



POLICE & FIRE PENSION UPDATE
EXPLORING ALTERNATIVES

CITY COUNCIL BRIEFING JANUARY 18, 2017



Exploring Alternatives

First Objective: Fix the Dallas Police and Fire Pension System

However, exploring alternatives is:

- Prudent
- Responsible
- Necessary

In this briefing, we will explain one alternative – a new sustainable pension plan

At this point, we are not making a recommendation on any alternative

Public Safety Employee Retirement Fund – An Option

Creating a New Retirement Fund Would Enable Dallas to:

- Provide a secure, stable retirement for our public safety workforce
- Establish a market competitive, defined benefit pension to enhance recruitment and retention
- Encourage positive financial behavior
- Ensure effective checks and balances to keep the Fund healthy

PSERF would:

- Be a sustainable new pension plan
- Ensure safe neighborhoods and a secure retirement for police and fire sworn employees

Service Retirement Benefit

A defined pension benefit that lasts a lifetime

Vesting

- 5 years of service

Normal retirement age

- 55

Average salary

- Highest 5-year average

Multiplier

- Based on age, ranging from 2.5% at age 55 to 3% at age 60

Replacement rate

- 90% of pre-retirement income

Feature: Cost of Living Adjustment (COLA)

COLA provides an increase to retirees' monthly checks from the pension system to reflect increases in the cost of living

Will be available to all retirees

COLA calculated at CPI up to 2%

Feature: Deferred Retirement Option Plan (DROP)

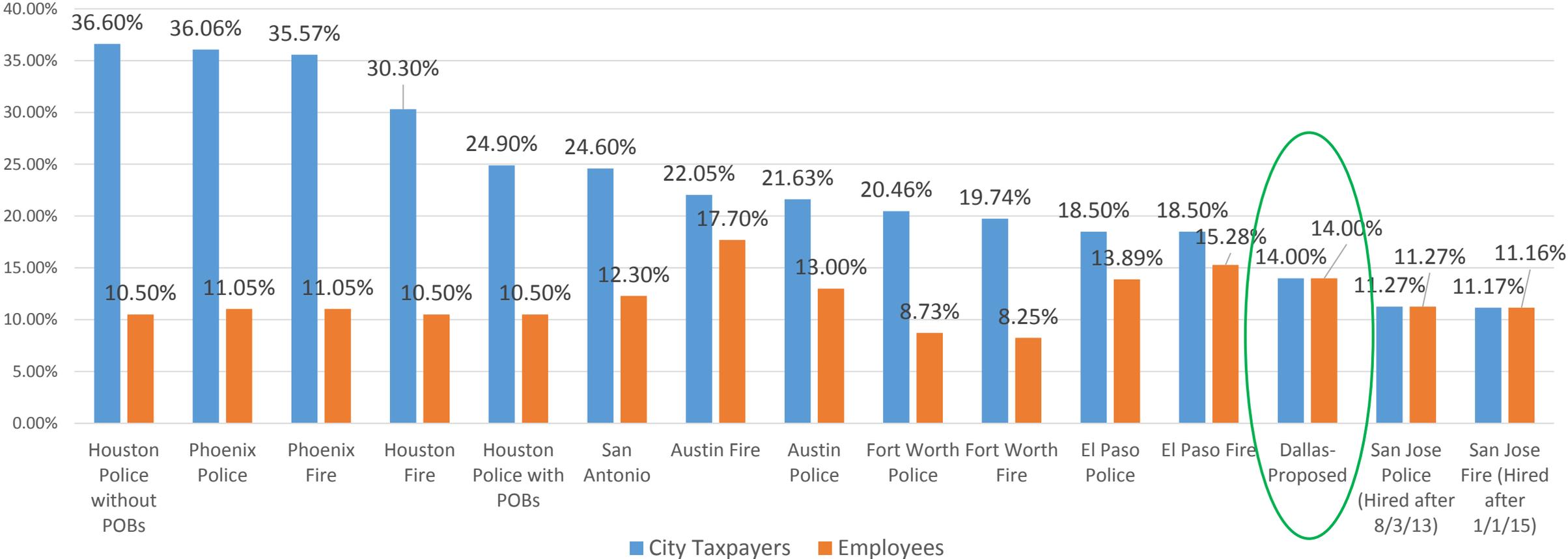
Members may elect to participate in DROP, an optional feature, once reaching the normal retirement age and while still employed by the City:

- Employees will be able to collect their service retirement benefit as a deposit to their DROP account, while also receiving their *full paycheck* from the City
- Employees will continue to make contributions to the pension
- The DROP account will not accrue interest, and a COLA will not be applied to the benefit
 - Fort Worth, San Antonio and El Paso offer **no interest** on DROP
 - Austin and Houston do not offer interest on DROP for Police
 - No peer group cities offer guaranteed COLA in DROP

Deposits to DROP will end at retirement, at which time retirees must choose a recurring payment plan offered by PSERF at market rates

Contribution Rates

Employees and taxpayers each will contribute approximately 14% of computation pay



PSERF Participants

All new Police and Fire sworn employees

Current employees in tiers 2 & 3 of the Dallas Police and Fire Pension could transfer to the Public Service Employees Retirement Fund

- City deposits amount sufficient to cover “past” contributions for any transferee (i.e. purchases service credits)
- Employee revokes all rights to any benefit under DPFP and receives a pension benefit based on the PSERF formula for all years of service
- All prior employee and employer contributions to DPFP remain in that Fund

PSERF: A Financially Sound New Plan

Important Assumption: Discount Rate/Assumed Rate of Return
5.5%

Incentivizing Good Management

- Contributions split 50/50 – approx. 14% each
- Floating contributions, capped at 16% each; if total contributions required to fully fund the plan exceed 32%, plan amendments triggered

Administered by ERF

- Firewalls between the two pension funds, including separate Boards, no comingling of assets, and separate investment and funding policies
- Direct and overhead administrative expenses split between Funds

PSERF: Good Governance Matters

- Transparency, expertise, and prudent management guide us
- All critical stakeholders will oversee the PSERF
- Would implement pension fund model governance and best practices
 - Board would include experts in pension administration, or those with actuarial, investment, or financial market expertise
- Would provide a system of checks and balances between plan members, the City Council, and taxpayers

Lower Cost and More Stable PSERF Enables Taxpayers to Increase Other Benefits for Participants

In addition to the pension plan, but separately, the City would have the funds to provide:

- 401(k) Match for PSERF Participants
 - Dallas already offers both a 401(k) plan and a 457(b) plan to all City employees, but does not offer matching contributions
 - In concert with moving to PSERF, the City could match up to 5% of the employee's computation pay to the 401(k) plan
 - This raises the total value of the taxpayer contribution to the employee's retirement to 19%
 - Incentivizes employees who are not already saving for retirement outside of the pension to make a good financial decision for their families
- Incentives for PSERF Participants Living in Dallas

Save the Pension: Summary of Options Explored

Fix the Dallas Police and Fire Pension

- Competitive retirement pension, with changes to benefits that restore equity between tiers
- Changes to the overly generous features to be fair
- Taxpayers contribute \$4.1 billion over 30 years (\$135M/year)
- Employees contribute \$1.6 billion over 30 years (\$53M/year)

Approve an Ordinance Creating the Public Safety Employee Retirement Fund

- Competitive retirement pension, with financial incentives to make the right decisions
- Ensures good governance and effective management
- Savings enables taxpayers to offer a separate 401(k) match option, and separate residency incentives

Exploring Other Alternatives

- Move to TX plan – TMRS
- Utilize ERF for new hires
- Social Security + defined contribution plan
- Defined contribution plan



Next Steps

As indicated previously, we will bring new information to the Council as we can regarding:

- Conversations with legislative partners
- Ongoing negotiations with the DPFP Board
- Planning for possible mediation
- Working with police and fire associations
- New information on DPFP finances
- Further rating agency actions
- Other alternatives under development

Questions

