Ad Hoc Committee on Pensions
Follow-up to Questions Submitted by Committee Members

1. Does a reduced pension have a consequence on the status of the fund?

Benefits already earned can not be reduced. Only future benefits can be reduced. Reducing employee benefits will reduce the long-term unfunded liability of the fund and improve the funding status. City management does not recommend any reduction to DPFP benefits.

2. Can the City recommend using an objective third party to calculate the Actuarial Defined Contribution (ADC) as referenced on page 17 of the Dallas Police and Fire Pension System: Funding Soundness Restoration Plan Update and Consideration of Recommendations presented May 23, 2024, vs. defaulting to the Dallas Police & Fire Pension Fund's calculation (DPFPF)?

Staff has recommended that we do not automatically accept a DPFP calculated ADC each year. Rather, we have recommended that actuaries for both the City and DPFP calculate the ADC separately. If there is no more than a 2% variance in the two required contribution amounts, then the City would accept the DPFP calculation. If a variance of more than 2% exists, then a negotiation period should ensue. If an agreement is not reached, then the two ADCs should be averaged for the amount to be used for that given year.

3. What are the numbers of active uniform police and fire eligible for retirement?

As of March 2024, there were 5,270 active police and fire uniform employees. Of these, 1,333 or 25% were eligible to retire. This data changes daily as employees are hired and leave the employment with the City.

4. If the city were to issue Pension Obligation Bonds today (assumption: that voters have approved issuance) what would it look like compared to the DPFPF returns (understanding that bond rates fluctuate; can be presented as a range)? In other words, would it make financial sense?

According to the City's financial advisors and other industry experts, the current market conditions are not optimal for issuing Pension Obligation Bonds at this time. If the City decides to issue POB, we will work with our financial advisors to define a recommendation for an interest rate to use as the trigger for when we should actually issue the debt. DPFP's current actuarial assumption related to rate of return is 6.5%.

5. Are all actuarial assumptions based on a 6.5% rate of return? If the plan doesn't achieve this rate of return, especially in earlier years, please discuss the impact on future city contributions?

The actuarial assumption for rate of return for DPFP is 6.5% and for ERF is 7.25%. One benefit of using an ADC model is that actual asset and liability experience is recognized and factored into the next ADC calculation. Cheiron has proposed that actual experience that deviates from the actuarial assumptions will be amortized to 2055, or over 20 years beginning in 2036.

Deloitte has calculated that DPFP's January 1, 2023, unfunded actuarial accrued liability would decrease by approximately $450 million if they used 7.25% discount rate instead of 6.5%.

6. Is it true that providing more dollars earlier in the 30 years would reduce the total cost of the pension to City of Dallas taxpayers?

Yes, increased funding in earlier years does reduce the total over-all cost to the City over the course of the 30-years.

7. If the city reorganized its budget (and some departments) for FY25 to pay the traditional plan, would there be a long-term cost savings to Dallas taxpayers?

More funding earlier does reduce the long-term cost. The traditional ADC model requires approximately $67 million more in FY25 than contributed in FY24. In FY25, the traditional ADC cost is $251.4 million while the 5-year step-up ADC is $202.1 million. Therefore, an additional $49.3 million in reductions would be needed to fund the traditional ADC model in FY25.

8. Is it true that retirees of DPD and DFR haven't had a cost-of-living adjustment since 2016?

In compliance with 2017 HB3158, no COLA has been provided to DPD or DFR retirees since that state law was enacted. HB3158 requires that DPFP be 70% funded before COLAs may be offered. Prior to HB 3158, DPD and DFR retirees received automatic 4% COLA every year if hired prior to January 1, 2007, or an ad hoc COLA up to 4% if hired after December 31, 2006. This does not include the guaranteed return on DROP accounts.

9. Is the proposed 13th check for retirees' equivalent to the other 12 checks they receive in a year?

The City staff recommendation for supplemental pay from 2026 to 2045 is for a 1% stipend each year subject to DPFP having a rate of return greater than 0%, not the value of one of the retirees' monthly checks. Providing a stipend equal to the monthly pension benefit would be an 8.33% stipend.

10. Could the city reduce the benefit of ERF COLA to match the DPFP and shift the city's pension contribution dollars emanating from the general fund from ERF pension contribution to DPFP to support an equal COLA?

Reducing future benefits of the ERF plan would reduce the City's cost. Any savings to the General Fund could be redirected to another General Fund expense such as DPFP pension cost. ERF savings to Enterprise Funds could not be redirected to DPFP pension cost.

11. In the traditional ADC funding plan and 5-year step up funding plan, what is the largest expected city contribution and in what year?

The highest annual contribution for the City over the 30-year schedules is: Traditional ADC is $502.0 million in 2054 and 5-year step-up ADC is $507.4 million in 2054. In both scenarios, the City's cost drops to $71.0 million in 2055. However, it is important to remember this assumes that all actuarial assumptions are met. Actual experience that deviates from the actuarial assumptions will either increase or decrease these amounts.

12. If the city adopted the 5-year step up funding plan, each year an additional $18-$20m in cuts to the budget would be needed. Please outline proposed cuts.

Proposed cuts for FY25, FY26, FY27, FY28, and FY29 are not available currently. A balanced budget for FY25 and FY26 will be presented to the City Council on August 13.

13. The independent actuary, Cheiron, recommended reducing the employee contribution for the DPFP. This seems contrary to the funding needs of the plan, but yet they included it, noting that the contribution is high compared to other plans and could impact recruiting and retention. Has there been consideration of requiring a look-back period of 5 years to address this issue as a possible plan change?

No additional consideration has been given to this recommendation made by Cheiron. It is not a priority for the DPFP Board or staff.

14. It was stated that board members appointed to DPFP have a fiduciary responsibility to the plan, not the city. Do board members of the DFW Airport board, ERF board, and DART board have a fiduciary responsibility to the organizations they serve as board members or to the city?

Board members of DPFP, ERF, DFW, and DART have a fiduciary responsibility to the boards they serve.

15. Staff is suggesting Dallas retain authority to approve items like discount rate, settling lawsuits, etc…. Does the city have this authority with DFW Airport board, ERF board, or DART board?

The governance for DPFP, ERF, DFW, and DART are all different. Additional oversight is recommended for DPFP since the City makes contributions to this system out of the City's General Fund. The City does not make contributions to DFW or DART out of the City's General Fund. Regarding ERF, certain changes are already required to be approved by the Board, the City Council, and voters within the City of Dallas.

16. Specifically, what assumptions or methods of calculation are driving the city's calculation of the ADC to be so different than the DPFP's calculation that a governance rule is proposed?

There are not currently significant differences in the ADC calculations. However, staff is recommending additional oversight when it comes to ADC calculation since that calculation becomes an automatic cost to the City of Dallas. The City has the responsibility to verify and agree to payments that we are making. It is not recommended that we simply take their calculation and pay whatever amount that they request. City staff has proposed a process for oversight of the ADC calculation.

17. If the issuance of pension obligation bonds requires voter approval, could that be sent to the voters in November 2024 or May 2025, even if the current environment is not favorable for the issuance, and hold that authority for a year or two as the market changes and adjusts?

Yes, and that is what staff would recommend. Based on conversations with bond counsel and financial advisors this is an appropriate strategy and has been used in other cities/states. City staff recommends seeking voter approval and setting in place certain triggers for when we would actually issue the debt.

18. Is the staff recommendation for a supplemental check of 1% of annual pay for retirees for 2025 only or intended to occur every year until the plan is 70% funded?

City staff recommendation for supplemental pay is a 1% increase to the retiree base pension benefit in 2025 for individuals retired by 12/31/24, and 1% stipend (not added to base) for each year 2026-2045 as long as DPFP has a rate of return greater than 0%. DPFP is currently projected to be 70% funded in 2046.

19. What is the cost of a 1% COLA over 30 years?

Below is the 30-year schedule for adding a 1% Cost of Living Adjustment (COLA) to the base pension benefit for current retirees. For example, this would be the cost to add 1% COLA in 2025. It effects their pension benefits every year going forward. The cost is amortized over the 30-year period.

	1% COLA in 2025 if retired by 12/31/24
2024	
2025	$ 301,000
2026	$ 579,000
2027	$ 872,000
2028	$ 1,182,000
2029	$ 1,507,000
2030	$ 1,542,000
2031	$ 1,579,000
2032	$ 1,616,000
2033	$ 1,654,000
2034	$ 1,694,000
2035	$ 1,737,000
2036	$ 1,779,000
2037	$ 1,822,000
2038	$ 1,867,000
2039	$ 1,913,000
2040	$ 1,960,000
2041	$ 2,009,000
2042	$ 2,059,000
2043	$ 2,109,000
2044	$ 2,162,000
2045	$ 2,215,000
2046	$ 2,270,000
2047	$ 2,327,000
2048	$ 2,385,000
2049	$ 2,445,000
2050	$ 2,506,000
2051	$ 2,569,000
2052	$ 2,633,000
2053	$ 2,698,000
2054	$ 2,766,000

20. What is the total annual dollar amount needed to fund a 1% supplemental payment to the pension retirees?

Cheiron was asked to model providing a 1% stipend every year until DPFP is 70% funded. The below schedule assumes 1% stipend each year from 2025 through 2046 which is when DPFP is forecast to reach 70% funding. City staff's recommendation was to provide this stipend annually 2025-2046 contingent on DPFP having returns greater than 0%. The cost of each annual 1% stipend is amortized over the 30-year period.

	1% per year (not added to base), if DPFP has positive return
2024	
2025	$ 588,000
2026	$ 957,000
2027	$ 1,344,000
2028	$ 1,752,000
2029	$ 2,178,000
2030	$ 2,211,000
2031	$ 2,250,000
2032	$ 2,286,000
2033	$ 2,325,000
2034	$ 2,364,000
2035	$ 2,409,000
2036	$ 2,451,000
2037	$ 2,499,000
2038	$ 2,547,000
2039	$ 2,598,000
2040	$ 2,649,000
2041	$ 2,703,000
2042	$ 2,760,000
2043	$ 2,817,000
2044	$ 2,877,000
2045	$ 2,943,000
2046	$ 3,012,000
2047	$ 3,087,000
2048	$ 3,165,000
2049	$ 3,243,000
2050	$ 3,327,000
2051	$ 3,408,000
2052	$ 3,495,000
2053	$ 3,582,000
2054	$ 3,672,000

21. Please provide the cost for the Immediate Partial COLA scenario provided by Cheiron.

Cheiron presented multiple options for implementing COLAs, one was "Immediate Partial COLA". In this scenario, retirees would be eligible for a COLA before DPFP is 70% funded. Continue to use 5-year average return minus 5% with a maximum of 4%. But in this option, a partial COLA would be provided before DPFP is 70% funded. The partial COLA would use the funding percentage and multiple it by the calculated COLA. For example, if the calculated COLA is 1.5% and the funding status is 40%, then the COLA would be 40% of 1.5% or 0.48% COLA for that particular year.

Fiscal Year	Cost of Immediate Partial COLA Scenario
Year	
2024	
2025	$ 4,152,000
2026	$ 6,257,000
2027	$ 8,450,000
2028	$ 10,757,000
2029	$ 13,152,000
2030	$ 13,304,000
2031	$ 13,465,000
2032	$ 13,593,000
2033	$ 13,750,000
2034	$ 13,892,000
2035	$ 14,048,000
2036	$ 14,238,000
2037	$ 14,445,000
2038	$ 14,627,000
2039	$ 14,842,000
2040	$ 15,034,000
2041	$ 15,223,000
2042	$ 15,450,000
2043	$ 15,695,000
2044	$ 15,983,000
2045	$ 16,306,000
2046	$ 16,649,000
2047	$ 17,126,000
2048	$ 17,617,000
2049	$ 18,120,000
2050	$ 14,845,000
2051	$ 11,397,000
2052	$ 7,766,000
2053	$ 3,945,000
2054	$ (72,000)
2055	$ -