

AGENDA



Date: June 5, 2020

A meeting of the Supplemental Police and Fire Pension Fund Board of Trustees will be held at **8:30 a.m. on Thursday, June 11, 2020, via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom meeting for visual <https://us02web.zoom.us/j/83181038691?pwd=RXhTSHI1SEZ4dGg1ZTZMcDV1UXFFZz09>. Password: 866920.** Items of the following agenda will be presented to the Board:

A. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of May 14, 2020

2. Approval of Service Retirements

B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. January 1, 2020 Actuarial Valuation Assumptions

2. Funding Policy

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by 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.

**Dallas Police and Fire Pension System
Thursday, May 14, 2020
8:30 a.m.
Via telephone conference.**

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

ROLL CALL

Board Members

Present at 8:30 a.m. William F. Quinn, Nicholas A. Merrick, Joseph P. Schutz, Susan M. Byrne, Robert B. French, Steve Idoux, Gilbert A. Garcia, Mark Malveaux, Armando Garza, Allen R. Vaught, Tina Hernandez Patterson

Absent: None

Staff

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

Others

Jeff Williams, Caitlin Grice, Leandro Festino

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The meeting was called to order at 8:30 a.m. The meeting was reconvened at 1:26 p.m.

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A. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of April 9, 2020

2. Approval of Service Retirements

After discussion, Ms. Byrne made a motion to approve the minutes of the meeting of April 9, 2020. Mr. Garza seconded the motion, which was unanimously approved by the Board.

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

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**Supplemental Board Meeting
Thursday, May 14, 2020**

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

Actuarial Review and Actuarial Valuation Assumptions

- a. Actuarial Experience Study
- b. January 1, 2020 Actuarial Valuation Assumptions

Jeff Williams, Vice President and Actuary, and Caitlin Grice, Consulting Actuary, of Segal Consulting presented the results of the Actuarial Experience Study and discussed the January 1, 2020 actuarial assumptions for the Board to determine the assumptions to be used in the actuarial valuation reports for the Regular Plan (Combined Plan) and the Supplemental Plan.

After discussion, Mr. Quinn made a motion to accept the Review of Actuarial Experience and submit the document to the Pension Review Board. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

After discussion, the Board provided direction to Segal on the assumptions to be used in preparing the January 1, 2020 actuarial valuation reports for the Regular Plan (Combined Plan) and the Supplemental Plan with some exceptions which will be discussed further next month.

* * * * *

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Quinn and a second by Ms. Byrne, the meeting was adjourned at 1:27 p.m.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

Supplemental

ITEM #B1

Topic: January 1, 2020 Actuarial Valuation Assumptions

Attendees: Jeff Williams, Vice President and Actuary, Segal Consulting

Discussion: An actuarial valuation is performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and it is an important part of the annual financial audit. Segal Consulting is preparing the January 1, 2020 actuarial valuation reports for the Regular Plan (Combined Plan) and the Supplemental Plan. Many economic and demographic assumptions are required to prepare the valuation. Pursuant to Article 16, Section 67 (f)(3) of the Texas Constitution, the Board determines the assumptions used in the valuation.

Segal presented a five-year Review of Actuarial Experience at the May 2020 Board meeting and based on that study, Segal recommended modifications to certain economic and demographic assumptions. In addition, Segal provided an analysis of the impacts to the funding level and pension liability using a discount rate/assumed rate of return of 7.25% (current rate), 7.00% and 6.75%. Summary pages of the recommendations from the report are provided

Supplemental Board Meeting – Thursday, June 11, 2020



DISCUSSION SHEET

ITEM #B1 (continued)

for convenience. The full report is available on the DFPF website under Financial Reports.

Recommendation:

Provide direction to Segal on the assumptions to be used in preparing the January 1, 2020 actuarial valuation reports for the Regular Plan (Combined Plan) and the Supplemental Plan consistent with the Actuary's recommendations and provide a discount rate to be used in preparing the January 1, 2020 actuarial valuation reports.

Supplemental Board Meeting – Thursday, June 11, 2020

Summary of Proposed Assumption Changes

| Assumption | Current Assumption | Proposed Assumption |
|--|---|---|
| Healthy Retiree & Dependent Spouse Mortality | RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward two years for females | Pub-2010 Public Safety Retiree Amount-weighted Mortality Table, set back one year for females |
| Contingent Beneficiary Mortality | RP-2014 Blue Collar Healthy Annuitant Mortality Table, set forward two years for females | Pub-2010 Public Safety Contingent Survivor Amount-weighted Mortality Table, set back one year for females |
| Disabled Life Mortality | RP-2014 Disabled Retiree Mortality Table, set back three years for males and females | Pub-2010 Public Safety Disabled Retiree Amount-weighted Mortality Table, set forward four years for males and females |
| Pre-Retirement Mortality | RP-2014 Employee Mortality Table, set back two years for males | Pub-2010 Public Safety Employee Amount-weighted Mortality Table, set forward five years for males |
| Mortality Improvement | Projected generationally with Scale M-2015 | Projected generationally with Scale M-2019 |
| Turnover | Separate service-based rates for Fire and Police; rates zero out after 37 years of service | Modify existing service-based rates for both Fire and Police; new rates zero out after 24 years of service |
| Disability | Age-based rates; rates zero out after age 54 | No change |
| Service-Related Disability | 100% of disabilities assumed service-related | No change |
| DROP Retirement | Separate age-based rates for Fire and Police, with 100% retirement at age 67 or after eight years in DROP | Increase existing age-based rates for most ages, move up 100% retirement to age 65 and move back 100% retirement to ten years in DROP |
| DROP Utilization | No members are assumed to elect to enter the DROP | No change |

Summary of Proposed Assumption Changes

| Assumption | Current Assumption | Proposed Assumption |
|----------------------------------|--|--|
| DROP Annuitization Interest | 3.00% on account balances as of September 1, 2017, payable upon retirement | 2.75% on account balances as of September 1, 2017, payable upon retirement |
| Non-DROP Retirement | Three separate age-based rates based on hire date and service, with 100% retirement at age 62 or after benefit multiplier hits 90% maximum | Decrease the existing age-based rates for most ages; simplify rates from three separate rates to two |
| Terminated Vested Retirement | Age 50 if terminate pre-September 1, 2017; Age 58 if terminate on or after September 1, 2017 | No change to retirement ages; in addition, an assumption has been added that 75% of those who terminate with a vested benefit prior to age 40 will take a cash out at age 40 |
| Percent Married | 75% for Males and Females | No change |
| Spousal Age Difference | Females three years younger than males | No change |
| Inflation | 2.75% | 2.50% |
| Investment Return | 7.25% | Between 6.50% - 7.25% |
| Payroll Growth | 2.75% | 2.50% |
| Salary Scale | Separate service-based salary scales based on rank, with rates ranging from 0.00% to 5.00% with an ultimate rate of 2.00% | Separate salary scales based on rank as stated in the 2019 Meet and Confer agreement with an ultimate rate of 2.50% |
| Administrative Expenses | Greater of \$8,500,000 per year or 1% of computation pay | No change |
| Cost-of-Living Adjustment (COLA) | 2.00% per year beginning the year System is projected to be 70% funded on a market value basis (currently, October 1, 2050) | No change; Segal will revisit once financials are finalized and funding projections are updated |



DISCUSSION SHEET

ITEM #B2

Topic: Funding Policy

Discussion: The Board adopted a Funding Policy for the Supplemental Plan in December 2019 as required by Senate Bill 2224. The Funding Policy reflected a rolling ten-year amortization method which was the agreement in place with the City of Dallas. A rolling ten-year amortization method will not result in a 100 percent funding level, and therefore is not an acceptable funding method under SB 2224. Staff worked with the City to change the funding method to one that would meet the requirement of achieving a 100 percent funding level.

The proposed change is that the unfunded actuarial accrued liability as of January 1, 2020 will be amortized over a closed, 20-year period using the level percent of payroll amortization methodology. Beginning on January 1, 2021, each year's experience due to actuarial gains and losses, or plan, assumption, and method changes, will be amortized over a closed, 10-year period using the level percent of payroll amortization methodology.

Supplemental Board Meeting– Thursday, June 11, 2020

DISCUSSION SHEET

ITEM #B2 (continued)

The City's contributions for the Supplemental Plan would continue to be made annually based on the actuarial determined contribution calculation plus any amounts necessary on a monthly basis to currently fund the payments made from the Excess Benefits Plan and Trust.

The Funding Policy has been amended to reflect these changes.

Recommendation: **Adopt** the amended Funding Policy for the Supplemental Pension Plan.

Supplemental Board Meeting – Thursday June 11, 2020



**FUNDING POLICY
SUPPLEMENTAL PENSION PLAN**

As Amended Through June 11, 2020

Adopted December 12, 2019

**DALLAS POLICE & FIRE PENSION SYSTEM
FUNDING POLICY
SUPPLEMENTAL PENSION PLAN**

**Adopted December 12, 2019
Amended through June 11, 2020**

A. Introduction

This funding policy outlines a formal long-term strategy for financing the pension obligations accruing under the Dallas Police and Fire Pension System (DPFP) Supplemental Pension~~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.

B. 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.

C. Funding Objectives

The system's funding objective is to achieve a funded ratio of 100% or more by ~~2030~~2040.



Funding Policy Supplemental Pension Plan
~~Adopted December 12, 2019; amended through June 11, 2020~~
Page 2 of 4

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D. Actuarial Methods

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

1. Cost Method

The individual entry age normal actuarial cost method.

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2. Asset Smoothing

Market value of assets with no asset smoothing.

3. 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. The unfunded actuarial accrued liability as of January 1, 2020 will be amortized over a closed, 20-year period using the level percent of payroll amortization methodology. Beginning on January 1, 2021, each year's experience due to actuarial gains and losses, or plan, assumption, and method changes, will be amortized over a closed, 10-year period using the level percent of payroll amortization methodology.~~

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E. 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.

F. Actuarially Determined Contribution

The City contributes the ADC annually plus any amounts necessary on a monthly basis to currently fund the payments made from the Excess Benefit Plan and Trust.



Funding Policy Supplemental Pension Plan
 Adopted December 12, 2019s amended through June 11, 2020
 Page 3 of 4

G. Consideration of Plan Modifications

1. Guidelines for Future Reductions in Contributions

~~The Board may consider a reduction in City contributions only if the reduction does not result in a funding period that exceeds the Texas Pension Review Board guidelines. 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 member contribution rates must match the member contribution rates provided for in Article 6243a-1. (See the Funding Policy for the Combined Pension Plan for additional information on changes to member contribution rates.) 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.~~

2. 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.

H. 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 ~~Texas 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.

I. 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.

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Funding Policy Supplemental Pension Plan
Adopted ~~December 12, 2019~~ amended through June 11, 2020
Page 4 of 4

J. Effective Date

APPROVED on ~~December 12, 2019~~ June 11, 2020 by the Board of Trustees of the Dallas Police and Fire Pension System.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary

