



November 2016 Plan Amendment Election Ballot

This Ballot presents the proposed amendments to the Plan. Several changes are proposed and they are combined into **two** Ballot items.

The first Ballot item is a change that relates to obtaining pension service credit for back pay awards.

The second Ballot item contains changes related to various aspects of the Plan. Some are governance changes, but most relate to benefit changes and are intended to improve the funding status of the Plan. All of the governance and benefit related proposed changes are included in one Ballot item. Also included in the second Ballot item are explanations of proposed changes to the DFPF DROP Policy that would take effect **only** in the event that the second Ballot item is approved in this election. **The vote on the second Ballot item is “yes” or “no” on all changes in the item as a package – the package is voted on as a whole, not as individual changes.**

For each Ballot item, a “yes” vote means you approve the proposed changes and a “No” vote means you want the Plan to stay as it is.

The Plan sections affected by the proposed amendments are each identified separately to help you understand the proposals. All references stated in the following pages refer to the proposed Plan language.

While this Ballot contains brief explanations of each proposed change, the actual proposed Plan language changes are included in the election packet and it is the actual changes in the Plan language alone that will control. The explanations in this Ballot are summarized for your convenience and will not control in the legal interpretation of the Plan language.

The Board of Trustees has obtained the approval of DFPF’s Qualified Actuary for these proposed changes and the Board recommends the Plan amendments be approved by the membership.

You may vote on the amendments on the Internet or by telephone in accordance with the instructions provided in your election packet.

Proposed 2016 Plan Amendments

Please vote on the following two Ballot items:

BALLOT ITEM 1. Requirements for Pension Service Credit Upon the Award of Back Pay

Current provisions

There is no current requirement for a Member to obtain all prior contributions from the City of Dallas (“City”) in order to receive pension service credit, nor is there a specific requirement for the Member or the City to contribute past interest.

Proposed amendment

The proposed amendment would require that any Member who receives “Eligible Back Pay” (a new defined term) would be required to make sure DFPF has received all contributions in respect of the Eligible Back Pay both from the Member and from the City, along with interest compounded at the actuarial assumed rate of return for such time periods. **New definition “Eligible Back Pay” and amended definitions for “Base Pay” and “Computation Pay.”**

Reason for the change

The proposed change would help ensure DFPF receives all the funds necessary to pay all increased pension benefits arising out of back pay awards. This would apply to all such situations, including the pending legal proceedings commonly referred to as the “Second Driver” or “Pay” lawsuits.

Effective Date

This amendment would be effective upon certification of the election results by the Board.

BALLOT ITEM 2. Plan Changes Related to Benefits and Governance

A. Contributions

Current provisions

Members not in Active DROP contribute 8.5%. Members in Active DROP contribute 4%.

Proposed amendment

The proposed change would increase the contribution rate for all Active Members, including those in Active DROP, to 9%. **Section 4.03(d)**

All contributions made by Members while in Active DROP after the effective date of this Ballot item will be repaid to such Members after retirement in 120 equal monthly installments, without interest. **Section 4.03(j)**

Additionally, contributions for all Members may increase to 12% if certain conditions are met. **See Section K - Conditional Changes.**

Effective date

This amendment would be effective January 1, 2017.

B. Computation Pay

Current provision

For all Members hired before March 1, 2011, all calculations related to benefits are based upon the 36 consecutive months of highest Computation Pay.

Proposed amendment

For Members hired before March 1, 2011, all calculations related to benefits will be based upon a bifurcated formula where benefits accrued prior to the effective date of the Plan amendment will be based upon the 36 consecutive months of highest Computation Pay and benefits accrued on or after the effective date will be based upon the 60 consecutive months of highest Computation Pay. **Sections 6.02(b), 6.04(f), 6.05(c) and 6.08(b)**

Effective date

This amendment would be effective January 1, 2017.

C. DROP Interest

Current provisions

The DROP interest rate is 6% effective October 1, 2016 and will step down to 5% effective October 1, 2017. In addition, adjustments will be made according to the following schedule on or after October 1, 2018:

<u>Plan Status</u>	<u>DROP Interest Rate</u>
Default Rate	5.0%
Funded Ratio < 65%, and DROP in Cumulative Loss Position	4.0%
Funded Ratio < 60%, and DROP in Cumulative Loss Position	3.0%
Funded Ratio < 55%, and DROP in Cumulative Loss Position	0.0%
Funded Ratio > 85%, and Cumulative Gain Position is \geq 20% of DROP Accounts	6.0%
Funded Ratio \geq 90%, and Cumulative Gain Position is \geq 20% of DROP Accounts	6.5%
Funded Ratio > 95%, and Cumulative Gain Position is \geq 20% of DROP Accounts	7.0%

Each year, the difference between the interest credited to DROP accounts for the year and the interest earned on the underlying assets for the year is determined. If the amount of interest credited to DROP accounts exceeds the amounts earned on the underlying assets, the result is a loss. If the amount credited to DROP accounts is less than the amounts earned on the underlying assets, the result is a gain. These amounts are then accumulated to the current valuation date at the interest rate earned on the Market Value of assets for each year. The result is the Cumulative Gain or Loss attributable to the rate credited to DROP accounts. Currently, it is expected that at October 1, 2018, the DROP interest rate would become 0%.

Proposed amendment

Members in Active Service will be entitled to accrue interest on their DROP accounts for a period of seven years, commencing with their entry into DROP. After the effective date of this Ballot item, Members in Active Service will accrue interest at the rate of 3% until their total time in Active DROP is 7 years. There will be no interest accrual for Members after seven years. **Section 6.14(d)**

For Pensioners, DROP interest rates will be determined by the payout option selected by the Pensioner. **Section 6.14(e)**

Initially, if the amendment is passed, the Board will amend the DROP Policy to provide for the following payout options for Pensioners:

Liquid option – DROP funds will be available at the next distribution date (i.e. periodic distribution timing as soon as administratively feasible pursuant to the DROP Policy) and will bear interest at the rate of 1% over the 91-day Treasury rate, with a maximum rate of 1.5%.

Annuity options – DROP funds will be paid out as an annuity over various time periods in equal monthly installments. Upon the death of a Member, the annuity payments will transfer to the Member’s designated beneficiary. There will be initially 5, 10 and 20-year annuity options, although additional periods may be added. The interest rates for the 5,10 and 20-year annuity options will be as follows:

- 5-year - 1% over the yield of the 5-year Treasury bond with a maximum rate of 2%
- 10-year - 1% over the yield of the 10-year Treasury bond with a maximum rate of 3%
- 20-year - 2% over the yield of the 10-year Treasury bond with a maximum rate of 4%

“CD” type options – DROP funds will bear interest over various time periods, but will remain in the Member’s account. At the end of the elected time period, the funds will be automatically placed in the liquid option until an election is made for a different option or for a distribution. There will initially be 3 and 5-year CD type options, although additional options may be added. The interest rates for the 3 and 5-year CD type options will be as follows:

- 3-year 0.5% over the yield of the 5-year Treasury bond with a maximum rate of 2%
- 5-year 1% over the yield of the 10-year Treasury bond with a maximum rate of 3%

IF NO OPTION IS CHOSEN, THE DEFAULT OPTION FOR A MEMBER’S ENTIRE ACCOUNT WILL BE THE LIQUID OPTION.

DROP balances may be split among the various options noted above. There will be minimum dollar amount requirements for the annuity and CD type options upon election. The Board will periodically review these options with the advice of the Qualified Actuary and investment consultant and may change the rates, maximum limits, as well as add or remove options, as appropriate in order to maintain a relationship to market rates.

Effective date

This amendment would be effective January 1, 2017 for Members in Active DROP.

This amendment would be effective when administratively feasible, which is estimated to be March 1, 2017, for Pensioners

D. Deferrals While in DROP

Current provisions

There are no current restrictions on how long a Member may defer into Active DROP.

For Pensioners, the current restriction is age 70½.

Proposed amendment

For Members in Active DROP, the restriction on deferral will be 10 years from the date of joining DROP. After such 10 year limitation, any Member in Active Service will receive no credit for their monthly annuity and will have no right to such amounts. The monthly annuity will resume upon retirement. **Section 6.14(c)**

For Pensioners who retire on or after January 1, 2017, there will be a limit of one year of deferrals into DROP after their retirement date. Pensioners who are retired as of January 1, 2017 will have until December 31, 2017 to continue to defer into DROP. Additionally, Pensioners who left Active Service before age 50 who have not either taken a DROP distribution (not including rollovers) or changed the amount they have deferred into DROP since retirement will be entitled to maintain their current deferral rate until the earlier of reaching age 59½, taking a DROP distribution, or changing their DROP deferral amount. With respect to the Pensioner changes, such changes will be reflected in the DROP Policy.

Effective date

This amendment would be effective July 1, 2017 for Members in Active DROP, which allows for a six month transition period.

This amendment would be effective January 1, 2017 for Pensioners.

E. Annual Adjustment

Current provision

All Members who began Active Service prior to January 1, 2007 receive, after their grant of a retirement benefit or entry into DROP, an annual increase of their base pension of 4% per year, non-compounded, each October 1. All Members who began Active Service on or after January 1, 2007 are eligible for an ad hoc annual adjustment up to 4% per year, non-compounded at the discretion of the Board after they have retired or entered DROP.

Proposed amendment

All Members who began Active Service prior to January 1, 2007 will be eligible to receive, after their grant of a retirement benefit and after reaching the earlier of age 62 or the third anniversary of their retirement, an annual adjustment based upon the Consumer Price Index of up to 2% (“Annual CPI Adjustment”). Each year, the Annual CPI Adjustment is applied to the sum of 1) a base benefit amount equaling the annual maximum Social Security benefit as of the date the Member is eligible to be granted the annual adjustment after retirement from Active Service and 2) any prior annual adjustments. The base benefit amount for new Pensioners which is eligible for the annual adjustment may increase up to 2.5% per year. The Annual CPI Adjustment will never be less than zero. **Added definitions “Annual Adjustment Eligibility Date”, “Annual CPI Adjustment”, and “Initial Annual Adjustment Base” and Section 6.12(a)**

All Members who began Active Service on or after January 1, 2007 are eligible for an ad hoc annual adjustment each year at the discretion of the Board up to the amount of the annual adjustment provided for Members who began Active Service prior to January 1, 2007. **Section 6.12(c)**

Effective date

This amendment would be effective October 1, 2017.

F. Benefit Supplement

Current provision

Members with 20 years of service and certain of their Qualified Survivors are eligible to receive, when the Member or the Qualified Survivor reaches the age of 55, a monthly supplement equal to the greater of \$50 or 3% of their monthly benefit and for years beginning after January 1, 1991, a monthly supplement equal to the greater of \$75 or 3% of their monthly benefit.

Proposed amendment

For years beginning after December 31, 2016, such monthly supplement will be the greater of \$75 or 1% of the total monthly Base Pension, but for Members or Qualified Survivors receiving the monthly supplement prior to January 1, 2017, their monthly supplement will not be reduced. **Section 6.13**

Effective date

This amendment would be effective January 1, 2017.

G. DROP Revocation (“Undo”)

Current provisions

A Member’s election to enter DROP is irrevocable.

Proposed amendment

This change will allow any Member currently in Active DROP a one-time opportunity to revoke, or “undo”, his or her election to enter DROP. The election to rescind a prior DROP election may be made at any time after the effective date of the election, but not after the earlier of the date the Member leaves Active Service or June 30, 2017. **Section 6.14(j)**

Any Member in Active DROP will be permitted to revoke the prior DROP election. The effect of the revocation is that the Member’s DROP account balance would be eliminated and the Member would no longer have a DROP account – the Member forfeits all amounts deferred into DROP and the interest credited to the account. The Member would again earn pension service for the continued employment under the Plan.

When a Member who has revoked the prior DROP participation decides at a later date to re-enroll in DROP or retire, DPFPP will recalculate the Member’s pension benefit based on the Member’s total pension service, average Computation Pay and age at that time.

Also, because a Member does not accrue pension service credit while in Active DROP, a Member who revokes his/her DROP election would have no pension service credit for the period of revoked DROP participation. However, the Member would now have the opportunity to purchase pension service credit for the revoked DROP period. The Member would have to contribute the difference, if any, between the contribution rate for Members not in DROP and the contribution rate for Members in DROP during the revoked DROP period, based upon the Member’s Computation Pay during the revoked DROP period.

The Member electing to purchase pension service credit for the revoked DROP period must purchase the entire period revoked. No partial revocations will be accepted.

The purchase would have to be made by the earlier of the time the Member re-enters DROP or leaves Active Service. If the Member does not complete the purchase of pension service credit for the period of the revoked DROP period, DPFPP will return the contributions received during this period at the time the Member re-enters DROP or leaves Active Service.

No Member would be entitled to revoke his or her DROP participation if any money had been split from the DROP account due to a Qualified Domestic Relations Order, a transfer to the City’s 401(k) plan, or any other reason.

Pensioners may not elect the undo.

Effective date

This amendment would be effective January 1, 2017.

H. On Duty Death Benefit for Members Hired on or after March 1, 2011

Current provisions

The on duty death benefit for the Qualified Survivor of a Member hired on or after March 1, 2011 is currently the greater of 50% of the monthly benefit the Member had accrued or 25% of the average of the 60 consecutive months of highest Computation Pay.

Proposed amendment

The on duty death benefit for the Qualified Survivor of a Member hired on or after March 1, 2011 would become the greater of 50% of the monthly benefit the Member had accrued or 30% of the average of the 60 consecutive months of highest Computation Pay. **Section 6.21(d)**

Effective date

This amendment would be effective January 1, 2017.

I. Service Trustee Term Limit

Current provisions

Currently, there is no limit to the number of terms a service Trustee (either a Member or Pensioner) may serve.

Proposed amendment

Service Trustees, whether Member or Pensioner, will be limited to two full four year terms. This is regardless of whether the terms were served while the Trustee was in Active Service or retired. This will be in addition to any partial terms served. **Section 3.01(t)**

Effective date

This amendment would be effective immediately.

J. Vacant Service Trustee Position

Current provision

If a service Trustee position becomes vacant in the middle of such Trustee's term with one year or less remaining in the term, the Board appoints the replacement for such Trustee. If more than one year is remaining in the term, then an election is held to determine the replacement Trustee.

The proposed change

If a service Trustee position becomes vacant in the middle of such Trustee's term with six months or less remaining in the term, the position remains vacant until the next regularly scheduled Trustee election. If more than six months is remaining on the term, an election is held to determine the replacement Trustee. **Section 3.01(d)**

Effective date

This amendment would be effective immediately.

K. Conditional Changes

The following changes would be made conditioned upon the City either (i) making increased contributions, (ii) being legally bound to make increased contributions, or (iii) having both performed and being legally bound to a combination of (i) and (ii), where such increased contributions would avoid insolvency and steadily improve the funded position of the Pension System based on reasonable actuarial assumptions in the opinion of DFPF's Qualified Actuary (the "Qualified Actuary's Opinion").

The effective date for the conditional changes would be after the Board has determined that the foregoing condition has in fact been satisfied.

a. Increased Member Contributions

Member contributions would increase to 10.5% by three months after receipt of the Qualified Actuary's Opinion, but no sooner than October 1, 2017, and 12% one year after the increase to 10.5%. **Section 8.01(i)(1)**

b. Changes to Benefits for Members Hired on or after March 1, 2011

Increase the multiplier for such Members from 2% (years 1 to 20) and 2.5% (years 21 to 25) to 3% for all years, to the maximum of 30 years. This is retroactive to the date of hire. **Section 8.01(i)(2)**

c. City Council Trustees

Currently the four Trustees selected by the City Council for the DFPF Board are required to be members of the City Council. This would be changed to allow the City Council to select any four people of their choosing, not limited to City Council members. **Section 8.01(i)(3)**

d. City Approval Right

A provision would be added to provide that the City Council would have 45 days to vote to reject any proposed Plan changes that would, in total, in the

opinion of DFPF's Qualified Actuary, increase the funding liability of DFPF. **Section 8.01(i)(4)**

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