

Memorandum



DATE June 6, 2008

TO Members of the Finance, Audit & Accountability Committee
Chair Mitchell Rasansky, Vice Chair Jerry Allen, Mayor Pro Tem Dr. Elba Garcia,
Vonciel Jones Hill, Angela Hunt, Ron Natinsky and David Neumann

SUBJECT Employees' Retirement Fund (ERF) - Update

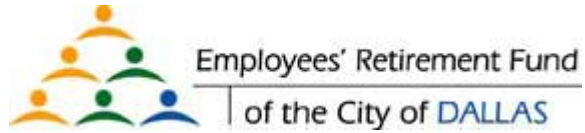
The subject briefing is on the Committee's June 9th agenda. The ERF Board Chair and Administrator will be presenting the attached briefing.

Please contact me if you need additional information.

A handwritten signature in cursive script that reads 'D. Cook'.

David Cook
Chief Financial Officer

Cc: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Tom Perkins, Jr., City Attorney
Deborah Watkins, City Secretary
Craig Kinton, City Auditor
Ryan S. Evans, First Assistant City Manager
David O. Brown, Interim Assistant City Manager
Ramon Miquez, P.E., Assistant City Manager
Jill A Jordan, P.E., Assistant City Manager
A.C. Gonzalez, Assistant City Manager



FYE 2007 Update for Employees' Retirement Fund of the City of Dallas

Briefing to Finance, Audit & Accountability Committee
June 9, 2008



Pension Status Update

- Background of ERF
- Results for 2007

Overview of Dallas ERF

- Started in 1944 as a single employer defined benefit plan that provides retirement, disability and death benefits for the civilian employees of the City of Dallas
- Governed by Chapter 40A and a seven member Board of Trustees consisting of three members appointed by the City Council who may be Council members; three employee members of the Plan elected by the membership, and the City Auditor
- \$3.18 billion in Assets Under Management as of 12/31/07
- Key member statistics - 8,117 active members, 5,304 retirees and 1,043 inactive members (vested but not yet retired)
- City of Dallas does not participate in Social Security.
- Defined benefit plans provide eligible employees a set monthly benefit upon retirement. That amount is based on factors such as age, earnings and years with the company.
- Contributions are made to a separate trust and must be used for providing the benefits promised under the plan
- Both the employer and employee make contributions to the Fund. Current contribution rate is 22.71% (14.31% City(63%) and 8.40% Member(37%)).

Council Appointed ERF Study Group

- **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
- **Study Group 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
- **Study Group Plan put in place**
 - 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
 - Change Actuarial Assumptions
 - Reduction in Inflation Assumption (From 4.00% to 3.00%)
 - Reduction in Assumed Payroll Growth (From 4.50% to 3.50%)
 - Reduction in Investment Rate Assumption (From 8.50% to 8.25%)

Implementation

Plan approved by ERF Board, City Council and the City of Dallas Voters

- **November 2004** – Citizen vote on Plan amendments passed (71%)
- **January 2005** – Issued \$533 M of pension obligation bonds (“POB”) (based on 2003 supplemental valuation actuarial report). All-in Cost 5.41%
- **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)
- **October 2007** – Contributions for employees and City were reduced - a \$ 3 million dollar savings to the City
 - 22.71% -Employees 8.40%; City 14.31% (including debt service on POBs)



ERF Results For 2007 Saw A Steady Improvement

Actuarial Results	FYE 2005	FYE 2006	FYE 2007
Actuarial Value of Assets	\$2.74 Billion	\$2.99 Billion	\$3.18 Billion
Unfunded Actuarial Accrued Liability*	(\$133) Million	(\$237) Million	(\$268) Million
Funded Ratio*	105.11%	108.57%	109.20%

* The funding status of ERF is measured by the Funding Ratio and the Unfunded Actuarial Accrued Liability (UAAL). The Funding Ratio is the ratio of the actuarial value of assets available for benefits to the actuarial accrued liability (AAL) of the Fund. Thus, it reflects the portion of the AAL that is covered by ERF assets. The UAAL is the difference between these items. Since the UAAL is negative, this implies the actuarial assets exceed the actuarial liabilities of the Fund

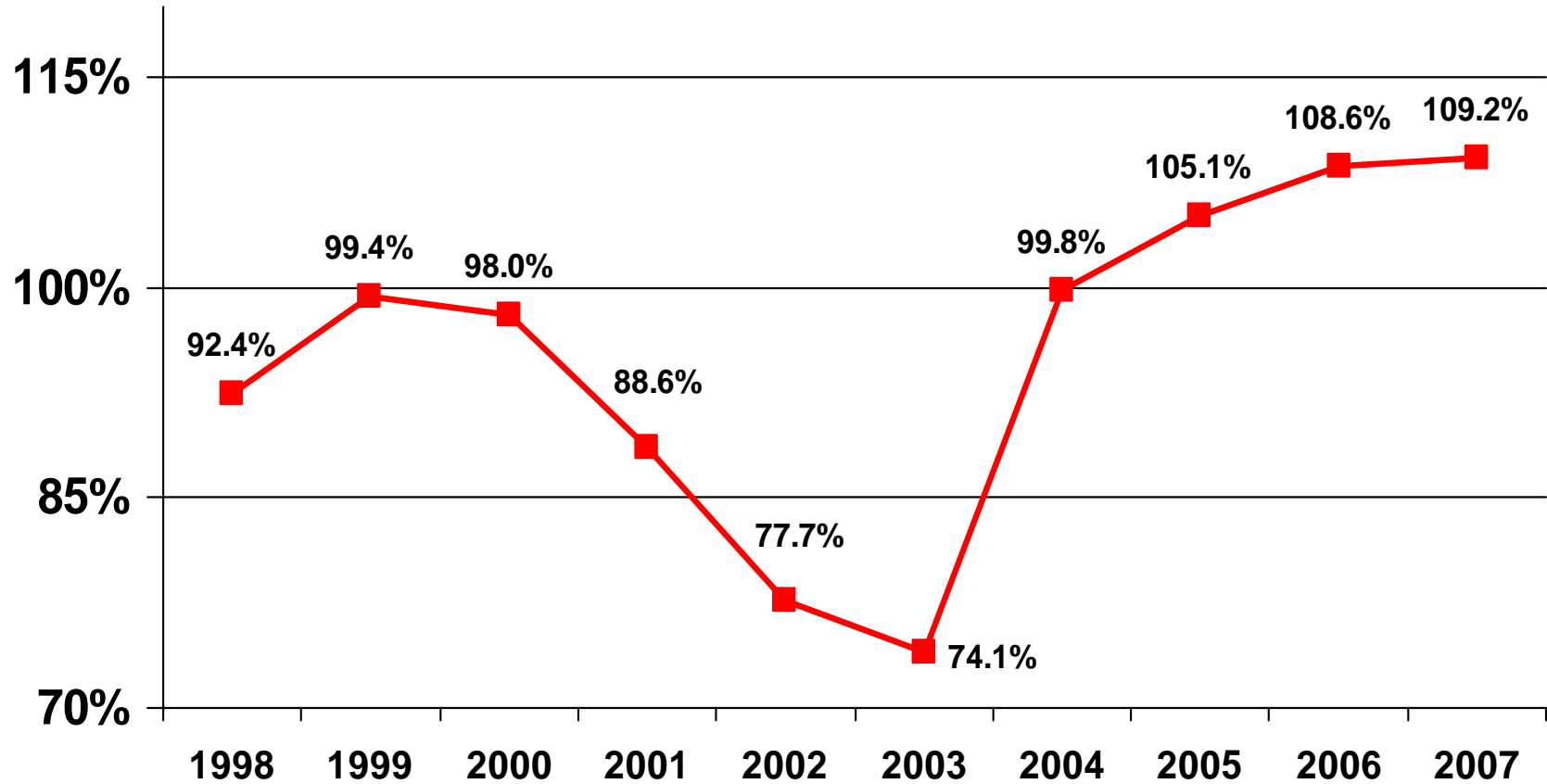


2008 Contribution Rates Remain Unchanged

Year	Total Rate (% of Pay)	City Portion (63%)	Employee Portion (37%)
Oct 2005	24.41%	15.38%	9.03%
Oct 2006	24.41%	15.38%	9.03%
Oct 2007	22.71% Change from 2006 (1.70%)	14.31% Change from 2006 (1.07%)	8.40% Change from 2006 (0.63%)
Oct 2008	22.71%	14.31%	8.40%



Historical Funded Ratios



Conclusion

- ERF continues to see steady improvement
- Board of Trustees is in place - 80+ years of investment oriented experience
- Solid investment returns for 2007
 - Market Return - 3.56%
 - Actuarial Return (3 year smoothing) – 9.58%
- Key Statistics from the 2007 Actuarial Valuation
 - Actuarial Value of Assets \$3.2B (FYE 12/31/07), an increase of \$39M from 2006
 - No Unfunded Actuarial Accrued Liability
- ERF Funding Ratio of + 9.2% provides a cushion