

## AGENDA



**Date:** December 5, 2019

A meeting of the Supplemental Police and Fire Pension Fund Board of Trustees will be held at **8:30 a.m. on Thursday, December 12, 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. CONSENT AGENDA**

#### **Approval of Minutes**

Regular meeting of November 19, 2019

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

#### **1. 2020 Proposed Budget**

#### **2. Funding Policy – Supplemental Plan**

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  
Tuesday, November 19, 2019  
8:30 a.m.  
4100 Harry Hines Blvd., Suite 100  
Second Floor Board Room  
Dallas, TX**

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, Robert B. French, Ray Nixon, Susan M. Byrne, Tina Hernandez Patterson (by phone), Robert C. Walters, Armando Garza, Kneeland Youngblood (by phone)

Present at 9:58 Tina Hernandez Patterson

Absent: Gilbert A. Garcia

**Staff**

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

**Others**

Jill Svoboda, Matt Liu, Scott Freeman, Robert Jones, Jerry Rhodes, Sandy Alexander, Janis Elliston, David Elliston, Sheri Kowalski

\* \* \* \* \*

The meeting was called to order at 8:30 a.m.

The meeting was recessed at 8:30 a.m. and reconvened at 10:22 a.m.

\* \* \* \* \*

**A. CONSENT AGENDA**

**Approval of Minutes**

Regular meeting of October 10, 2019

After discussion, Ms. Byrne made a motion to approve the minutes of October 10, 2019. Mr. Nixon seconded the motion, which was unanimously approved by the Board.

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**Supplemental Board Meeting  
Tuesday, November 19, 2019**

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

**1. Financial Audit**

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

- a. Representatives from BDO, DFPF's independent audit firm, were present to discuss the results of their audit for the year ended December 31, 2018.

After discussion, Ms. Byrne made a motion to approve issuance of the 2018 audit report, subject to final review and approval by BDO and the Executive Director. Mr. Nixon seconded the motion, which was unanimously approved by the Board.

- b. The Audit Committee met with representatives of BDO on October 30, 2019. The Committee Chair commented 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 discussed the pros and cons of conducting a competitive selection process for auditing services.

After discussion, Mr. Quinn made a motion to extend for one year the requirement to conduct a selection process for auditing services to allow BDO to conduct the 2019 audit. Ms. Hernandez Patterson seconded the motion, which was approved by the following vote:

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

\* \* \* \* \*

**2. 2018 Comprehensive Annual Financial Report**

Staff presented 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 DFPF website and provided to the Pension Review Board and the City of Dallas.

**Supplemental Board Meeting  
Tuesday, November 19, 2019**

**2. 2018 Comprehensive Annual Financial Report (continued)**

After discussion, Ms. Byrne made a motion to authorize the Executive Director to issue the 2018 Comprehensive Annual Financial Report upon finalization. Mr. Nixon seconded the motion, which was unanimously approved by the Board.

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**3. Quarterly Financial Reports**

The Chief Financial Officer presented the third quarter 2019 financial statements.

No motion was made.

\* \* \* \* \*

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

The Chief Financial Officer reviewed changes to the proposed budget from the first reading.

After discussion, the Board directed staff to present the amended budget to the Board for consideration at the December 12, 2019 Board meeting. The Board also authorized 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.

\* \* \* \* \*

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Merrick and a second by Ms. Hernandez Patterson, the meeting was adjourned at 10:23 a.m.

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

**ATTEST:**

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



## **DISCUSSION SHEET**

### **Supplemental**

### **ITEM #B1**

**Topic:** 2020 Proposed Budget

**Discussion:** Attached is the budget proposal for Calendar Year 2020. The initial reading of the budget was October 10, 2019 and the second reading of the budget was November 19, 2019.

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.

Proposed budget was sent to the City for comments and no comments were received. Additionally, the proposed budget was posted to [www.dfpf.org](http://www.dfpf.org) for member review prior to this meeting.

**Staff Recommendation:** Approve the proposed 2020 budget.

*Supplemental Board Meeting – Thursday, December 12, 2019*

**DALLAS POLICE AND FIRE PENSION SYSTEM  
PROPOSED BUDGET SUMMARY  
FOR THE YEAR 2020  
DECEMBER 12, 2019 BOARD MEETING**

Expense Type	2019 Budget	2019 Projected Actual	2020 Proposed Budget	Variances		Variances	
				2020 Prop. Bud. vs	2019 Budget	2020 Prop. Bud. vs	2019 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 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
<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 is \$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



## **DISCUSSION SHEET**

### **Supplemental**

### **ITEM #B2**

**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 DPF that is equal to or greater than 100 percent.

The draft policy was presented at the November Board meeting. The draft policy presented in November has been reformatted to conform with other DPF policies, but the content has not changed.

By law, the Funding Policy must be adopted prior to January 1, 2020.

**Staff**

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

*Supplemental Board Meeting – Thursday, December 12, 2019*



**FUNDING POLICY  
SUPPLEMENTAL PENSION PLAN**

DRAFT

**Adopted December 12, 2019**

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

**Adopted December 12, 2019**

**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 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.

**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.



**D. Actuarial Methods (continued)**

**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.

**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.

**G. Consideration of Plan Modifications**

**1. 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.

**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.



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## **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 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.

## **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.

## **J. Effective Date**

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

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William F. Quinn  
Chairman

**ATTEST:**

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Kelly Gottschalk  
Secretary

