Memorandum

CITY OF DALLAS

DATE June 1, 2007

TO Honorable Mayor and Members of the City Council

SUBJECT City of Dallas Employees' Retirement Fund (ERF)

The City Council's June 6 agenda includes a briefing on subject listed above. Materials are attached for your review.

Please contact me if you need additional information.

David Cook
Chief Financial Officer

attachment

C:

Mary Suhm, City Manager
Dave Cook, CFO
Debra Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor

Ryan Evans, First Assistant City Manager
Ramon Miguez, Assistant City Manager
Charles Daniels, Assistant City Manager
Jill Jordan, Assistant City Manager
A. C. Gonzalez, Assistant City Manager

CITY OF DALLAS EMPLOYEES' RETIREMENT FUND (ERF)

Briefing to City Council

June 6, 2007

Pension Status Update

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

Background

- 1995 Actuarial valuation reported a significant actuarial shortfall
- 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). 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 2006*** – Contributions for employees and City remain unchanged

2006 Results

- ERF is on schedule
- Expanded Board of Trustees is in place
  - 100+ years of investment oriented experience
- Solid investment returns
  - Top 10% performance based on Wilshire Study
  - Return on Market Value 16.9%

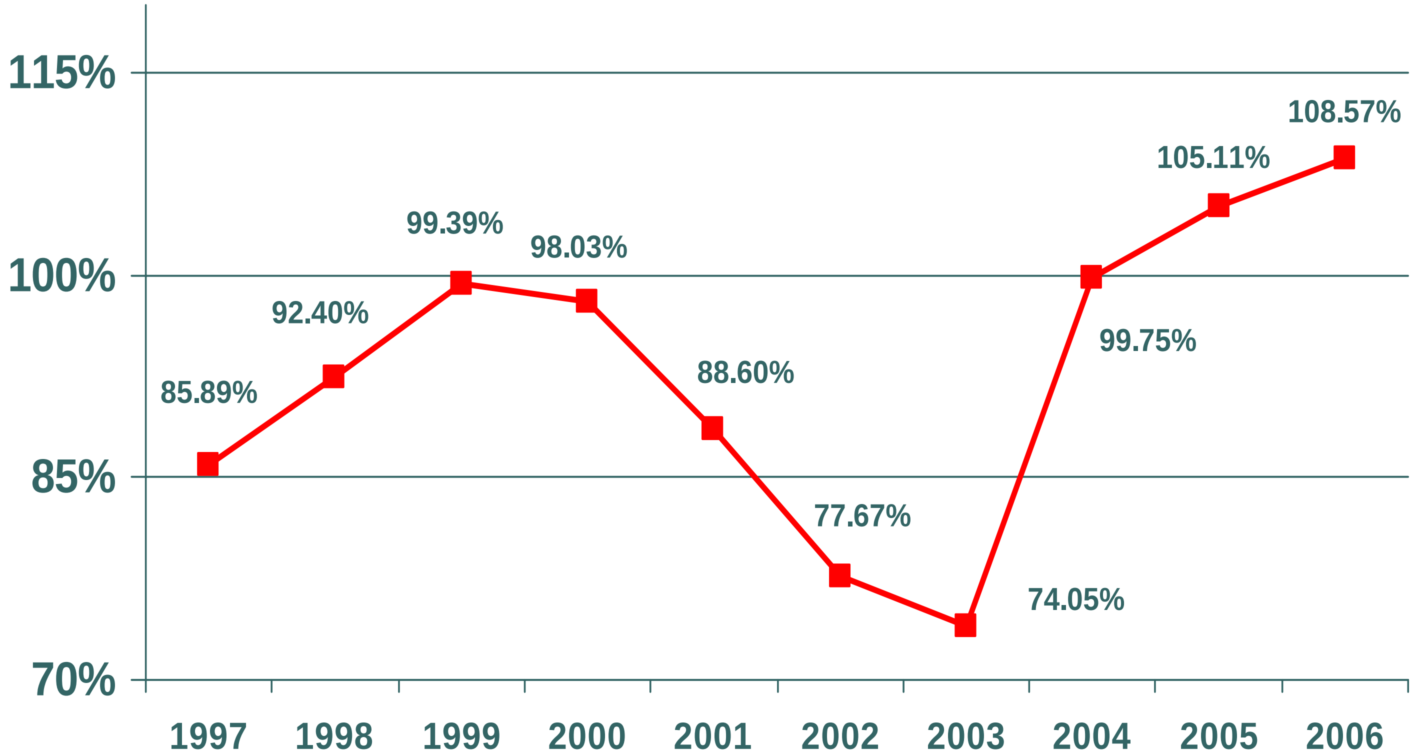
2006 Results

- Key Statistics from the 2006 Actuarial Valuation
  - Actuarial Value of Assets \$2.998B (FYE 12/31/06), an increase of \$259M from 2005
  - Funding Ratio +8%
  - No Unfunded Actuarial Accrued Liability
- Trigger Point Reached for Change in Contribution Rate

2006 Results

Actuarial Results	FYE 2004	FYE 2005	FYE 2006
Actuarial Value of Assets	$2.482 Billion	$2.739 Billion	$2.998 Billion
Unfunded Actuarial Accrued Liability	$6 Million	($133) Million	($237) Million
Funded Ratio	99.75%	105.11%	108.57%

Historical Funded Ratios



Contribution Rates Including Debt Service on POBs

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%	14.31%	8.40%
Change from 2006	(1.70%)	(1.07%)	(.63%)

- Potential City savings of $3.0 Million in FY 2007-08

General Feedback from Update to former ERF Study Group –May 2007

- The Fund is in a stronger position due to the efficient implementation of the recommendations and strong investment performance. The Committee believes the issuance of the POBs will continue to result in cost savings for the City.
- Based on the December 31, 2006 actuarial valuation, the contribution rates have met one of the trigger points and will adjust for both the City and the employees. This adjustment in contribution rates will save the City approximately $3 million in FY 2007-2008. The group feels confident that a long term solution is in place to manage contribution rates.

General Feedback from Update to former ERF Study Group –May 2007

- The Committee reviewed the actuarial assumptions and feels that they continue to be appropriate.
- The investment program and current asset allocation continue to be sound.
- The Committee originally reviewed alternatives to the Defined Benefit (“DB”) plan. Since the DB plan is now in good shape, they do not recommend any changes. They discussed freezing the DB plan at this point and going to a DC only plan for new employees. The main concerns with the option are the weakness of Social Security, the cost to the City of supporting the DB plan, Social Security and the replacement of a death and disability plan. They also were concerned about the effect on plan members.

Conclusion

- 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 and ERF Study Committee Members
- City Council had the vision to create the Study Group that resulted in this unique solution that serves as a model for other funds.