CITY OF DALLAS
EMPLOYEES’
RETIREMENT FUND (ERF)

Briefing to the Finance, Audit and Accountability Committee
June 12, 2006
Pension Status Update

- Background of ERF Status
- Overview of ERF Study Group Plan
- Results
Background

- 1995 Actuarial valuation reported a significant actuarial shortfall
- In December 1998, the City Manager appointed a Working Group to study ERF’s funding, the ERF Plan and develop proposed solutions
Background

- Working Group Solution
  - Increase contribution rates
  - Citizen vote for an ERF Plan change that would automatically adjust contribution rates (up or down) to maintain fund financial soundness
  - Maintain the current 37% : 63% employee/employer contribution ratio
- Employees and City Council voted to increase contribution rates
- The election was not called
History – the Perfect Storm

Before full implementation of Working Group solution was completed, series of events occurred:

- Citizen vote postponed
- 3 years of extraordinary market downturn causing further deterioration in funding status
- Additional contributions needed
ERF Study Committee Formed

- City Council formed Employees’ Retirement Fund Study Committee in December 2003
  - Council appointees: Bill Quinn (chair), Tim Hanley, Brenda Jackson, Rusty Rose
  - ERF Board employee-elected members: Carla Brewer (vice chair) and Randy Stalnaker
  - Dallas City Retired Employees Association representative: Morris Bishop
ERFSC - Conclusions

- Current contribution rates will not support future benefit payments – contributions need to be increased.
- The current defined benefit plan and pension benefit levels are appropriate based on market data.
- The current contribution ratio (63% City and 37% employee) should be maintained.
- The investment program is sound.
- The fund will not be able to “invest its way out”.
- Actuarial assumptions are conservative.
ERFSC - Conclusions

- Pension Obligation Bonds should be issued to lessen the cost of reestablishing sound actuarial status
- Future City and employee contribution adjustments should be automatic
  - Subject to trigger points and maximums
- Citizen vote to amend the ERF Plan is necessary
Fund Status

- December 31, 2003 draft actuarial report
  - Under current assumptions
  - Unfunded liability of $646M
  - Actuarially Required Contribution Rate of 29.55%
    - It would be necessary to increase the contribution rate from 17.50% to 29.55% to amortize the unfunded liability over approximately 30 years
Actuarial Assumptions

- Change Actuarial Assumptions
  - Reduction in Inflation Assumption (From 4.00% to 3.00%)
    Lowers UAAL
  - Reduction in Assumed Payroll Growth (From 4.50% to 3.50%)
    Lowers UAAL
  - Reduction in Investment Rate Assumption (From 8.50% to 8.25%)
    Increases UAAL

- Impact to December 31, 2003 UAAL
  - Current: $645,972,000
  - After Assumption Changes: $533,397,000
Pension Obligation Bonds

- 2003 State law change allows POBs to be issued
  - Expect to invest the proceeds and gain returns that are higher than the cost (8.25% vs. 6.00%)
- Implementing a rate adjustment to 25.05% compared to 29.55%
  - Saves employees $5.1 million per year
  - Save the City $8.7 million per year
Impact on Contribution Rates

- Required to Fully Fund UAAL Over 30 Years

<table>
<thead>
<tr>
<th>Dec. 31, 2003 UAAL</th>
<th>$ 645,972,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Contribution</td>
<td>29.55%</td>
</tr>
<tr>
<td>City</td>
<td>18.62%</td>
</tr>
<tr>
<td>Employee</td>
<td>10.93%</td>
</tr>
</tbody>
</table>

Impact of Changed Actuarial Assumptions

<table>
<thead>
<tr>
<th>Dec. 31, 2003 UAAL</th>
<th>$ 533,397,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Contribution</td>
<td>26.67%</td>
</tr>
<tr>
<td>City</td>
<td>16.80%</td>
</tr>
<tr>
<td>Employee</td>
<td>9.87%</td>
</tr>
</tbody>
</table>

Impact of Changed Actuarial Assumptions (With POBs)

<table>
<thead>
<tr>
<th>Dec. 31, 2003 UAAL</th>
<th>$ 533,397,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Contribution</td>
<td>25.05%</td>
</tr>
<tr>
<td>City</td>
<td>15.78%</td>
</tr>
<tr>
<td>Employee</td>
<td>9.27%</td>
</tr>
</tbody>
</table>
Implementation

- **November 2, 2004** – Citizen vote on Plan amendments passes (71%)
- **January 2005** – Issued $533 M of pension obligation bonds (based on 2003 supplemental valuation actuarial report)
- **October 2005** – Contributions for employees and City are adjusted as prescribed in the revised ERF Plan document
  - 24.41% - Employees 9.03%; City 15.38% (including debt service on POBs)
Results

- ERF is on schedule
- Expanded Board of Trustees is in place
  - 100+ years of investment oriented experience
  - New council appointee began in October 2005
Results

- Solid investment returns
  - Top quartile performance based on Wilshire Study
- Key Statistics from the 2005 Actuarial Valuation
  - Market Value of Assets $2.799B (FYE 12/31/05)
  - Funding Ratio +5%
  - No Unfunded Actuarial Accrued Liability
- No change in contribution rates (24.41%)
Scenario - If the Study Group plan was not implemented?
Impacts

- Ensures the long-term financial soundness of the Employees’ Retirement Fund
- Long-term solution in place
- Aligns interest of City and employees in keeping costs low
- Action lessens impact on stakeholders—future employees and taxpayers
- Over a 40-year period, the POBs are expected to save the City and employees over $600M
- Positive Feedback from Texas Pension Review Board