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

Dec. 31, 2003 UAAL			**$ 645,972,000**	
Total Contribution				**29.55%**
	City		**18.62%**	
	Employee		**10.93%**	
Impact of Changed Actuarial Assumptions				
Dec. 31, 2003 UAAL			**$ 533,397,000**	
Total Contribution				**26.67%**
	City		**16.80%**	
	Employee		**9.87%**	
Impact of Changed Actuarial Assumptions (With POBs)				
Dec. 31, 2003 UAAL			**$ 533,397,000**	
Total Contribution				**25.05%**
	City		**15.78%**	
	Employee		**9.27%**	

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

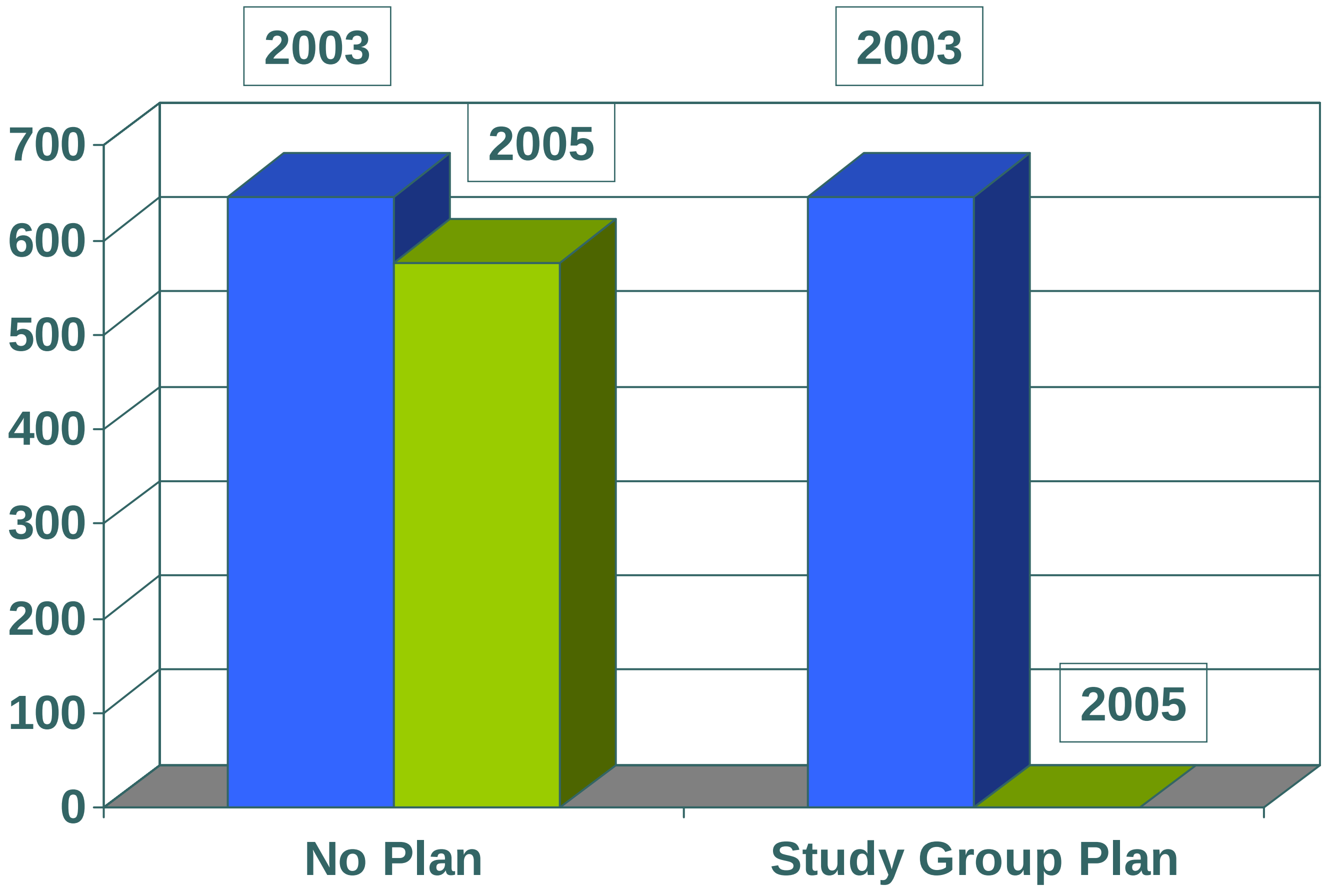
- ERF is on schedule
- Expanded Board of Trustees is in place
  - 100+ years of investment oriented experience
  - New council appointee began in October 2005

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?

UAAL
$ in millions



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