



D A L L A S
POLICE & FIRE
PENSION SYSTEM



HB 3158 PENSION CHANGES

CURRENT RETIREES & BENEFICIARIES

Effective 9-1-2017

Agenda

- Overview 3-5
- Governance 6-10
- Pension Benefits 11-12
- DROP Balances 13-18
- Equity Adjustments 19
- City 20
- Next Steps 21

HB 3158 - Overview

- Passed by the legislature and signed by the Governor on May 31, 2017
- The legislation significantly amends Article 6243a-1 of the Texas Statutes
- The Plan changes are projected to result in a solvent plan
- Effective date: September 1, 2017

- A link to the full bill can be found at www.dfp.org
- This presentation highlights those items that impact current retirees and beneficiaries.

Why was HB 3158 necessary?

- July 2015, DPFP's actuary reported that the fund was projected to run out of money
- After the initial insolvency projection, the remaining life of the fund became much shorter as investment asset values decreased further and DROP balances were withdrawn from the fund
- Plan amendments presented to the members for a vote failed

Why was HB 3158 necessary?

- Without legislation, all payments to all members would have stopped in less than 10 years
- The dramatic changes are necessary to continue to pay retirement and DROP payments
- Even with the changes, the fund will be at a very low funding level for years. Any disruption can have a big impact. We cannot guaranty that additional changes won't be necessary in the future but HB 3158 provides a path to solvency.

Governance

- Until 10 trustees are seated, the Board is limited to carry out only “ordinary course of business activity”
 - *Setting the rules for the DROP annuities is not considered “ordinary course”*
- 11 trustees are required before the election of the Board chair, vice chair, deputy vice chair

Governance

- Ongoing:
 - *If the Board considers any of the following in the future, at least 8 trustees must approve:*
 - Decrease member benefits
 - Increase member contributions
 - Decrease city contributions
 - Start a new plan
 - Adopt equity adjustments (“clawbacks”)

Governance

- Board of Trustees effective September 1, 2017
 - *6 trustees appointed by the Mayor, in consultation with the City Council*
 - *3 trustees vetted and nominated by the Nominations Committee*
 - Elected as a slate- active and retirees vote on the slate
 - *1 current or retired firefighter – active members vote*
 - *1 current or retired police officer – active members vote*

Governance

■ Criteria for Trustees

- *All trustees must have demonstrated financial, accounting, business, investment, budgeting, real estate, or actuarial expertise*
- *May not be a current elected official of the city or a current city employee*
- *Former city employees (excludes police and firefighters) can serve as a trustee after 2 years of separation from the city*
- *Term limits of 6 consecutive years apply to non-police and firefighter trustees*

Nominations Committee

- 12-member committee
 - *Executive Director - presiding officer, non-voting member*
 - *A representative from each of the 11 associations named in the bill (7 active, 4 retiree)*
- Role
 - *Vet and nominate a slate of candidates to be elected (3 trustees)*
 - *Election rules for the 5 trustees not appointed by the Mayor will be set by:*
 - *Nominations Committee for the initial election, and*
 - *Board in consultation with the Nominations Committee for subsequent elections*
 - *Determine the staggered terms (5 trustees)*
 - *Remove nominated trustees for cause (5 trustees)*

Monthly Pension Benefit

- Pension benefit payments will not be reduced
 - *Base benefit remains the same after 9-1-17 as it was prior 9-1-17*
 - *All prior Cost of Living Adjustments (COLA) granted remain*
 - *Previously granted benefit supplements will remain at the current level*

- Survivor benefits did not change

- Minimum benefit amounts did not change

Future Monthly Pension Benefit

- Pension benefit checks will not increase for most members for many years
 - *Exception: For members under the Old Plan, pension benefit formula did not change and will continue to be based on the City's pay schedules*
- The automatic COLA has been eliminated
 - *An ad hoc COLA is included in the Plan but it is unlikely that the criteria for the Board to grant an ad hoc COLA will be achieved for many years*
- No new benefit supplements will be granted. If a member doesn't qualify for the benefit supplement by September 1st, they will not receive the supplement.

DROP Balance Annuitization

- DROP balances at 9-1-2017 will be annuitized over the member's remaining life expectancy, with interest
- The new Board will adopt the life expectancy tables and interest rates. The annuity payment will not begin until the Board has adopted the rules and it is administratively feasible to process the payments.
- Lump sum payments of DROP balances are not allowed

DROP Balance Annuitization

- The member can choose to receive their annuity payments monthly or annually
 - *This is a one time, irrevocable election*
- All annuity payments, whether monthly or annual, will have the same tax withholding as the monthly benefit payment
- No rollovers are allowed per IRS regulations
 - *Annuity payments are not eligible for rollover under the Internal Revenue Code and Treasury Regulations. See Code Sections 401(a)(31)(D) and 402(c)(4) and Treasury Regulation 1.402(c)-2.*
- Required Minimum Distributions (RMD) rules no longer apply

DROP Balance Annuitization and Payments

- The new Board will determine the treatment of the annuity for survivors and beneficiaries upon the annuitant's death
- DROP payments due to Hardship needs will be allowed
 - *The new Board will adopt rules for Hardships*
- Divorce- the DROP account will be split according to the QDRO and the spouse will have their own annuity which will be paid based on rules to be adopted by the new Board

DROP Balance Payments and Deferrals

- The DROP annuitization payment will be added to the monthly benefit direct deposit
- Direct deposits for the annuity payment will be deposited into the primary bank account unless a Direct Deposit Authorization form is completed for a secondary account
- Required Annual Distributions (RAD: from the 2014 election) will not apply
- No deferral of payments into DROP after leaving active service

DROP Annuitization Example

Life Expectancy*

Sample Table/Selected Years		
Current Age	Life Expectancy Factor - Years	Mortality Estimate - Age
0	82	82
50	34	84
60	25	85
70	17	87
80	10	90
90	5	95

Annuity Calculation

- At Annuity Start Date:
 - *DROP Balance*: \$400,000
 - Age: 60
- Annuity Term: 25 years*
- Payment Frequency: Monthly
- Interest rate: 2.70%*
- Annuity Payment: \$1,802.18
- Total of 300 monthly payments: \$540,654
- Annuity ends: 2042

*Life expectancy and interest rates seen here are for example purposes only. Actual life expectancy table and interest rates are to be determined by the new Board.

DROP Balance Payments Prior to the Start of the Annuity Payments

- The DROP Policy Addendum will remain in place until the implementation of the annuity payments
 - *\$3,000 per month – requests for the \$3,000 are still being accepted*
 - *\$3,000 per month, received semi-annually – the 2nd semi-annual payment which was scheduled to be paid in December 2017 will be paid in the month prior to the start of the annuity payments. The dollar amount will reflect a pro-rated number of months at \$3,000 per months.*
 - For Example, if the annuity payment starts at the end of November, the final semi-annual payment will be for \$12,000 (4 months X \$3,000)

- The hardship process remains in place

Equitable Adjustments (“Clawbacks”)

- Implementation of equitable adjustments requires the approval of at least 8 trustees
- Equitable adjustments relate to interest and COLA accrued into DROP balances
- If the Board implements the equity adjustments and a member challenges the action within 90-days, the Texas Supreme Court will have exclusive and original jurisdiction to hear the case
- If the challenge is filed within the 90-days, the Board may not administer the equitable adjustments until the case is complete

City Contributions

- Effective 9-1-17, the City is required to pay the greater of 34.5% of Computation Pay or a “floor” amount, plus an extra \$13 million annually for the first 7 years.
- In 2024, based on an actuarial analysis, if the funding level does not meet the Texas Pension Review Board funding guidelines. The Board must adopt rules to comply with funding and amortization period requirements under Sec 802 of the Texas Government Code.

Next Steps

- Review your W-4 on file and make changes, if necessary
- Sign up for eCorrespondence
- Follow DPFP on social media – Facebook and Twitter (@DPFP_Info)
- Monitor communication from DPFP and the website (www.dpfp.org) for more information about the DROP annuitization and other rules adopted by the new Board
- Watch for information on the trustee election in the coming months

Questions?

Contact our office with questions or to set up an appointment with one of our Retirement Counselors by calling 214-638-3863, or send questions to info@dppf.org.