

## AGENDA



**Date:** November 14, 2019

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Tuesday, November 19, 2019, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas.** Items of the following agenda will be presented to the Board:

### **A. MOMENT OF SILENCE**

### **B. CONSENT AGENDA**

#### **1. Approval of Minutes**

- a. Required Public meeting of October 10, 2019
- b. Regular meeting of October 10, 2019

#### **2. Approval of Refunds of Contributions for the Month of October 2019**

#### **3. Approval of Estate Settlements**

**4. Approval of Survivor Benefits**

**5. Approval of Service Retirements**

**6. Approval of Alternate Payee Benefits**

**7. Approval of Payment of Previously Withdrawn Contributions**

**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

**1. Lone Star Investment Advisors Fund Extensions and Update**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.071 of the Texas Government Code.

**2. Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation, including claims against City of Dallas regarding unpaid contributions under USERRA, consideration of legal options regarding DPF's interests in funds managed by Lone Star Investment Advisors, claims related to overpayment of benefits or any other legal matter in which the duty of the attorneys to DPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

**3. Chairman's Discussion Item**

Mayoral Trustee Appointments

**4. Financial Audit**

- a. 2018 Audit Results
- b. Audit Committee
- c. 2019 Auditing Services Provider

**5. 2018 Comprehensive Annual Financial Report**

**6. Funding Path Sensitivity**

**7. Funding Policy**

**8. Quarterly Financial Reports**

**9. Monthly Contribution Report**

**10. Required Training Manual Delivery**

**11. Second reading and discussion of the 2020 Budget**

**12. Portfolio Update**

**13. Benefit Underpayment Notification**

**14. Board approval of Trustee education and travel**

- a. Future Education and Business-related Travel
- b. Future Investment-related Travel

**15. Hardship Request**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.078 of the Texas Government Code.

**D. BRIEFING ITEMS**

**1. Public Comment**

**2. Executive Director's report**

- a. Associations' newsletters
  - (1) NCPERS Monitor (October 2019)
  - (2) NCPERS Monitor (November 2019)
- b. Open Records

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by the Texas Government Code, Section 551, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file. At the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records.



**ITEM #A**

**MOMENT OF SILENCE**

**In memory of our Members and Pensioners who recently passed away**

<b>NAME</b>	<b>ACTIVE/ RETIRED</b>	<b>DEPARTMENT</b>	<b>DATE OF DEATH</b>
Thomas E. Williams	Retired	Police	Oct. 1, 2019
Johnnie L. Sullivan	Retired	Police	Oct. 8, 2019
M. E. Jungjohann	Retired	Fire	Oct. 11, 2019
W. E. Sheppard	Retired	Fire	Oct. 12, 2019
Felix G. Woodrow	Retired	Police	Oct. 15, 2019
Charles R. Pitman	Retired	Fire	Oct. 17, 2019
John L. Ellison	Retired	Fire	Oct. 19, 2019
Robert A. Davis	Retired	Fire	Oct. 22, 2019
Luanne E. Kimball-East	Retired	Fire	Oct. 23, 2019
Fredrick H. Smith	Retired	Police	Oct. 23, 2019
Robert E. McKinney	Retired	Police	Oct. 26, 2019
H. K. Cops	Retired	Fire	Oct. 29, 2019
Edward H. Ryer	Retired	Fire	Nov. 5, 2019

*Regular Board Meeting – Tuesday, November 19, 2019*

**Dallas Police and Fire Pension System  
Thursday, October 10, 2019  
8:30 a.m.  
4100 Harry Hines Blvd., Suite 100  
Second Floor Board Room  
Dallas, TX**

Required Public Meeting, William F. Quinn, Chairman, presiding:

**ROLL CALL**

**Board Members**

Present at 8:32 a.m. William F. Quinn, Nicholas A. Merrick, Joseph P. Schutz, Robert B. French, Ray Nixon, Gilbert A. Garcia, Susan M. Byrne, Tina Hernandez Patterson, Armando Garza, Kneeland Youngblood

Present at 8:50 a.m. Robert C. Walters

Absent: None

**Staff**

Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Greg Irlbeck, Michael Yan, Milissa Romero

**Others**

Chuck Campbell, Jeff Williams, Caitlin Grice, Janis Elliston, David Elliston, Bill Ingram, Rick Salinas, Sheri Kowalski

\* \* \* \* \*

The second of two annual public meetings of the Dallas Police and Fire Pension System Board of Trustees as required by Section 3.01 (j-9) of Article 6243a-1 of Vernon's Revised Civil Statutes.

The meeting was called to order at 8:32 a.m.

\* \* \* \* \*

**1. Report on the health and performance of the Pension System**

- a. January 1, 2019 Actuarial Valuation
  - b. Projected Change in Net Position Bridge Chart
- a. Jeff Williams and Caitlin Grice of Segal Consulting, DPFP's actuarial firm, were present to discuss results of the January 1, 2019 actuarial valuation report, including the GASB No. 67 actuarial valuation.

**Required Public Meeting  
Thursday, October 10, 2019**

**1. Report on the health and performance of the Pension System (continued)**

- b.** The Executive Director presented the Projected Change in Net Position Bridge Chart and reported on the health and performance of DPFP as required by Section 3.01 (j-9) of Article 6243a-1 of Vernon’s Revised Civil Statutes.

No motion was made.

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**2. Public comment**

The Chairman extended an opportunity for public comment. The Board received comments during the open forum.

\* \* \* \* \*

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Youngblood and a second by Ms. Byrne, the meeting was adjourned at 9:38 a.m.

\_\_\_\_\_  
William F. Quinn  
Chairman

**ATTEST:**

\_\_\_\_\_  
Kelly Gottschalk  
Secretary

**Dallas Police and Fire Pension System  
Thursday, October 10, 2019  
8:30 a.m.  
4100 Harry Hines Blvd., Suite 100  
Second Floor Board Room  
Dallas, TX**

Regular meeting, William F. Quinn, Chairman, presiding:

**ROLL CALL**

**Board Members**

Present at 8:32 a.m. William F. Quinn, Nicholas A. Merrick, Joseph P. Schutz, Robert B. French, Ray Nixon, Gilbert A. Garcia, Susan M. Byrne, Tina Hernandez Patterson, Armando Garza, Kneeland Youngblood

Present at 8:50 a.m. Robert C. Walters

Absent: None

**Staff**

Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Greg Irlbeck, Michael Yan, Milissa Romero

**Others**

Chuck Campbell, Jeff Williams, Caitlin Grice, Janis Elliston, David Elliston, Bill Ingram, Rick Salinas, Sheri Kowalski, Leandro Festino (by phone)

\* \* \* \* \*

The meeting was called to order and recessed at 8:32 a.m.

\* \* \* \* \*

The meeting was reconvened at 9:38 a.m.

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**A. MOMENT OF SILENCE**

The Board observed a moment of silence in memory of retired police officers Robert W. Coker, Kevin G. Bailey, Richard D. Alford, James H. McDonald, Daniel L. Johnson, and retired firefighters H. C. Prewitt, James A. Scott, Jr., John G. Hughes, Larry L. Haygood, S. J. Mewbourn, K. E. Whitsell, J. D. Dike.

No motion was made.

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**Regular Board Meeting  
Thursday, October 10, 2019**

**B. CONSENT AGENDA**

**1. Approval of Minutes**

Regular meeting of September 12, 2019

- 2. Approval of Refunds of Contributions for the Month of September 2019**
- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for October 2019**
- 4. Approval of Survivor Benefits**
- 5. Approval of Service Retirements**
- 6. Approval of Alternate Payee Benefits**
- 7. Approval of Payment of DROP Revocation Contributions**

After discussion, Mr. Garcia made a motion to approve the minutes of the meeting of September 12, 2019. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Garcia made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Ms. Byrne seconded the motion, which was unanimously approved by the Board.

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**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

**1. January 1, 2019 Actuarial Valuation**

Jeff Williams and Caitlin Grice of Segal Consulting, DPFP's actuarial firm, were present to discuss results of the January 1, 2019 actuarial valuation report, including the GASB No. 67 actuarial valuation.

After discussion, Mr. Merrick made a motion to approve issuance of the January 1, 2019 actuarial valuation report, subject to final review by the auditors (BDO) and review and approval by the Executive Director. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

**Regular Board Meeting  
Thursday, October 10, 2019**

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**2. Initial reading and discussion of the 2020 Budget**

The Chief Financial Officer presented the initial reading of the 2020 budget, prepared in total for both the Combined Pension Plan and the Supplement Plan.

After discussion, staff was directed to revise the proposed budget based on the direction of the Board and bring the revised proposed budget to the Board at the November 2019 Board meeting for consideration.

No motion was made.

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**3. Monthly Contribution Report**

Staff presented the Monthly Contribution Report.

No motion was made.

\* \* \* \* \*

**4. Board approval of Trustee education and travel**

- a. Future Education and Business-related Travel
- b. Future Investment-related Travel

No discussion was held, and no motion was made regarding Trustee education and travel. There was no future investment-related travel.

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**5. Appointment of Professional Services Committee Member**

The Professional Services Committee is composed of three members including one Mayoral appointed Board member, one Board member selected by the Members (Police, Fire or non-member Trustee) and either the Chair of the Board or a Board member selected by the Chair of the Board. The current members of the Committee are Bill Quinn, Joe Schutz and Blaine Dickens

The Chairman of the Board selected Rob French to replace Blaine Dickens on the Committee.

**Regular Board Meeting  
Thursday, October 10, 2019**

**5. Appointment of Professional Services Committee Member *(continued)***

After discussion, Mr. Nixon made a motion to confirm appointment of Mr. French as a member of the Professional Services Committee. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

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**6. Report on Professional Services Committee**

The Chairman reported that the Professional Services Committee met with representatives from Segal, DFP's actuary. The Chairman stated that Segal was highly complimentary of staff and that they had no issues to report in dealing with staff.

No motion was made.

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**7. Chairman's Discussion Item**

**Member Complaint**

The Chairman briefed the Board on the status of the Member Complaint.

No motion was made.

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**8. Senate Bill 322 Investment Practices and Performance Evaluations**

Leandro Festino of Meketa Investment Group and the Investment Staff discussed Senate Bill 322 which directs that a public retirement system shall select an independent firm with substantial experience in evaluating institutional investment practices and performance to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the retirement system's investment policies, procedures, and practices.

After discussion, Mr. Walters made a motion to approve staff's recommendation to hire Meketa Investment Group to conduct the evaluation required by SB 322 subject to contract approval and execution by the Executive Director. Ms. Hernandez Patterson seconded the motion, which was approved by the following vote:

For: Mr. Quinn, Mr. Merrick, Mr. French, Mr. Nixon, Mr. Garcia, Ms. Byrne, Ms. Hernandez Patterson, Mr. Walters, Mr. Garza, Mr. Youngblood  
Against: Mr. Schutz

**Regular Board Meeting  
Thursday, October 10, 2019**

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**9. Portfolio Update**

Investment Staff briefed the Board on recent events and current developments with respect to the investment portfolio.

No motion was made.

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**10. Report on Investment Advisory Committee**

The Investment Advisory Committee Chair and Investment Staff commented on Investment Advisory Committee observations and advice.

No motion was made.

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**11. Public Equity Manager Reviews**

Staff provided an overview of DPFPP public equity investments.

No motion was made.

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**12. Private Asset Cash Flow Projection Update**

Staff provided the quarterly update on the private asset cash flow projection model first discussed at the February 2018 Board meeting. The cash flow model projects estimated contributions to, and distributions from, private assets through the end of 2022. These estimates are intended to assist the Board in evaluating the expected time frame to reduce DPFPP’s exposure to these assets and the implications for the overall asset allocation and expected portfolio risk and return.

No motion was made.

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**13. Lone Star Investment Advisors Update**

The Board went into closed session executive session – Legal at 11:59 a.m.

The meeting was reopened at 1:01 p.m.

No motion was made.

**Regular Board Meeting  
Thursday, October 10, 2019**

\* \* \* \* \*

- 14. **Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation, including claims against City of Dallas regarding unpaid contributions under USERRA, consideration of legal options regarding DPFP’s interests in funds managed by Lone Star Investment Advisors or any other legal matter in which the duty of the attorneys to DPFP and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

The Board went into closed session executive session – Legal at 11:59 a.m.

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Mr. Garcia left the meeting at 12:58 p.m.

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The meeting was reopened at 1:01 p.m.

No motion was made.

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**D. BRIEFING ITEMS**

- 1. **Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**

The Board received member’s comments during the open forum.

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- 2. **Executive Director’s report**

- a. **Associations’ newsletters**
  - NCPERS Monitor (September 2019)
- b. **Open Records**

The Executive Director’s report was presented.

**Regular Board Meeting  
Thursday, October 10, 2019**

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Merrick and a second by Mr. French, the meeting was adjourned at 1:01 p.m.

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William F. Quinn  
Chairman

**ATTEST:**

\_\_\_\_\_  
Kelly Gottschalk  
Secretary

DRAFT



## DISCUSSION SHEET

### ITEM #C1

**Topic:** Lone Star Investment Advisors Fund Extensions and Update

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.071 of the Texas Government Code.

**Discussion:** The Lone Star Growth Capital fund original term expired in October 2018 and has been extended twice. The Lone Star CRA fund original term expired in April 2019 and has been extended once. The current extensions for both funds expired on October 25, 2019. The General Partner has proposed a six-month extension of each fund term with no management fee. Investment Staff will update the Board on recent performance, operational, and administrative developments with respect to DFPF investments in funds managed by Lone Star Investment Advisors.

**Staff**

**Recommendation:** **Authorize** the Executive Director to enter into six-month extensions with no management fee on the Lone Star Growth Capital and Lone Star CRA funds.

*Regular Board Meeting – Tuesday, November 19, 2019*



## **DISCUSSION SHEET**

### **ITEM #C2**

**Topic:**                    **Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation, including claims against City of Dallas regarding unpaid contributions under USERRA, consideration of legal options regarding DFPF's interests in funds managed by Lone Star Investment Advisors, claims related to overpayment of benefits or any other legal matter in which the duty of the attorneys to DFPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

**Discussion:**            **Counsel will brief the Board on these issues.**

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## DISCUSSION SHEET

### ITEM #C3

**Topic:** Chairman's Discussion Item

Mayoral Trustee Appointments

**Discussion:** The Chairman will brief the Board on the status of this item.

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## DISCUSSION SHEET

### ITEM #C4

**Topic:** Financial Audit

- a. 2018 Audit Results
- b. Audit Committee
- c. 2019 Auditing Services Provider

**Attendees:** Jill Svoboda, BDO, Partner  
Matt Liu, BDO, Audit Manager

**Discussion:**

- a. Representatives from BDO, DPFPP's independent audit firm, will be present to discuss the results of their audit for the year ended December 31, 2018.
- b. The Audit Committee met with representatives of BDO on October 30, 2019. The Committee Chair will comment on Committee observations and advice.
- c. In 2015, the Board gave direction to conduct a competitive selection process for specific service providers, including the audit firm, every five years unless the Board explicitly waives or extends the requirement. BDO has conducted the audit for six years. Staff will discuss the pros and cons of conducting a competitive selection process for auditing services.

*Regular Board Meeting – Tuesday, November 19, 2019*

## DISCUSSION SHEET

### ITEM #C4 (continued)

#### Staff

**Recommendation:** **Approve** issuance of the 2018 audit report, subject to final review and approval by BDO and the Executive Director. **Extend** for one year the requirement to conduct a selection process for auditing services to allow BDO to conduct the 2019 audit.

*Regular Board Meeting – Tuesday, November 19, 2019*



## DISCUSSION SHEET

### ITEM #C5

**Topic:** 2018 Comprehensive Annual Financial Report

**Discussion:** Staff will present a draft of the 2018 Comprehensive Annual Financial Report.

The report is scheduled to be completed following final approval by the Executive Director, as well as BDO. Upon completion, the report will be posted to the DPFP website and provided to the Pension Review Board and the City of Dallas.

**Staff**

**Recommendation:** **Authorize** the Executive Director to issue the 2018 Comprehensive Annual Financial Report upon finalization.

*Regular Board Meeting – Tuesday, November 19, 2019*



## DISCUSSION SHEET

### ITEM #C6

**Topic:** Funding Path Sensitivity

**Discussion:** This item is in response to Nick Merrick's request of the Actuary, Segal, at the October 2019 Board meeting for detail about the impact of a 6.5% rate of return assumption on the projected funding path for the Combined Plan.

*Regular Board Meeting – Tuesday, November 19, 2019*



2727 Paces Ferry Road SE Building One, Suite 1400 Atlanta, GA 30339-4053  
 T 678.306.3100 www.segalco.com

**MEMORANDUM**

**To:** Board of Trustees – Dallas Police & Fire Pension System

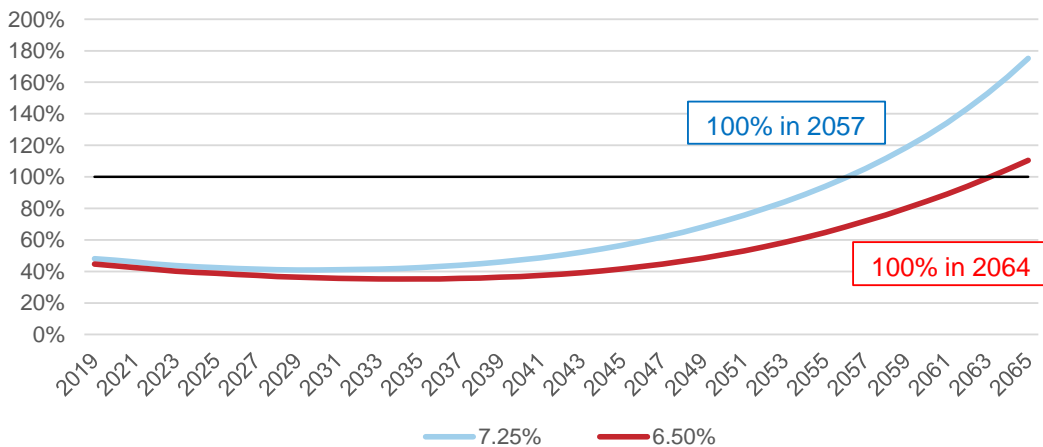
**From:** Jeffrey S. Williams, FCA, ASA, MAAA, EA  
 Deborah K. Brigham, FCA, ASA, MAAA, EA

**Date:** November 8, 2019

**Re:** Projections Based on a 6.50% Discount Rate and Long-Term Investment Return Assumption

At the October 10, 2019 Board meeting, Segal was requested to perform projections using a 6.50% discount rate and long-term investment return assumption. We indicated in the January 1, 2019 actuarial valuation that full funding is projected in 2057 if all current actuarial assumptions are met, including a 7.25% market rate of return over the long term. (That is, in 2057 the System should no longer have an unfunded actuarial accrued liability; and the actuarially determined contribution will equal the sum of the normal cost and administrative expenses.) As shown below, if the discount rate and long-term return assumption are 6.50% instead, and actual returns equal the assumption, 100% funding is delayed by seven years.

**Projected Funded Percentages**



In the near term, the expected market value rates of return are as follows for the two scenarios:

- 7.25% Scenario: 5.25% in 2019, 5.75% in 2020, 6.25% in 2021, 6.75% in 2022, 7.25% thereafter
- 6.50% Scenario: 5.25% in 2019, 5.75% in 2020, 6.25% in 2021, 6.50% thereafter

In both scenarios, payroll is expected to grow as outlined in the City’s Hiring Plan.

Dallas Police & Fire Pension Board of Trustees  
November 8, 2019  
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Actual results may differ significantly from the measurements shown in the attached projections due to such factors as: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the smoothing of investment gains or losses); changes in plan provisions or applicable laws; and the City contributing amounts other than those anticipated. The results of these projections are not a guarantee of future performance and should be used as a guideline, not an absolute, while making decisions regarding the future of the System. Projections, by their very nature, cannot be guaranteed.

These calculations were completed under our supervision, and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

cc: Kelly Gottschalk  
Brenda Barnes

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## DISCUSSION SHEET

### ITEM #C7

**Topic:** Funding Policy

**Discussion:** Senate Bill 2224 was adopted by the Texas Legislature in 2019 and requires that the Board adopt a funding policy that details the Board's plan for achieving a funded ratio for DFPF that is equal to or greater than 100 percent.

The Funding Policy must be adopted prior to January 1, 2020.

**Staff**

**Recommendation:** Provide feedback on the draft policy. The draft policy will be brought back to the Board in December for adoption.

*Regular Board Meeting – Tuesday, November 19, 2019*



**DRAFT – DPFP Combined Plan Funding Policy – for Discussion November 19, 2019.**

**Introduction**

This funding policy outlines a formal long-term strategy for financing the pension obligations accruing under the Dallas Police and Fire Pension System Combined Plan with the goal of achieving an actuarial funded ratio that is equal to or greater than 100%, as required by Texas Government Code §802.2011.

This policy is subject to the authority granted to the Board of Trustees under Article 6243a-1 of the Texas Revised Civil Statutes (the “Statute”). It was contemplated when HB 3158 was passed, and the Statutes reflect that in 2024 an analysis will be conducted to assess the adequacy of the funding of Plan and, if necessary, changes may be made at that time. Therefore, this policy creates a framework for proactively managing risks by outlining how the Board will approach future changes to benefit and contributions levels under different conditions in advance of the 2024 analysis. In the event this policy conflicts with any statutory language, the statute shall prevail.

**Funding Priorities**

The primary funding priorities are to:

1. Ensure the security of accrued benefits by making certain contributions and assets are sufficient to pay benefits when due.
2. Limit the volatility of contribution rates for both the members of Dallas Police and Fire Pension System (“DPFP”) and the City of Dallas, consistent with other funding objectives.
3. Ensure that each generation of members and taxpayers incurs the cost of benefits for the employees who provide services to them, rather than deferring those costs to future members and taxpayers;
4. Provide a reasonable margin for adverse experience to help offset risks.
5. Continue progress of systematic reduction of the Unfunded Actuarial Accrued Liability.

**Funding Objectives**

The system’s funding objective is to achieve a funded ratio of 100% or more by 2045.

**Actuarial Methods**

The Board uses the following actuarial methods for purposes of actuarial valuations and the determination of the benchmark Actuarial Determined Contribution (ADC):

- I. **Cost Method**  
The individual entry age normal actuarial cost method.
- II. **Asset Smoothing**  
A five-year asset smoothing period where 20% of any gain or loss is recognized in each subsequent year.
- III. **Amortization Policy**  
The amortization payment will be calculated as a level percent of payroll using a 30-year amortization of unfunded actuarially accrued liability.

### **Actuarial Assumptions Guidelines**

A comprehensive experience study will be completed at least once every 5 years with possible review of individual assumptions more frequently, based on advice from the system's actuary. All assumptions will be determined based on actuarial standards of practice taking into account both actual experience and reasonable future expectations.

### **Actuarially Determined Contribution Benchmark**

This policy has outlined a benchmark ADC for establishing a path towards achieving the goal of 100% funding. The following will trigger the Board to act to adjust or recommend adjustments to benefit and/or contribution levels.

The Board will notify the City of Dallas upon receipt of two actuarial valuations showing the actual contribution is varies from the ADC by more than 2%. In such a case, if the actual contributions are under the ADC by more than 2%, with a two-thirds vote of the Board, the Board will recommend an increase in City contribution rates. If the actual contributions are 2% over the ADC, with a two-thirds vote of the Board, and if the reduction does not extend the funding period, the Board may recommend a decrease in the City's contribution rate. If the actual rate is within 2% of the ADC, no change is required to be recommended.

### **Consideration of Plan Modifications**

#### **Guidelines for Future Reductions in Contributions**

With a two-thirds vote of the Board and agreement of the City, the City contributions may be lowered only if the reduction does not increase the period to amortize the unfunded liability (6243a-1, 4.02(b)(3)). The Statute does not provide authority for the Board to lower member contribution rates. Once there is no longer an unfunded liability, the contribution rates of both the City and DPFP members are adjusted based on the Statute.

#### **Guidelines for Future Benefit Enhancements**

The Statute specifically controls the criteria for granting a cost of living adjustment, the reduction of the retirement age and reducing the amortization period of the DROP annuities. For all other benefit enhancements not specifically mentioned in the Statute, the Statute allows the Board to enhance benefits only if after taking the enhancement into consideration the funding period does not exceed 25 years.

#### **Risk-Sharing Mechanisms**

The Board has determined that the key risk facing the system is when actual experience diverges from actuarial assumptions, resulting in actuarial losses. The normal cost rate for future members is less than the current member contribution rates, so the Board does not believe it is appropriate to either increase member contribution rates or decrease benefits to decrease the unfunded liability through 2024. If necessary, the City's contribution rate would need to be increased through 2024. During 2024, the Statute requires that an independent actuary perform an analysis to determine if DPFP meets State Pension Review Board pension funding guidelines and, if not, recommend changes to benefits or to member or city contribution rates. Not later than November 1, 2024, the DPFP Board is required adopt

a plan that complies with funding and amortization period requirements under Section 802 of the Government Code and takes into consideration the independent actuary's recommendations.

**Review of Funding Policy**

This policy may be amended from time-to-time to reflect changes in other Board policies, emerging best practices for public defined benefit pension plans, prevailing opinions of future Board members, and suggested changes by system stakeholders.

This Policy was adopted on December 12, 2019.

**DRAFT – DFP Supplemental Plan Funding Policy – for Discussion November 19, 2019.**

**NOTE: This policy reflects the current actuarial methods and assumptions, without change, it will not achieve 100% funding.**

### **Introduction**

This funding policy outlines a formal long-term strategy for financing the pension obligations accruing under the Dallas Police and Fire Pension System Combined Plan with the goal of achieving an actuarial funded ratio that is equal to or greater than 100%, as required by Texas Government Code §802.2011.

This policy is limited by the authority granted to the Board of trustees under Article 6243a-1 of the Texas Civil Statutes and City Ordinance number 23861. Therefore, this document creates a framework for proactively managing risks by outlining how the Board will approach future changes to benefit and contributions levels under different conditions. In the event this policy conflicts with any statutory language, the statute shall prevail.

### **Funding Priorities**

The primary funding priorities are to:

1. Ensure the security of accrued benefits by making certain contributions and assets are sufficient to pay benefits when due.
2. Ensure that each generation of members and taxpayers incurs the cost of benefits for the employees who provide services to them, rather than deferring those costs to future members and taxpayers;
3. Provide a reasonable margin for adverse experience to help offset risks.
4. Continue progress of systematic reduction of the Unfunded Actuarial Accrued Liability.

### **Funding Objectives**

The system's funding objective is to achieve a funded ratio of 100% or more by 2030.

### **Actuarial Methods**

The Board uses the following actuarial methods for purposes of actuarial valuations and the determination of the benchmark Actuarial Determined Contribution (ADC):

- I. **Cost Method**  
The individual entry age normal actuarial cost method.
- II. **Asset Smoothing**  
Market value of assets with no asset smoothing.
- III. **Amortization Policy**  
The amortization payment will be calculated as a level percent of payroll using a rolling 10-year amortization of unfunded actuarially accrued liability.

### **Actuarial Assumptions Guidelines**

A comprehensive experience study will be completed at least once every 5 years with possible review of individual assumptions more frequently, based on advice from the system's actuary. All assumptions will

be determined based on actuarial standards of practice taking into account both actual experience and reasonable future expectations.

**Actuarially Determined Contribution**

The City contributes the ADC annually.

**Consideration of Plan Modifications**

**Guidelines for Future Reductions in Contributions**

With a two-thirds vote of the Board and agreement of the City, the City contributions may be lowered only if the reduction does not increase the period to amortize the unfunded liability (6243a-1, 4.02(b)(3)). The Statute does not provide authority for the Board to lower member contribution rates. Once there is no longer an unfunded liability, the contribution rates of both the City and DFPF members are adjusted based on the Statute.

**Guidelines for Future Benefit Enhancements**

The Statute specifically controls the criteria for granting a cost of living adjustment, the reduction of the retirement age and reducing the amortization period of the DROP annuities. For all other benefit enhancements not specifically mentioned in the Statute, the Statute allows the Board to enhance benefits only if after taking the enhancement into consideration the funding period does not exceed 25 years.

**Risk-Sharing Mechanisms**

The Board has determined that the key risk facing the system is when actual experience diverges from actuarial assumptions, resulting in actuarial losses. The normal cost rate for future members is less than the current member contribution rates, so the Board does not believe it is appropriate to either increase member contribution rates or decrease benefits to decrease the unfunded liability through 2024. If necessary, the City's contribution rate would need to be increased through 2024. During 2024, the Statute requires that an independent actuary perform an analysis to determine if DFPF meets State Pension Review Board pension funding guidelines and, if not, recommend changes to benefits or to member or city contribution rates. Not later than November 1, 2024, the DFPF Board is required adopt a plan that complies with funding and amortization period requirements under Section 802 of the Government Code and takes into consideration the independent actuary's recommendations.

**Review of Funding Policy**

This policy may be amended from time-to-time to reflect changes in other Board policies, emerging best practices for public defined benefit pension plans, prevailing opinions of future Board members, and suggested changes by system stakeholders.

This Policy was adopted on December 12, 2019.



## DISCUSSION SHEET

### ITEM #C8

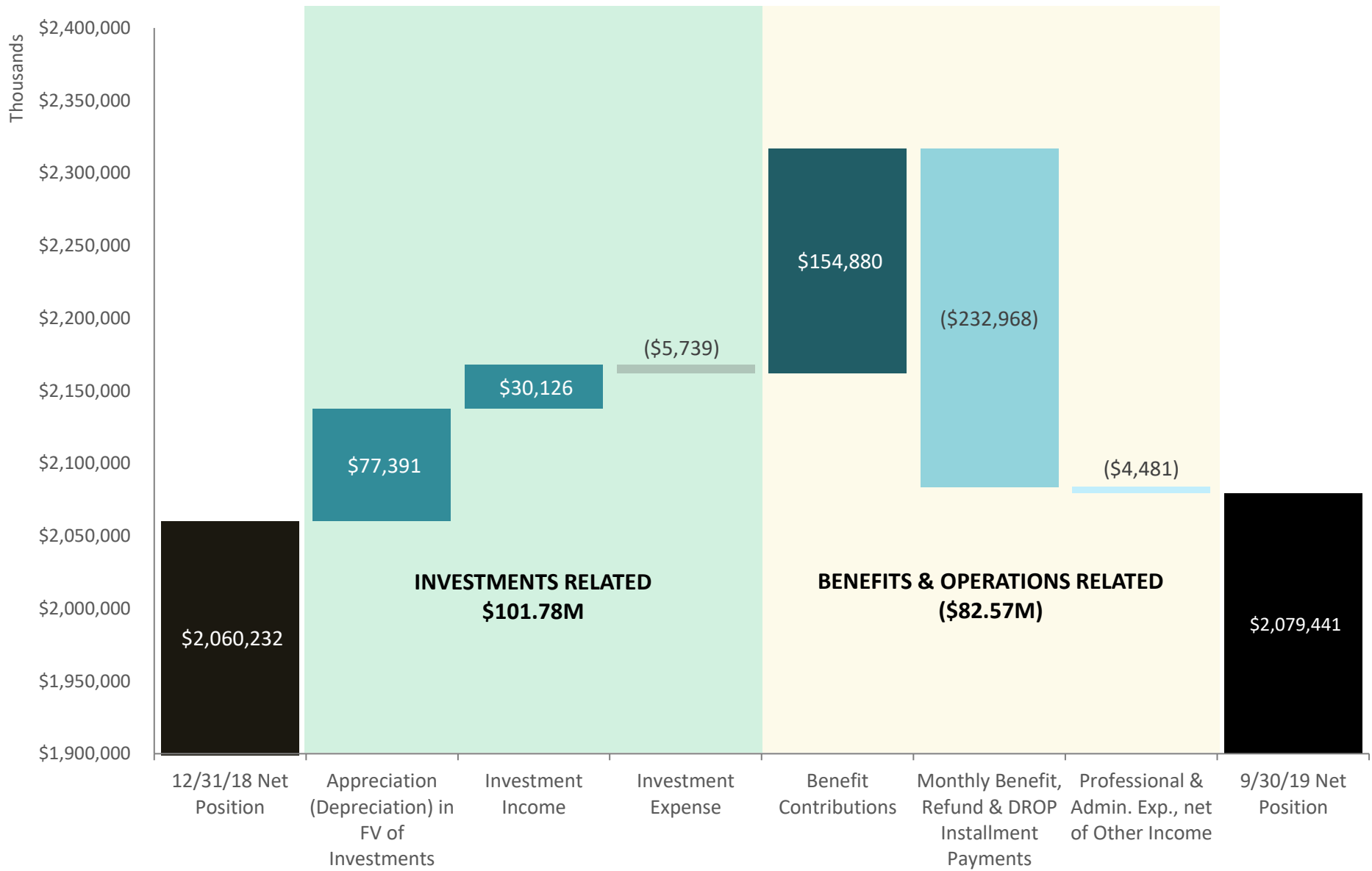
**Topic:** Quarterly Financial Reports

**Discussion:** The Chief Financial Officer will present the third quarter 2019 financial statements.

*Regular Board Meeting – Tuesday, November 19, 2019*

## Change in Net Fiduciary Position

December 31, 2018 – September 30, 2019



Components may not sum exactly due to rounding.

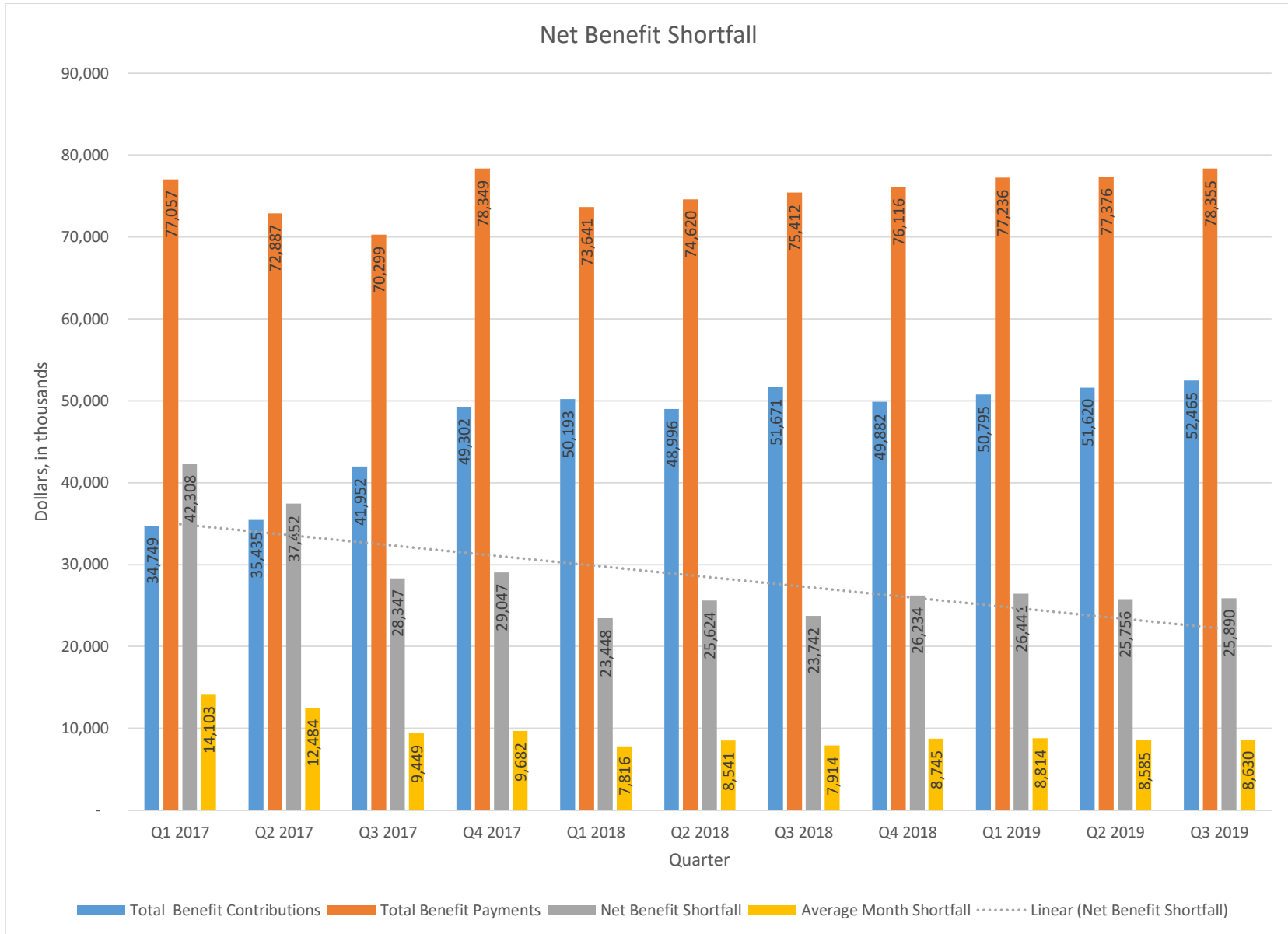
**DALLAS POLICE & FIRE PENSION SYSTEM**  
**Combined Statements of Fiduciary Net Position**

	September 30, 2019 (unaudited)	December 31, 2018 audited	\$ Change	% Change
<b>Assets</b>				
<b>Investments, at fair value</b>				
Short-term investments	\$ 55,626,427	\$ 41,316,915	\$ 14,309,512	35%
Fixed income securities	542,463,939	515,774,800	26,689,139	5%
Equity securities	508,774,438	435,935,015	72,839,423	17%
Real assets	576,099,223	701,404,876	(125,305,653)	-18%
Private equity	313,544,433	312,874,801	669,632	0%
Alternative investments	-	-	-	0%
Forward currency contracts	(495,237.00)	(270,709)	(224,528)	83%
<b>Total investments</b>	<u>1,996,013,223</u>	<u>2,007,035,698</u>	<u>(11,022,475)</u>	<u>-1%</u>
Invested securities lending collateral	24,510,671	20,559,432	3,951,239	19%
<b>Receivables</b>				
City	5,637,357	2,504,571	3,132,786	125%
Members	1,882,855	803,244	1,079,611	134%
Interest and dividends	4,841,774	4,802,419	39,355	1%
Investment sales proceeds	51,567,409	34,231,149	17,336,260	51%
Other receivables	216,995	292,776	(75,781)	-26%
<b>Total receivables</b>	<u>64,146,390</u>	<u>42,634,159</u>	<u>21,512,231</u>	<u>50%</u>
Cash and cash equivalents	65,103,296	50,137,929	14,965,367	30%
Prepaid expenses	548,653	365,515	183,138	50%
Capital assets, net	12,389,010	12,488,943	(99,933)	-1%
<b>Total assets</b>	<u>\$ 2,162,711,243</u>	<u>\$ 2,133,221,676</u>	<u>\$ 29,489,567</u>	<u>1%</u>
<b>Liabilities</b>				
<b>Payables</b>				
Securities lending obligations	24,510,671	20,559,432	3,951,239	19%
Securities purchased	55,119,144	48,598,173	6,520,971	13%
Accounts payable and other accrued liabilities	3,640,136	3,832,048	(191,912)	-5%
<b>Total liabilities</b>	<u>83,269,951</u>	<u>72,989,653</u>	<u>10,280,298</u>	<u>14%</u>
<b>Net position</b>				
Net investment in capital assets	12,389,010	12,488,943	(99,933)	-1%
Unrestricted	2,067,052,282	2,047,743,080	19,309,202	1%
<b>Net position held in trust - restricted for position benefits</b>	<u>\$ 2,079,441,292</u>	<u>\$ 2,060,232,023</u>	<u>\$ 19,209,269</u>	<u>1%</u>



**DALLAS POLICE & FIRE PENSION SYSTEM**  
**Combined Statements of Changes in Fiduciary Net Position**

	9 Months Ended 9/30/2019 (unaudited)	9 Months Ended 9/30/2018 (unaudited)	Change	Change
<b>Contributions</b>				
City	\$ 116,124,677	\$ 113,656,373	\$ 2,468,304	2%
Members	38,755,631	37,203,175	1,552,456	4%
<b>Total Contributions</b>	<u>154,880,308</u>	<u>150,859,548</u>	4,020,760	3%
<b>Investment income</b>				
Net appreciation (depreciation) in fair value of investments	77,391,129	7,474,805	69,916,324	935%
Interest and dividends	30,029,029	35,843,542	(5,814,513)	-16%
Total gross investment income	107,420,158	43,318,347	64,101,811	148%
less: investment expense	(5,739,070)	(5,910,335)	171,265	3%
<b>Net investment income</b>	<u>101,681,088</u>	<u>37,408,012</u>	64,273,076	172%
<b>Securities lending income</b>				
Securities lending income	738,598	218,483	520,115	238%
Securities lending expense	(641,674)	(174,807)	(466,867)	267%
<b>Net securities lending income</b>	<u>96,924</u>	<u>43,676</u>	53,248	122%
Other income	270,866	390,934	(120,068)	-31%
<b>Total additions</b>	<u>256,929,186</u>	<u>188,702,170</u>	68,227,016	36%
<b>Deductions</b>				
Benefits paid to members	231,019,688	221,752,256	9,267,432	4%
Refunds to members	1,948,102	1,920,647	27,455	1%
Legal expense	415,894	433,795	(17,901)	-4%
Legal expense reimbursement	(58,584)	-	(58,584)	0%
Legal expense, net of reimbursement	357,310	433,795	(76,485)	-18%
Staff Salaries and Benefits	2,518,643	2,239,659	278,984	12%
Professional and administrative expenses	1,876,174	1,887,171	(10,997)	-1%
<b>Total deductions</b>	<u>237,719,917</u>	<u>228,233,528</u>	9,486,389	4%
<b>Net increase (decrease) in net position</b>	<u>19,209,269</u>	<u>(39,531,358)</u>		
Beginning of period	2,060,232,023	2,121,150,623		
End of period	<u>\$ 2,079,441,292</u>	<u>\$ 2,081,619,265</u>		





## **DISCUSSION SHEET**

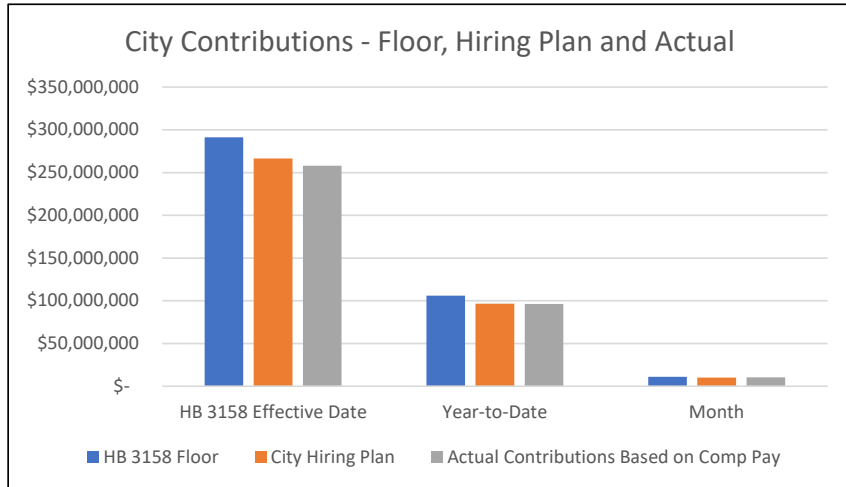
### **ITEM #C9**

**Topic:** Monthly Contribution Report

**Discussion:** Staff will review the Monthly Contribution Report.

*Regular Board Meeting – Tuesday, November 19, 2019*

**Contribution Tracking Summary - November 2019 (September 2019 Data)**



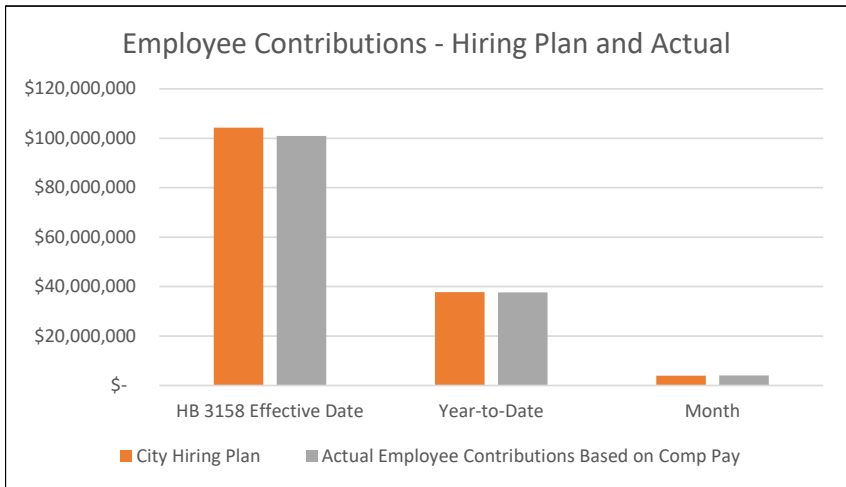
Actual Comp Pay was 97% of the Hiring Plan estimate since the effective date of HB 3158.

In the most recent month Actual Comp Pay was 102% of the Hiring Plan estimate and 93% of the floor amount.

The Hiring Plan Comp Pay estimate increased by 5.22% in 2019.

Through 2024 the HB 3158 Floor is in place so there is no City Contribution shortfall.

Combined actual hiring is more than the Hiring Plan estimate by 4 people. Fire is over the estimate by 69 people and Police is under by 65 officers.



Since the effective date of HB 3158 actual employee contributions have been \$3.3 million less than the Hiring Plan estimate. Potential earnings loss due to the contribution shortfall is \$363k at the Assumed Rate of Return.

Employee contributions exceeded the Hiring Plan estimate.

There is no Floor on employee contributions.

**Contribution Summary Data**

<b>City Contributions</b>							
<b>Sep-19</b>	<b>Number of Pay Periods Beginning in the Month</b>	<b>HB 3158 Floor</b>	<b>City Hiring Plan</b>	<b>Actual Contributions Based on Comp Pay</b>	<b>Additional Contributions to Meet Floor Minimum</b>	<b>Comp Pay Contributions as a % of Floor Contributions</b>	<b>Comp Pay Contributions as a % of Hiring Plan Contributions</b>
Month	2	\$ 11,142,000	\$ 10,164,231	\$ 10,319,728	\$ 822,272	93%	102%
Year-to-Date		\$ 105,849,000	\$ 96,560,192	\$ 96,226,123	\$ 9,622,877	91%	100%
HB 3158 Effective Date		\$ 291,350,000	\$ 266,565,577	\$ 258,107,336	\$ 33,242,664	89%	97%

*Due to the Floor through 2024, there is no cumulative shortfall in City Contributions  
Does not include the flat \$13 million annual City Contribution payable through 2024.  
Does not include Supplemental Plan Contributions.*

<b>Employee Contributions</b>							
<b>Sep-19</b>	<b>Number of Pay Periods Beginning in the Month</b>	<b>City Hiring Plan</b>	<b>Actual Employee Contributions Based on Comp Pay</b>	<b>Actual Contribution Shortfall Compared to Hiring Plan</b>	<b>Actuarial Valuation Contribution Assumption</b>	<b>Actual Contributions as a % of Hiring Plan Contributions</b>	<b>Actual Contributions as a % of Actuarial Val Assumption</b>
Month	2	\$ 3,977,308	\$ 4,038,536	\$ 61,228	\$ 3,770,834	102%	107%
Year-to-Date		\$ 37,784,423	\$ 37,643,250	\$ (141,173)	\$ 35,822,923	100%	105%
HB 3158 Effective Date		\$ 104,308,269	\$ 100,997,310	\$ (3,310,959)	\$ 99,921,719	97%	101%

Potential Earnings Loss from the Shortfall based on Assumed Rate of Return \$ (363,336)

*Does not include Supplemental Plan Contributions.*

**Reference Information**

<b>City Contributions: HB 3158 Bi-weekly Floor and the City Hiring Plan Converted to Bi-weekly Contributions</b>						
	<b>HB 3158 Bi-weekly Floor</b>	<b>City Hiring Plan-Bi-weekly</b>	<b>HB 3158 Floor Compared to the Hiring Plan</b>	<b>Hiring Plan as a % of the Floor</b>	<b>% Increase/ (decrease) in the Floor</b>	<b>% Increase/ (decrease) in the Hiring Plan</b>
2017	\$ 5,173,000	\$ 4,936,154	\$ 236,846	95%		
2018	\$ 5,344,000	\$ 4,830,000	\$ 514,000	90%	3.31%	-2.15%
2019	\$ 5,571,000	\$ 5,082,115	\$ 488,885	91%	4.25%	5.22%
2020	\$ 5,724,000	\$ 5,254,615	\$ 469,385	92%	2.75%	3.39%
2021	\$ 5,882,000	\$ 5,413,846	\$ 468,154	92%	2.76%	3.03%
2022	\$ 6,043,000	\$ 5,599,615	\$ 443,385	93%	2.74%	3.43%
2023	\$ 5,812,000	\$ 5,811,923	\$ 77	100%	-3.82%	3.79%
2024	\$ 6,024,000	\$ 6,024,231	\$ (231)	100%	3.65%	3.65%

*The HB 3158 Bi-weekly Floor ends after 2024*

<b>Employee Contributions: City Hiring Plan and Actuarial Val. Converted to Bi-weekly Contributions</b>				
	<b>City Hiring Plan Converted to Bi-weekly Employee Contributions</b>	<b>Actuarial Valuation Assumption Converted to Bi-weekly Employee contributions</b>	<b>Actuarial Valuation as a % of Hiring Plan</b>	
2017	\$ 1,931,538	\$ 1,931,538	100%	
2018	\$ 1,890,000	\$ 1,796,729	95%	
2019	\$ 1,988,654	\$ 1,885,417	95%	
2020	\$ 2,056,154	\$ 2,056,154	100%	
2021	\$ 2,118,462	\$ 2,118,462	100%	
2022	\$ 2,191,154	\$ 2,191,154	100%	
2023	\$ 2,274,231	\$ 2,274,231	100%	
2024	\$ 2,357,308	\$ 2,357,308	100%	

The information on this page is for reference. The only numbers on this page that may change before 2025 are the Actuarial Valuation Employee Contributions Assumptions for the years 2020-2024 and the associated percentage.

**Reference Information - Actuarial Valuation and GASB 67/68 Contribution Assumptions**

**Actuarial Assumptions Used in the Most Recent Actuarial Valuation - These assumptions will be reevaluated annually & may change.**  
 City Contributions are based on the Floor through 2024, the Hiring Plan from 2025 to 2037, after 2037 an annual growth rate of 2.75% is assumed  
 Employee Contributions for 2018 are based on the 2017 actual employee contributions inflated by the growth rate of 2.75% and the Hiring Plan for subsequent years until 2038, when the 2037 Hiring Plan is increased by the 2.75 growth rate for the next 10 years

**Actuarial/GASB Contribution Assumption Changes Since the Passage of HB 3158**

	Actuarial Valuation	GASB 67/68
<b>YE 2017 (1/1/2018 Valuation)</b>		
2018 Employee Contributions Assumption - based on 2017 actual plus growth rate not the Hiring Plan Payroll	\$ (2,425,047)	*
<b>2019 Estimate (1/1/2019 Valuation)</b>		
2019 Employee Contribution Assumption	\$ 9,278	*
*90% of Hiring Plan was used for the Cash Flow Projection for future years in the 12/31/2017 GASB 67/68 calculation. At 12-31-17 and 12-31-18 this did not impact the pension liability or the funded percentage.		

The information on this page is for reference. It is intended to document contribution related assumptions used to prepare the Actuarial Valuation and changes to those assumptions over time, including the dollar impact of the changes. Contribution changes impacting the GASB 67/68 liability will also be included.

<b>City Hiring Plan - Annual Computation Pay and Numbers of Employees</b>						
Year	Computation Pay			Number of Employees		
	Hiring Plan	Actual	Difference	Hiring Plan	Actual EOY	Difference
2017	\$ 372,000,000	Not Available	Not Available	5,240	4,935	(305)
2018	\$ 364,000,000	\$ 349,885,528	\$ (14,114,472)	4,988	4,983	(5)
2019	\$ 383,000,000			5,038		
2020	\$ 396,000,000			5,063		
2021	\$ 408,000,000			5,088		
2022	\$ 422,000,000			5,113		
2023	\$ 438,000,000			5,163		
2024	\$ 454,000,000			5,213		
2025	\$ 471,000,000			5,263		
2026	\$ 488,000,000			5,313		
2027	\$ 507,000,000			5,363		
2028	\$ 525,000,000			5,413		
2029	\$ 545,000,000			5,463		
2030	\$ 565,000,000			5,513		
2031	\$ 581,000,000			5,523		
2032	\$ 597,000,000			5,523		
2033	\$ 614,000,000			5,523		
2034	\$ 631,000,000			5,523		
2035	\$ 648,000,000			5,523		
2036	\$ 666,000,000			5,523		
2037	\$ 684,000,000			5,523		

Comp Pay by Month - 2019	Annual Divided by 26 Pay Periods	Actual	Difference	2019 Cumulative Difference	Number of Employees EOM	Difference
January	\$ 29,461,538	\$ 29,084,185	\$ (377,354)	\$ (377,354)	4963	(75)
February	\$ 29,461,538	\$ 29,067,129	\$ (394,410)	\$ (771,763)	4974	(64)
March	\$ 29,461,538	\$ 29,092,504	\$ (369,035)	\$ (1,140,798)	4962	(76)
April	\$ 29,461,538	\$ 28,974,912	\$ (486,626)	\$ (1,627,424)	4955	(83)
May	\$ 44,192,308	\$ 43,987,516	\$ (204,791)	\$ (1,832,216)	4955	(83)
June	\$ 29,461,538	\$ 29,322,734	\$ (138,804)	\$ (1,971,020)	4938	(100)
July	\$ 29,461,538	\$ 29,651,997	\$ 190,458	\$ (1,780,561)	5027	(11)
August	\$ 29,461,538	\$ 29,823,067	\$ 361,529	\$ (1,419,033)	5016	(22)
September	\$ 29,461,538	\$ 29,912,255	\$ 450,717	\$ (968,316)	5042	4
October	\$ 44,192,308	\$ -		\$ (968,316)		
November	\$ 29,461,538	\$ -		\$ (968,316)		
December	\$ 29,461,538	\$ -		\$ (968,316)		





## DISCUSSION SHEET

### ITEM #C10

**Topic:** Required Training Manual Delivery

**Discussion:** Section 3.013(c) of Article 6243a-1 requires the Executive Director annually deliver a training manual covering certain subject areas set forth in Section 3.013(b). The Executive Director will provide an overview of the contents, address new items in the manual and answer any questions concerning the training manual.

Trustees can access the training manual electronically through Diligent under the Resource Center.

**Staff**

**Recommendation:** **Acknowledge** receipt by each Trustee of the training manual by signing and submitting the Trustee acknowledgment form.

*Regular Board Meeting – Tuesday, November 19, 2019*



## DISCUSSION SHEET

### ITEM #C11

**Topic:** Second reading and discussion of the 2020 Budget

**Discussion:** Attached is the budget proposal for Calendar Year 2020.

The budget has been prepared in total for both the Combined Pension Plan and the Supplemental Plan. Total expenses are then allocated to the Supplemental Plan based upon the Group Trust allocation reported by JPMorgan.

Significant changes from the prior year budget and/or projected 2019 actual expenses are explained in the comments accompanying the proposed budget.

The first reading of the proposed budget was at the October 10, 2019 Board meeting.

The Chief Financial Officer will review any changes to the proposed budget from the first reading.

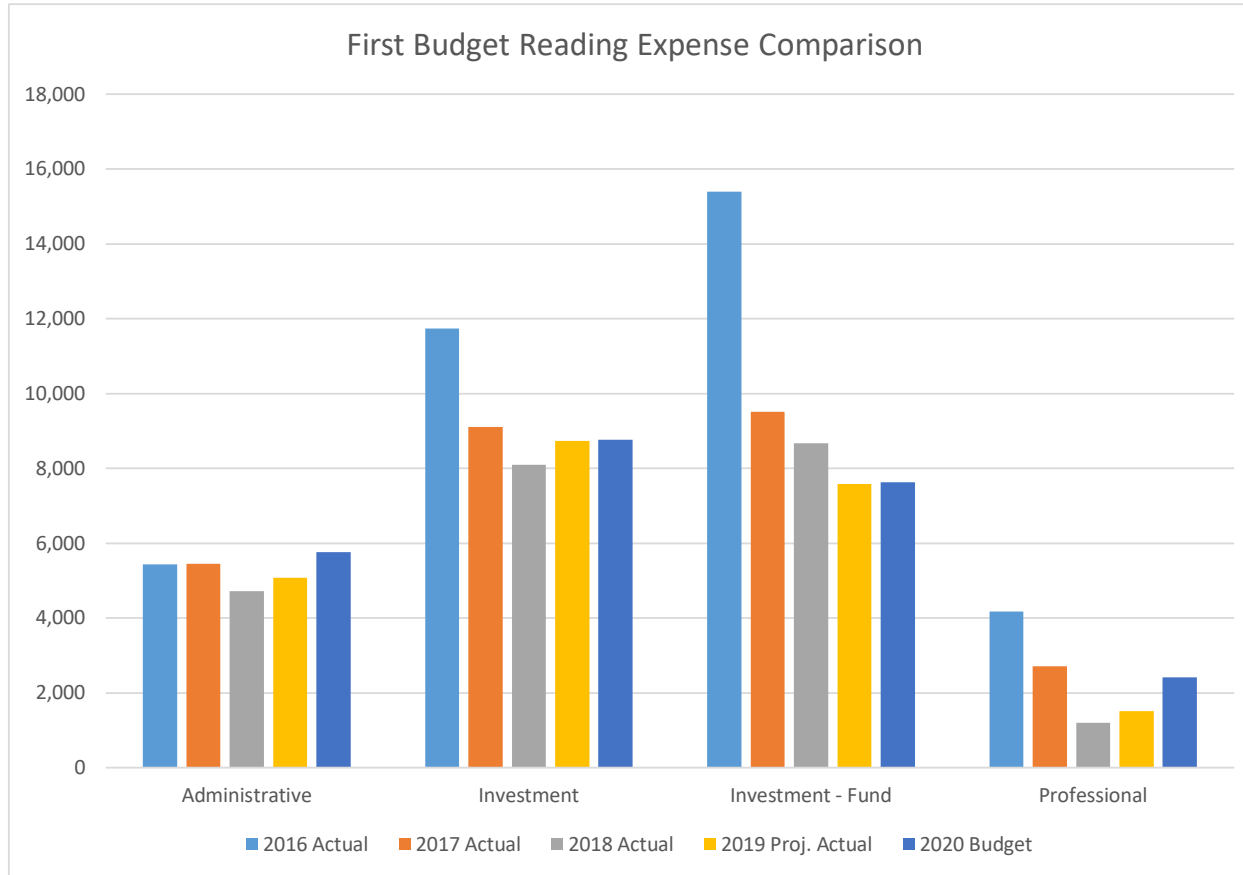
**Staff**

**Recommendation:** **Direct** staff to reflect any proposed changes and present the amended budget to the Board for consideration at the December 12, 2019 Board meeting. **Authorize** forwarding the 2020 proposed budget to the City of Dallas for comment and the posting of the proposed budget to [www.dfp.org](http://www.dfp.org) for member review prior to the December meeting.

*Regular Board Meeting – Tuesday, November 19, 2018*

In thousands

	2016 Actual	2017 Actual	2018 Actual	2019 Proj. Actual	2020 Budget
<b>Administrative</b>	5,436	5,450	4,709	5,080	5,756
<b>Investment</b>	11,739	9,101	8,090	8,739	8,765
<b>Investment - Fund</b>	15,394	9,516	8,670	7,582	7,621
<b>Professional</b>	4,174	2,708	1,205	1,517	2,417
<b>Total</b>	<b>36,743</b>	<b>26,775</b>	<b>22,674</b>	<b>22,918</b>	<b>24,559</b>



**DALLAS POLICE AND FIRE PENSION SYSTEM  
PROPOSED BUDGET SUMMARY  
FOR THE YEAR 2020  
SECOND READING AT THE NOVEMBER 19, 2019 BOARD MEETING**

Expense Type	2019 Budget	2019 Projected Actual	2020 Proposed Budget	Variances		Variances	
				2020 Prop.	2019	2020 Prop.	2019
				Bud. vs	Budget	Bud. vs	Proj. Act.
				\$	%	\$	%
Administrative Expenses	5,814,377	5,080,180	5,713,266	(101,111)	(1.7%)	633,086	12.5%
Investment Expenses	16,851,000	16,321,090	16,285,551	(565,449)	(3.4%)	(35,539)	(0.2%)
Professional Expenses	2,189,975	1,517,027	1,581,120	(608,855)	(27.8%)	64,093	4.2%
<b>Total</b>	<b>\$ 24,855,352</b>	<b>\$ 22,918,297</b>	<b>\$ 23,579,937</b>	<b>\$ (1,275,415)</b>	<b>(5.1%)</b>	<b>\$ 661,640</b>	<b>2.9%</b>

Dallas Police & Fire Pension System Proposed Operating Budget Calendar Year 2020							
Description	2019 Budget	2019 Projected Actual*	2020 Proposed Budget	\$ Change vs. 2019 Bud.	% Change vs. 2019 Bud.	\$ Change 2020 Prop. Bud. vs. 2019 Proj. Actual	% Change 2020 Prop. Bud. vs. 2019 Proj. Actual
<b>Administrative Expenses</b>							
1 Salaries and benefits	3,831,889	3,407,653	3,653,766	(178,123)	(4.6%)	246,113	7.2%
2 Employment Expense	52,275	1,734	15,000	(37,275)	(71.3%)	13,266	765.1%
3 Memberships and dues	19,182	20,663	19,706	524	2.7%	(957)	(4.6%)
4 Staff meetings	1,000	123	1,000	-	0.0%	877	713.0%
5 Employee service recognition	5,000	2,436	5,000	-	0.0%	2,564	105.3%
6 Member educational programs	2,500	1,500	2,750	250	10.0%	1,250	83.3%
7 Board meetings	7,600	4,872	6,420	(1,180)	(15.5%)	1,548	31.8%
8 Conference registration/materials - Board	14,900	2,565	11,650	(3,250)	(21.8%)	9,085	354.2%
9 Travel - Board	32,620	3,993	21,500	(11,120)	(34.1%)	17,507	438.4%
10 Conference/training registration/materials - Staff	37,500	5,207	34,800	(2,700)	(7.2%)	29,593	568.3%
11 Travel - Staff	37,500	15,689	44,500	7,000	18.7%	28,811	183.6%
12 Liability insurance	604,553	515,940	640,571	36,018	6.0%	124,631	24.2%
13 Communications (phone/internet)	55,600	68,243	56,300	700	1.3%	(11,943)	(17.5%)
14 Information technology projects	70,000	82,397	140,000	70,000	100.0%	57,603	69.9%
15 IT subscriptions/services/licenses	147,840	125,623	143,500	(4,340)	(2.9%)	17,877	14.2%
16 IT software/hardware	17,000	14,978	19,500	2,500	14.7%	4,522	30.2%
17 Building expenses	365,339	400,688	405,467	40,128	11.0%	4,779	1.2%
18 Repairs and maintenance	108,249	92,360	97,414	(10,835)	(10.0%)	5,054	5.5%
19 Office supplies	33,100	23,768	29,350	(3,750)	(11.3%)	5,582	23.5%
20 Leased equipment	23,900	22,914	24,000	100	0.4%	1,086	4.7%
21 Postage	27,000	25,628	28,200	1,200	4.4%	2,572	10.0%
22 Printing	5,110	1,761	14,000	8,890	174.0%	12,239	695.0%
23 Subscriptions	2,140	698	2,125	(15)	(0.7%)	1,427	204.4%
24 Records storage	1,320	1,392	1,400	80	6.1%	8	0.6%
25 Administrative contingency reserve	12,000	519	12,000	-	0.0%	11,481	2212.1%
26 Depreciation Expense	248,260	233,603	240,947	(7,313)	(2.9%)	7,344	3.1%
27 Bank fees	3,000	3,233	3,400	400	13.3%	167	5.2%
<b>Investment Expenses</b>							
28 Investment management fees	14,490,000	14,729,000	14,178,000	(312,000)	(2.2%)	(551,000)	(3.7%)
29 Investment consultant and reporting	430,000	327,605	365,000	(65,000)	(15.1%)	37,395	11.4%
30 Bank custodian services	237,000	221,343	222,000	(15,000)	(6.3%)	657	0.3%
31 Other portfolio operating expenses (legal, valuation, tax)	1,694,000	1,043,142	1,520,551	(173,449)	(10.2%)	477,409	45.8%
32 Investment due diligence	48,000	-	39,000	(9,000)	(18.8%)	39,000	100.0%
<b>Professional Services Expenses</b>							
33 Actuarial services	120,000	182,924	240,000	120,000	100.0%	57,076	31.2%
34 Accounting services	59,000	59,000	60,770	1,770	3.0%	1,770	3.0%
35 Independent audit	180,000	165,000	165,000	(15,000)	(8.3%)	-	0.0%
36 Legal fees	1,300,000	619,295	550,000	(750,000)	(57.7%)	(69,295)	(11.2%)

Dallas Police & Fire Pension System Proposed Operating Budget Calendar Year 2020							
Description	2019 Budget	2019 Projected Actual*	2020 Proposed Budget	\$ Change 2020 Prop. Bud. vs. 2019 Bud.	% Change 2020 Prop. Bud. vs. 2019 Bud.	\$ Change 2020 Prop. Bud. vs. 2019 Proj. Actual	% Change 2020 Prop. Bud. vs. 2019 Proj. Actual
37 Legislative consultants	159,000	157,210	126,000	(33,000)	(20.8%)	(31,210)	(19.9%)
38 Public relations	-	-	-	-	100.0%	-	100.0%
39 Pension administration software & WMS	273,000	264,977	283,000	10,000	3.7%	18,023	6.8%
40 Business continuity	15,500	17,909	26,600	11,100	71.6%	8,691	48.5%
41 Network security review	15,000	17,018	10,000	(5,000)	(33.3%)	(7,018)	(41.2%)
42 Network security monitoring	-	-	75,000	75,000	100.0%	75,000	100.0%
43 Disability medical evaluations	29,000	2,500	9,500	(19,500)	(67.2%)	7,000	280.0%
44 Elections	15,000	16,452	15,000	-	0.0%	(1,452)	(8.8%)
45 Miscellaneous professional services	24,475	14,742	20,250	(4,225)	(17.3%)	5,508	37.4%
<b>Total Budget</b>	<b>24,855,352</b>	<b>22,918,297</b>	<b>23,579,937</b>	<b>(1,275,415)</b>	<b>(5.1%)</b>	<b>661,640</b>	<b>2.9%</b>
Less: Investment management fees	14,490,000	14,729,000	14,178,000	(312,000)	(2.2%)	(551,000)	(3.7%)
<b>Adjusted Budget Total</b>	<b>10,365,352</b>	<b>8,189,297</b>	<b>9,401,937</b>	<b>(963,415)</b>	<b>(9.3%)</b>	<b>1,212,640</b>	<b>14.8%</b>

**SUPPLEMENTAL BUDGET**

<b>Total Budget ( from above)</b>	<b>24,855,352</b>	<b>22,918,297</b>	<b>23,579,937</b>	<b>(1,275,415)</b>	<b>(5.1%)</b>	<b>661,640</b>	<b>2.9%</b>
Less: Allocation to Supplemental Plan Budget*	193,872	201,681	207,503	13,631	7.0%	5,822	2.9%
<b>Total Combined Pension Plan Budget</b>	<b>24,661,480</b>	<b>22,716,616</b>	<b>23,372,434</b>	<b>(1,289,046)</b>	<b>(5.2%)</b>	<b>655,818</b>	<b>2.9%</b>

\* Projected based on preliminary 8/31/19 YTD annualized

\*\* Allocation to Supplemental is based on JPM allocation between accounts as of 8/31/19 of .0088%

0.88% per JPM Unitization report as of 8/31/19

**Significant Budget Changes - 2020**  
**Budget Changes (>5% and \$10K)**  
**SORTED BY THE \$ CHANGE FROM 2019 BUDGET TO 2020 PROPOSED BUDGET**

		2019	2019	2020	\$ Change	% Change	\$ Change	% Change	
	Item	Budget	Projected Actual**	Proposed Budget	2020 Prop. Bud. vs. 2019 Bud.	2020 Prop. Bud. vs. 2019 Bud.	2020 Prop. Bud. vs. 2019 Proj. Act.	2020 Prop. Bud. vs. 2019 Proj. Act.	Explanation
<b>INCREASES:</b>									
1	Actuarial services	120,000	182,924	240,000	120,000	100.0%	57,076	31.2%	Increase primarily related to the 5 year experience study to be completed in 2020 (\$70k) along with supplemental and specialized work.
2	Network security monitoring	-	-	75,000	75,000	100.0%	75,000	100.0%	New service to detect, analyze and respond to security events 24x7x365 using advanced security events filtration, de-duplication and correlation technologies. Cost will decrease to \$50k beginning in the second year.
3	Information technology projects	70,000	82,397	140,000	70,000	100.0%	57,603	69.9%	Four projects planned for the year including firewall and phone system replacement and domain upgrade. All projects under the \$50k capitalization level.
4	Building expenses	365,339	400,688	405,467	40,128	11.0%	4,779	1.2%	Increased property taxes for the 3rd and 4th floor expected in 2020. HVAC and leasing expenses not budgeted in 2019, approx. \$30k.
5	Liability insurance	604,553	515,940	640,571	36,018	6.0%	124,631	24.2%	Initial renewal inquiries point to an increase in premiums on all policies. The 2019 actual projection vs. 2020 proposed budget variance is related to a one time change in the premium year resulting in only 11 months of expense in 2019. Additionally, 2019 premiums were lower than initially quoted renewals.
6	Business continuity	15,500	17,909	26,600	11,100	71.6%	8,691	48.5%	Includes new item of server replication replacing VMware subscription service - \$9,600.
<b>REDUCTIONS:</b>									
7	Legal fees	1,300,000	619,295	550,000	(750,000)	(57.7%)	(69,295)	(11.2%)	Significant decrease in budget from 2019. Continued expenses from the Degan and Actuary cases along with new potential case filings in 2020.
8	Other portfolio operating expenses (legal, valuation, tax)	1,694,000	1,043,142	1,520,551	(173,449)	(10.2%)	477,409	45.8%	Some tail end expenses forecast in 2019 were not incurred. 2020 expense forecast increased over actual as more tail end services are expected during the year.
9	Investment consultant and reporting	430,000	327,605	365,000	(65,000)	(15.1%)	37,395	11.4%	HB322 legislature requires an independent investment review in 2020. The initial quote for this review in \$30k.
10	Employment Expense	52,275	1,734	15,000	(37,275)	(71.3%)	13,266	765.1%	Expenses reduced in 2019 because only one position was filled. Only one position forecast for 2020.
11	Legislative consultants	159,000	157,210	126,000	(33,000)	(20.8%)	(31,210)	(19.9%)	Legislature not planned to be in session 2020. Cost is lower when legislature is not in session.
12	Disability medical evaluations	29,000	2,500	9,500	(19,500)	(67.2%)	7,000	280.0%	2019 forecast was for 7 new disabilities, 2 special needs children and 3 recalls. One new disability evaluation so far for 2019. Three disability and one child evaluation forecast for 2020.
13	Bank custodian services	237,000	221,343	222,000	(15,000)	(6.3%)	657	0.3%	Fewer investment accounts than projected for JPM to manage in 2019 resulted in reduced fees. No significant change for 2020.
14	Independent audit	180,000	165,000	165,000	(15,000)	(8.3%)	-	0.0%	Reduced 2020 forecast as current budget has been sufficient to cover the audit, and reviews for appraisals and tail end funds.
15	Travel - Board	32,620	3,993	21,500	(11,120)	(34.1%)	17,507	438.4%	Less board travel than expected in 2019. Expected travel in 2020 is projected to be less than in prior years.
16	Repairs and maintenance	108,249	92,360	97,414	(10,835)	(10.0%)	5,054	5.5%	Less equipment (Phone, AV, printers, etc.) repairs than forecast in 2019. Slight increase in 2020 forecast over 2019 projected expenses as more building repairs are expected.

\*\* Projected based on 8/31/19 Prelim YTD annualized

**Significant Budget Changes - 2020  
Budget Changes (>5% and \$10K)  
SORTED BY THE \$ CHANGE FROM 2019 PROJECTED ACTUAL TO 2020 PROPOSED BUDGET**

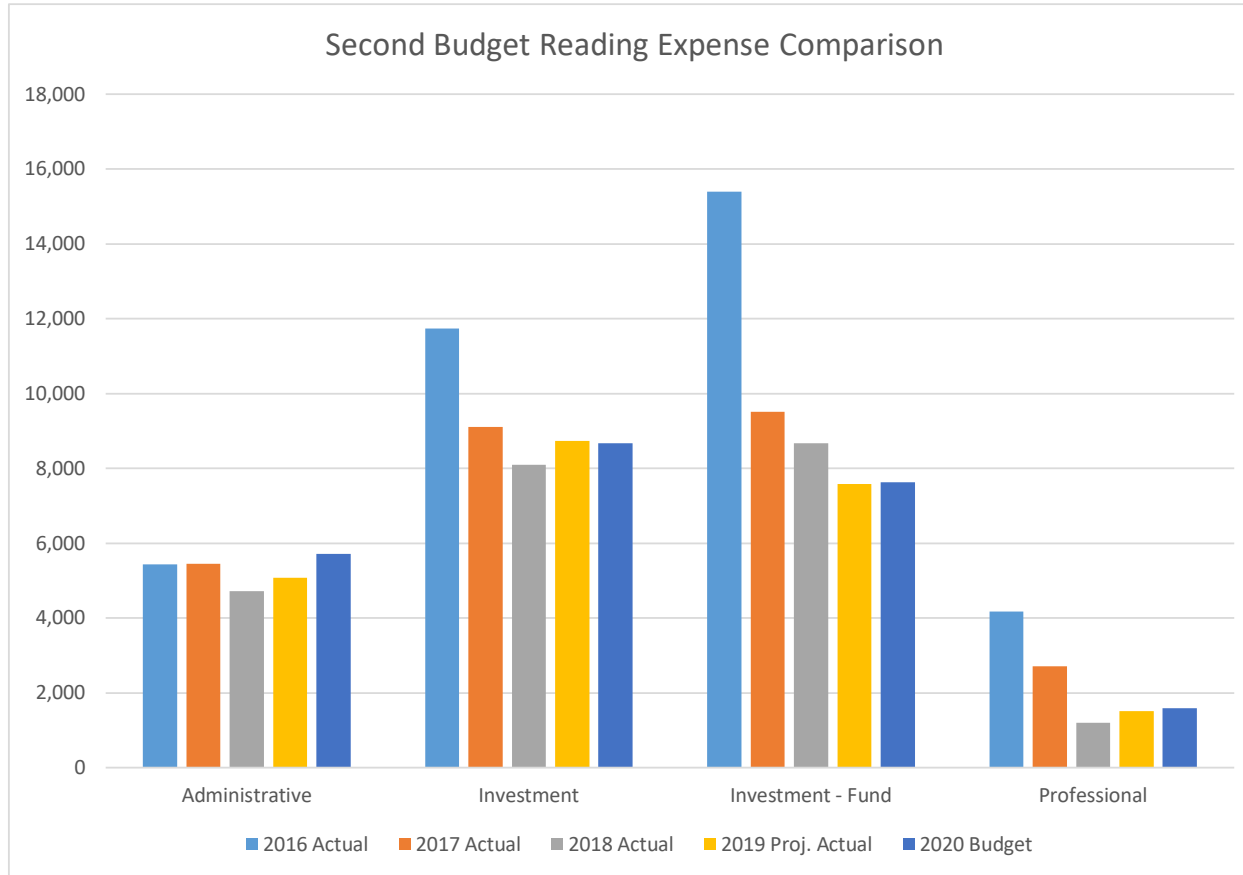
	2019	2019	2020	\$ Change	% Change	\$ Change	% Change		
Item	Budget	Projected Actual**	Proposed Budget	2020 Prop. Bud. vs. 2019 Bud.	2020 Prop. Bud. vs. 2019 Bud.	2020 Prop. Bud. vs. 2019 Proj. Act.	2020 Prop. Bud. vs. 2019 Proj. Act.	Explanation	
<b>INCREASES:</b>									
1	Other portfolio operating expenses (legal, valuation, tax)	1,694,000	1,043,142	1,520,551	(173,449)	(10.2%)	477,409	45.8%	Some tail end expenses forecast in 2019 were not incurred. 2020 expense forecast increased over actual as more tail end services are expected during the year.
2	Salaries and benefits	3,831,889	3,407,653	3,653,766	(178,123)	(4.6%)	246,113	7.2%	Four positions forecasted for 2019 were not filled. One position is being forecasted for 2020 along with the 2019 position addition for a full year.
3	Liability insurance	604,553	515,940	640,571	36,018	6.0%	124,631	24.2%	Initial renewal inquiries point to an increase in premiums on all policies. The 2019 actual projection vs. 2020 proposed budget variance is related to a one time change in the premium year resulting in only 11 months of expense in 2019. Additionally, 2019 premiums were lower than initially quoted renewals.
4	Network security monitoring	-	-	75,000	75,000	100.0%	75,000	100.0%	New service to detect, analyze and respond to security events 24x7x365 using advanced security events filtration, de-duplication and correlation technologies. Cost will decrease to \$50k beginning in the second year.
5	Information technology projects	70,000	82,397	140,000	70,000	100.0%	57,603	69.9%	Four projects planned for the year including firewall and phone system replacement and domain upgrade. All projects under the \$50k capitalization level.
6	Actuarial services	120,000	182,924	240,000	120,000	100.0%	57,076	31.2%	Increase primarily related to the 5 year experience study to be completed in 2020 (\$70k) along with supplemental and specialized work.
7	Investment due diligence	48,000	-	39,000	(9,000)	(18.8%)	39,000	100.0%	Forecast for software Evestment and due diligence travel.
8	Investment consultant and reporting	430,000	327,605	365,000	(65,000)	(15.1%)	37,395	11.4%	SB322 legislature requires an independent investment review in 2020. The initial quote for this review in \$30k.
9	Conference/training registration/material	37,500	5,207	34,800	(2,700)	(7.2%)	29,593	568.3%	Returning to a more normal staff training schedule in 2020 along with some additional cross training planned.
10	Travel - Staff	37,500	15,689	44,500	7,000	18.7%	28,811	183.6%	Returning to a more normal staff training schedule in 2020 which will require some travel. Additionally, some planned cross training will require some travel.
11	Pension administration software & WM	273,000	264,977	283,000	10,000	3.7%	18,023	6.8%	Increased maintenance cost for Pension Gold and Web Member Services portal.
12	IT subscriptions/services/licenses	147,840	125,623	143,500	(4,340)	(2.9%)	17,877	14.2%	YOY budget down slightly. Network security monitoring initiative will require some additional software - \$15K. Desktop outsourcing and other subscriptions less than forecast in 2019.
13	Travel - Board	32,620	3,993	21,500	(11,120)	(34.1%)	17,507	438.4%	Less board travel than expected in 2019. Expected travel in 2020 is projected to be less than in prior years.
14	Employment Expense	52,275	1,734	15,000	(37,275)	(71.3%)	13,266	765.1%	Expenses reduced in 2019 because only one position was filled. Only one position forecast for 2020.
15	Printing	5,110	1,761	14,000	8,890	174.0%	12,239	695.0%	Approximately 2,500 updated member handbooks are forecast for printing in 2020.
16	Administrative contingency reserve	12,000	519	12,000	-	0.0%	11,481	2212.1%	Contingency reserve.
<b>REDUCTIONS:</b>									
17	Legal fees	1,300,000	619,295	550,000	(750,000)	(57.7%)	(69,295)	(11.2%)	Significant decrease in budget from 2019. Continued expenses from the Degan and Actuary cases along with new potential case filings in 2020.
18	Legislative consultants	159,000	157,210	126,000	(33,000)	(20.8%)	(31,210)	(19.9%)	Legislature not planned to be in session 2020. Cost is lower when legislature is not in session.
19	Communications (phone/internet)	55,600	68,243	56,300	700	1.3%	(11,943)	(17.5%)	LD contract expired in 2019 which resulted in increased costs. New contract signed and 2020 costs are expected to be lower.

\*\* Projected based on 8/31/19 Prelim YTD annualized



In thousands

	2016 Actual	2017 Actual	2018 Actual	2019 Proj. Actual	2020 Budget
<b>Administrative</b>	5,436	5,450	4,709	5,080	5,713
<b>Investment</b>	11,739	9,101	8,090	8,739	8,665
<b>Investment - Fund</b>	15,394	9,516	8,670	7,582	7,621
<b>Professional</b>	4,174	2,708	1,205	1,517	1,581
<b>Total</b>	<b>36,743</b>	<b>26,775</b>	<b>22,674</b>	<b>22,918</b>	<b>23,580</b>





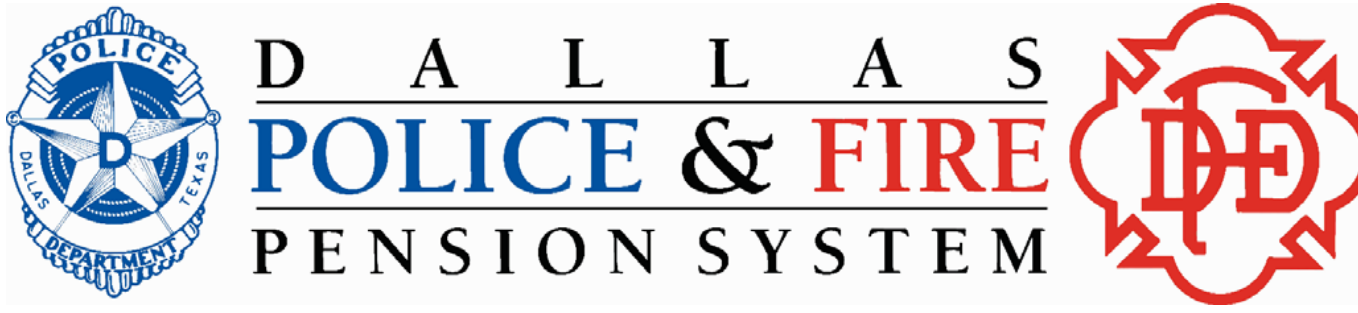
## DISCUSSION SHEET

### ITEM #C12

**Topic:** Portfolio Update

**Discussion:** Investment Staff will brief the Board on recent events and current developments with respect to the investment portfolio.

*Regular Board Meeting – Tuesday, November 19, 2019*



# Portfolio Update

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November 19, 2019

# Asset Allocation

DPFP Asset Allocation	% weight			\$ millions		
	10/31/19	Target	Variance	10/31/19	Target	Variance
<b>Equity</b>	<b>41.2%</b>	<b>55.0%</b>	<b>-13.8%</b>	<b>850</b>	<b>1,134</b>	<b>-284</b>
Global Equity	23.6%	40.0%	-16.4%	487	825	-339
Emerging Markets	2.4%	10.0%	-7.6%	50	206	-156
Private Equity*	15.2%	5.0%	10.2%	314	103	210
<b>Fixed Income</b>	<b>31.1%</b>	<b>35.0%</b>	<b>-3.9%</b>	<b>641</b>	<b>722</b>	<b>-81</b>
Safety Reserve - Cash	3.8%	3.0%	0.8%	79	62	17
Safety Reserve - ST IG Bonds	12.7%	12.0%	0.7%	262	248	15
Investment Grade Bonds	1.8%	4.0%	-2.2%	37	83	-46
Global Bonds	3.3%	4.0%	-0.7%	69	83	-14
High Yield Bonds	4.1%	4.0%	0.1%	84	83	1
Bank Loans	3.9%	4.0%	-0.1%	80	83	-3
Emerging Mkt Debt	1.0%	4.0%	-3.0%	21	83	-62
Private Debt*	0.5%	0.0%	0.5%	10	0	10
<b>Real Assets*</b>	<b>27.7%</b>	<b>10.0%</b>	<b>17.7%</b>	<b>571</b>	<b>206</b>	<b>365</b>
Real Estate*	18.5%	5.0%	13.5%	381	103	278
Natural Resources*	6.5%	5.0%	1.5%	134	103	31
Infrastructure*	2.7%	0.0%	2.7%	56	0	56
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>	<b>2,063</b>	<b>2,063</b>	<b>0</b>
Safety Reserve	16.5%	15.0%	1.5%	341	309	32
*Private Market Assets	43.4%	15.0%	28.4%	894	309	585

Source: JP Morgan Custodial Data, Staff Calculations

# 9/30/19 Public Market Performance Preview

## Public Markets Performance Summary

	Last Quarter			Year to Date			Trailing Four Quarters		
	Manager	Index	Excess	Manager	Index	Excess	Manager	Index	Excess
Net of fees									
Global Equity	-0.20%	-0.18%	-0.02%	18.13%	15.87%	2.26%	2.15%	0.48%	1.68%
Boston Partners	0.49%	0.53%	-0.04%	11.81%	17.61%	-5.79%	-4.66%	1.83%	-6.48%
Manulife	1.66%	-0.03%	1.68%	21.82%	16.20%	5.62%	8.11%	1.38%	6.73%
Invesco (fka OFI)	-3.64%	-0.03%	-3.62%	17.41%	16.20%	1.22%	-1.70%	1.38%	-3.08%
Walter Scott	0.52%	-0.03%	0.55%	20.79%	16.20%	4.59%	6.23%	1.38%	4.85%
RBC, EM Equity	-5.07%	-4.28%	-0.79%	7.18%	5.43%	1.75%	3.27%	-2.41%	5.68%
Fixed Income	0.11%	0.63%	-0.52%	4.70%	6.45%	-1.75%	3.36%	7.54%	-4.18%
IR+M, short term debt	0.77%	0.58%	0.19%	3.67%	3.07%	0.60%	4.70%	4.43%	0.27%
Brandywine, global bonds	-1.54%	0.71%	-2.26%	5.17%	6.32%	-1.16%	3.75%	7.60%	-3.85%
Loomis, High Yield	-0.43%	-0.67%	0.24%	5.85%	8.76%	-2.91%	-0.29%	4.97%	-5.26%
Loomis, Bank Loans	0.45%	0.99%	-0.54%	4.84%	6.79%	-1.95%	1.93%	3.10%	-1.17%
Pacific Asset Mgt., Bank Loans	1.39%	0.92%	0.47%	7.13%	6.39%	0.74%	3.59%	3.11%	0.48%
Ashmore, EMD	-2.74%	0.04%	-2.79%	7.18%	8.75%	-1.58%	6.76%	8.97%	-2.21%

Source: JPM Morgan custody data, manager reports, Investment Staff estimates and calculations

# 9/30/19 Public Market Impact Estimate (1)

This table estimates the gain/loss contribution from public market investments including: market contribution (equity and fixed income composite index returns), structural implementation (manager benchmark vs. composite benchmark), and the active contribution for each investment manager (manager relative performance vs. their benchmark). Public market securities have contributed \$100 million so far in 2019. The negative "Structure" impact is primarily driven by short-term debt which reflects DFPF's prudent implementation of a safety reserve to provide liquidity during market drawdowns. Emerging Markets equity is expected to outperform long term, but has also had a negative impact in 2019.

\$ millions	Last Quarter				Year to Date				Trailing Four Quarters			
	Market	Structure	Active	Total	Market	Structure	Active	Total	Market	Structure	Active	Total
Public Markets	\$2.61	(\$2.34)	(\$3.34)	(\$3.07)	\$105.00	(\$8.94)	\$4.45	\$100.50	\$43.08	(\$12.34)	(\$1.48)	\$29.26
Public Equity (GE+EM)	(\$0.95)	(\$0.79)	(\$1.82)	(\$3.56)	\$70.96	(\$2.05)	\$7.03	\$75.93	\$2.70	\$3.20	\$5.60	\$11.50
Global Equity (excludes EM)	(\$0.83)	\$1.26	(\$1.41)	(\$0.98)	\$63.87	\$2.56	\$6.27	\$72.70	\$2.43	\$4.53	\$3.01	\$9.97
Boston Partners	\$0.09	\$0.74	\$0.04	\$0.86	\$15.25	\$1.61	(\$5.30)	\$11.56	\$0.68	\$1.46	(\$6.98)	(\$4.84)
Manulife	(\$0.31)	\$0.17	\$2.02	\$1.88	\$16.41	\$0.32	\$5.67	\$22.40	\$0.61	\$1.02	\$7.65	\$9.28
OFI	(\$0.16)	\$0.16	(\$4.22)	(\$4.22)	\$15.20	\$0.29	\$0.99	\$16.49	\$0.63	\$0.99	(\$3.55)	(\$1.94)
Walter Scott	(\$0.45)	\$0.18	\$0.76	\$0.49	\$17.01	\$0.33	\$4.91	\$22.25	\$0.51	\$1.07	\$5.88	\$7.46
RBC, EM Equity	(\$0.12)	(\$2.05)	(\$0.41)	(\$2.58)	\$7.09	(\$4.61)	\$0.76	\$3.24	\$0.27	(\$1.33)	\$2.59	\$1.53
Fixed Income	\$3.56	(\$1.55)	(\$1.52)	\$0.49	\$34.03	(\$6.89)	(\$2.58)	\$24.57	\$40.38	(\$15.54)	(\$7.08)	\$17.76
IR+M, short term debt	\$1.66	(\$0.15)	\$0.48	\$1.99	\$16.37	(\$8.63)	\$1.52	\$9.26	\$18.92	(\$7.88)	\$0.70	\$11.74
Vanguard transition	(\$0.35)	(\$0.06)	\$0.00	(\$0.41)	(\$0.35)	(\$0.06)	\$0.00	(\$0.41)	(\$0.35)	(\$0.06)	\$0.00	(\$0.41)
Brandywine, global bonds	\$0.45	\$0.05	(\$1.55)	(\$1.05)	\$4.12	(\$0.08)	(\$0.75)	\$3.29	\$4.89	\$0.04	(\$2.51)	\$2.42
Loomis, High Yield	\$0.55	(\$1.11)	\$0.20	(\$0.36)	\$5.12	\$1.81	(\$2.30)	\$4.64	\$6.41	(\$2.26)	(\$4.40)	(\$0.25)
Loomis, Bank Loans	\$0.62	(\$0.11)	(\$0.30)	\$0.22	\$4.09	(\$0.14)	(\$1.12)	\$2.84	\$4.90	(\$3.09)	(\$0.68)	\$1.13
Pacific Asset Mgt., Bank Loans	\$0.48	(\$0.04)	\$0.23	\$0.68	\$3.44	(\$0.22)	\$0.36	\$3.58	\$4.16	(\$2.56)	\$0.24	\$1.83
Ashmore, EMD	\$0.14	(\$0.14)	(\$0.59)	(\$0.58)	\$1.24	\$0.44	(\$0.30)	\$1.38	\$1.45	\$0.27	(\$0.42)	\$1.30

Source: JPM Morgan custody data, manager reports, Investment Staff estimates and calculations

# 9/30/19 Public Market Impact Estimate (2)

This table is similar to the prior slide except the allocation to short-term debt has been moved to its own composite to reflect its specific role of providing liquidity for system cash flow needs. This removes the structural impact of short-term debt and there is a corresponding change to the market impact. Active and Total impact are unchanged.

\$ millions	Last Quarter				Year to Date				Trailing Four Quarters			
	Market	Structure	Active	Total	Market	Structure	Active	Total	Market	Structure	Active	Total
Public Markets	\$2.46	(\$2.19)	(\$3.34)	(\$3.07)	\$96.37	(\$0.31)	\$4.45	\$100.50	\$35.20	(\$4.46)	(\$1.48)	\$29.26
Public Equity (GE+EM)	(\$0.95)	(\$0.79)	(\$1.82)	(\$3.56)	\$70.96	(\$2.05)	\$7.03	\$75.93	\$2.70	\$3.20	\$5.60	\$11.50
Global Equity (excludes EM)	(\$0.83)	\$1.26	(\$1.41)	(\$0.98)	\$63.87	\$2.56	\$6.27	\$72.70	\$2.43	\$4.53	\$3.01	\$9.97
Boston Partners	\$0.09	\$0.74	\$0.04	\$0.86	\$15.25	\$1.61	(\$5.30)	\$11.56	\$0.68	\$1.46	(\$6.98)	(\$4.84)
Manulife	(\$0.31)	\$0.17	\$2.02	\$1.88	\$16.41	\$0.32	\$5.67	\$22.40	\$0.61	\$1.02	\$7.65	\$9.28
OFI	(\$0.16)	\$0.16	(\$4.22)	(\$4.22)	\$15.20	\$0.29	\$0.99	\$16.49	\$0.63	\$0.99	(\$3.55)	(\$1.94)
Walter Scott	(\$0.45)	\$0.18	\$0.76	\$0.49	\$17.01	\$0.33	\$4.91	\$22.25	\$0.51	\$1.07	\$5.88	\$7.46
RBC, EM Equity	(\$0.12)	(\$2.05)	(\$0.41)	(\$2.58)	\$7.09	(\$4.61)	\$0.76	\$3.24	\$0.27	(\$1.33)	\$2.59	\$1.53
Fixed Income (ex IR+M)	\$1.90	(\$1.40)	(\$2.00)	(\$1.50)	\$17.67	\$1.74	(\$4.10)	\$15.31	\$21.46	(\$7.66)	(\$7.78)	\$6.02
Vanguard transition	(\$0.35)	(\$0.06)	\$0.00	(\$0.41)	(\$0.35)	(\$0.06)	\$0.00	(\$0.41)	(\$0.35)	(\$0.06)	\$0.00	(\$0.41)
Brandywine, global bonds	\$0.45	\$0.05	(\$1.55)	(\$1.05)	\$4.12	(\$0.08)	(\$0.75)	\$3.29	\$4.89	\$0.04	(\$2.51)	\$2.42
Loomis, High Yield	\$0.55	(\$1.11)	\$0.20	(\$0.36)	\$5.12	\$1.81	(\$2.30)	\$4.64	\$6.41	(\$2.26)	(\$4.40)	(\$0.25)
Loomis, Bank Loans	\$0.62	(\$0.11)	(\$0.30)	\$0.22	\$4.09	(\$0.14)	(\$1.12)	\$2.84	\$4.90	(\$3.09)	(\$0.68)	\$1.13
Pacific Asset Mgt., Bank Loans	\$0.48	(\$0.04)	\$0.23	\$0.68	\$3.44	(\$0.22)	\$0.36	\$3.58	\$4.16	(\$2.56)	\$0.24	\$1.83
Ashmore, EMD	\$0.14	(\$0.14)	(\$0.59)	(\$0.58)	\$1.24	\$0.44	(\$0.30)	\$1.38	\$1.45	\$0.27	(\$0.42)	\$1.30
IR+M, short term debt	\$1.51	\$0.00	\$0.48	\$1.99	\$7.74	\$0.00	\$1.52	\$9.26	\$11.04	\$0.00	\$0.70	\$11.74

Source: JPM Morgan custody data, manager reports, Investment Staff estimates and calculations

# 2019 Investment Review Calendar\*

1Q19 ✓	<ul style="list-style-type: none"> <li>• Real Estate Reviews: Vista 7, King's Harbor, &amp; Museum Tower</li> <li>• Real Estate Presentations: Clarion, AEW</li> <li>• Global Equity Structure Review (Staff/Meketa)</li> </ul>
2Q19 ✓	<ul style="list-style-type: none"> <li>• Staff Timber Portfolio Review (FIA &amp; BTG)</li> <li>• Natural Resources: Hancock Presentation</li> <li>• Real Estate: Hearthstone Presentation</li> </ul>
July ✓	<ul style="list-style-type: none"> <li>• Infrastructure: Staff review of AIRRO and JPM Maritime</li> </ul>
Sept. ✓	<ul style="list-style-type: none"> <li>• Private Equity: Staff review of Private Equity and Debt</li> </ul>
October ✓	<ul style="list-style-type: none"> <li>• Global Equity Manager Reviews</li> </ul>
December	<ul style="list-style-type: none"> <li>• Fixed Income Manager Reviews</li> </ul>

\*Presentation schedule is subject to change.





## DISCUSSION SHEET

### ITEM #C13

**Topic:** **Benefit Underpayment Notification**

**Discussion:** Pursuant to the Correction of Errors in Benefits Payments Policy the Executive Director is notifying the Board of the underpayment of a benefit in excess of \$10,000.

The underpayment resulted from the failure to increase the Beneficiary's benefit payment to the Special Survivor percentage from the 50% benefit when the Beneficiary reached age 55. The error was discovered while staff was auditing all spouse beneficiaries that began receiving payments prior to age 55.

The Beneficiary will be paid the amount due plus interest based on the Policy.

*Regular Board Meeting – Tuesday, November 19, 2019*



## DISCUSSION SHEET

### ITEM #C14

**Topic:** Board approval of Trustee education and travel

- a. Future Education and Business-related Travel
- b. Future Investment-related Travel

**Discussion:**

- a. Per the Education and Travel Policy and Procedure, planned Trustee education and business-related travel and education which does not involve travel requires Board approval prior to attendance.

There is no future education and travel for Trustees at this time.

- b. Per the Investment Policy Statement, planned Trustee travel related to investment monitoring, and in exceptional cases due diligence, requires Board approval prior to attendance.

There is no future investment-related travel for Trustees at this time.

*Regular Board Meeting – Tuesday, November 19, 2019*



## DISCUSSION SHEET

### ITEM #C15

**Topic:**                   **Hardship Request**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.078 of the Texas Government Code.

**Discussion:**

Article 6243a-1 Section 6.14(e-3)(2) allows a lump-sum distribution from the DROP account in the event of a financial hardship that is not reasonably foreseeable. Section 6.14(e-4) required the Board to adopt rules related to hardship distributions. The Board's rules are contained in Section G of the DROP Policy.

A Retiree DROP Annuitant submitted an application for a lump sum distribution from his DROP balance in accordance with the DROP policy. The hardship is a result of uninsured medical costs for the Retiree and spouse. The DROP Policy requires that:

- a. severe financial hardship exists at the time of the application (i.e., not one that may occur sometime in the future);
- b. the hardship cannot be relieved through any other financial means (i.e., compensation from insurance or other sources, monthly annuity benefits, or liquidation of personal assets) unless using those other sources would also cause a financial hardship; and

*Regular Board Meeting – Tuesday, November 19, 2019*



## DISCUSSION SHEET

### ITEM #C15 (continued)

- c. the amount requested in the application is reasonably related to and no greater than necessary to relieve the financial hardship.

The Executive Director will review the Hardship application and materials with the Board.

#### **Staff**

**Recommendation:** The Hardship request be **denied** because the expenses can be relieved through other financial means.

*Regular Board Meeting – Tuesday, November 19, 2019*



## **DISCUSSION SHEET**

### **ITEM #D1**

**Topic:**                      **Public Comment**

**Discussion:**                Comments from the public will be received by the Board.

*Regular Board Meeting – Tuesday, November 19, 2019*



## DISCUSSION SHEET

### ITEM #D2

**Topic:** Executive Director's report

- a. Associations' newsletters
  - (1) NCPERS (October 2019)
  - (2) NCPERS (November 2019)
- b. Open Records

**Discussion:** The Executive Director will brief the Board regarding the above information.

*Regular Board Meeting – Tuesday, November 19, 2019*

THE NCPERS

# MONITOR

The Latest in Legislative News

October 2019

## In This Issue

### 2 Executive Directors Corner



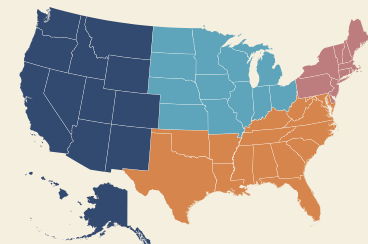
The pension funding gap is one of the most highly charged issues in our corner of the world. We understand the importance of illuminating this issue and we recognize that stable funding is of paramount importance to all pension plan participants and the administrators to operate plans.

### 3 Optional Medicare Buy-In for First Responders



On September 26, Senator Sherrod Brown (D-OH) and Congressmen Tom Malinowski (D-NJ) and Harley Rouda (R-CA) introduced the Expanding Health Care Options for Early Retirees Act, S. 2552 and H.R. 4527, respectively. NCPERS strongly supports this legislation.

### 4 Around the Regions



This month, we will highlight New York, Wisconsin, North Carolina, and New Mexico.

## Trump Administration Throws Its Weight Behind Attack on CalSavers Program



The Trump Administration is back on the offensive against state-run retirement savings programs for private-sector workers, and this time it is taking aim at the successful CalSavers program.

Attorneys from the U.S. Departments of Justice and Labor are arguing in federal court that the California Secure Choice Retirement Savings Trust Act of 2016 is preempted by the Employee Retirement Income Security Act.

On September 13, the two cabinet departments filed a motion urging the U.S. District Court for the Eastern District of California to proceed with a petition to dismiss the case, brought against CalSavers in 2018 by the Howard Jarvis Taxpayers Association. The taxpayers association had petitioned the court to halt the program based on ERISA preemption and the possibility that Californians could be called upon to pay additional taxes to support CalSavers.

The departments' filing, formally known as a statement of interest of the United States, asserts that Congress intentionally gave employers freedom to choose whether to establish a retirement plan when its established ERISA.

[CONTINUED ON PAGE 6](#)



## Notes from the Public Pension Funding Forum

Just because an idea is deeply entrenched doesn't mean it's correct. We know this first-hand in the public pension arena. Many of the criticisms lobbed at public pensions are based on only the most superficial understanding of the financial model for funding pensions. As a result, many flawed conclusions seep into the public discourse, where they are repeated ad nauseam. And with enough repetition, any idea can take on the aura of fact.

The pension funding gap is one of the most highly charged issues in our corner of the world. We understand the importance of illuminating this issue and we recognize that stable funding is of paramount important to all pension plan participants and the administrators to operate plans.

That's why we host our annual Public Pension Funding Forum. It's a place where we bring fresh thinking, current research and new perspectives to bear as we grapple with how best to address any pension funding shortcomings.

This year's program, which ran September 11-13 in New York, featured experts from the Federal Reserve Board, the National Conference of State Legislatures, the Center on Budget and Policy Priorities, and many more organizations. We heard directly from public pension professionals from the cities of New York and Omaha; from the states of California, Kentucky, Maine, New Hampshire, Ohio, Oklahoma and Wisconsin; and from the Canadian province of New Brunswick.

*The pension funding gap is one of the most highly charged issues in our corner of the world. We understand the importance of illuminating this issue and we recognize that stable funding is of paramount important to all pension plan participants and the administrators to operate plans.*

One of the most powerfully held beliefs about public pensions is that they must be prefunded to be stable. Experts at the conference dug deep into this issue. Through careful examination of empirical data and research, several speakers urged participants to regard such claims with skepticism.

A presentation prepared by Byron Lutz of the Federal Reserve Board on a study coauthored by Jamie Lenney of the Bank of England and Louise Sheiner of the Brookings Institution concluded that in the aggregate, pensions can be stabilized with moderate fiscal adjustments, even under low and moderate asset return assumptions. Of course, they noted, there are wide differences among plans and some plans are unstable. But the widespread

[CONTINUED ON PAGE 8](#)



# Optional Medicare Buy-In for First Responders

By Tony Roda

On September 26, Senator Sherrod Brown (D-OH) and Congressmen Tom Malinowski (D-NJ) and Harley Rouda (R-CA) introduced the Expanding Health Care Options for Early Retirees Act, S. 2552 and H.R. 4527, respectively. NCPERS strongly supports this legislation.

The bill would provide an early option for qualified first responders to buy into Medicare (Part A, B, and D benefits or an MA-PD plan). Qualified first responder is defined as a first responder (firefighter, police, or EMT as defined in US code) between the ages of 50-64 who has been separated from service as the result of retirement or disability.

The legislation is a recognition that our nation's first responders generally retire well before the Medicare eligibility age of 65.

"First responders always come when we need them," said Rep. Malinowski. "This bill would ensure that when they retire, they have access to quality and reliable health coverage they have earned and deserve." "Our nation's failure to provide first responders with affordable health insurance is unacceptable. I've spoken with firefighters, police officers, and EMTs across Orange County who are paying sky-high premiums with limited retirement benefits. I'm proud to introduce this common-sense and long overdue solution, along with Senator Brown and Rep. Malinowski, which will directly impact the lives of our nation's bravest," said Rep. Harley Rouda (R-CA).

"The International Association of Fire Fighters supports the Expanding Health Care Options for Early Retirees Act. Firefighters and other public safety workers put their health and safety at risk protecting their communities. This act will allow firefighters the ability to buy into Medicare at age 50 so they can get the reliable, quality health care they need as a result of service to their communities," said Harold Schaitberger, General President of the International Association of Fire Fighters.



Photo Illustration © 2019, iStock.com

"We believe this legislation addresses a very real and critical need for the men and women who served their communities as public safety officers by providing them with a bridge of coverage following their retirement until they reach the age of 65," said Pat Yoes, National President of the Fraternal Order of Police.

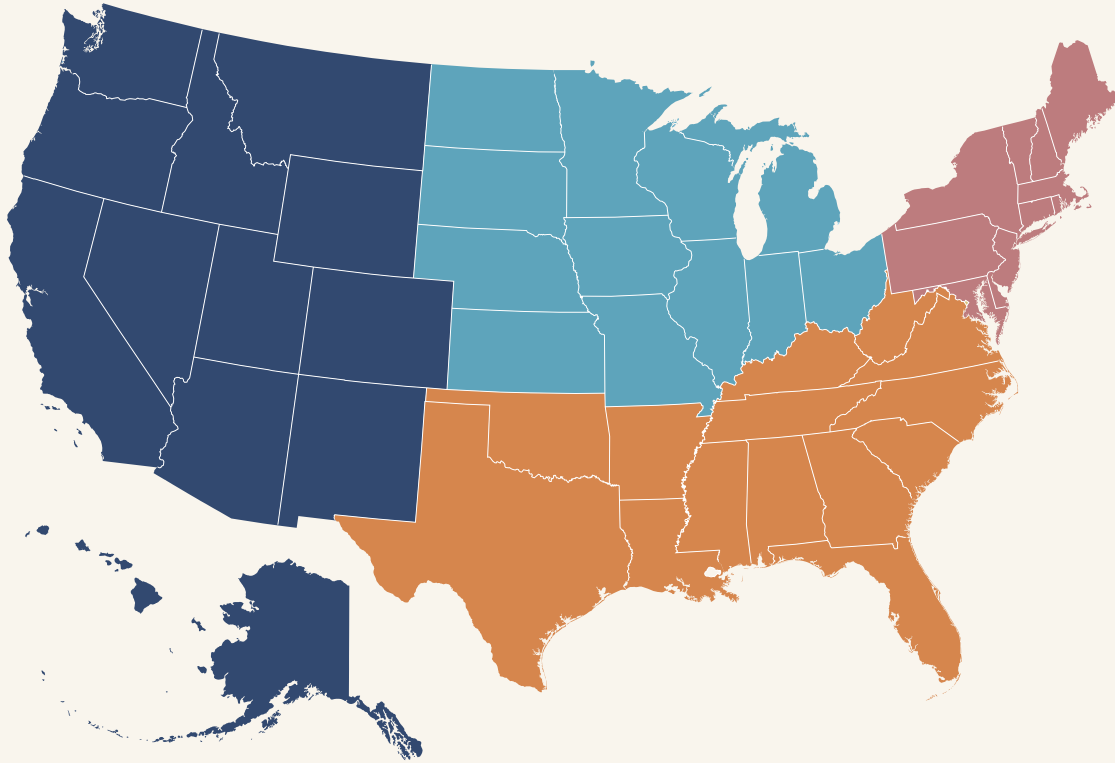
The bill directs the Secretary of HHS to determine monthly premiums for individuals enrolled under this provision by estimating the average, annual per capita amount for benefits and administrative expenses for all estimated enrollees under this section. Coverage would be considered minimal essential coverage, as required by the Affordable Care Act. The bill would prohibit states from buying Medicaid-eligible individuals into this program.

It would also instruct the Secretary of HHS to establish a Medicare Buy-In Oversight Board to monitor and oversee implementation, including the experience of individuals purchasing coverage. Representatives from industry, consumer advocates, and individuals representing the first responder community, would participate on the board.

[CONTINUED ON PAGE 9](#)

## NCPERS Around the Regions

This month, we will highlight New York, Wisconsin, North Carolina, and New Mexico.



### NORTHEAST: New York



A New York City Council committee held a day-long hearing on September 23 to gather views on legislation to create a retirement savings program for private-sector workers who currently lack them. The proposal to create “Savings Access New York” is sponsored by I. Daneek Miller, who chaired the hearing of the Committee on Civil Service and Labor, and Council Member Ben Kallos, both Democrats.

The committee took up two pieces of legislation: Introduction 888-A, which would establish a retirement savings program for private-sector workers, and Introduction 901-A, which would create a retirement savings oversight board to govern the program. The New York proposal utilizes the Secure Choice model advanced by NCPERS. The program would mandate automatic workplace

enrollment in an individual retirement account for workers who lack retirement benefits, unless they opt out.

“Every New Yorker should be able to save for retirement,” Kallos said at the outset of the hearing. “The big problem is more than half of working-age New Yorkers don’t have access through their employers to any retirement plan.” Additionally, he said, “641,000 households nearing retirement have less than \$12,000 in retirement savings.”

Among the witnesses was Hank Kim, executive director and counsel of NCPERS, who lauded the initiative as an important milestone in the Secure Choice movement. He noted that while several states have begun or are beginning programs, New York has the potential to become the first U.S. city to implement an auto-IRA program.

[CONTINUED ON PAGE 5](#)

**AROUND THE REGIONS CONTINUED FROM PAGE 4**

“This initiative places New York at the vanguard of the many cities, counties, and states that are working to secure a brighter retirement for their citizens,” Kim said.

Kim added that it’s particularly significant that New York’s plan would provide auto-enrollment for employees who work more than 20 hours a week. People who less than full-time are generally ineligible for workplace retirement benefits.

The Committee also heard remote testimony from Michael Parker, executive director of the OregonSaves program. Established in 2017 as the first auto-IRA program for private sector workers in the nation, OregonSaves is being carefully watched by other jurisdictions, including New York.

“The program here in Oregon works and has already achieved significant success in its initial roll-out,” Parker told the Committee. He noted that 3,200 employers are currently submitting payroll contributions on behalf of 50,000 accounts established for new savers, Parker said. Oregon Saves has accumulated \$30 million in two years, and has yet to bring employers with fewer than 10 employees on board.

## MIDWEST: Wisconsin



Wisconsin Governor Tony Evers on September 16 established the Governor’s Task Force on Retirement Security and appointed State Treasurer Sarah Godlewski to lead it.

The task force will look at a wide array of retirement issues, including evaluating current retirement systems in Wisconsin and evaluating ways to help small businesses promote retirement savings among their workers.

In an interview, Godlewski identified the goals as understanding barriers facing individuals and businesses in saving for retirement, evaluating best practices such as the OregonSaves program, and making sure solutions are pragmatic. Over half of Wisconsin’s population doesn’t have a way to save for retirement at work, she said in an interview with WISN, the ABC-TV affiliate in Milwaukee.

In an executive order establishing the task force, Governor Evers, a Democrat, noted that 82 percent of Wisconsinites have said they would be interested in joining a state retirement savings program.

Under the executive order, the task force will include Godlewski as chair in her capacity as state treasurer; the governor, the executive director of the state of Wisconsin Investment Board, the head of the Department of Workforce Development and the head of the Department of Health Services, or their designees; two members of the state assembly and two members of the state senate, representing two caucuses; and others as appointed by the governor, including retirees and representatives from the business community, financial services industry and organized labor.

The Associated Press reported that the task force will hold public hearings beginning in October. It is expected to release its findings in August 2020.

## SOUTH: North Carolina



North Carolina Governor Roy Cooper, a Democrat, has signed a law creating a joint legislative study committee on small business retirement options. The enactment of House Bill 604 creates a 10-member committee charged with studying four specified topics.

The measure enjoyed unanimous support in both chambers of the North Carolina legislature. The Senate voted 32-0 for the measure on August 7 and the House approved it 120-0 on August 19.

The committee is to consist of two Representatives, one from each party; two Senators, one from each party; the state treasurer; the secretary of revenue; and four members of the public, with the Speaker of the House and the President Pro Tempore of the Senate each selecting two. The four public seats are earmarked for a person representing an organization for older adults, a retiree who has worked in private retirement services, a business owner, and a labor advocate.

The law specifies four topics the committee must consider: 1) Ways to reduce regulatory and operational burdens on small businesses that want to offer payroll deduction retirement savings options

**CONTINUED ON PAGE 8**

**ATTACK ON CALSAVERS PROGRAM CONTINUED FROM PAGE 1**

The statement cited a Supreme Court ruling in *Lockheed Corp. v. Spink*, which stated, “Nothing in ERISA requires employers to establish employee benefits plans. Nor does ERISA mandate what kind of benefits employers must provide if they choose to have such a plan.” Additionally, the statement said, “Congress enacted ERISA to ensure that employees would receive the benefits they had earned, but Congress did not require employers to establish benefit plans in the first place,” citing *Conkright v. Frommert*.

The departments argued that CalSavers would erase freedom of choice by requiring employers either to establish their own ERISA plan or to maintain an equivalent plan.

CalSavers mandates that certain California employers that do not offer retirement plans provide workers with a state-run payroll deduction plan. Employee enrollment is automatic, but they can opt out. CalSavers began in November 2018 with a pilot program and

was opened to all eligible employers July 1, 2019. Employers with over 100 employees are required to comply by June 30, 2020. Those with 50 to 99 employees have until June 30, 2021, and those with five to 49 employees have a compliance deadline of June 30, 2022.

California Governor Gavin Newsom denounced the Trump Administration’s efforts to invalidate CalSavers. In a prepared statement, he said: “President Trump’s administration continues to wage war against commonsense laws and policies, and in this case, his attacks may threaten the retirement security of millions of low-income California workers. CalSavers is leveling the playing field for millions of hardworking Californians who will save for their futures for the first time in their lives. The reality is that people are living longer and about 7.5 million Californians lack access to a workplace retirement plan. Denying hardworking Californians an easy, portable way to simply save their own money is something we will continue to strongly oppose.” ♦

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# 2019 Public Safety Conference

October 27 – 30



NCPERS Accredited Fiduciary (NAF) Program  
October 26 – 27

JW Marriott New Orleans Hotel  
New Orleans, LA

Register by October 4 for Early-Bird Registration Rates.

**REGISTRATION NOW OPEN**  
[WWW.NCPERS.ORG/PSC](http://WWW.NCPERS.ORG/PSC)

**EXECUTIVE DIRECTOR'S CORNER CONTINUED FROM PAGE 2**

assumption that a lack of prefunding is undesirable is not supported by the economic literature, either in terms of voter welfare nor fiscal sustainability, the authors said.

One of the most important things the public pension community can do is to fight against funding flexibility on the part of state and local governments. But the most important thing is to be informed and knowledgeable about the real state of public pension funding. We can find ways to overcome obstacles. Better risk management,

the use of new and improved debt instruments and closing tax loopholes are approaches that we can embrace.

The overarching goal of the Public Pension Funding Forum is to inject some new thinking that might solve the funding challenges without dismantling public pensions, and hence enhance prosperity for all. If you weren't able to join us at the Forum this year, I hope you will consider coming out next year August 23 - 25, when we will be in Chicago, Illinois. ♦

**AROUND THE REGIONS CONTINUED FROM PAGE 5**

to employees; 2) mechanisms the state could use to help prepare citizens to retire in a financially secure manner, including the operation of a state-administered individual retirement account or multiple employer plan; 3) the feasibility and benefits of partnering with other similar programs established in other jurisdictions; and 4) optimal oversight for any proposed retirement program.

The law stipulates that the committee should produce a report no later than March 31, 2020.

The state Senate in March 2019 unanimously approved legislation directing the state treasurer to create the implementation plan. The legislation, SM119, requested acknowledgement "that the retirement security crisis must be addressed by state intervention" and put the state treasurer in charge of devising plans to implement the task force recommendations. Earlier, the task force noted that 62 percent of New Mexico's private sector employees (336,000 people), didn't have access to such a workplace retirement plan.

SM119 noted that the average social security benefit in New Mexico is around \$13,900 a year, while older American families spend about \$20,000 a year on food, utilities and health care alone. The legislation also stated that the number of adults over age 60 in New Mexico with less than \$10,000 saved for retirement would increase by 31 percent by 2040.

The task force, which met during 2017 and 2018, found that "underfunding of retirement savings has the potential to place an enormous strain on the state budget as it seeks to provide quality services and care to the elderly and may lead to reduced quality of life for retirees," SM119 noted. ♦

**WEST:  
New Mexico**



New Mexico's initiatives to strengthen retirement security, including expanding financial literacy efforts and creating an auto-IRA program for private sector workers, are picking up steam.

State Treasurer Tim Eichenberg is expected to report November 1 on a plan to implement recommendations made by the New Mexico Retirement Income Security Task Force in 2018. The centerpiece of the recommendations was to create New Mexico Saves, which would include an online marketplace and a voluntary payroll deduction individual retirement account plan.

**OPTIONAL MEDICARE BUY-IN CONTINUED FROM PAGE 3**

Finally, the federal government would provide funding for states, nonprofit organizations, and nonprofit first responder organizations to engage in education and outreach activities. Funding would be prioritized in locations at risk of having no qualified health plans in the individual market.

Please be assured that NCPERS will be actively involved in promoting this important legislation. We applaud Senator Brown and Congressmen Malinowski and Rouda for their commitment to the public safety community and their leadership on this important issue. ♦

**Tony Roda** is a partner at the Washington, D.C. law and lobbying firm [Williams & Jensen](#), where he specializes in federal legislative and regulatory issues affecting state and local governmental pension plans. He represents NCPERS and statewide, county, and municipal pension plans in California, Georgia, Kentucky, Ohio, Tennessee and Texas. He has an undergraduate degree in government and politics from the University of Maryland, J.D. from Catholic University of America, and LL.M (tax law) from Georgetown University.

**Don't Miss NCPERS' Social Media**

The image features a hand holding a glowing tablet. The background is a collage of digital elements including a globe, social media icons (Facebook, Twitter, LinkedIn, YouTube, RSS), and various data charts and maps. The text "Don't Miss NCPERS' Social Media" is prominently displayed at the top in white. In the bottom right corner, the NCPERS logo is shown with the tagline "The Voice for Public Pensions".



## 2019 Conferences

### October

**NCPERS Accredited  
Fiduciary Program  
(All modules)**

October 26 – 27  
New Orleans, LA

**Public Safety Conference**

October 27 – 30  
New Orleans, LA

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## 2018-2019 Officers

**Daniel Fortuna**  
*President*

**Kathy Harrell**  
*First Vice President*

**Dale Chase**  
*Second Vice President*

**Carol G. Stukes-Baylor**  
*Secretary*

**Will Pryor**  
*Treasurer*

**Mel Aaronson**  
*Immediate Past President*

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John Neal*

**County Employees  
Classification**  
*Teresa Valenzuela*

**Local Employees  
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Thomas Ross  
Ralph Sicuro*

**Police Classification**  
*Kenneth Hauser  
James Sklenar*

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Ronald Saathoff*

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THE NCPERS

# MONITOR

The Latest in Legislative News

November 2019

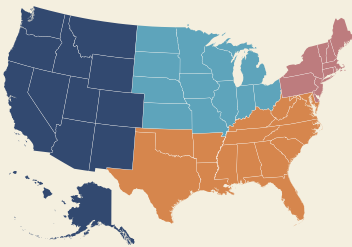
## In This Issue

### 2 Executive Directors Corner



Social Security beneficiaries will receive a 1.6 percent cost-of-living adjustment (COLA) in January, down from 2.8 percent in 2019 and 2.0 percent in 2018. The raise applies to 69 million Social Security program recipients. The average retirement benefit will reach \$1,503 a month, the Washington Post reported. That's about \$24 a month for the average retiree, according to MSN Money.

### 4 Around the Regions



This month, we will highlight Illinois, Massachusetts, Tennessee, and Oregon

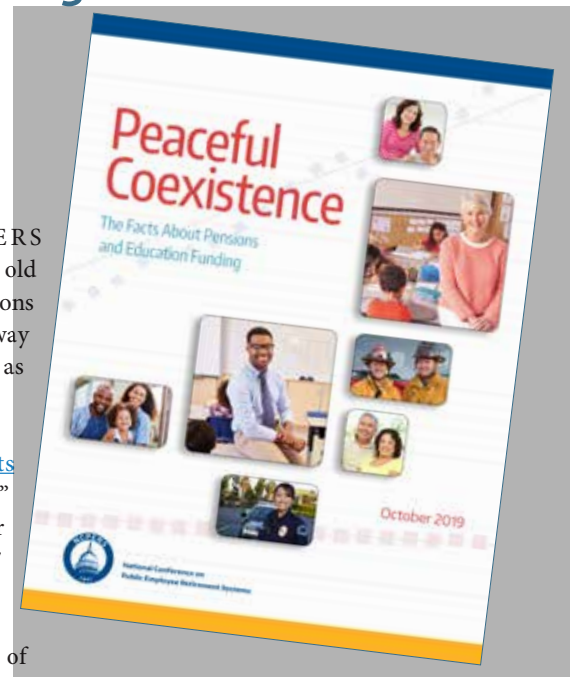
## Peaceful Coexistence: Pension Funds Are No Threat to Education Spending

A new study by NCPERS soundly debunks the tired old argument that public pensions are draining resources away from other laudable priorities such as education.

In “[Peaceful Coexistence: The Facts and Pensions and Education Funding](#),” author Michael Kahn—our director of research—notes that for every \$7 governments spend on education, they spend only \$1 on public pensions. (The exact figure is that 4.1 percent of state revenues go to pensions, versus 28.3 percent to education.)

Let’s face it: It’s pretty hard to “crowd out” something that’s seven times your size. When’s the last time you saw a 25-pound toddler knock down a 175-pound adult? That would be ludicrous, and so are the suggestions that pension spending is a threat to education budgets.

The study takes aim at the polarizing rhetoric that presents pensions and education as an either-or proposition for state and local governments. We have all watched for years as states and localities have failed to make good on their pension obligations, creating funding shortfalls that could been avoided an then standing by idly as the financial gaps widened. As we have often noted, the underlying problem—apart from willful failure by some governments to honor their pension contribution commitments—is flawed fiscal policy. Yet governments can afford to deliver both pensions and education if they break the habit of making frequent tax changes driven by political ideology.



[CONTINUED ON PAGE 6](#)



## Social Security Announces Modest COLA for 2019

Social Security beneficiaries will receive a 1.6 percent cost-of-living adjustment (COLA) in January, down from 2.8 percent in 2018 and 2.0 percent in 2017.

The raise applies to 69 million Social Security program recipients. The average retirement benefit will reach \$1,503 a month, the Washington Post reported. That's about \$24 a month for the average retiree, according to MSN Money.

The Social Security Administration calculates increases each October using the consumer price index for urban wage earners and clerical workers, or CPI-W.

Despite the increase, there is concern that the index is inherently flawed, because many costs are rising faster than the purchasing power of Social Security benefits, the Washington Post said, citing research from the Senior Citizens League. The issue is that urban and clerical workers, who are predominantly under age 62, spend their money very differently than senior citizens do.

The Senior Citizens League found that from January 2000 to January 2019, COLAs increased Social Security benefits by roughly 50 percent. However, costs such as prescription drugs and fresh groceries rose faster. Indeed, the types of services used by Social Security beneficiaries climbed more than 100 percent during the same period. A study by the League found that Social Security benefits have lost one-third of their buying power since 2000.



*The Senior Citizens League found that from January 2000 to January 2019, COLAs increased Social Security benefits by roughly 50 percent.*

The payroll tax on earned income—that is, the amount of income that is subject to Social Security's 12.4 percent payroll tax—will also increase in January. Rising in step with the National Average Wage Index, the earnings cap will jump to \$137,700, up \$4,800 from \$132,900 in 2018.

Separately, the Wall Street Journal on October 5 noted that a 2018 Pew Research Center poll showed that 78 percent of

Democrats and 68 percent of Republicans opposed cuts in future Social Security benefits. ♦



# National Conference on Public Employee Retirement Systems

ADVOCACY

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EDUCATION

# 2020 Legislative Conference

January 26-28, 2020  
Capital Hilton Hotel | Washington, DC

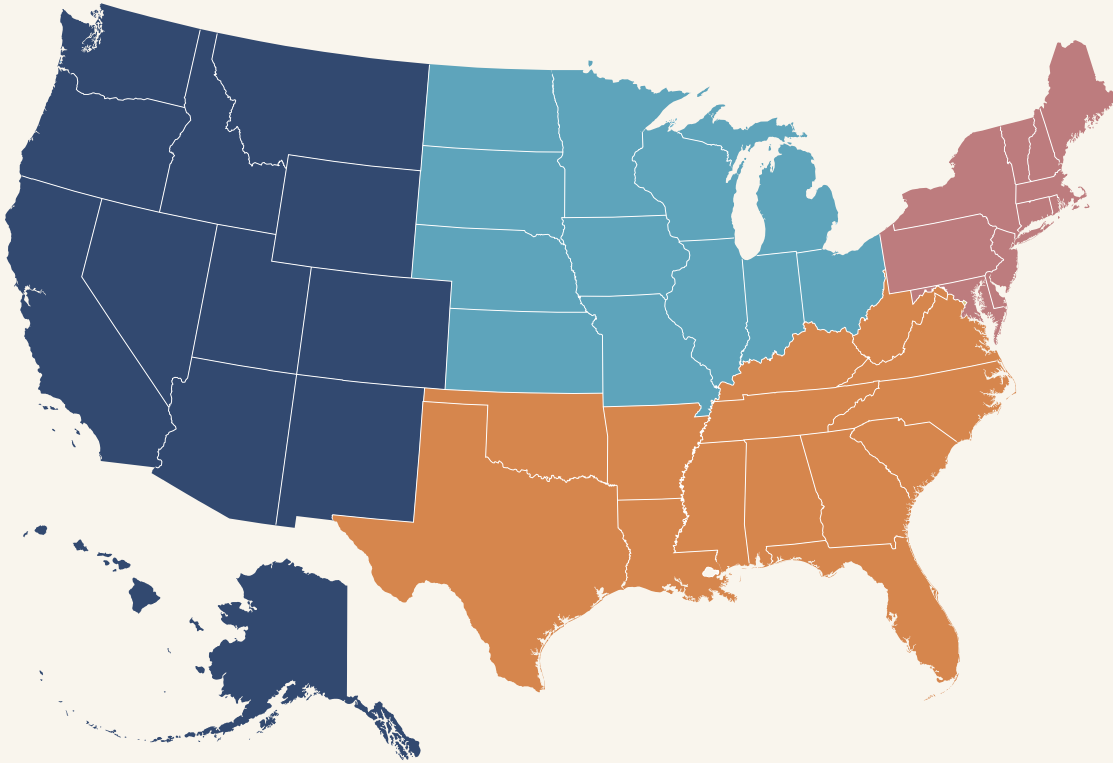
**Policy Day  
January 28**

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## NCPERS Around the Regions

This month, we will highlight Illinois, Massachusetts, Tennessee, and Oregon.



### MIDWEST: Illinois



Illinois Governor J.B. Pritzker is pushing a task force recommendation to merge 649 downstate and suburban police and fire pensions into two new statewide funds.

Pritzker, a Democrat, created the Pension Consolidation Feasibility Task Force shortly after taking office in January. In a 22-page report, the task force said a merger would generate \$820 million to \$2.5 billion in additional returns for the funds over five years. The 649 funds currently have a total of \$14.3 billion in assets.

The task force report noted that Illinois has the second-highest number of local pension systems in the U.S., but its assets are the ninth-lowest of any U.S. public pension system. Of the total 649 plans potentially affected by consolidation, 424 plans, or 65.3%,

have less than \$20 million in assets each.

The task force recommended creating a fund for municipal police beneficiaries and one for municipal fire beneficiaries, each managed by an eight-person board with equal representation by employers and workers.

Governor Pritzker called on lawmakers to take swift action to combine the plans.

Under his proposal, each police or fire department would maintain a separate account within the funds, with assets held in trusts that would be kept separate from the state treasury. Assets and liabilities would not be shifted from one municipality's plan to another. However, the funds could pool their assets for investment purposes, which could reduce administrative fees.

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The governor asked the General Assembly to take up consolidation at the annual “veto session,” which began October 22 and is slated to conclude November 14. At press time, legislation had not been introduced.

Previous attempts to merge the public safety pension funds have failed to gain ground in the Illinois legislature.

## NORTHEAST: MASSACHUSETTS



Current and former police officers urged Massachusetts lawmakers to support a bill designed to close a gap in pay and benefits for officers who are severely injured. The state legislature’s Joint Committee on Public Services on October 24 reported favorably on the bill and referred it to the Senate Ways and Means Committee.

At an October 1 hearing, the Joint Committee heard five hours of testimony on legislation sponsored by State Senator Cindy Friedman. The measure would allow officers who are injured by violence and forced to retire to receive 100% of their regular pay until their mandatory retirement age. They would also be eligible for 80% of their pension including cost of living increases. Under current law, they receive only 72% of their regular pay.

Witnesses who spoke in support of the bill included Brian Kyes, Chelsea, Mass., police chief and president of the Major City Chiefs of Police Association; Robert DeNapoli, a former Woburn, Mass., police officer; and Mario Oliveira, a former Somerville, Mass., police detective. Both DeNapoli and Oliveira were forced to retire due to violent and traumatic injuries in the line of duty.

Friedman’s bill, “An Act relative to disability pensions for violent crimes” (S. 1531), has attracted bipartisan support in the overwhelmingly Democratic Massachusetts Senate.

“Under current law, a first responder forced to retire due to a ‘violent act injury’ can only receive benefits through the local retirement board via the home rule legislative process,” Friedman said in a summary of the bill on her web page. “This process is onerous and has resulted in disparate benefits being granted on a case-by-case basis,” she said.

“It is unconscionable and, frankly, insulting that we force police officers who have suffered a life-altering injury to go through such a burdensome and emotionally straining process to receive the benefits necessary to sustain themselves and their families after such a tragic event,” Friedman added.

## SOUTH: Tennessee



Memphis votes in early October approved a ballot initiative to hike the city sales tax by 50 basis points, to 2.75 percent, to restore health benefits and pensions to previous levels for police and firefighters. (A basis point is one one-hundredth of a percentage point.)

The Memphis Police Association and the Memphis Fire Fighters Association led the successful effort to put the initiative on the ballot. They submitted 140,000 signatures to qualify for the ballot, far exceeding the 38,450 valid signatures that were required.

The police and fire associations estimated the tax increase would provide \$52 million in annual revenue, and that \$34 million of that would be need to raise health benefits and pensions to levels that existed in 2014 and 2016.

In Tennessee, local sales taxes apply only to the first \$1,600 of a single purchase. Thus, the 50 basis point increase would add a maximum sales tax increase of \$8 on the purchase of a single item.

In a September 17 op-ed on the Daily Memphian news website, police and fire association officials said the public would benefit if voters supported the initiative. They wrote that the city of Memphis had betrayed the trust of public safety workers by making “massive cuts in pension and health benefits” beginning in 2014. “As a result, the city lost 500 police officers and the citizens of Memphis suffered as crime spiraled out of control,” and firefighter retention has also suffered, they wrote. The article was written by John Covington, chief steward of the Memphis Police Association, and Matthew Tomek, secretary/treasurer of the Memphis Fire Fighters Association.

The favorable vote restores healthcare benefits to 2014 levels and restores cuts to fire and police pension plans for those hired before 2016, the authors noted. “Most importantly it restores

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[PEACEFUL COEXISTENCE CONTINUED FROM PAGE 1](#)

We have watched as states and localities tinker with taxes instead of developing sustainable revenue systems that are responsive to the economy. We need a tax system that is stable in economic downturns and grows in good economic times.

Yes, many states and localities are feeling squeezed. But the problem is their tendency to cut progressive and stable taxes such as income and property taxes in good economic times and fail on their obligations when the going gets rough. States and localities have overcommitted to regressive and risky revenue schemes such as excise taxes, casinos and lotteries.

As author Michael Kahn said, “When governments constantly fiddle with and shift revenue sources, this has the unfortunate effect of rendering many tax systems regressive.” And, he added, “A healthy tax system does not require frequent changes. On the contrary, revenue systems should be designed to help state and local

governments steadily weather the ups and downs in the economy and serve as a source of stable funding for a variety of obligations, including education and pensions.”

The [72-page report](#) includes a state-by-state analysis that compares each state’s expenditures on education and funding with economic and revenue trends. Not surprisingly, this research finds that in every state economic and revenue trends are at odds, with revenues failing to reflect and capture the benefits of steady economic growth.

Conducting research that gets behind superficial and unsupported claims about public pensions is one the most important things we do at NCPERS. I hope you will take the time to read and dig into this latest, powerful research and provide us with feedback. If you’d like more detail about the [“Peaceful Coexistence”](#) report, just give us a call! ♦

**Don't Miss NCPERS' Social Media**

The image features a hand holding a tablet computer. From the tablet, various digital icons and social media links are projected. On the right side, there are five social media icons: Facebook, Twitter, LinkedIn, YouTube, and RSS. At the bottom right, there is the NCPERS logo, which includes a stylized building and the text "NCPERS 1981". Below the logo is the tagline "The Voice for Public Pensions".

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the healthcare benefits to pre-65 retirees –who do not receive Social Security – who were stripped of their healthcare and faced premiums that decimated their fixed pension payments,” Covington and Tomek wrote.

**WEST:  
Oregon**



Oregon’s Supreme Court ordered Attorney General Ellen Rosenblum to redraft key elements of a proposed ballot measure that would prohibit government employers from taking on any new pension debt. The ballot initiative was proposed for the November 3, 2020, general election.

Under the Attorney General, the state’s Justice Department is responsible for drafting neutral descriptions of ballot measure

titles and explanations. Supporters of Initiative Petition 13 said the proposed language agency officials issued in May 2019 failed the standard of neutrality.

In a unanimous decision, the Supreme Court said that the Justice Department erred when it noted that the effect of the ballot measure was unclear. The “effect unclear” comment “is unhelpful and fails to describe the proposed measure’s subject matter, as required,” the court ruled.

The ballot initiative requires the state treasurer to calculate the unfunded actuarial liability of any public pension program in the state as of Dec. 31, 2022. It amends the state constitution to prohibit government employers accruing any new unfunded liabilities after that date. And it prohibits employers from borrowing to offset pension payments, ruling out the agencies’ ability to issue pension obligation bonds. ♦

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### January

**Legislative Conference**  
January 26 - 28  
Washington, DC

### May

**Trustee Educational Seminar (TEDS)**  
May 9 - 10  
Las Vegas, NV

**Program for Advanced Trustee Studies (PATS)**  
May 9 - 10  
Las Vegas, NV

**NCPERS Accredited Fiduciary Program (All modules)**  
May 9 - 10  
Las Vegas, NV

**Annual Conference & Exhibition (ACE)**  
May 10 - 13  
Las Vegas, NV

### July

**Chief Officers Summit (COS)**  
July 22 - 24  
Chicago, IL

### August

**Public Pension Funding Forum**  
August 23 - 25  
Chicago, IL

### October

**NCPERS Accredited Fiduciary Program (All modules)**  
October 24 - 25  
Location TBD

**Public Safety Conference**  
October 25 - 28  
Location TBD

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