - 30-year layer approximating current fixed rate contributions
  - Graded layer that steps into the full contribution over as short a period as financially possible and grades down at the end of the period. We modeled a five-year grading period
  - See appendix for description of schedule for future layers

## Remaining UAL Balance



## UAL Amortization Payments

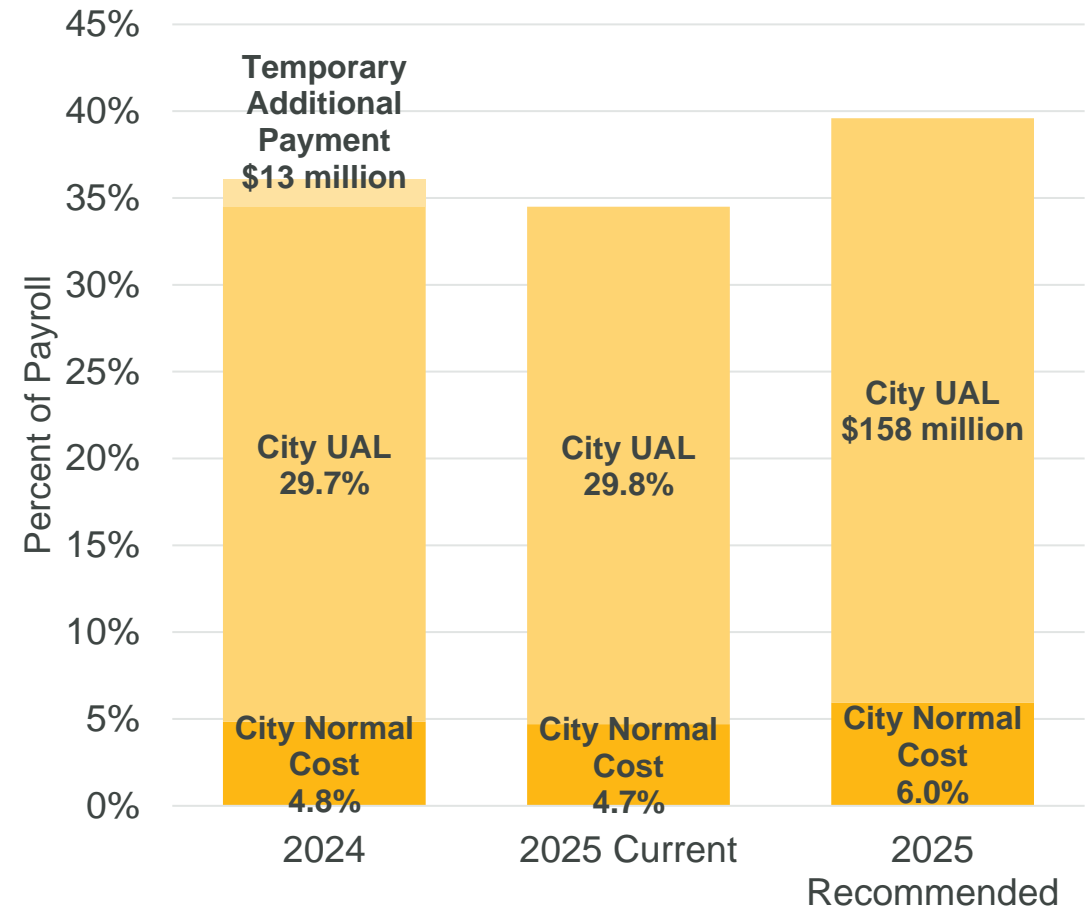


# Projected 2025 City Contribution



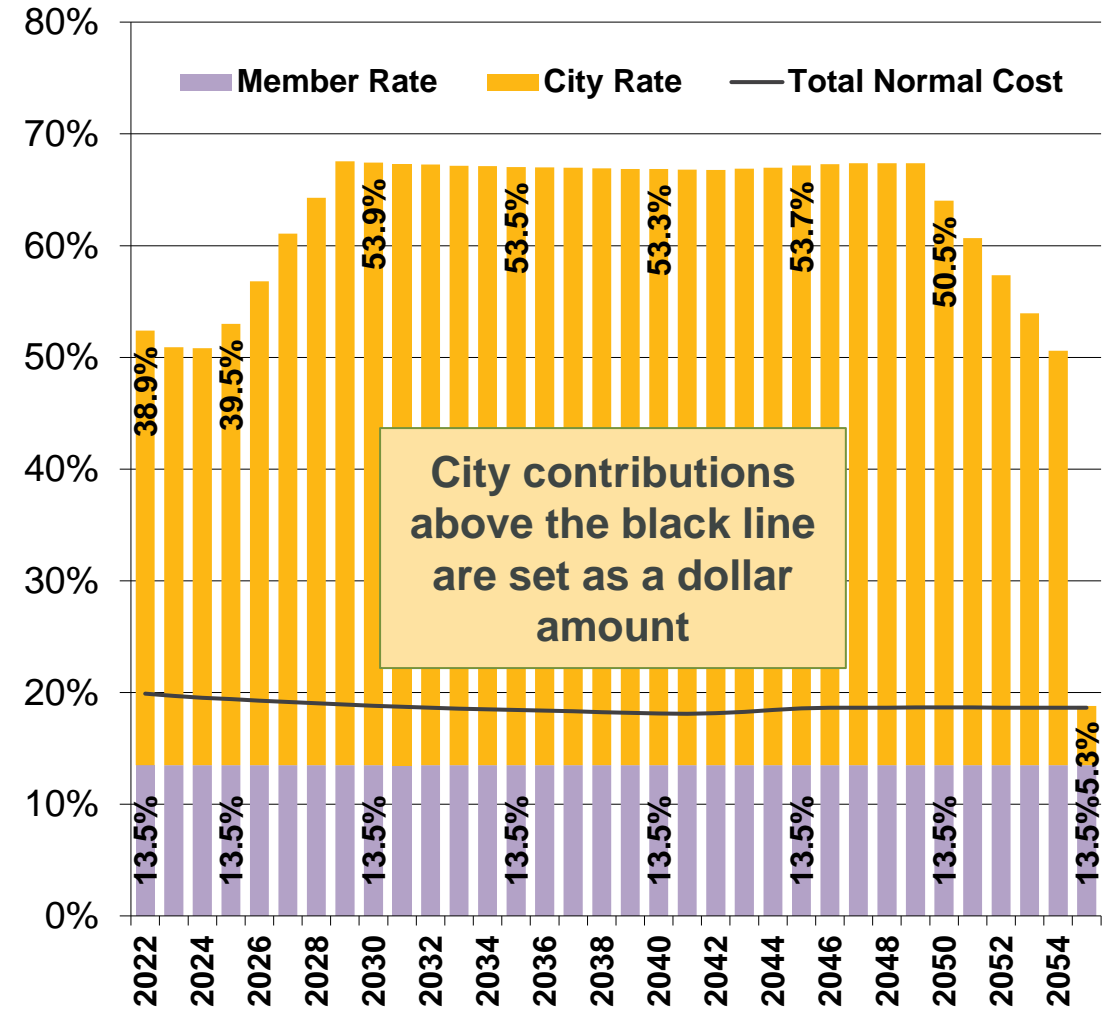
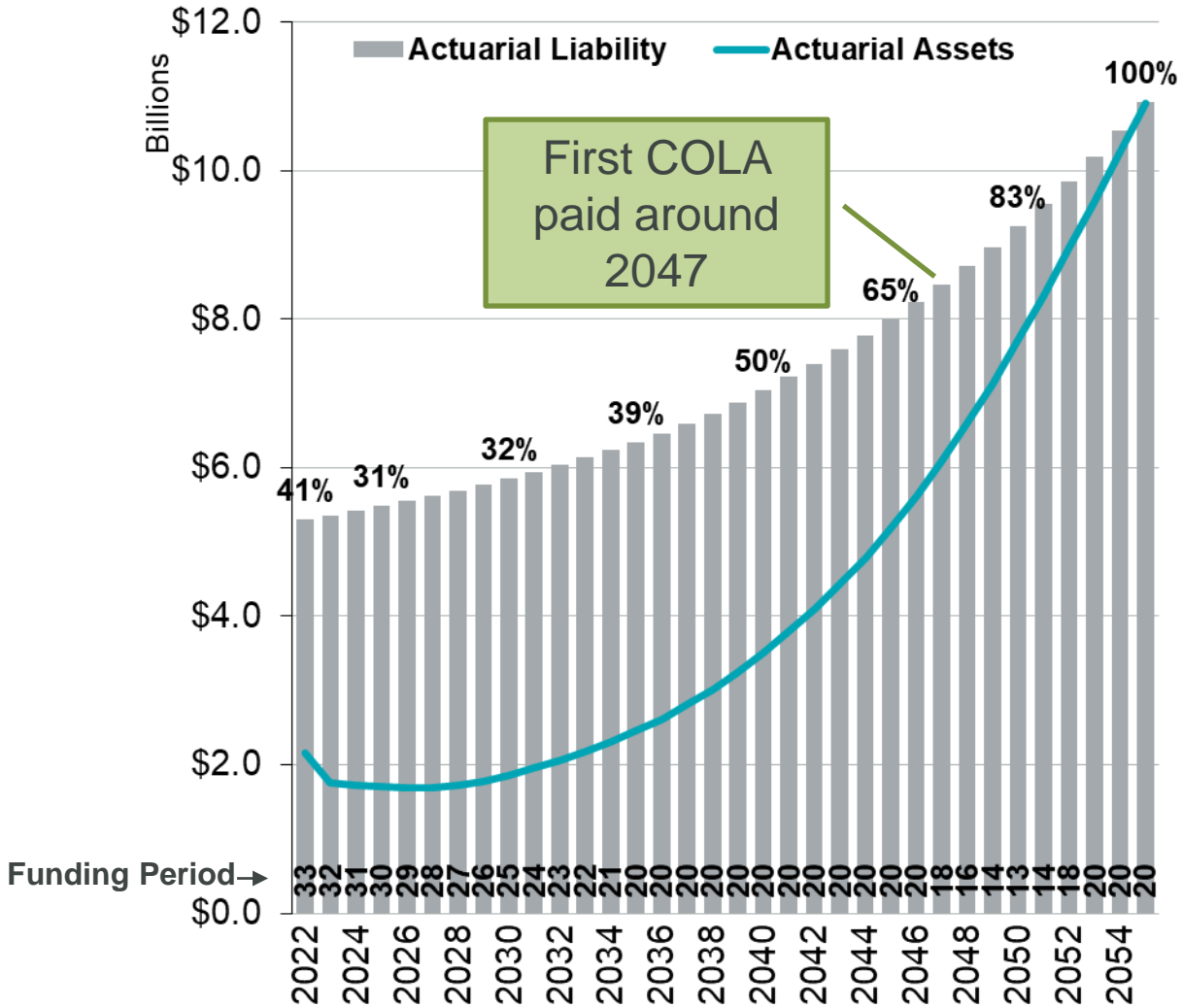
- 2024 City Contribution
  - Last year of current additional \$13 million payments
  - City normal cost reflects expectation of no COLAs until 2073
- 2025 Recommended City Contribution (Scenario 1)
  - Step increase from 2024 contribution
  - Normal cost increases reflecting expectation of COLA paid earlier
  - City's normal cost contribution is a percent of pay, but the UAL contribution is a dollar amount independent of actual payroll

Projected 2025 City Contribution  
Current vs. Recommended Scenario 1





# Scenario 1 – Graded ADC

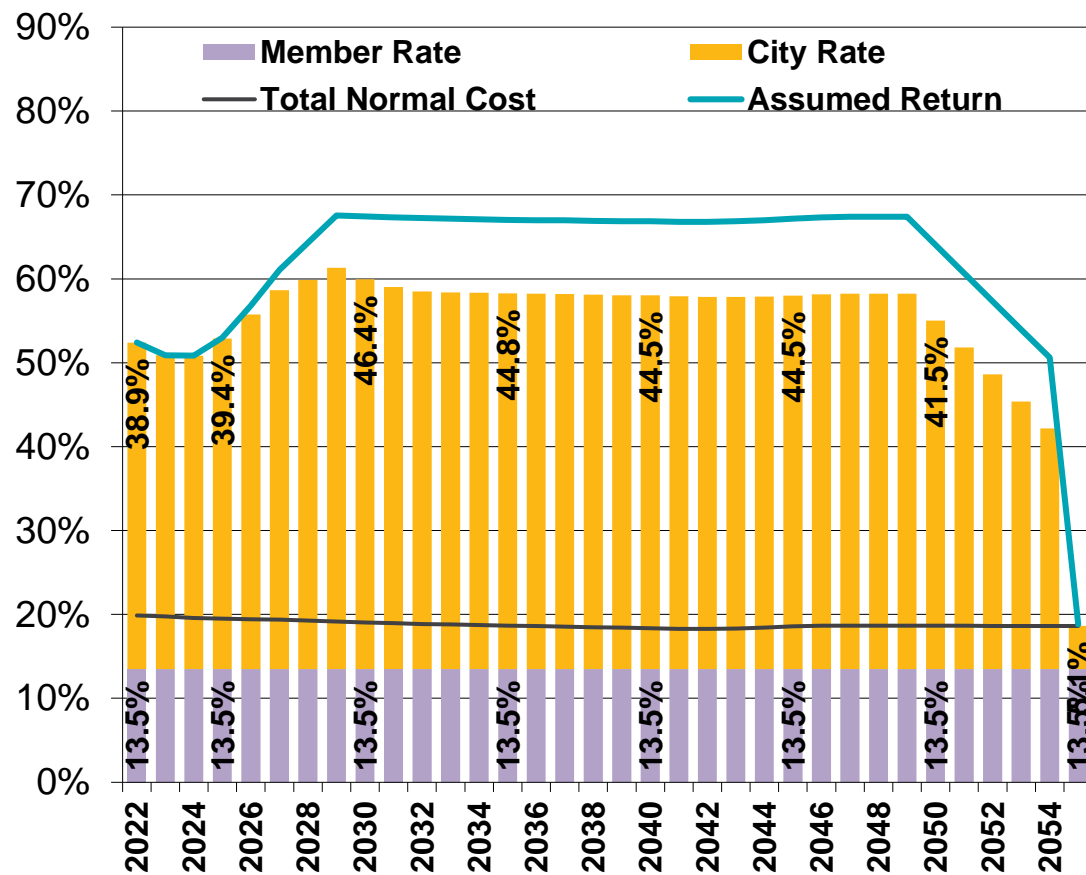
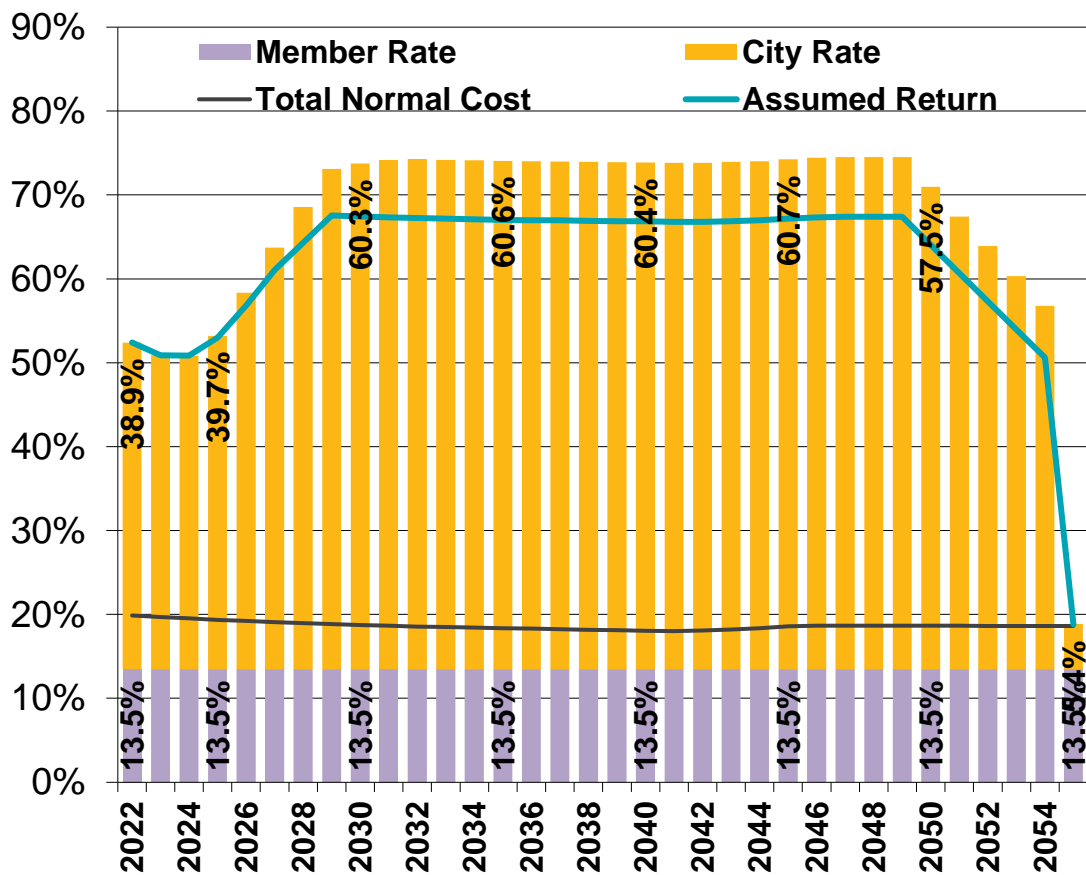


# Scenario 1 – Contribution Sensitivity to Investment Returns



**Very Poor Returns**  
2023 through 2027 = **-1.0%**

**Very Good Returns**  
2023 through 2027 = **14.0%**



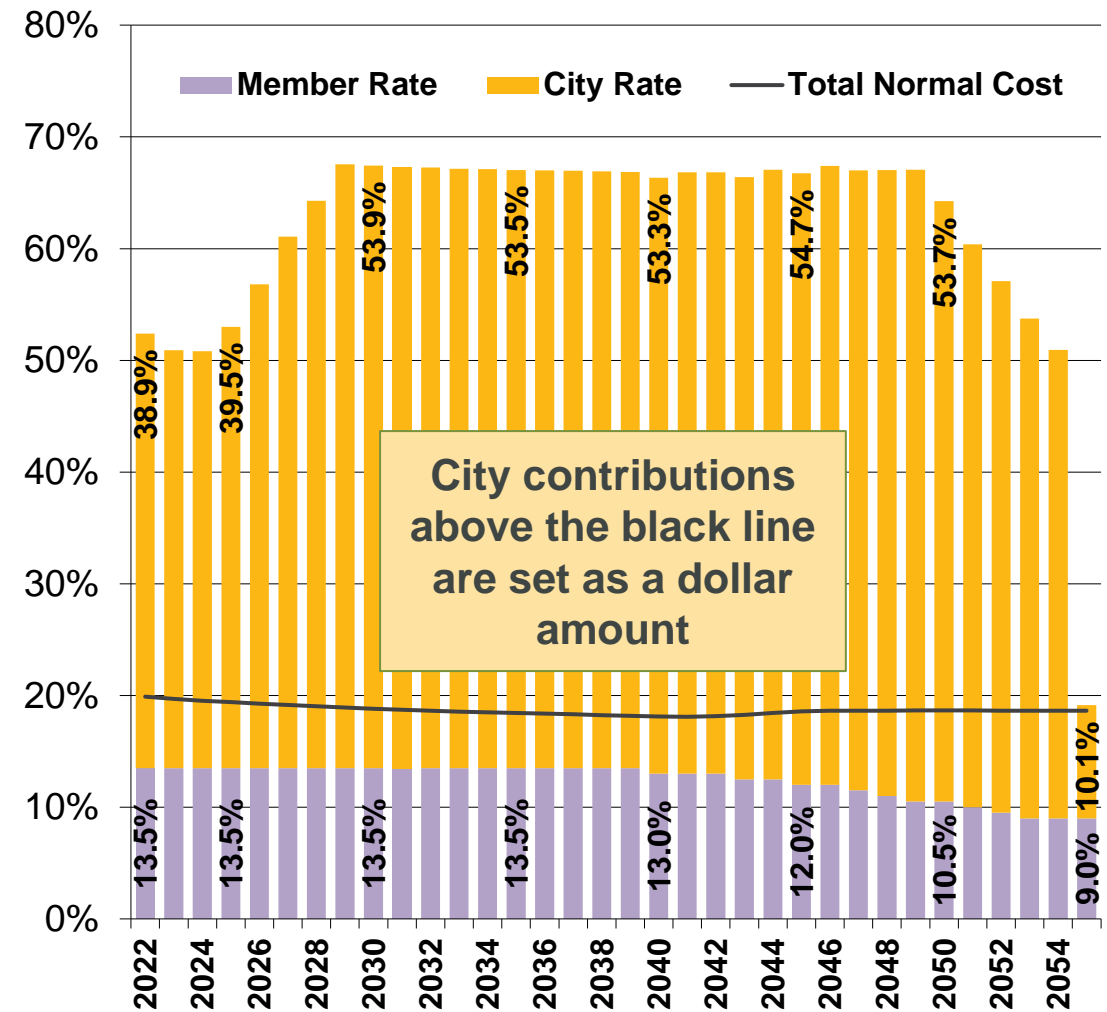
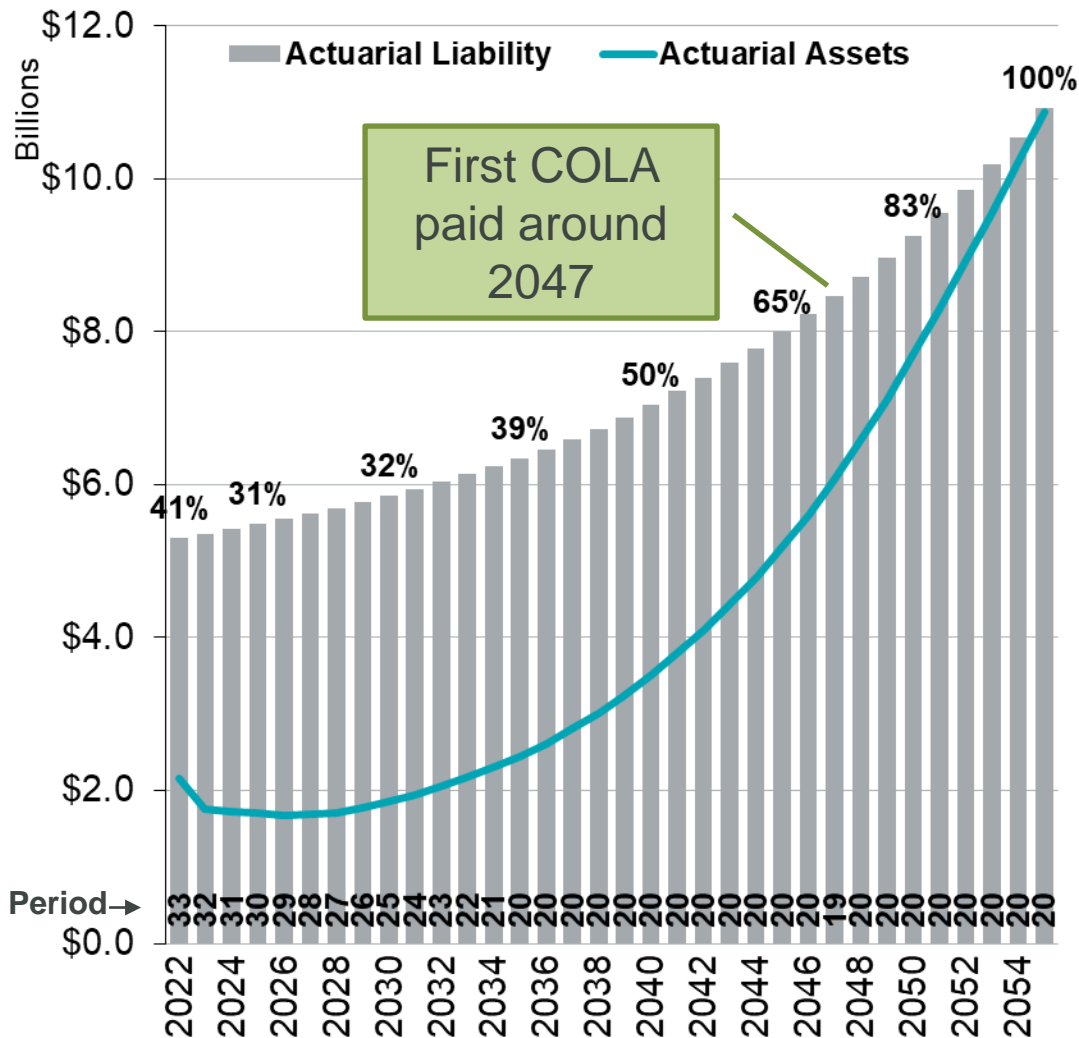
# Scenario 2 – Adjustable Employee Contribution Rate



- Set base employee contribution rate to 50% of the normal cost rate applicable for members hired on/after March 1, 2011
  - Similar to current law once System is fully funded
  - Round to nearest 0.5%
  - 8.5% for this scenario
- Add adjustment designed to maintain current 13.5% contribution rate initially, with rate decreases as the System becomes better funded
- Adjustments proposed for this scenario shown in the table below:

Funded Ratio	<45%	45-49%	50-54%	55-59%	60-64%	65-69%	70-74%	75-79%	80-84%	85-89%	90%+
EE Rate Adjustment	5.0%	4.5%	4.0%	3.5%	3.0%	2.5%	2.0%	1.5%	1.0%	0.5%	0%

# Scenario 2 – Graded ADC / Adjustable EE Rate



# Scenario 3 – Partial COLA

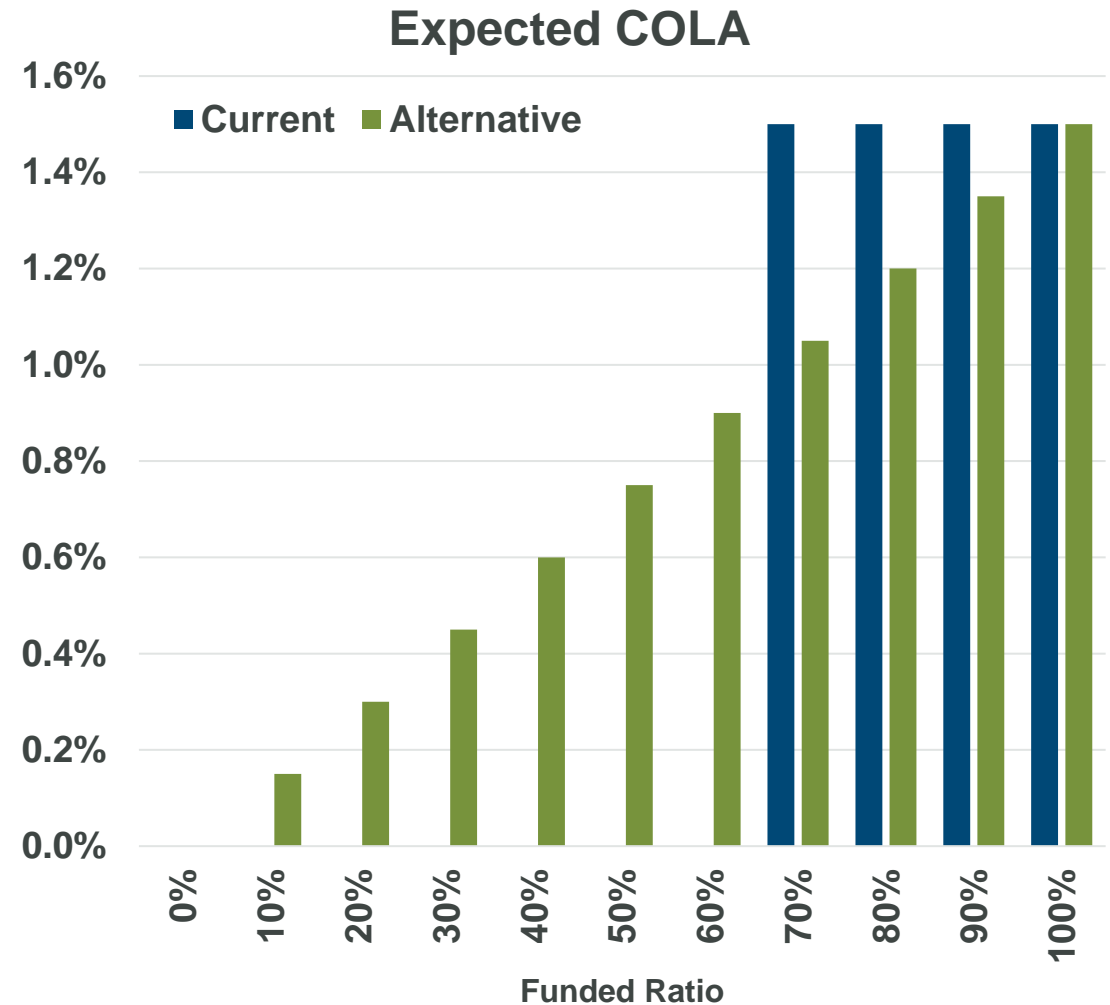


- Current COLA is not payable until System reaches 70% funded ratio
  - Projected to be in 2040s even with recommended additional City contributions
- Consider a partial COLA option
  - Eliminate funded ratio threshold
  - Multiply COLA by funded ratio ( $[5\text{-yr return} - 5.0\%] \times \text{funded ratio}$  up to 100%)
  - Keep maximum COLA of 4.0%
- Observations
  - Partial COLA available immediately
  - Only paid when investment returns support it, and Board approves
  - Lower COLA than current COLA provisions when between 70% and 100% funded

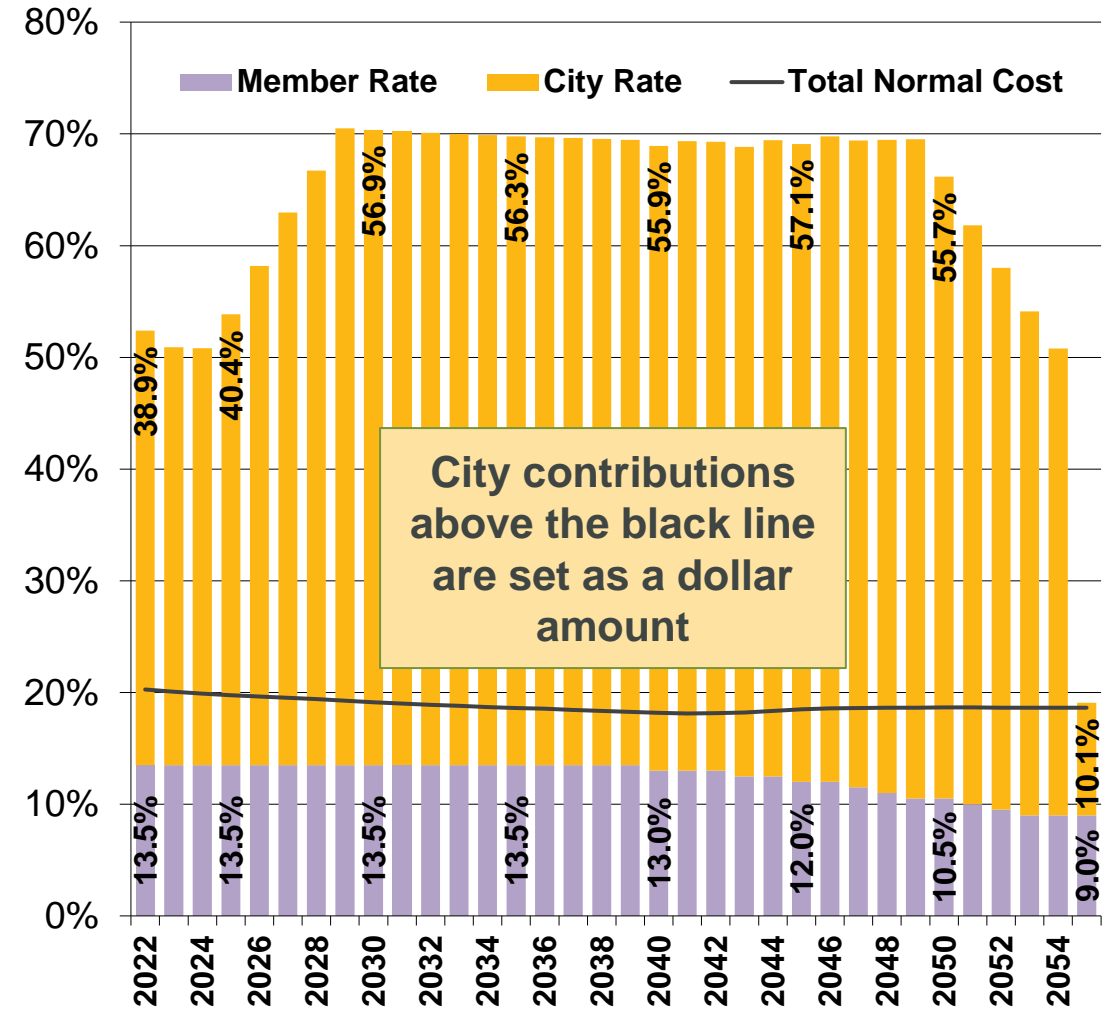
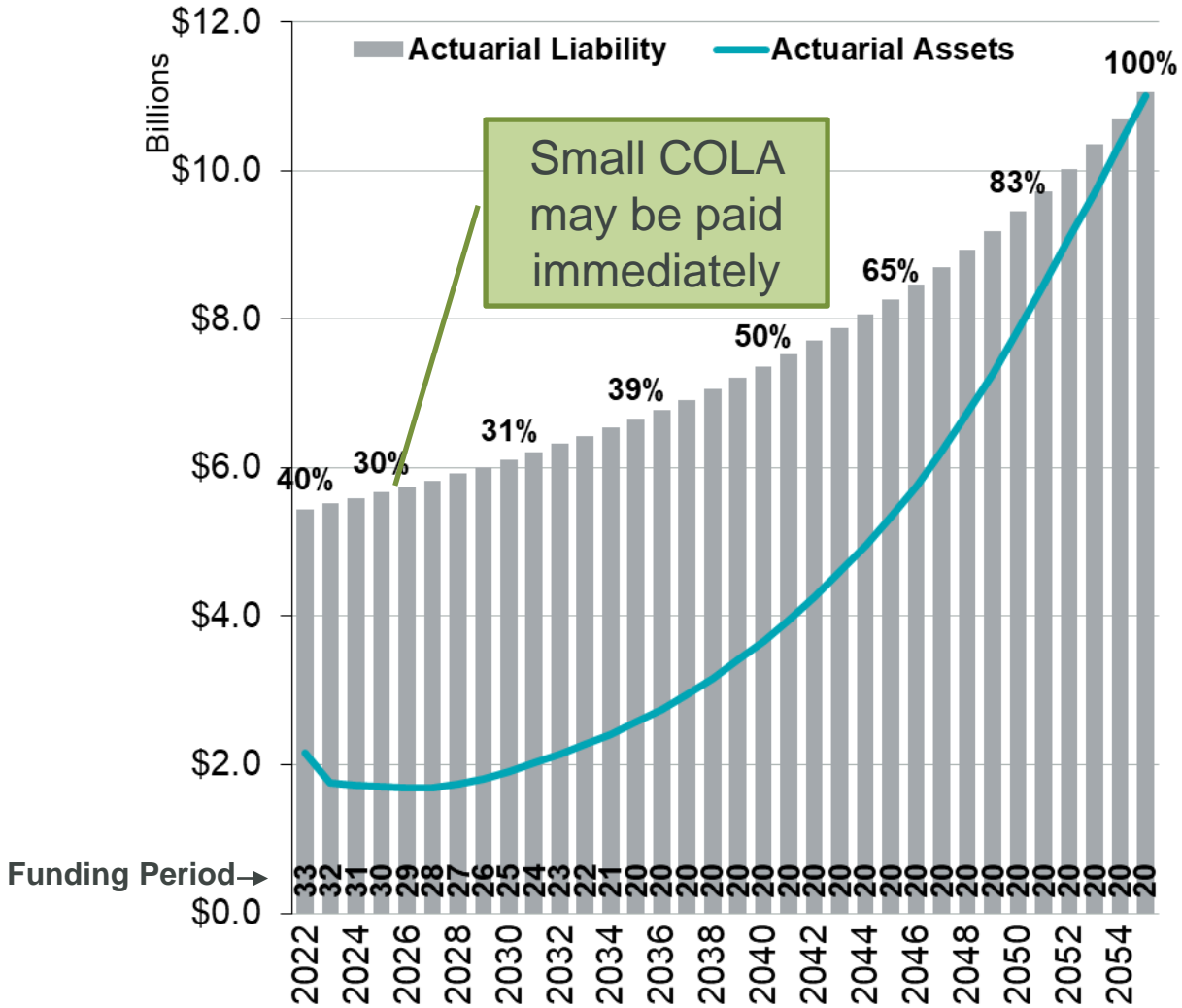
# COLA Option Comparison



- When current COLA is available (>70% funded), it is expected to be 1.5%
  - 6.5% expected return minus 5.0%
- Alternative COLA is always available, but the expected 1.5% COLA is multiplied by the funded ratio (up to 100%)
  - Higher than current COLA when less than 70% funded
  - Lower than current COLA when 70% to 100% funded
- Both COLA options
  - Based on 5-year average returns
  - Minimum = 0.0%
  - Maximum = 4.0%



# Scenario 3 – Graded ADC / Adjustable EE Rate / Partial COLA



# Summary of Recommended Alternative Scenarios



Scenario	1	2	3
	Graded ADC	Graded ADC Adjustable EE Rate	Graded ADC Adjustable EE Rate Partial COLA
<b>City Contribution</b>	<b>Actuarially Determined Contribution</b> Layered amortization grading up over a short period and back down at the end of 30 years		
<b>Employee Contribution</b>	13.5%	50% of normal cost + additional contribution depending on funded ratio	
<b>COLA</b>	Five-year return minus 5% If 70% funded Not more than 4%		Five-year return minus 5% times funded ratio Not more than 4%
<b>Benefit Multiplier (2.5%)</b>	No Changes Recommended		
<b>Retirement Age (58)</b>	No Changes Recommended		







- The purpose of this presentation is to present the initial independent actuarial analysis providing alternative benefit and contribution scenarios that comply with the requirements of Texas Government Code Section 802 to the Dallas Police and Fire Pension System Board. The initial analysis is based on our replication of the 2022 actuarial valuation performed by Segal.
- In preparing our presentation, we relied on information, some oral and some written, supplied by the Dallas Police and Fire Pension System. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23. A summary of the data, assumptions, methods, and plan provisions used to prepare our analysis can be found in Segal's 2022 actuarial valuation report supplemented by additional information in the appendix of this presentation.
- Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and, changes in plan provisions or applicable law.
- This presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinions contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.
- This presentation was prepared exclusively for the Dallas Police and Fire Pension System Board for the purpose described herein. This presentation is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

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Consulting Actuary

Elizabeth Wiley, FSA, EA, FCA, MAAA  
Consulting Actuary

Jake Libauskas, FSA, EA, FCA, MAAA  
Consulting Actuary

# Appendix – Basis for Analysis



- The preliminary analysis shown in this presentation is based on the data, assumptions, methods, and plan provisions as summarized in Segal's January 1, 2022 actuarial valuation
- In addition, the following assumptions were used, unless otherwise noted:
  - Investment return for 2022: -13.0%
  - Investment return for 2023 and thereafter: 6.5%
  - Payroll growth of 2.5% per year
- The final analysis will be based on Segal's January 1, 2023 actuarial valuation, which will differ due to:
  - Asset and liability experience during 2022
  - Any assumption or plan changes that differ from those used for the 2022 valuation
- As a result, cost estimates and projections in the final analysis are likely to differ from those presented in this preliminary analysis
- This analysis would be materially changed if the System receives an adverse result in pending litigation on annual benefit adjustments



- Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.
- Deterministic projections in this report were developed using *P-Scan*, a proprietary tool used to illustrate the impact of changes in assumptions, methods, plan provisions, or actual experience (particularly investment experience) on the future financial status of the System.
- *P-Scan* uses standard roll-forward techniques that implicitly assume a stable active population. Because *P-Scan* does not automatically capture how changes in one variable affect all other variables, some scenarios may not be consistent.

# Appendix – 2022 Valuation Replication



## Present Value of Benefits

	Segal	Cheiron	Percent Difference
Actives			
Hired Before 3/1/2011	\$ 1,807	\$ 1,818	0.6%
Hired On/After 3/1/2011	486	490	0.8%
Retirees & Beneficiaries	3,554	3,551	-0.1%
Inactive Members	<u>27</u>	<u>26</u>	-2.5%
Total	\$ 5,875	\$ 5,885	0.2%

## Actuarial Liability

Actives			
Hired Before 3/1/2011	\$ 1,434	\$ 1,441	0.5%
Hired On/After 3/1/2011	143	147	2.6%
Retirees & Beneficiaries	3,554	3,551	-0.1%
Inactive Members	<u>27</u>	<u>26</u>	-2.5%
Total	\$ 5,159	\$ 5,165	0.1%

Amounts in Millions

## Normal Cost

	Segal	Cheiron	Percent Difference
Hired Before 3/1/2011	\$ 47.4	\$ 47.5	0.2%
Hired On/After 3/1/2011	<u>27.2</u>	<u>26.3</u>	-3.4%
Total Normal Cost	\$ 74.7	\$ 73.8	-1.1%
Total Normal Cost with interest to reflect mid-year contribution timing	\$ 77.0	\$ 76.2	-1.1%
Payroll	\$ 437.0	\$ 437.3	0.1%
Normal Cost Rate			
Hired Before 3/1/2011	18.7%	18.7%	0.0%
Hired On/After 3/1/2011	16.0%	15.5%	-0.5%
Total Normal Cost Rate	17.6%	17.4%	-0.2%

Amounts in Millions

November 9, 2023



## Structure and Initial Layers

- Layered amortizations with 2.5% rate of annual payment increases
  - Separate amortization layer for each year of experience, assumption changes, and plan changes
- Start with two initial layers that add up to the full UAL
  - 30-year base layer approximating the current UAL payment
  - Graded layer that steps into the full contribution over as short of a period as financially possible and grades back down at the end of 30 years

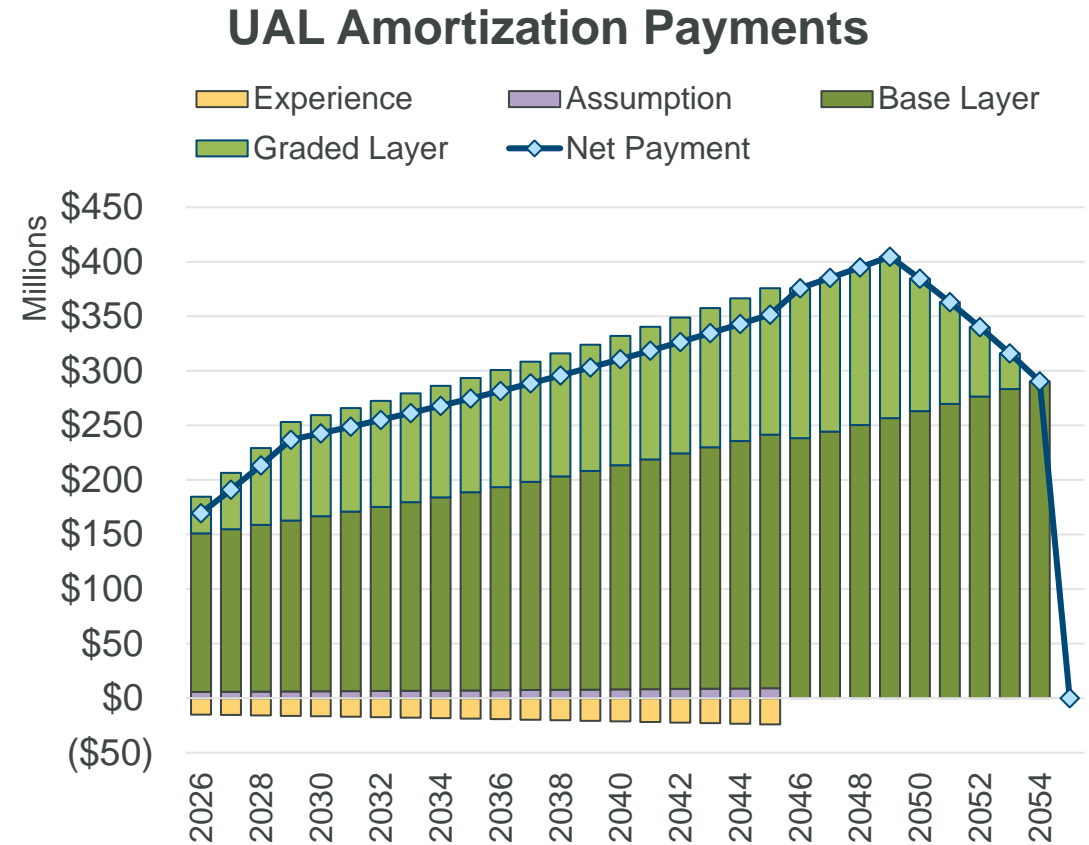
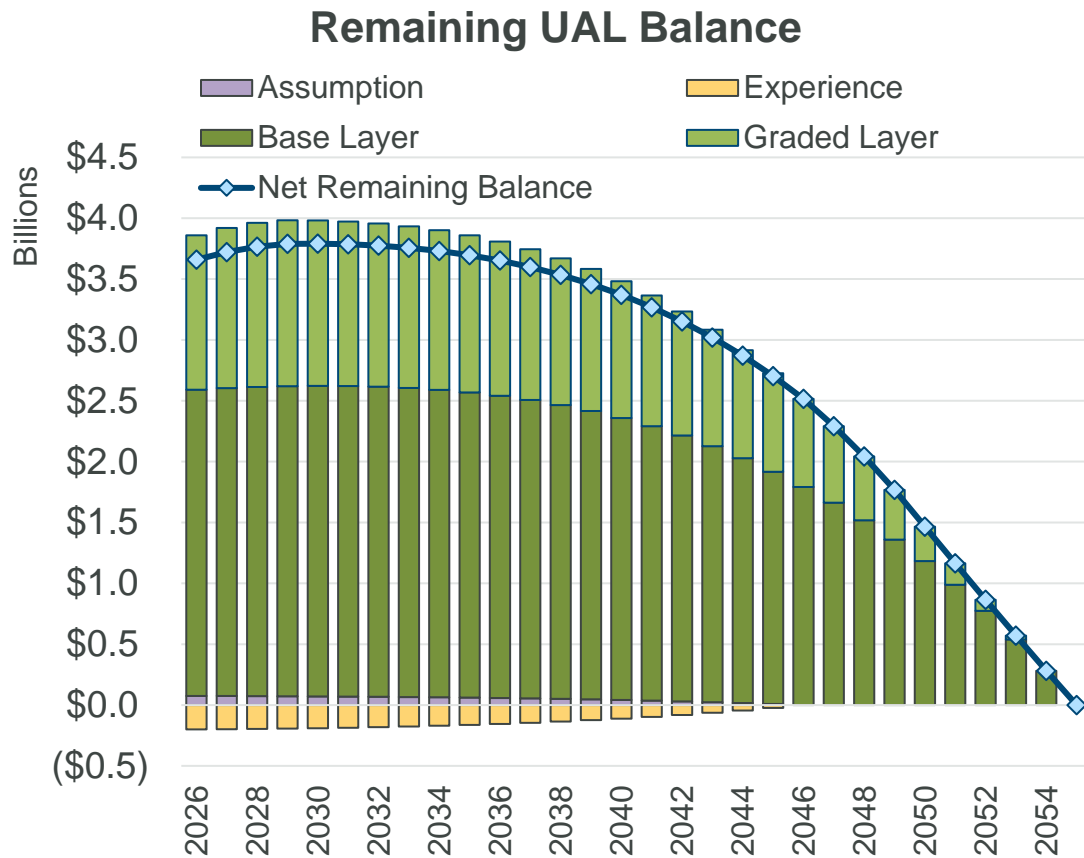
## Future Amortization Layers

- Experience and assumption changes = Maximum of 20 years or remaining period on base layer
  - Prevents any gains from being amortized faster than the base layer
- Plan changes
  - Active employees = Average future service of those affected by change or 15 years
  - Retirees = Average remaining lifetime of those affected by change or 10 years
- Lump sum contributions
  - In first four years, first reduce or eliminate any remaining graded increases
  - After four years or after future graded increases have been eliminated, reduce the base layer

# Appendix – Layered Amortization Illustration – 2<sup>nd</sup> Year



**Make first year's payment. Add a new closed layer amortizing any new gains or losses and another layer for any assumption changes.**

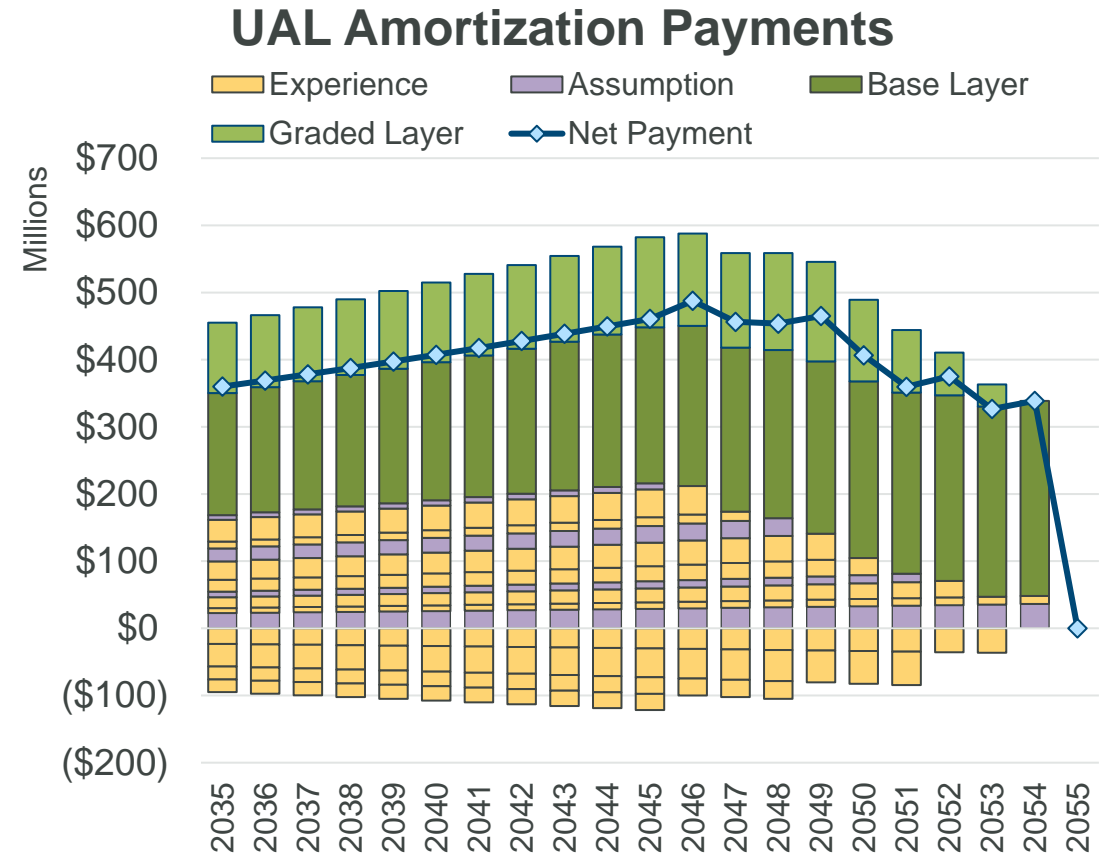
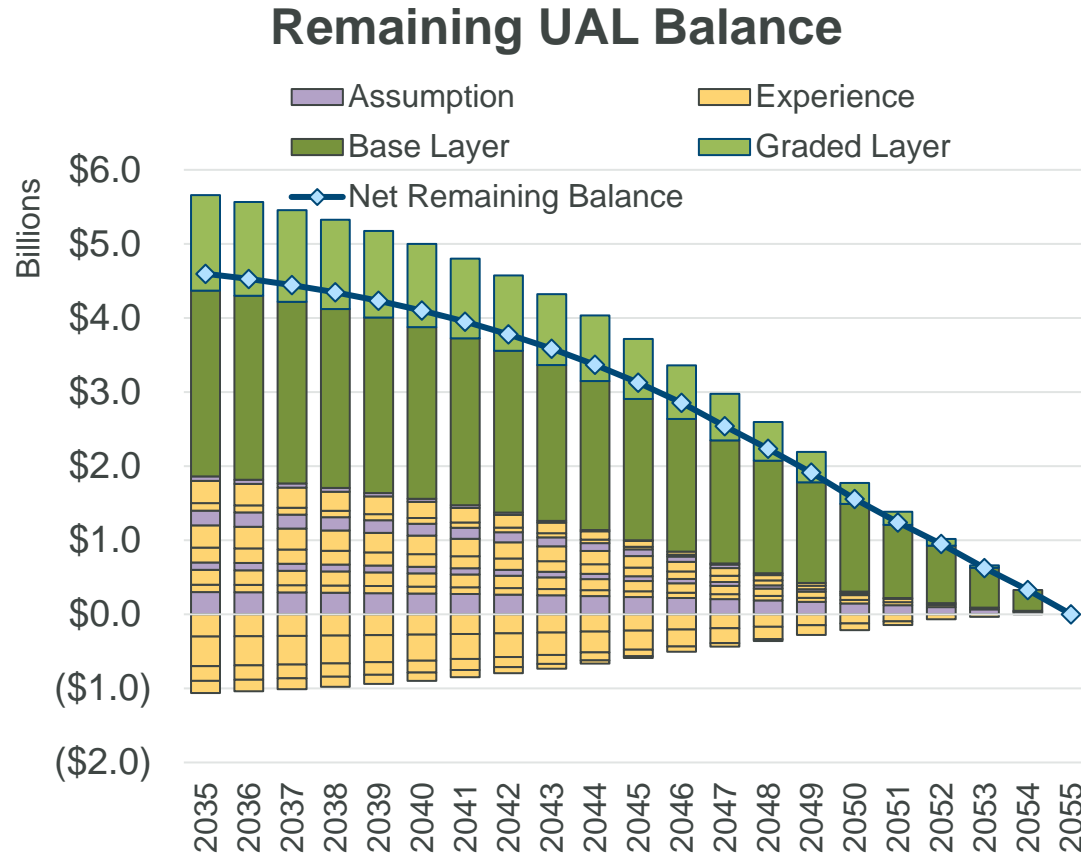


*Hypothetical experience and assumption layer for illustrative purposes*





Repeat process. The different layers tell the history of the system.



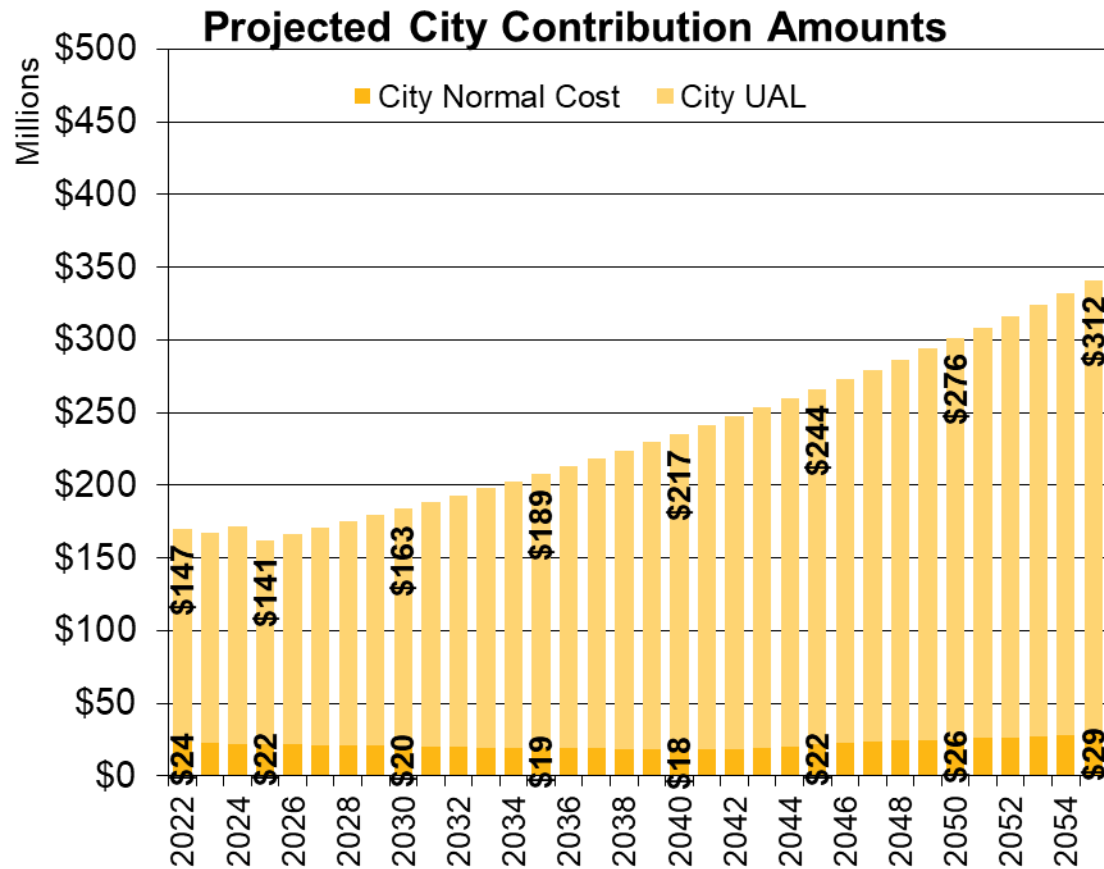
*Hypothetical experience and assumption layers for illustrative purposes*



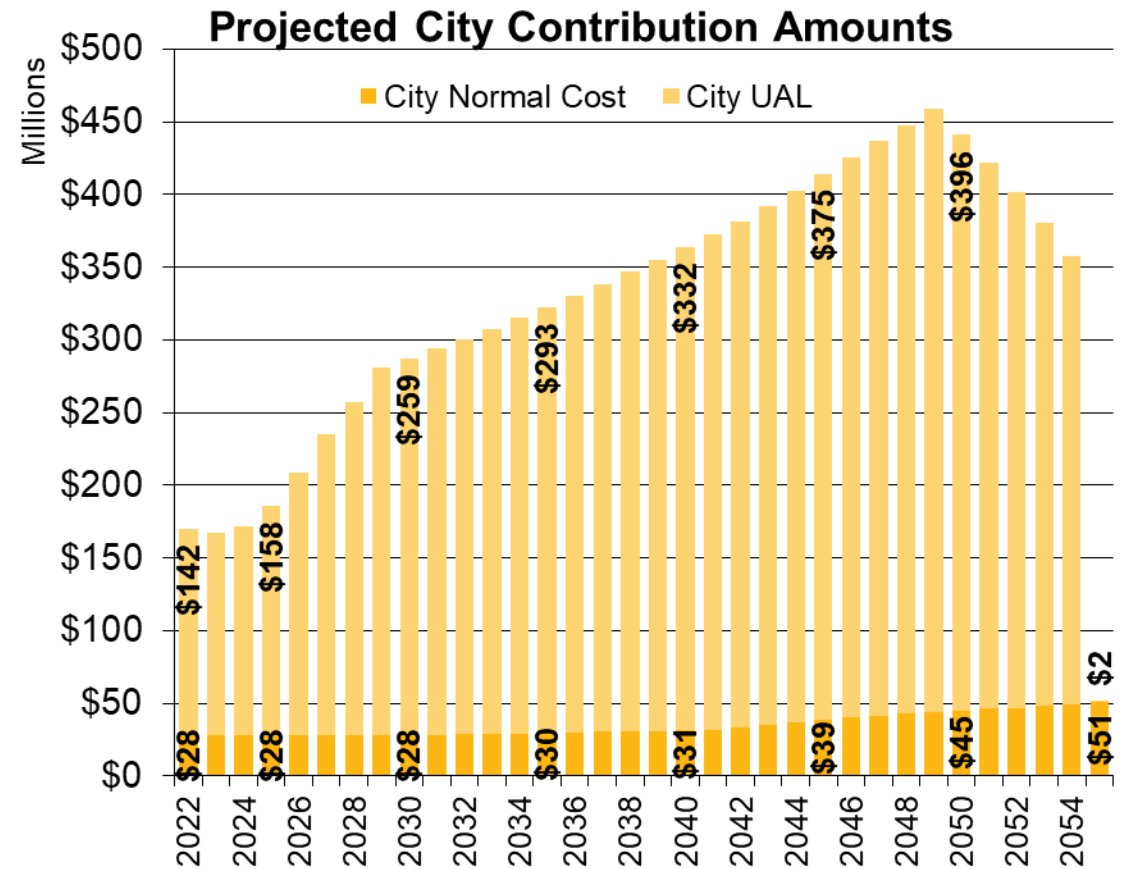
# Projected City Contribution Amounts



## 2022 Actuarial Valuation



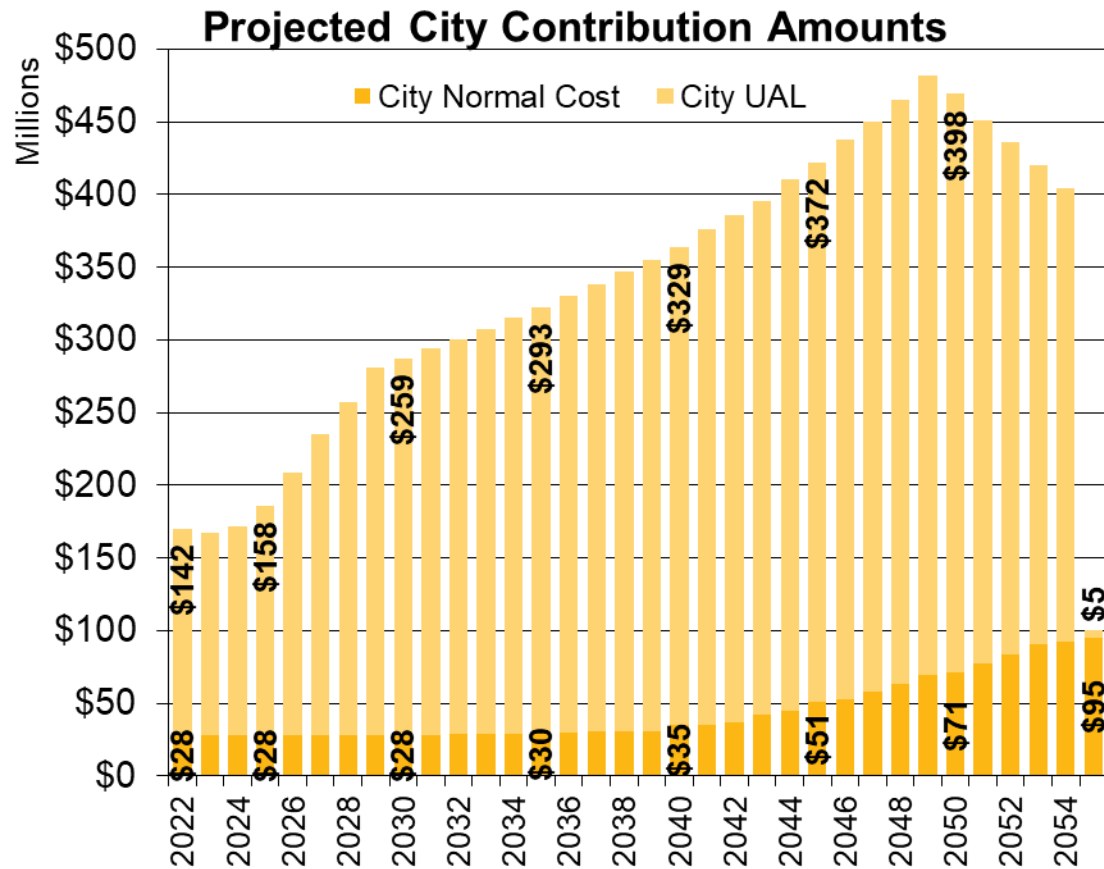
## Scenario 1: Graded ADC



# Projected City Contribution Amounts



## Scenario 2 – Graded ADC Adjustable EE Rate



## Scenario 3 – Graded ADC Adjustable EE Rate / Partial COLA

