

## AGENDA



**Date:** January 3, 2020

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, January 9, 2020, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas.** Items of the following agenda will be presented to the Board:

**A. MOMENT OF SILENCE**

**B. CONSENT AGENDA**

**1. Approval of Minutes**

Regular meeting of December 12, 2019

**2. Approval of Refunds of Contributions for the Month of December 2019**

- 3. Approval of Estate Settlements**
- 4. Approval of Survivor Benefits**
- 5. Approval of Service Retirements**
- 6. Approval of Alternate Payee Benefits**

**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

- 1. Board Committees**
  - a. Committee Policy and Procedure Update
  - b. Committee Appointments
- 2. Report on Investment Advisory Committee**
- 3. Investment Advisory Committee Terms**
- 4. Portfolio Update**

**5. Private Asset Cash Flow Projection Update**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code.

**6. Real Estate Overview**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code.

**7. Internal Controls Review**

**8. Monthly Contribution**

**9. Board approval of Trustee education and travel**

- a. Future Education and Business-related Travel
- b. Future Investment-related Travel

**10. Correction of Benefit Payment Errors**

**11. Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation, including claims involving overpayment of benefits, consideration of legal options regarding DPF's interests in funds managed by Lone Star Investment Advisors or any other legal matter in which the duty of the attorneys to DPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

**12. Executive Director 2020 Objectives**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

**D. BRIEFING ITEMS**

**1. Public Comment**

**2. Executive Director's report**

**a. Associations' newsletters**

- NCPERS Monitor (December 2019)

**b. Open Records**

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by the Texas Government Code, Section 551, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file. At the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records.



**ITEM #A**

**MOMENT OF SILENCE**

**In memory of our Members and Pensioners who recently passed away**

| <b>NAME</b>      | <b>ACTIVE/<br/>RETIRED</b> | <b>DEPARTMENT</b> | <b>DATE OF DEATH</b> |
|------------------|----------------------------|-------------------|----------------------|
| Jay G. Steindorf | Retired                    | Fire              | Dec. 3, 2019         |
| Alan L. Haynes   | Active                     | Police            | Dec. 4, 2019         |
| James R. Gammill | Retired                    | Police            | Dec. 7, 2019         |
| K. L. Hoaldrige  | Retired                    | Fire              | Dec. 10, 2019        |
| Joseph M. George | Active                     | Police            | Dec. 24, 2019        |

*Regular Board Meeting – Thursday, January 9, 2020*

**Dallas Police and Fire Pension System  
Thursday, December 12, 2019  
8:30 a.m.  
4100 Harry Hines Blvd., Suite 100  
Second Floor Board Room  
Dallas, TX**

Regular meeting, William F. Quinn, Chairman, presiding:

**ROLL CALL**

**Board Members**

Present at 8:30 a.m.: William F. Quinn, Nicholas A. Merrick (by phone), Joseph P. Schutz, Susan M. Byrne, Robert B. French, Steve Idoux, Gilbert A. Garcia, Mark Malveaux, Armando Garza, Allen R. Vaught, Tina Hernandez Patterson

Absent: None

**Staff**

Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Greg Irlbeck, Michael Yan, Milissa Romero

**Others**

Janis Elliston, David Elliston, Darryl Wachsman, Sandy Alexander, Sheri Kowalski, Scott Freeman, Aaron Lally, Shawn Bowen

\* \* \* \* \*

The meeting was called to order at 8:30 a.m.

\* \* \* \* \*

**A. TRUSTEES**

**Welcome New and Reappointed Trustees**

The terms of Nicholas Merrick, Ray Nixon and Kneeland Youngblood ended on August 31, 2019. These three trustees have been serving as hold-over trustees waiting for Mayor Johnson to make his trustee appointments. Mayor Johnson made the following appointments:

Steve Idoux  
Mark Malveaux  
Allen R. Vaught

**Regular Board Meeting  
Thursday, December 12, 2019**

**A. TRUSTEES (continued)**

The terms of the new trustees will end on August 31, 2021.

In addition, Robert Walters resigned from the Board and Mayor Johnson appointed Nicholas Merrick to complete the remaining term which ends August 31, 2020.

No motion was made.

\* \* \* \* \*

**B. MOMENT OF SILENCE**

The Board observed a moment of silence in memory of retired police officer Royce Massingill, and retired firefighters Ricky P. Alberts and Terry L. Speulda.

No motion was made.

\* \* \* \* \*

**C. CONSENT AGENDA**

**1. Approval of Minutes**

Regular meeting of November 19, 2019

**2. Approval of Refunds of Contributions for the Month of November 2019**

**3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for December 2019**

**4. Approval of Estate Settlements**

**5. Approval of Survivor Benefits**

**6. Approval of Service Retirements**

**7. Approval of Alternate Payee Benefits**

**8. Approval of Payment of Military Leave Contributions**

**Regular Board Meeting  
Thursday, December 12, 2019**

**C. CONSENT AGENDA (continued)**

After discussion, Mr. Garza made a motion to approve the minutes of the meeting of November 19, 2019. Mr. Garcia seconded the motion, which was approved by the following vote:

For: Mr. Quinn, Mr. Merrick, Mr. Schutz, Ms. Byrne, Mr. French, Mr. Garcia, Mr. Garza, and Ms. Hernandez Patterson

Abstain: Mr. Idoux, Mr. Malveaux, and Mr. Vaught

After discussion, Mr. Garcia made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Ms. Byrne seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

**D. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

**1. Investment Advisory Committee Appointment**

The Board discussed possible candidates to serve on the Investment Advisory Committee.

After discussion, Mr. Garcia made a motion to appoint Ray Nixon and Susan M. Byrne as members of the Investment Advisory Committee. Mr. Schutz seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

**2. Chairman's Discussion Items**

2020 Board Calendar

The Chairman briefed the Board on the 2020 Board Calendar.

No motion was made.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, December 12, 2019**

- 3. **Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation, including claims against City of Dallas regarding unpaid contributions under USERRA, claims involving overpayment of benefits, consideration of legal options regarding DFPF’s interests in funds managed by Lone Star Investment Advisors or any other legal matter in which the duty of the attorneys to DFPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

The Board went into closed executive session – Legal at 9:19 a.m.

The meeting was reopened at 10:22 a.m.

No motion was made.

\* \* \* \* \*

Mr. Merrick left the meeting at 10:25 a.m.

\* \* \* \* \*

The Board went into closed executive session – Legal at 11:34 a.m.

The meeting was reopened at 11:43 a.m.

Mr. Malveaux recused himself during the discussion of USERRA.

After discussion, Ms. Hernandez Patterson made a motion to grant the Executive Director and General Counsel the authority to take any legal action deemed necessary to collect contributions from the City of Dallas owed to DFPF pursuant to USERRA. Mr. Vaught seconded the motion, which was approved by the following vote:

For: Mr. Quinn, Mr. Merrick, Mr. Schutz, Ms. Byrne, Mr. French, Mr. Idoux, Mr. Garcia, Mr. Garza, Mr. Vaught, and Ms. Hernandez Patterson  
Abstain: Mr. Malveaux

\* \* \* \* \*

**Regular Board Meeting  
Thursday, December 12, 2019**

**4. Lone Star Investment Advisors Update**

The Board went into closed executive session – Legal at 9:19 a.m.

The meeting was reopened at 10:22 a.m.

After discussion, Mr. Garcia made a motion to grant the Executive Director, subject to approval by the Chairman, the authority to restructure DFPF's interest in funds managed by Lone Star Investment Advisors. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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**5. Portfolio Update**

Investment staff briefed the Board on recent events and current developments with respect to the investment portfolio.

No motion was made.

\* \* \* \* \*

**6. Third Quarter 2019 Investment Performance Analysis and Second Quarter 2019 Private Markets & Real Assets Review**

Aaron Lally and Shawn Bowen with Meketa Investment Group and Investment staff reviewed investment performance.

No motion was made.

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**7. Fixed Income Portfolio Review**

Staff provided an overview of DFPF public fixed income investments.

No motion was made.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, December 12, 2019**

**8. Interpretation of Qualified Surviving Spouse Special Death Benefit**

Section 6.09 of Article 6243a-1 provides for a special death benefit in certain situations. Part of the calculation in Section 6.09 requires an interpretation of the term “average monthly computation pay.” This term is not defined in the plan. As such, the Board has the authority to define this term pursuant to Section 3.01(j-3) which provides that “The board may correct any defect, supply any omission, and reconcile any inconsistency that may appear in this article...”

After discussion, Mr. Garcia made a motion, that for the purpose of calculating the Special Survivor Death Benefit the “average monthly computation pay” should be calculated by weighting the two average computation pay values by the percentage of total service time earned both pre and post 9-1-2017 and all previous benefit calculations affected by this interpretation be adjusted on a prospective basis. Ms. Byrne seconded the motion, which was unanimously approved by the Board.

Mr. Merrick was not present when the vote was taken.

\* \* \* \* \*

**9. 2020 Proposed Budget**

The Chief Financial Officer presented the proposed budget to the board for approval. The initial reading of the budget was October 10, 2019 and the second reading of the budget was November 19, 2019. There were no changes to the budget from the second reading. The budget was sent to the City of Dallas for comments and posted to the website for member review. No comments were received from the city or members.

After discussion, Mr. Garcia made a motion to approve the 2020 Budget. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

Mr. Merrick was not present when the vote was taken.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, December 12, 2019**

**10. Funding Policy – Combined Pension Plan**

Senate Bill 2224 was adopted by the Texas Legislature in 2019 and requires that the Board adopt a funding policy that details the Board’s plan for achieving a funded ratio for DFPF that is equal to or greater than 100 percent. By law, the Funding Policy must be adopted prior to January 1, 2020.

After discussion, Ms. Hernandez Patterson made a motion to adopt the Funding Policy for the Combined Pension Plan. Ms. Byrne seconded the motion, which was unanimously approved by the Board.

Mr. Merrick was not present when the vote was taken.

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**11. Report on Professional Services Committee**

The Chairman reported that the Professional Services Committee had a phone meeting with Mr. Campbell of Jackson Walker LLP, DFPF’s outside legal counsel. The Chairman reported that no issues of concern were raised by Mr. Campbell.

No motion was made.

\* \* \* \* \*

**12. Monthly Contribution Report**

Staff presented the Monthly Contribution Report.

No motion was made.

\* \* \* \* \*

**13. Board approval of Trustee education and travel**

- a. Future Education and Business-related Travel
- b. Future Investment-related Travel

No discussion was held, and no motion was made regarding Trustee education and travel. There was no future investment-related travel.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, December 12, 2019**

**14. Pension Obligation Bonds**

Mr. French posed to Elizabeth Reich, the City of Dallas CFO, certain questions via email regarding the City of Dallas funding contributions in connection with possible pension obligation bonds. The Board discussed these emails and pension obligation bonds generally.

A full discussion and updated POB presentation is planned for first quarter in 2020.

No motion was made.

\* \* \* \* \*

**15. Performance Review of Executive Director**

The Board went into closed executive session – Personnel at 11:44 a.m.

The meeting was reopened at 12:00 p.m.

After discussion, Mr. Quinn made a motion to increase the Executive Director’s salary to \$335,000 annually. Mr. Garza seconded the motion, which was unanimously approved by the Board.

Mr. Merrick was not present when the vote was taken.

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**D. BRIEFING ITEMS**

**1. Public Comments**

No one requested to address the Board with concerns.

\* \* \* \* \*

**2. Executive Director’s report**

- a. Associations’ newsletters
  - NCPERS PERSist (Fall 2019)
- b. Open Records
- c. Seeking Trustee Input for Executive Performance Reviews

The Executive Director’s report was presented.

**Regular Board Meeting  
Thursday, December 12, 2019**

\* \* \* \* \*

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Garcia and a second by Ms. Hernandez Patterson, the meeting was adjourned at 12:05 p.m.

\_\_\_\_\_  
William F. Quinn  
Chairman

**ATTEST:**

\_\_\_\_\_  
Kelly Gottschalk  
Secretary

DRAFT



## DISCUSSION SHEET

### ITEM #C1

**Topic:**

**Board Committees**

- a. Committee Policy and Procedure Update
- b. Committee Appointments

**Discussion:**

- a. The Committee Policy and Procedure is being updated to allow up to five members to serve on the Audit and Professional Services committees.
- b. The Chairman will ask the Board to consider additional nominees to Board committees.

**Recommendation:**

- a. **Adopt** the revised Committee Policy and Procedure.
- b. **Approve** the Chairman's Committee nominations.

*Regular Board Meeting – Thursday, January 9, 2020*



D A L L A S  
POLICE & FIRE  
PENSION SYSTEM



## COMMITTEE POLICY AND PROCEDURE

As Amended Through January 9, 2020~~March 8, 2018~~

## **COMMITTEE POLICY AND PROCEDURE**

**Adopted August 10, 1989**

**As amended through January 9, 2020~~March 8, 2018~~**

### **A. PURPOSE**

The Board of Trustees shall create such permanent or ad hoc committees it deems appropriate to investigate options and clarify issues on matters that must be addressed at subsequent Board meetings.

### **B. PERMANENT COMMITTEE GUIDELINES**

1. Permanent committees that have been created by the Board are as follows:
  - a. Investment Advisory Committee
  - b. Audit Committee
  - c. Professional Services Committee
2. Any Board member may attend a committee meeting and take part in all discussions, except for such committee meetings that are specifically contemplated by this Policy not to be public meetings in accordance with the Open Meetings Law of the State of Texas .
3. The committees shall have the authority solely to gather information and to make recommendations to the Board. The committees shall have no authority to make binding decisions for the Board. The chair of each committee, or the chair's designee, will provide the Board a report of the committee's findings and/or recommendations for the Board's discussion and possible action.
4. Committee meetings involving a quorum of the Board shall be posted as public meetings. The committee may go into executive session as permitted by the laws of the State of Texas.
5. Minutes of all committee meetings involving a quorum of the Board will be maintained by the Secretary of the Board. These minutes will be maintained separate and apart from the minutes of the Board.
6. The Chair of the Board shall have the authority to nominate members to the committees, subject to Board approval. Upon Board approval of the committee members, the Chair of the Board will designate a committee chair.
7. The committee chair will schedule and call committee meetings.



Committee Policy and Procedure

As amended through ~~March 8, 2018~~January 9, 2020

Page 2 of 4

**C. INVESTMENT ADVISORY COMMITTEE**

The role and responsibilities of the Investment Advisory Committee are addressed in the Investment Policy Statement.

**D. AUDIT COMMITTEE**

1. The Audit Committee is composed of a minimum of three members and a maximum of five members. ~~The committee must including~~ one Mayoral appointed Board member, one Board member selected by the Members (Police, Fire or non-member Trustee) and either the Chair of the Board or a Board member selected by the Chair of the Board.
2. An Audit Committee meeting requires a quorum of at least two members.
3. The Audit Committee shall meet privately with the independent auditor, without DPF staff present, at minimum on an annual basis. The purpose of such a meeting is to provide a forum for the independent auditor to provide candid comments to the Audit Committee, in addition to any comments the auditor may give to the full Board during the course of providing services. In addition, the Audit Committee is allowed an opportunity to request additional information in a candid setting. All material information received at such a meeting shall be provided by the Audit Committee to the full Board.

The Audit Committee shall:

- a. receive draft copies of independent financial statement audit reports;
- b. review such reports, identify areas that may warrant improvement, if any, and make recommendations as deemed necessary;
- c. review and monitor timely implementation of recommendations and resolution of issues reported by the independent auditor findings;
- d. recommend to the Board any appropriate actions needed as a result of the independent audit.



Committee Policy and Procedure

As amended through ~~March 8, 2018~~ January 9, 2020

Page 3 of 4

**E. PROFESSIONAL SERVICES COMMITTEE**

1. The Professional Services Committee is responsible for meeting privately with the external service providers listed below, without DFPF staff present, at minimum on an annual basis. Meetings with additional service providers may be held as deemed necessary. The purpose of such a meeting is to provide a forum for the service provider to provide candid comments to the Professional Services Committee, in addition to any comments such service provider may give to the full Board during the course of providing services. In addition, the Professional Services Committee is allowed an opportunity to request additional information in a candid setting. All material information received at such a meeting shall be provided by the Professional Services Committee to the full Board.

- a. Actuary
- b. Investment Consultant(s)
- c. Outside Legal Counsel

~~2.~~—The Professional Services Committee is composed of minimum of three members and a maximum of five members. The committee must including one Mayoral appointed Board member, one Board member selected by the Members (Police, Fire or non-member Trustee) and either the Chair of the Board or a Board member selected by the Chair of the Board.

~~3.2.~~A Professional Services Committee meeting requires a quorum of at least two members.

~~4.3.~~The Professional Services Committee shall recommend to the Board any appropriate actions needed as a result of the meetings with service providers.

**F. AD HOC COMMITTEES**

The Chair of the Board shall have the authority to create ad hoc committees to address significant issues, as well as the authority to terminate such committees once it is determined by the Board their purpose has been served. The Chair of the Board shall have the authority to appoint and remove the members of such committees, including chairs for such committees. It shall be at the discretion of the ad hoc committee chair and the Chair of the Board as to whether such committee meetings shall be open to the entire Board. Any such committee meeting which may include a quorum of the Board shall be posted for a public meeting. Any committee created pursuant to this Section shall not have the authority to bind the Board. Such committee shall have the authority solely to gather information and make recommendations and it shall report all findings and/or recommendations to the Board for the Board's discussion and possible action.



Committee Policy and Procedure  
As amended through ~~March 8, 2018~~[January 9, 2020](#)  
Page 4 of 4

APPROVED on March 8, 2018, by the Board of Trustees of the Dallas Police and Fire Pension System.

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William Quinn  
Chairman

Attested:

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Kelly Gottschalk  
Secretary

Committee Policy as of 3/8/2018





## DISCUSSION SHEET

### ITEM #C2

**Topic:** Report on Investment Advisory Committee

**Discussion:** The Investment Advisory Committee met on December 16, 2019. The Committee Chair and Investment Staff will comment on Committee observations and advice.

*Regular Board Meeting – Thursday, January 9, 2020*



## DISCUSSION SHEET

### ITEM #C3

**Topic:** Investment Advisory Committee Terms

**Discussion:** The Investment Policy stipulates that members of the Investment Advisory Committee shall serve two-year terms (Sec. 5.B.1.e). Although some members were appointed in 2018, the first meeting of the IAC was held in March 2019.

**Recommendation:** Staff recommends establishing staggered terms as follows.

| <b>Position</b> | <b>Name</b>    | <b>Appointed</b> | <b>IAC Term Expires</b> |
|-----------------|----------------|------------------|-------------------------|
| Board Member #1 | Gilbert Garcia | September 2018   | December 2020           |
| Board Member #2 | Susan Byrne    | December 2019    | December 2021           |
| External #1     | Scott Freeman  | September 2018   | December 2020           |
| External #2     | Robert Jones   | January 2019     | December 2020           |
| External #3     | Ray Nixon      | December 2019    | December 2021           |

*Regular Board Meeting – Thursday, January 9, 2020*



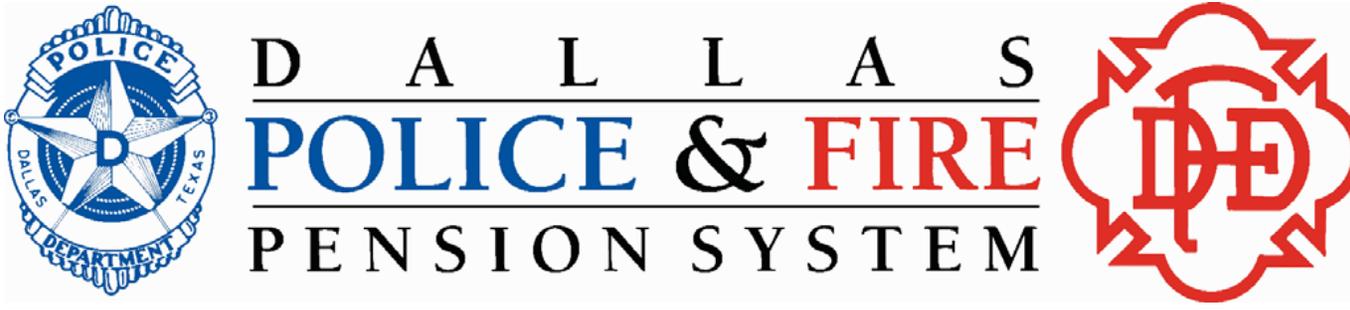
## DISCUSSION SHEET

### ITEM #C4

**Topic:** Portfolio Update

**Discussion:** Investment Staff will brief the Board on recent events and current developments with respect to the investment portfolio.

*Regular Board Meeting – Thursday, January 9, 2020*



# Portfolio Update

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January 9, 2019

# Asset Allocation

| DPFP Asset Allocation        | % weight      |               |               | \$ millions  |              |             |
|------------------------------|---------------|---------------|---------------|--------------|--------------|-------------|
|                              | 12/31/19      | Target        | Variance      | 12/31/19     | Target       | Variance    |
| <b>Equity</b>                | <b>41.4%</b>  | <b>55.0%</b>  | <b>-13.6%</b> | <b>858</b>   | <b>1,139</b> | <b>-281</b> |
| Global Equity                | 24.9%         | 40.0%         | -15.1%        | 515          | 828          | -313        |
| Emerging Markets             | 2.4%          | 10.0%         | -7.6%         | 50           | 207          | -157        |
| Private Equity*              | 14.1%         | 5.0%          | 9.1%          | 293          | 104          | 189         |
| <b>Fixed Income</b>          | <b>31.6%</b>  | <b>35.0%</b>  | <b>-3.4%</b>  | <b>654</b>   | <b>725</b>   | <b>-71</b>  |
| Safety Reserve - Cash        | 4.3%          | 3.0%          | 1.3%          | 88           | 62           | 26          |
| Safety Reserve - ST IG Bonds | 12.7%         | 12.0%         | 0.7%          | 263          | 249          | 15          |
| Investment Grade Bonds       | 1.8%          | 4.0%          | -2.2%         | 37           | 83           | -46         |
| Global Bonds                 | 3.4%          | 4.0%          | -0.6%         | 70           | 83           | -13         |
| Bank Loans                   | 3.9%          | 4.0%          | -0.1%         | 81           | 83           | -2          |
| High Yield Bonds             | 4.2%          | 4.0%          | 0.2%          | 86           | 83           | 3           |
| Emerging Mkt Debt            | 1.0%          | 4.0%          | -3.0%         | 20           | 83           | -62         |
| Private Debt*                | 0.4%          | 0.0%          | 0.4%          | 9            | 0            | 9           |
| <b>Real Assets*</b>          | <b>27.0%</b>  | <b>10.0%</b>  | <b>17.0%</b>  | <b>560</b>   | <b>207</b>   | <b>353</b>  |
| Real Estate*                 | 18.2%         | 5.0%          | 13.2%         | 377          | 104          | 274         |
| Natural Resources*           | 6.2%          | 5.0%          | 1.2%          | 128          | 104          | 24          |
| Infrastructure*              | 2.6%          | 0.0%          | 2.6%          | 54           | 0            | 54          |
| <b>Total</b>                 | <b>100.0%</b> | <b>100.0%</b> | <b>0.0%</b>   | <b>2,071</b> | <b>2,071</b> | <b>0</b>    |
| Safety Reserve               | 17.0%         | 15.0%         | 2.0%          | 351          | 311          | 41          |
| *Private Market Assets       | 41.6%         | 15.0%         | 26.6%         | 862          | 311          | 551         |

Source: JP Morgan Custodial Data, Staff Estimates and Calculations

PRELIMINARY

# 2020 Investment Review Calendar\*

|           |  |
|-----------|--|
| January   | <ul style="list-style-type: none"> <li>Real Estate Reviews: Vista 7, King's Harbor, &amp; Museum Tower</li> </ul>                        |
| February  | <ul style="list-style-type: none"> <li>Real Estate: Clarion Presentation</li> </ul>  |
| March     | <ul style="list-style-type: none"> <li>Real Estate: AEW Presentation</li> </ul>  |
| April     | <ul style="list-style-type: none"> <li>Timber: Staff Review of FIA &amp; BTG</li> </ul>  |
| May       | <ul style="list-style-type: none"> <li>Natural Resources: Hancock Presentation</li> <li>Real Estate: Hearthstone Presentation</li> </ul> |
| July      | <ul style="list-style-type: none"> <li>Infrastructure: Staff review of AIRRO and JPM Maritime</li> </ul>                                 |
| August    | <ul style="list-style-type: none"> <li>Staff review of Private Equity and Debt</li> </ul>  |
| September | <ul style="list-style-type: none"> <li>Global Equity Manager Reviews</li> </ul>  |
| October   | <ul style="list-style-type: none"> <li>Fixed Income Manager Reviews</li> </ul>   |

\*Presentation schedule is subject to change.



## DISCUSSION SHEET

### ITEM #C5

**Topic:** **Private Asset Cash Flow Projection Update**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code.

**Discussion:** Staff will provide the quarterly update on the private asset cash flow projection model first discussed at the February 2018 Board meeting. The cash flow model projects estimated contributions to, and distributions from, private assets through the end of 2023. These estimates are intended to assist the Board in evaluating the expected time frame to reduce DFPF's exposure to these assets and the implications for the public asset redeployment, overall asset allocation, and expected portfolio risk and return.

*Regular Board Meeting – Thursday, January 9, 2020*



D A L L A S  
POLICE & FIRE  
PENSION SYSTEM



# Quarterly Private Asset Cash Flow Projection Update

*January 9, 2020*

# Table of Contents

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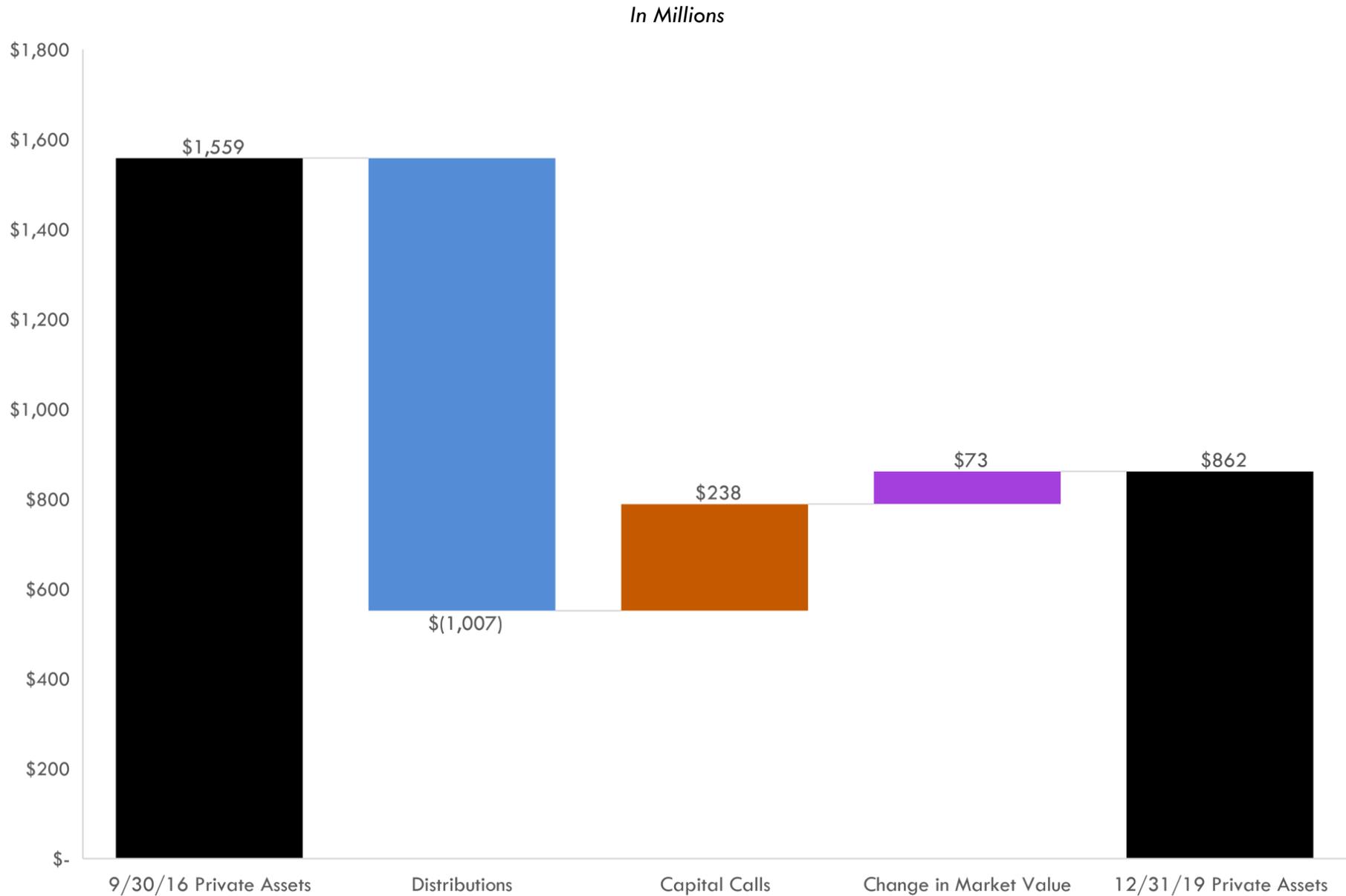
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| Methodology Review                     | 3       |
| Q4 Cash Flow Review                    | 4 - 7   |
| 2019 Actual vs Projected Cash Flows    | 8       |
| Forward Cash Flow Forecast             | 9 - 11  |
| Asset Allocation Implementation Review | 12 - 15 |
| 2020 Reinvestment Model                | 16 - 18 |
| Asset Allocation Evolution             | 19      |

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# Private Asset Cash Flow Projections – Methodology Review

- Staff estimates capital calls and cash distributions from the Private Asset portfolio, built up by individual asset.
- DPF has more control over direct investments in Real Estate and Natural Resources, therefore should have more accuracy in forecasting cash flows based on planned sales. Private Equity fund investments are controlled by GP's, therefore DPF has little or no control over outcome – Staff incorporates GP insights but often uses an even distribution schedule over 2-4 years with these investments.
- Major Changes for 2020:
  - Based on feedback at October meeting, have included an analysis of cash redeployment based on Asset Allocation implementation plan in this analysis.
  - Actual net cash inflows have been below estimates for past two years, therefore staff has taken a fresh look at assumptions by holding for this analysis.
  - Staff has added an additional year (2023) to the projection period.
  - Projected 2020 cash inflows are \$182m versus prior quarter projection of \$322m in 2020. Major changes to estimates for AEW, Huff and LSIA to be discussed.

# Private Asset Bridge Chart – Since 9/30/16

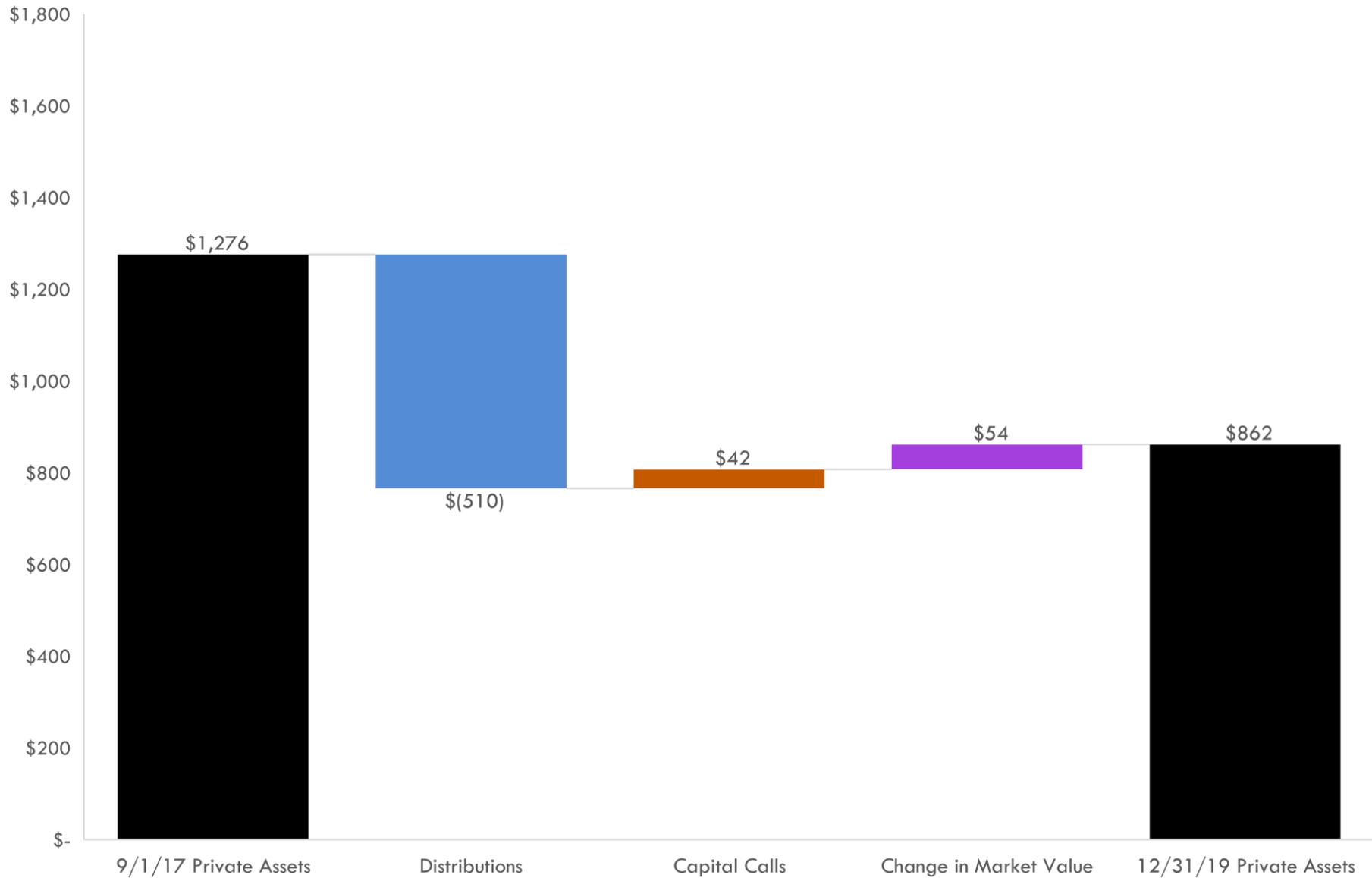


12/31/19 values Preliminary from Custodian and adjusted for cash activity on private markets assets.

Numbers may not foot due to rounding.

# Private Asset Bridge Chart – Since 9/1/17 (New Board Formation)

*In Millions*



*12/31/19 values Preliminary from Custodian and adjusted for cash activity on private markets assets.*

*Numbers may not foot due to rounding.*

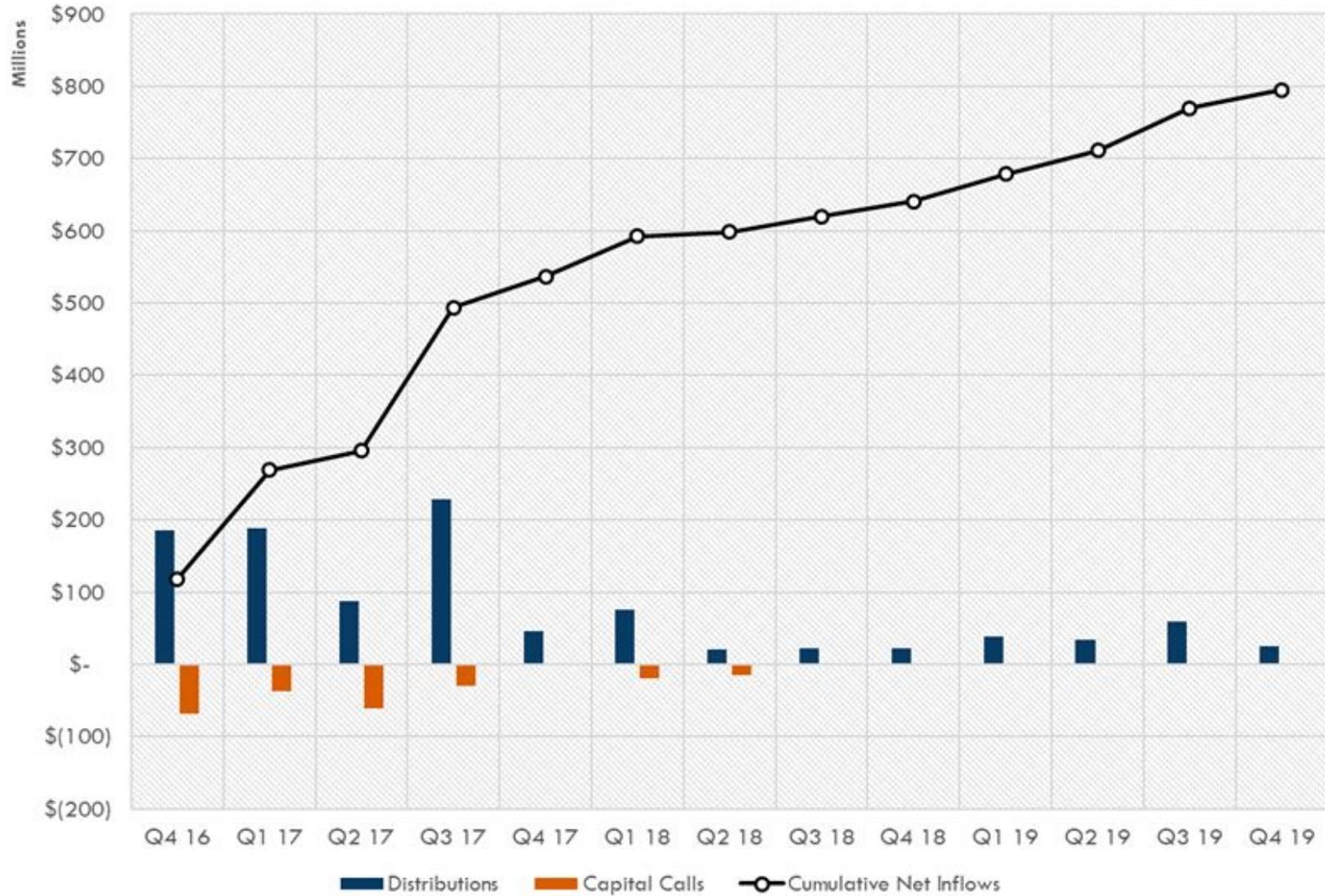
# Private Asset Quarterly Cash Flows – Q4 2019

| <b>TOTAL CAPITAL CALLS &amp; CONTRIBUTIONS</b> |                                 | <b>\$243,439</b>    |
|--|---------------------------------|---------------------|
| Industry Ventures IVPH IV                      | Capital Call                    | \$148,911           |
| JPM AIRRO                                      | Capital Call                    | \$94,527            |
| <b>TOTAL DISTRIBUTIONS</b>                     |                                 | <b>\$25,221,099</b> |
| <b>Inflows \$500k and Over</b>                 |                                 |                     |
| Huff Alternative                               | Portfolio Company Sale          | \$17,107,073        |
| Clarion  | Tribute Final Cash Distribution | \$2,850,048         |
| Museum Tower                                   | Condo Sales                     | \$2,000,000         |
| Hancock  | Ag Income                       | \$1,000,000         |
| Riverstone                                     | Fund Distribution               | \$631,567           |
| Clarion  | CCH Lamar Dist                  | \$534,480           |

*Numbers may not foot due to rounding.*

# Private Asset Quarterly Cash Flows – Since 9/30/16

*In Millions*

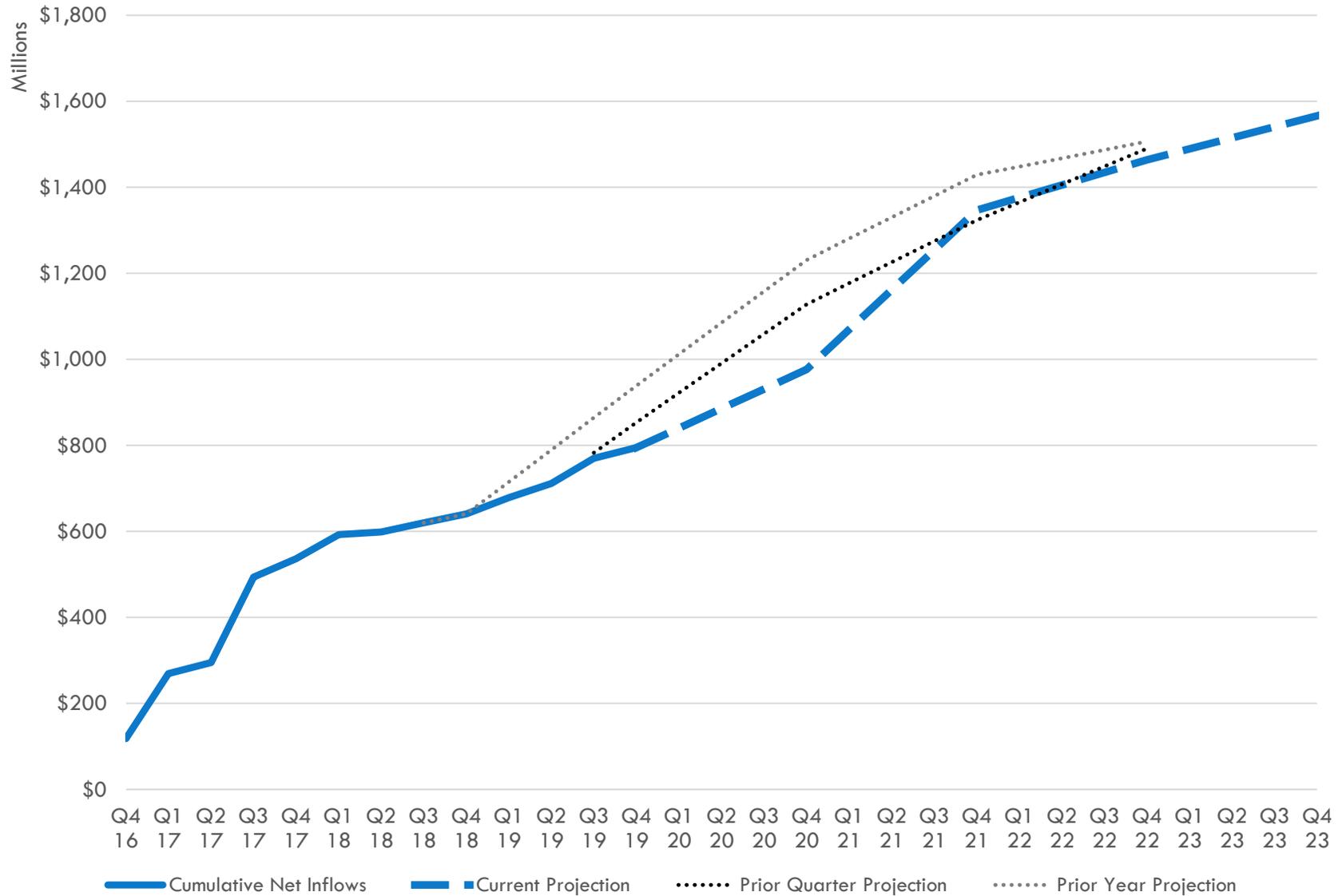


# 2019 Actual vs Projected Private Asset Cash Flows

| Private Asset Cash Net Inflows | 2019 Actual        | 2019 Projected     | Notes:  |
|--------------------------------|--------------------|--------------------|---|
| <b>Private Asset total</b>     | <b>154,246,097</b> | <b>298,261,258</b> |   |
| Private Equity total           | 16,420,453         | 40,691,749         | <i>LSIA Portfolio Company sales did not occur as outlined by GP in 2019.</i>  |
| Private Debt total             | 2,436,919          | 3,543,177          | <i>Lower amount of distributions from Riverstone than expected.</i>   |
| Infrastructure total           | (461,172)          | 8,755,107          | <i>Capital calls exceeded distribution. Asset sales did not occur as projected across all Infra funds.</i>  |
| Natural Resources total        | 41,587,206         | 74,326,456         | <i>International timber sales did not occur in 2019 as potential buyers fell through.</i>   |
| Real Estate total              | 94,262,691         | 170,944,771        | <i>Delayed sales and liquidity events in AEW portfolio pushed into 2020 projections. Remainder of Real Estate exceeded projected distributions.</i> |

# Cumulative Actual and Projected Private Asset Net Inflows

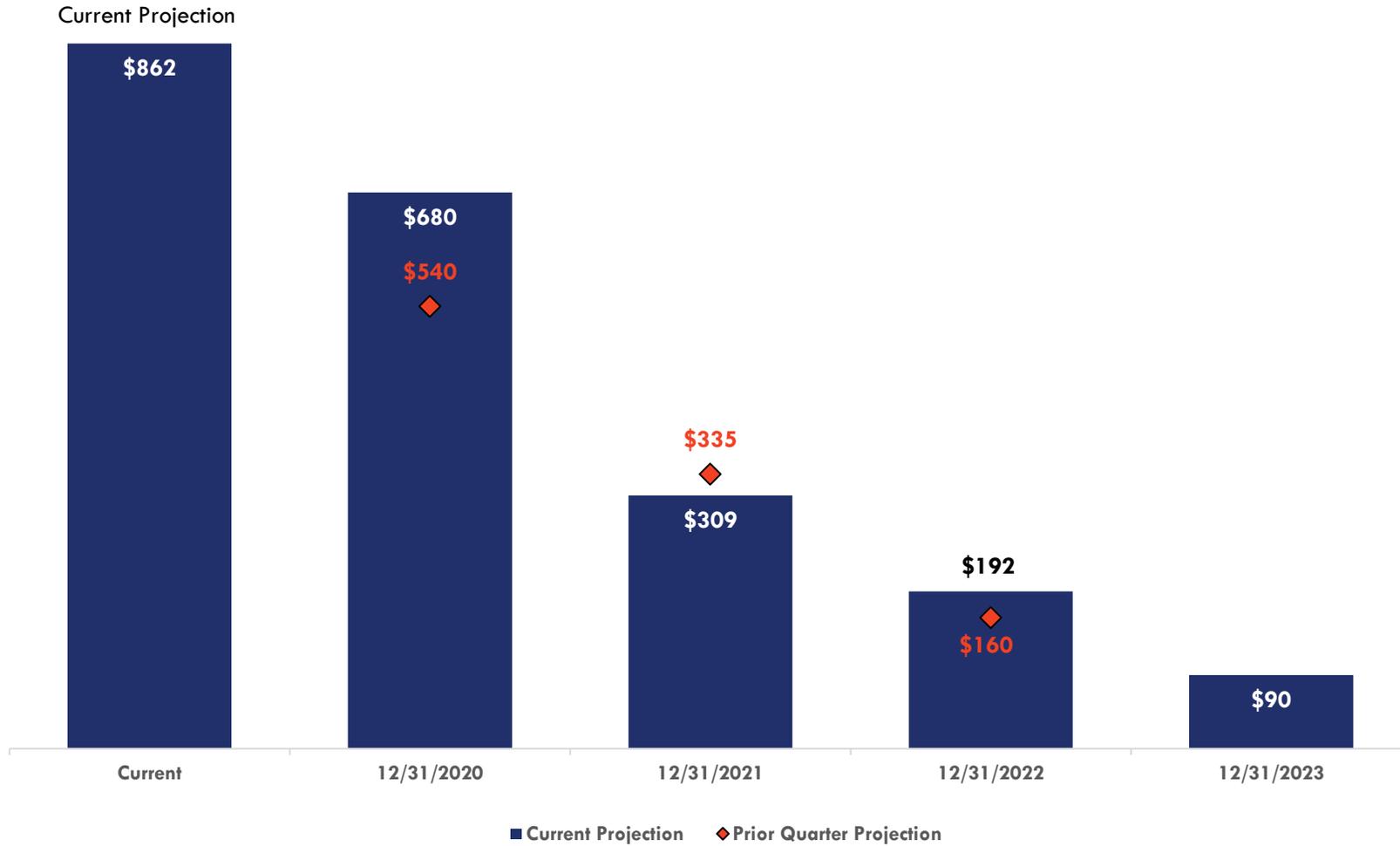
Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2023.



# Private Asset Year-End vs. Prior Projection

Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2023.

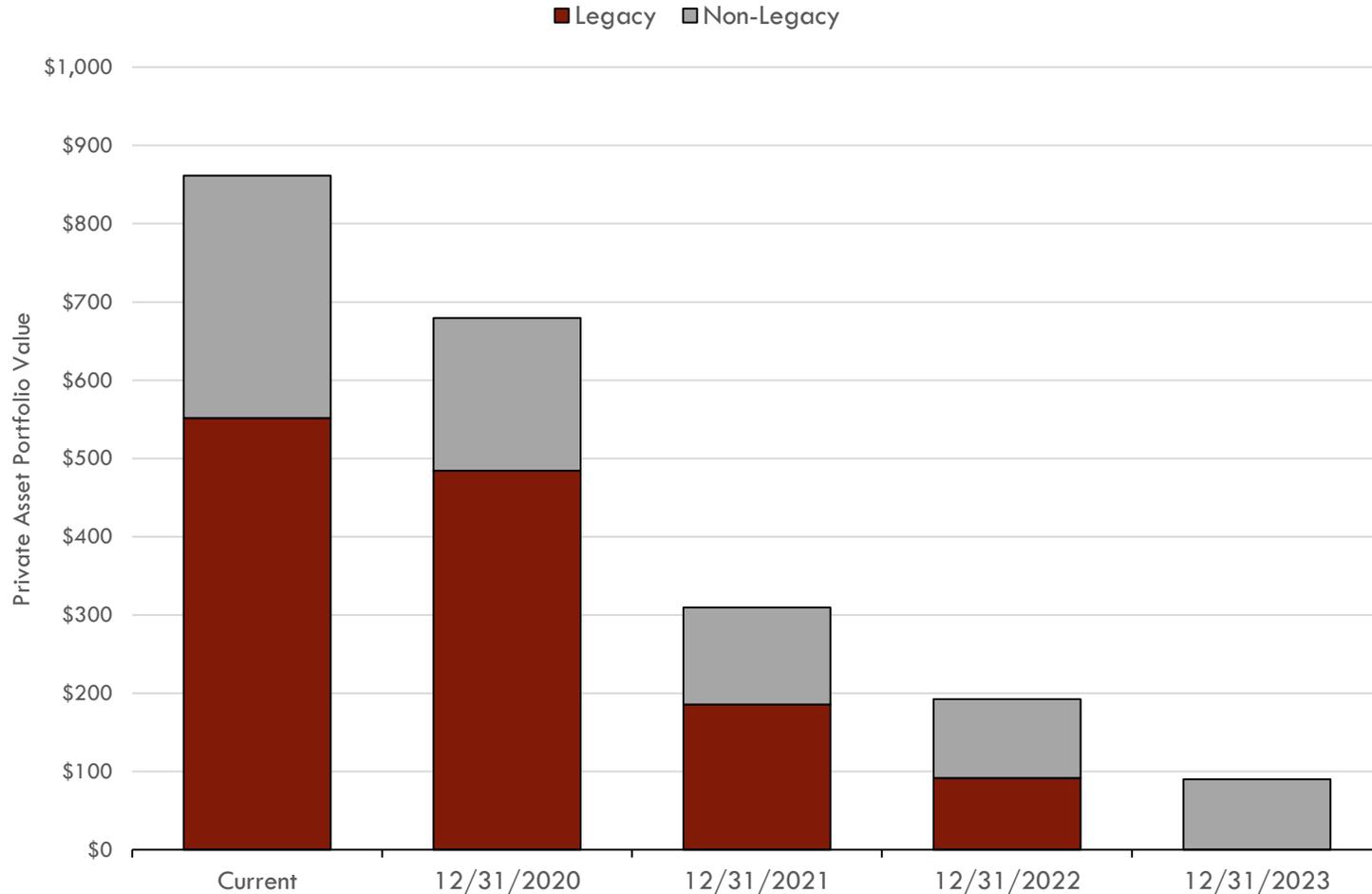
*In Millions*



# Private Asset Disposition Timeline & Composition

Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2023.

*In Millions*



|                               |       |       |       |      |     |
|-------------------------------|-------|-------|-------|------|-----|
| <b>Legacy NAV (M)</b>         | \$552 | \$484 | \$186 | \$92 | \$0 |
| <b>% of Private Portfolio</b> | 64%   | 72%   | 60%   | 48%  | 0%  |
| <b>% of DFPF Portfolio</b>    | 27%   | 23%   | 9%    | 4%   | 0%  |

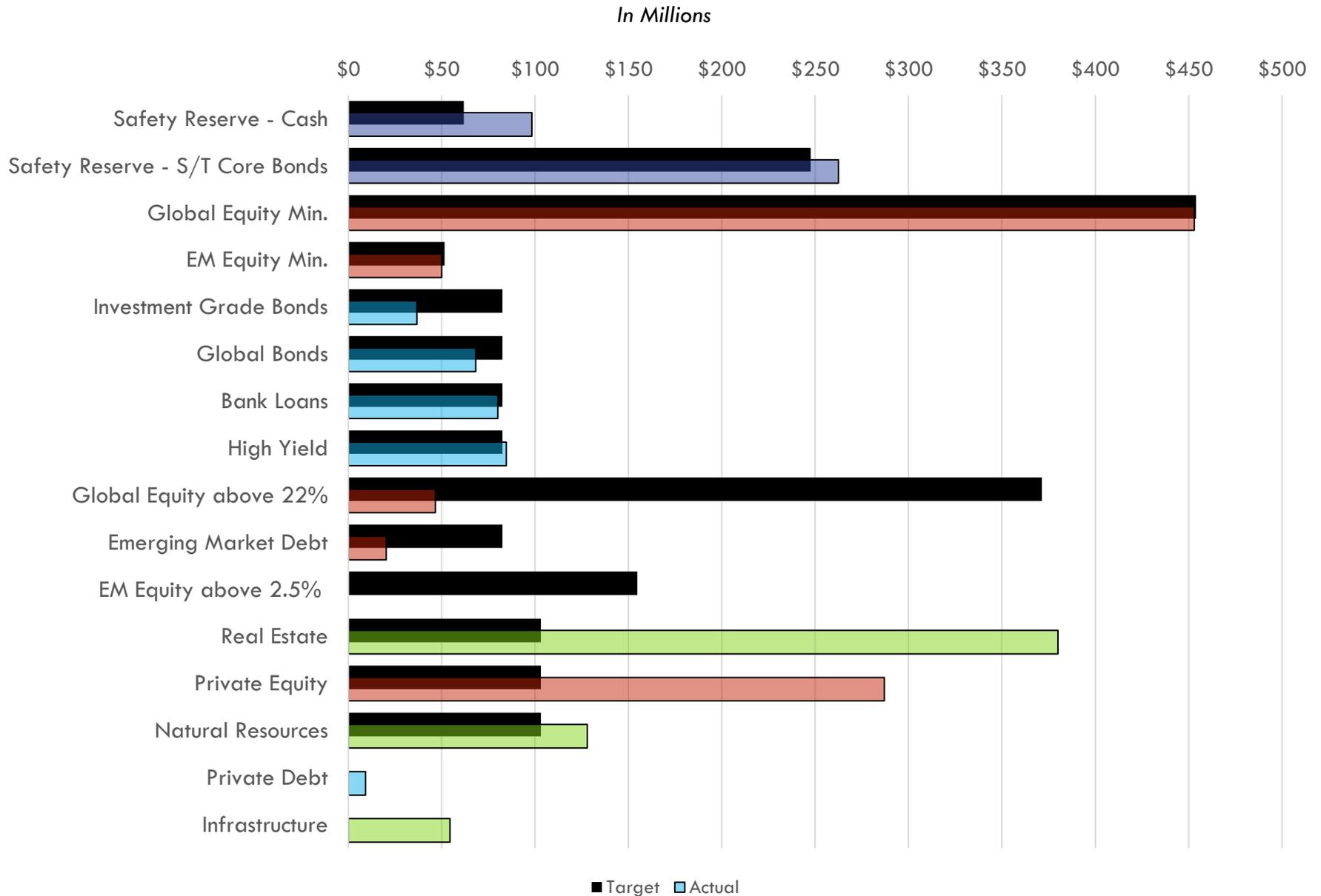
# asset allocation implementation

# Prelim Allocation & Variance to Implementation Plan

| As of 12/31/19  | Actual            |       | Target            |       | Variance |        |
|---|-------------------|-------|-------------------|-------|----------|--------|
|   | \$ (M)            | %     | \$ (M)            | %     | \$ (M)   | %      |
| <b>Order of Reallocation of Cash Distributions</b>            |                   |       |                   |       |          |        |
| 1) Safety Reserve - Cash                                      | 80.1              | 3.9%  | 61.9              | 3.0%  | 18.2     | 0.9%   |
| 2) Safety Reserve - S/T Core Bonds                            | 263.1             | 12.8% | 247.6             | 12.0% | 15.5     | 0.8%   |
| 3) Global Equity Min.   | 453.9             | 22.0% | 453.9             | 22.0% | -        | 0.0%   |
| 4) EM Equity Min.   | 50.0              | 2.4%  | 51.6              | 2.5%  | (1.6)    | -0.1%  |
| 5) Investment Grade Bonds                                     | 36.6              | 1.8%  | 82.5              | 4.0%  | (45.9)   | -2.2%  |
| 6) Global Bonds   | 69.7              | 3.4%  | 82.5              | 4.0%  | (12.9)   | -0.6%  |
| 7) Bank Loans   | 80.6              | 3.9%  | 82.5              | 4.0%  | (2.0)    | -0.1%  |
| 8) High Yield   | 86.0              | 4.2%  | 82.5              | 4.0%  | 3.5      | 0.2%   |
| 9) Global Equity above 22% (contributions limited to 6%/year) | 61.3              | 3.0%  | 371.4             | 18.0% | (310.1)  | -15.0% |
| 10) Emerging Market Debt                                      | 20.4              | 1.0%  | 82.5              | 4.0%  | (62.2)   | -3.0%  |
| 11) EM Equity above 2.5% (contributions limited to 2.5%/year) | -                 | 0.0%  | 154.7             | 7.5%  | (154.7)  | -7.5%  |
| 12) Real Estate   | 377.5             | 18.3% | 103.2             | 5.0%  | 274.3    | 13.3%  |
| 13) Private Equity  | 292.7             | 14.2% | 103.2             | 5.0%  | 189.5    | 9.2%   |
| Natural Resources   | 128.0             | 6.2%  | 103.2             | 5.0%  | 24.8     | 1.2%   |
| Private Debt  | 9.3               | 0.4%  | -                 | 0%    | 9.3      | 0.4%   |
| Infrastructure  | 54.2              | 2.6%  | -                 | 0%    | 54.2     | 2.6%   |
| <b>NET ASSET VALUE</b>  | <b>\$ 2,063.3</b> |       | <b>\$ 2,063.3</b> | 100%  |          |        |

Source: JPM Custodial Data as of 12/31/19 which is prelim and adjusted for cash activity on private markets assets.

# Prelim Allocation & Variance to Implementation Plan



Source: JPM Custodial Data as of 12/31/19 which is prelim and adjusted for cash activity on private markets assets.

## Cash Flow Redeployment Assumptions/Observations

- Net benefit & operating outflows (\$10m/month) are covered by asset growth (7.25% return ~ \$12m/month)
- All cash flows from private asset portfolio are reinvested.
- Total fund NAV stays constant – consistent with Actuarial forecast.
- Model assumes reinvestment, starting in 2022, into Private Markets to reach 5% target allocation to Private Equity, Real Estate and Natural Resources.
- Large cash distributions projected in 2021 (\$370m in net total) with majority coming from Huff, AEW, LSIA – while we do not know exact timing of these distributions, money is likely to come back in big chunks when sales occur.
- Staff would consult IAC and Board on plan to redeploy large amounts of capital.

# Private Asset Cash Flow Redeployment - 2020

| Asset Allocation       | 12/31/2019     |              | Private Asset Cash |                |              | 12/31/2020     |              |
|------------------------|----------------|--------------|--------------------|----------------|--------------|----------------|--------------|
|                        | \$ (M)         | %            | Rebalancing        | Net Cash Flow  | Redeployment | \$ (M)         | %            |
| <b>Equity</b>          | <b>858.0</b>   | <b>41.6%</b> | <b>0.0</b>         | <b>(9.5)</b>   | <b>123.8</b> | <b>972.3</b>   | <b>47.1%</b> |
| Global Equity          | 515.3          | 25.0%        |                    |                | 123.8        | 639.1          | 31.0%        |
| EM Equity              | 50.0           | 2.4%         |                    |                |              | 50.0           | 2.4%         |
| Private Equity         | 292.7          | 14.2%        |                    | (9.5)          |              | 283.2          | 13.7%        |
| <b>Fixed Income</b>    | <b>645.7</b>   | <b>31.3%</b> | <b>0.0</b>         | <b>(6.4)</b>   | <b>58.2</b>  | <b>697.5</b>   | <b>33.8%</b> |
| Cash                   | 80.1           | 3.9%         | (18.2)             |                |              | 61.9           | 3.0%         |
| ST Core Bonds          | 263.1          | 12.8%        | (15.5)             |                |              | 247.6          | 12.0%        |
| Investment Grade       | 36.6           | 1.8%         | 35.2               |                | 10.7         | 82.5           | 4.0%         |
| Global Bonds           | 69.7           | 3.4%         |                    |                | 12.9         | 82.5           | 4.0%         |
| Bank Loans             | 80.6           | 3.9%         | 2.0                |                |              | 82.5           | 4.0%         |
| High Yield Bonds       | 86.0           | 4.2%         | (3.5)              |                |              | 82.5           | 4.0%         |
| EM Debt                | 20.4           | 1.0%         |                    |                | 34.6         | 55.0           | 2.7%         |
| Private Debt           | 9.3            | 0.4%         |                    | (6.4)          |              | 2.8            | 0.1%         |
| <b>Real Assets</b>     | <b>559.7</b>   | <b>27.1%</b> | <b>0.0</b>         | <b>(166.1)</b> | <b>0.0</b>   | <b>393.6</b>   | <b>19.1%</b> |
| Real Estate            | 377.5          | 18.3%        |                    | (144.1)        |              | 233.4          | 11.3%        |
| Natural Resources      | 128.0          | 6.2%         |                    | (15.6)         |              | 112.4          | 5.4%         |
| Infrastructure         | 54.2           | 2.6%         |                    | (6.5)          |              | 47.7           | 2.3%         |
| <b>NET ASSET VALUE</b> | <b>2,063.3</b> |              | <b>0.0</b>         | <b>(182.0)</b> | <b>182.0</b> | <b>2,063.3</b> |              |

Fixed Income rebalanced to target – excess cash and ST Core Bonds are reinvested in Global Bonds.

# Private Asset Cash Flow Redeployment - 2020

| Asset Allocation       | 12/31/2019     |              | Private Asset Cash |                |              | 12/31/2020     |              |
|------------------------|----------------|--------------|--------------------|----------------|--------------|----------------|--------------|
|                        | \$ (M)         | %            | Rebalancing        | Net Cash Flow  | Redeployment | \$ (M)         | %            |
| <b>Equity</b>          | <b>858.0</b>   | <b>41.6%</b> | <b>0.0</b>         | <b>(9.5)</b>   | <b>123.8</b> | <b>972.3</b>   | <b>47.1%</b> |
| Global Equity          | 515.3          | 25.0%        |                    |                | 123.8        | 639.1          | 31.0%        |
| EM Equity              | 50.0           | 2.4%         |                    |                |              | 50.0           | 2.4%         |
| Private Equity         | 292.7          | 14.2%        |                    | (9.5)          |              | 283.2          | 13.7%        |
| <b>Fixed Income</b>    | <b>645.7</b>   | <b>31.3%</b> | <b>0.0</b>         | <b>(6.4)</b>   | <b>58.2</b>  | <b>697.5</b>   | <b>33.8%</b> |
| Cash                   | 80.1           | 3.9%         | (18.2)             |                |              | 61.9           | 3.0%         |
| ST Core Bonds          | 263.1          | 12.8%        | (15.5)             |                |              | 247.6          | 12.0%        |
| Investment Grade       | 36.6           | 1.8%         | 35.2               |                | 10.7         | 82.5           | 4.0%         |
| Global Bonds           | 69.7           | 3.4%         |                    |                | 12.9         | 82.5           | 4.0%         |
| Bank Loans             | 80.6           | 3.9%         | 2.0                |                |              | 82.5           | 4.0%         |
| High Yield Bonds       | 86.0           | 4.2%         | (3.5)              |                |              | 82.5           | 4.0%         |
| EM Debt                | 20.4           | 1.0%         |                    |                | 34.6         | 55.0           | 2.7%         |
| Private Debt           | 9.3            | 0.4%         |                    | (6.4)          |              | 2.8            | 0.1%         |
| <b>Real Assets</b>     | <b>559.7</b>   | <b>27.1%</b> | <b>0.0</b>         | <b>(166.1)</b> | <b>0.0</b>   | <b>393.6</b>   | <b>19.1%</b> |
| Real Estate            | 377.5          | 18.3%        |                    | (144.1)        |              | 233.4          | 11.3%        |
| Natural Resources      | 128.0          | 6.2%         |                    | (15.6)         |              | 112.4          | 5.4%         |
| Infrastructure         | 54.2           | 2.6%         |                    | (6.5)          |              | 47.7           | 2.3%         |
| <b>NET ASSET VALUE</b> | <b>2,063.3</b> |              | <b>0.0</b>         | <b>(182.0)</b> | <b>182.0</b> | <b>2,063.3</b> |              |

\$182m net projected to be received in 2020 private asset cash flows

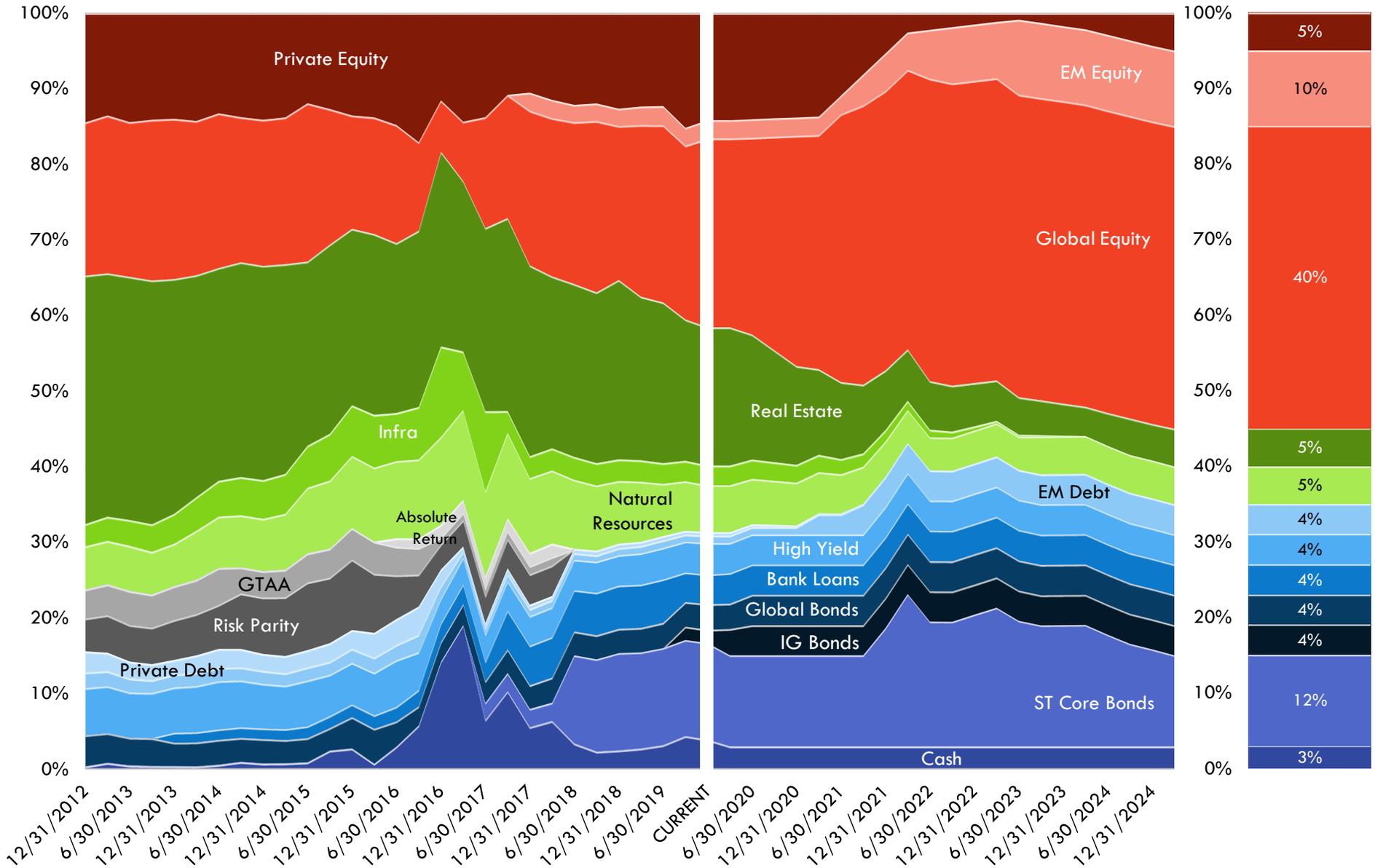
# Private Asset Cash Flow Redeployment - 2020

| Asset Allocation       | 12/31/2019     |              | Private Asset |                |                      | 12/31/2020     |              |
|------------------------|----------------|--------------|---------------|----------------|----------------------|----------------|--------------|
|                        | \$ (M)         | %            | Rebalancing   | Net Cash Flow  | Cash<br>Redeployment | \$ (M)         | %            |
| <b>Equity</b>          | <b>858.0</b>   | <b>41.6%</b> | <b>0.0</b>    | <b>(9.5)</b>   | <b>123.8</b>         | <b>972.3</b>   | <b>47.1%</b> |
| Global Equity          | 515.3          | 25.0%        |               |                | 2 123.8              | 639.1          | 31.0%        |
| EM Equity              | 50.0           | 2.4%         |               |                |                      | 50.0           | 2.4%         |
| Private Equity         | 292.7          | 14.2%        |               | (9.5)          |                      | 283.2          | 13.7%        |
| <b>Fixed Income</b>    | <b>645.7</b>   | <b>31.3%</b> | <b>0.0</b>    | <b>(6.4)</b>   | <b>58.2</b>          | <b>697.5</b>   | <b>33.8%</b> |
| Cash                   | 80.1           | 3.9%         | (18.2)        |                |                      | 61.9           | 3.0%         |
| ST Core Bonds          | 263.1          | 12.8%        | (15.5)        |                |                      | 247.6          | 12.0%        |
| Investment Grade       | 36.6           | 1.8%         | 35.2          |                | 1 10.7               | 82.5           | 4.0%         |
| Global Bonds           | 69.7           | 3.4%         |               |                | 12.9                 | 82.5           | 4.0%         |
| Bank Loans             | 80.6           | 3.9%         | 2.0           |                |                      | 82.5           | 4.0%         |
| High Yield Bonds       | 86.0           | 4.2%         | (3.5)         |                |                      | 82.5           | 4.0%         |
| EM Debt                | 20.4           | 1.0%         |               |                | 3 34.6               | 55.0           | 2.7%         |
| Private Debt           | 9.3            | 0.4%         |               | (6.4)          |                      | 2.8            | 0.1%         |
| <b>Real Assets</b>     | <b>559.7</b>   | <b>27.1%</b> | <b>0.0</b>    | <b>(166.1)</b> | <b>0.0</b>           | <b>393.6</b>   | <b>19.1%</b> |
| Real Estate            | 377.5          | 18.3%        |               | (144.1)        |                      | 233.4          | 11.3%        |
| Natural Resources      | 128.0          | 6.2%         |               | (15.6)         |                      | 112.4          | 5.4%         |
| Infrastructure         | 54.2           | 2.6%         |               | (6.5)          |                      | 47.7           | 2.3%         |
| <b>NET ASSET VALUE</b> | <b>2,063.3</b> |              | <b>0.0</b>    | <b>(182.0)</b> | <b>182.0</b>         | <b>2,063.3</b> |              |

\$182m in Private Asset Cash Flows Redeployed as follows:

1. Fill up Investment Grade & Global Bond allocation to 4% target
2. Global Equity – Max Allocation 6% per year ~ \$123 million
3. EM Debt towards 4% target

# Asset Allocation Over Time





## DISCUSSION SHEET

### ITEM #C6

**Topic:**                    **Real Estate Overview**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code.

**Discussion:**            Staff will provide an overview of the asset and a review of the strategy for Vista Ridge 7 managed by BentallGreenOak, Kings Harbor managed by L&B, and Museum Tower, which is internally managed by staff.

*Regular Board Meeting – Thursday, January 9, 2020*



## DISCUSSION SHEET

### ITEM #C7

**Topic:** Internal Controls Review

**Discussion:** The Chief Financial Officer will present a brief overview of the internal controls in place at DFPF and her assessment of the appropriateness of the controls for DFPF.

*Regular Board Meeting – Thursday, January 9, 2020*

# Internal Controls Overview

**DALLAS POLICE AND FIRE PENSION SYSTEM**

JANUARY 9, 2020

# Internal Control Defined

Internal Control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

-COSO Integrated Framework Executive Summary

# Primary Objectives

- ▶ Accurate financial information
- ▶ Compliance with policies and procedures
- ▶ Efficient use of resources
- ▶ Accomplishment of goals and objectives
- ▶ Safeguarding of assets

# Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board.

-COSO Integrated Framework Executive Summary

# Management's Role

- ▶ Create the control environment
- ▶ Assess risk
- ▶ Develop processes and procedures
  - ▶ Approvals
  - ▶ Authorizations
  - ▶ Segregation of duties
  - ▶ Reconciliations
  - ▶ Security of assets
- ▶ Monitor compliance

# Board's Role

- ▶ Provide independent oversight of internal controls
- ▶ Provide a forum, separate from management, in which auditors can candidly discuss concerns
- ▶ Help ensure that management develops and adheres to a sound system of internal controls and that the auditors objectively report on any findings

# Auditors' Role

- ▶ Report directly to the Board (or Audit Committee)
- ▶ Communicate risk assessment to the Board
- ▶ Communicate corrected and uncorrected audit differences to the Board
- ▶ Report to Board of any lack of cooperation of management during the audit
- ▶ Audit opinion does not cover internal controls, however, any significant deficiencies or material weaknesses in internal control are reported to the Board in writing

## Key Control Considerations Addressed by DFPF

- ▶ Culture of accountability and transparency
- ▶ Frequency/content of investment and financial reporting to Board
- ▶ Function of Professional Services Committee of the Board
- ▶ Transparency in budget process
- ▶ Accuracy of payments and reporting to members
- ▶ Valuation of private assets
- ▶ Segregation of duties related to cash disbursements
- ▶ Layers of review
- ▶ Accuracy of changes to member information
- ▶ Documentation of Benefits related policies and processes
- ▶ Account reconciliations

## Actions to improve internal control during the past eighteen months or currently in process

- ▶ Changed financial closings to a monthly process to more quickly identify and correct errors in financials to provide more accurate financial information
- ▶ Implemented a Benefits Change report to verify actual changes in Pension Gold (pension administration software) mirrors changes processed through the normal process
- ▶ Focus on reviewing and updating process documentation to ensure continuity and compliance with policies and procedures
- ▶ Continued to modify processes to avoid benefit errors and improve oversight
- ▶ Conducted an intrusion test (completed with no breaches) and assessed the risk of a technology intrusion and fraud, then planned and budgeted for continual system monitoring

## Actions to improve internal control during the past eighteen months or currently in process

- ▶ Social engineering topics and risks discussed with staff and vendors which led to the purchase of cyber insurance
- ▶ Partnered with LRS (pension administration software developer) to conduct a Business Continuity exercise to insure the pension payroll could be processed by them, if ever needed
- ▶ Consistent, detailed review of financials and account reconciliations to provide accurate financial information
- ▶ Continued conversations and emphasis with employees on their role in bringing integrity and ethics to all of their work
- ▶ Holding employees accountable for their internal control responsibilities and conducting counseling sessions with employees as needed

Questions?



## DISCUSSION SHEET

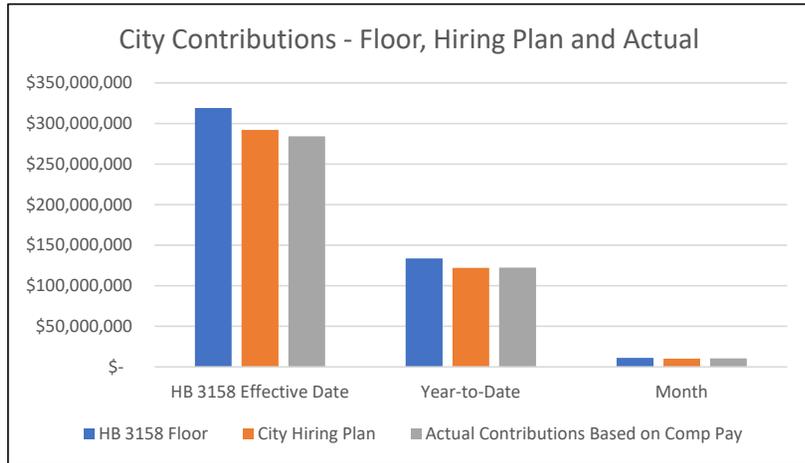
### ITEM #C8

**Topic:** Monthly Contribution

**Discussion:** Staff will review the Monthly Contribution Report.

*Regular Board Meeting – Thursday, January 9, 2020*

**Contribution Tracking Summary - January 2020 (November 2019 Data)**



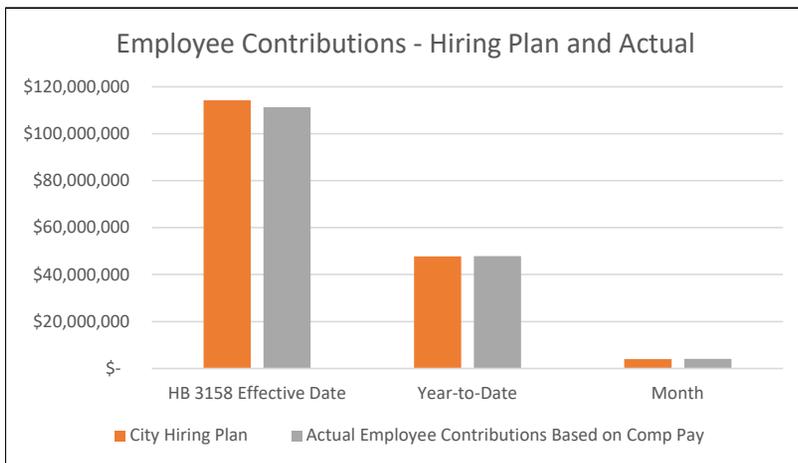
Actual Comp Pay was 97% of the Hiring Plan estimate since the effective date of HB 3158.

In the most recent month Actual Comp Pay was 104% of the Hiring Plan estimate and 95% of the floor amount.

The Hiring Plan Comp Pay estimate increased by 5.22% in 2019.

Through 2024 the HB 3158 Floor is in place so there is no City Contribution shortfall.

The combined actual hiring was 41 higher than the Hiring Plan for the pay period ending December 10, 2019. Fire was over the estimate by 101 fire fighters and Police was short 60 officers.



Since the effective date of HB 3158 actual employee contributions have been \$3 million less than the Hiring Plan estimate. Potential earnings loss due to the contribution shortfall is \$408k at the Assumed Rate of Return.

Employee contributions exceeded the Hiring Plan estimate for the month and the year.

There is no Floor on employee contributions.

**Contribution Summary Data**

**City Contributions**

|                        | Number of Pay Periods Beginning in the Month | HB 3158 Floor  | City Hiring Plan | Actual Contributions Based on Comp Pay | Additional Contributions to Meet Floor Minimum | Comp Pay Contributions as a % of Floor Contributions | Comp Pay Contributions as a % of Hiring Plan Contributions |
|------------------------|--|----------------|------------------|--|--|--|--|
| <b>Nov-19</b>          |  |                |                  |  |  |  |  |
| Month                  | 2  | \$ 11,142,000  | \$ 10,164,231    | \$ 10,586,383                          | \$ 555,617                                     | 95%  | 104%   |
| Year-to-Date           |  | \$ 133,704,000 | \$ 121,970,769   | \$ 122,415,634                         | \$ 11,288,366                                  | 92%  | 100%   |
| HB 3158 Effective Date |  | \$ 319,205,000 | \$ 291,976,154   | \$ 284,296,847                         | \$ 34,908,153                                  | 89%  | 97%  |

Due to the Floor through 2024, there is no cumulative shortfall in City Contributions  
 Does not include the flat \$13 million annual City Contribution payable through 2024.  
 Does not include Supplemental Plan Contributions.

**Employee Contributions**

|                        | Number of Pay Periods Beginning in the Month | City Hiring Plan | Actual Employee Contributions Based on Comp Pay | Actual Contribution Shortfall Compared to Hiring Plan | Actuarial Valuation Contribution Assumption | Actual Contributions as a % of Hiring Plan Contributions | Actual Contributions as a % of Actuarial Val Assumption |
|------------------------|--|------------------|---|---|---|--|---|
| <b>Nov-19</b>          |  |                  |   |   |   |  |   |
| Month                  | 2  | \$ 3,977,308     | \$ 4,143,854                                    | \$ 166,547  | \$ 3,770,834                                | 104%   | 110%  |
| Year-to-Date           |  | \$ 47,727,692    | \$ 47,905,291                                   | \$ 177,599  | \$ 45,250,008                               | 100%   | 106%  |
| HB 3158 Effective Date |  | \$ 114,251,538   | \$ 111,259,351                                  | \$ (2,992,188)  | \$ 109,348,804                              | 97%  | 102%  |

Potential Earnings Loss from the Shortfall based on Assumed Rate of Return \$ (407,966)

Does not include Supplemental Plan Contributions.

**Reference Information**

| <b>City Contributions: HB 3158 Bi-weekly Floor and the City Hiring Plan Converted to Bi-weekly Contributions</b> |                                |                                   |  |  |  |  |
|--|--------------------------------|-----------------------------------|--|--|--|--|
|  | <b>HB 3158 Bi-weekly Floor</b> | <b>City Hiring Plan-Bi-weekly</b> | <b>HB 3158 Floor Compared to the Hiring Plan</b> | <b>Hiring Plan as a % of the Floor</b> | <b>% Increase/ (decrease) in the Floor</b> | <b>% Increase/ (decrease) in the Hiring Plan</b> |
| 2017   | \$ 5,173,000                   | \$ 4,936,154                      | \$ 236,846                                       | 95%                                    |  |  |
| 2018   | \$ 5,344,000                   | \$ 4,830,000                      | \$ 514,000                                       | 90%                                    | 3.31%                                      | -2.15%   |
| 2019   | \$ 5,571,000                   | \$ 5,082,115                      | \$ 488,885                                       | 91%                                    | 4.25%                                      | 5.22%  |
| 2020   | \$ 5,724,000                   | \$ 5,254,615                      | \$ 469,385                                       | 92%                                    | 2.75%                                      | 3.39%  |
| 2021   | \$ 5,882,000                   | \$ 5,413,846                      | \$ 468,154                                       | 92%                                    | 2.76%                                      | 3.03%  |
| 2022   | \$ 6,043,000                   | \$ 5,599,615                      | \$ 443,385                                       | 93%                                    | 2.74%                                      | 3.43%  |
| 2023   | \$ 5,812,000                   | \$ 5,811,923                      | \$ 77  | 100%                                   | -3.82%                                     | 3.79%  |
| 2024   | \$ 6,024,000                   | \$ 6,024,231                      | \$ (231)   | 100%                                   | 3.65%                                      | 3.65%  |

*The HB 3158 Bi-weekly Floor ends after 2024*

| <b>Employee Contributions: City Hiring Plan and Actuarial Val. Converted to Bi-weekly Contributions</b> |  |   |   |  |
|---|--|---|---|--|
|   |  | <b>City Hiring Plan Converted to Bi-weekly Employee Contributions</b> | <b>Actuarial Valuation Assumption Converted to Bi-weekly Employee contributions</b> | <b>Actuarial Valuation as a % of Hiring Plan</b> |
| 2017  |  | \$ 1,931,538  | \$ 1,931,538  | 100%   |
| 2018  |  | \$ 1,890,000  | \$ 1,796,729  | 95%  |
| 2019  |  | \$ 1,988,654  | \$ 1,885,417  | 95%  |
| 2020  |  | \$ 2,056,154  | \$ 2,056,154  | 100%   |
| 2021  |  | \$ 2,118,462  | \$ 2,118,462  | 100%   |
| 2022  |  | \$ 2,191,154  | \$ 2,191,154  | 100%   |
| 2023  |  | \$ 2,274,231  | \$ 2,274,231  | 100%   |
| 2024  |  | \$ 2,357,308  | \$ 2,357,308  | 100%   |

The information on this page is for reference. The only numbers on this page that may change before 2025 are the Actuarial Valuation Employee Contributions Assumptions for the years 2020-2024 and the associated percentage.

**Reference Information - Actuarial Valuation and GASB 67/68 Contribution Assumptions**

**Actuarial Assumptions Used in the Most Recent Actuarial Valuation - These assumptions will be reevaluated annually & may change.**

City Contributions are based on the Floor through 2024, the Hiring Plan from 2025 to 2037, after 2037 an annual growth rate of 2.75% is assumed  
 Employee Contributions for 2018 are based on the 2017 actual employee contributions inflated by the growth rate of 2.75% and the Hiring Plan for subsequent years until 2038, when the 2037 Hiring Plan is increased by the 2.75 growth rate for the next 10 years

**Actuarial/GASB Contribution Assumption Changes Since the Passage of HB 3158**

|   | Actuarial Valuation | GASB 67/68 |
|---|---------------------|------------|
| <b>YE 2017 (1/1/2018 Valuation)</b>   |                     |            |
| 2018 Employee Contributions Assumption - based on 2017 actual plus growth rate not the Hiring Plan Payroll  | \$ (2,425,047)      | *          |
| <b>2019 Estimate (1/1/2019 Valuation)</b>   |                     |            |
| 2019 Employee Contribution Assumption   | \$ 9,278            | *          |
| *90% of Hiring Plan was used for the Cash Flow Projection for future years in the 12/31/2017 GASB 67/68 calculation. At 12-31-17 and 12-31-18 this did not impact the pension liability or the funded percentage. |                     |            |

The information on this page is for reference. It is intended to document contribution related assumptions used to prepare the Actuarial Valuation and changes to those assumptions over time, including the dollar impact of the changes. Contribution changes impacting the GASB 67/68 liability will also be included.

| <b>City Hiring Plan - Annual Computation Pay and Numbers of Employees</b> |                 |                |                 |                     |            |            |
|---|-----------------|----------------|-----------------|---------------------|------------|------------|
| Year  | Computation Pay |                |                 | Number of Employees |            |            |
|   | Hiring Plan     | Actual         | Difference      | Hiring Plan         | Actual EOY | Difference |
| 2017  | \$ 372,000,000  | Not Available  | Not Available   | 5,240               | 4,935      | (305)      |
| 2018  | \$ 364,000,000  | \$ 349,885,528 | \$ (14,114,472) | 4,988               | 4,983      | (5)        |
| 2019  | \$ 383,000,000  |                |                 | 5,038               |            |            |
| 2020  | \$ 396,000,000  |                |                 | 5,063               |            |            |
| 2021  | \$ 408,000,000  |                |                 | 5,088               |            |            |
| 2022  | \$ 422,000,000  |                |                 | 5,113               |            |            |
| 2023  | \$ 438,000,000  |                |                 | 5,163               |            |            |
| 2024  | \$ 454,000,000  |                |                 | 5,213               |            |            |
| 2025  | \$ 471,000,000  |                |                 | 5,263               |            |            |
| 2026  | \$ 488,000,000  |                |                 | 5,313               |            |            |
| 2027  | \$ 507,000,000  |                |                 | 5,363               |            |            |
| 2028  | \$ 525,000,000  |                |                 | 5,413               |            |            |
| 2029  | \$ 545,000,000  |                |                 | 5,463               |            |            |
| 2030  | \$ 565,000,000  |                |                 | 5,513               |            |            |
| 2031  | \$ 581,000,000  |                |                 | 5,523               |            |            |
| 2032  | \$ 597,000,000  |                |                 | 5,523               |            |            |
| 2033  | \$ 614,000,000  |                |                 | 5,523               |            |            |
| 2034  | \$ 631,000,000  |                |                 | 5,523               |            |            |
| 2035  | \$ 648,000,000  |                |                 | 5,523               |            |            |
| 2036  | \$ 666,000,000  |                |                 | 5,523               |            |            |
| 2037  | \$ 684,000,000  |                |                 | 5,523               |            |            |

| Comp Pay by Month - 2019 | Annual Divided by 26 Pay Periods | Actual        | Difference   | 2019 Cumulative Difference | Number of Employees EOM | Difference |
|--------------------------|----------------------------------|---------------|--------------|----------------------------|-------------------------|------------|
| January                  | \$ 29,461,538                    | \$ 29,084,185 | \$ (377,354) | \$ (377,354)               | 4963                    | (75)       |
| February                 | \$ 29,461,538                    | \$ 29,067,129 | \$ (394,410) | \$ (771,763)               | 4974                    | (64)       |
| March                    | \$ 29,461,538                    | \$ 29,092,504 | \$ (369,035) | \$ (1,140,798)             | 4962                    | (76)       |
| April                    | \$ 29,461,538                    | \$ 28,974,912 | \$ (486,626) | \$ (1,627,424)             | 4955                    | (83)       |
| May                      | \$ 44,192,308                    | \$ 43,987,516 | \$ (204,791) | \$ (1,832,216)             | 4955                    | (83)       |
| June                     | \$ 29,461,538                    | \$ 29,322,734 | \$ (138,804) | \$ (1,971,020)             | 4938                    | (100)      |
| July                     | \$ 29,461,538                    | \$ 29,651,997 | \$ 190,458   | \$ (1,780,561)             | 5027                    | (11)       |
| August                   | \$ 29,461,538                    | \$ 29,823,067 | \$ 361,529   | \$ (1,419,033)             | 5016                    | (22)       |
| September                | \$ 29,461,538                    | \$ 29,912,255 | \$ 450,717   | \$ (968,316)               | 5042                    | 4          |
| October                  | \$ 44,192,308                    | \$ 45,226,457 | \$ 1,034,149 | \$ 65,833                  | 5038                    | -          |
| November                 | \$ 29,461,538                    | \$ 30,685,168 | \$ 1,223,629 | \$ 1,289,463               | 5079                    | 41         |
| December                 | \$ 29,461,538                    | \$ -          |              | \$ 1,289,463               |                         |            |



## DISCUSSION SHEET

### ITEM #C9

**Topic:** Board approval of Trustee education and travel

- a. Future Education and Business-related Travel
- b. Future Investment-related Travel

**Discussion:**

- a. Per the Education and Travel Policy and Procedure, planned Trustee education and business-related travel and education which does not involve travel requires Board approval prior to attendance.

Attached is a listing of requested future education and travel noting approval status.

- b. Per the Investment Policy Statement, planned Trustee travel related to investment monitoring, and in exceptional cases due diligence, requires Board approval prior to attendance.

There is no future investment-related travel for Trustees at this time.

*Regular Board Meeting – Thursday, January 9, 2020*

**Future Education and Business Related Travel  
Regular Board Meeting – January 8, 2020**

ATTENDING APPROVED

1. **Conference:** **TEXPERS Basic Trustee Training**  
**Dates:** May 2, 2020  
**Location:** Galveston, TX  
**Est. Cost:** TBD
  
2. **Conference:** **TEXPERS Advanced Trustee Training**  
**Dates:** May 2, 2020  
**Location:** Galveston, TX  
**Est. Cost:** TBD
  
3. **Conference:** **TEXPERS 31st Annual Conference**  
**Dates:** May 3-6, 2020  
**Location:** Galveston, TX  
**Est. Cost:** TBD
  
4. **Conference:** **NCPERS Trustee Education Seminar (TEDS)**  
**Dates:** May 9 – 10, 2020  
**Location:** Las Vegas, NV  
**Est. Cost:** TBD

ATTENDING APPROVED

5. **Conference:** NCPERS Annual Conference  
**Dates:** May 10 – 13, 2020  
**Location:** Las Vegas, TX  
**Est. Cost:** TBD
  
6. **Conference:** TEXPERS Summer Education Forum  
**Dates:** August 16-18, 2020  
**Location:** San Antonio, TX  
**Est. Cost:** TBD



## DISCUSSION SHEET

### ITEM #C10

**Topic:** Correction of Benefit Payment Errors

**Discussion:** Pursuant to the Correction of Errors in Benefits Payments Policy the Executive Director is notifying the Board of the overpayment and underpayment of a benefit in excess of \$10,000.

The overpayment was the result of an error on the Excess Plan worksheet that occurred at the time the benefit payments was set up.

The underpayment resulted from the failure to increase the Beneficiary's benefit payment to the Special Survivor percentage from the 50% benefit when the Beneficiary reached age 55. The error was discovered while staff was auditing all spouse beneficiaries that began receiving payments prior to age 55.

*Regular Board Meeting – Thursday, January 9, 2020*



## **DISCUSSION SHEET**

### **ITEM #C11**

**Topic:**                    **Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation, including claims involving overpayment of benefits, consideration of legal options regarding DFPF's interests in funds managed by Lone Star Investment Advisors or any other legal matter in which the duty of the attorneys to DFPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

**Discussion:**            Counsel will brief the Board on these issues.

*Regular Board Meeting – Thursday, January 9, 2020*



## DISCUSSION SHEET

### ITEM #C12

**Topic:** Executive Director 2020 Objectives

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

**Discussion:** The Board will establish performance objectives for the Executive Director for 2020.

*Regular Board Meeting – Thursday, January 9, 2020*



## **DISCUSSION SHEET**

### **ITEM #D1**

**Topic:**                      **Public Comment**

**Discussion:**                Comments from the public will be received by the Board.

*Regular Board Meeting – Thursday, January 9, 2020*



## DISCUSSION SHEET

### ITEM #D2

**Topic:** Executive Director's report

- a. Associations' newsletters
  - NCPERS (December 2019)
- b. Open Records

**Discussion:** The Executive Director will brief the Board regarding the above information.

*Regular Board Meeting – Thursday, January 9, 2020*

THE NCPERS

# MONITOR

The Latest in Legislative News

December 2019

## In This Issue

### 2 Executive Directors Corner



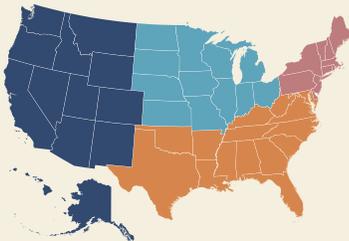
Yes, it is hard work to be actively engaged in the policy issues that shape our world. But it's a little easier when you see the results of engagement.

### 3 Cap on Discount Rates for Multiemployer Pension "Taft-Hartley" Plans



Of considerable interest to actuaries, economists, trustees, and policymakers is the discussion of what is an appropriate assumed rate of investment return (i.e., discount rate) for pension plans.

### 4 Around the Regions



This month, we will highlight California, Pennsylvania, Kentucky, and Illinois.

## Retirement and Medical Benefits Matter More to Workers than Pay, Survey Finds



Retirement and healthcare benefits are more important than salary in attracting and retaining workers to public service jobs, a new survey has found.

The survey, "State and Local Employee Views on Their Jobs, Pay and Benefits," found that nearly all state and local workers (93 percent) consider pensions an incentive for workers to have long public service careers, and 94 percent agreed that a pension is a good tool for attracting and retaining employees.

The findings were published by the National Institute on Retirement (NIRS), based on research conducted by Greenwald & Associates.

Employee retention in public service jobs has been a growing concern for state and local governments. Indeed, 91 percent of respondents to a 2017 survey by the Center for State and Local Government Excellence cited recruitment and retention as important to their organizations.

In the NIRS survey, some 73 percent of respondents said they would be more likely to leave their job if their pension were cut, and 79 percent say they would be more likely to leave their job if their healthcare benefits were cut.

[CONTINUED ON PAGE 6](#)



## Kentucky Governor's Defeat Underscores the Power of Getting Involved

**M**aking our voices heard, individually and collectively, is one of the most important things we can do to support public pensions. Locally and nationally, it's up to us to speak up and speak out to ensure that as many Americans as possible will have the dignified and secure retirement for which they've worked so hard.

Yes, it is hard work to be actively engaged in the policy issues that shape our world. But it's a little easier when you see the results of engagement. And those results were clearly on display in the 2019 Kentucky gubernatorial race.

Last month, Kentucky's unpopular Republican governor, Matt Bevin, expected to secure a second term. His four years in office have been marked by turmoil and controversy and outright warfare with teachers and public pension advocates.

Well, Governor Bevin won't be back. He lost to Attorney General Andy Beshear, and is now busy packing up to leave the Governor's mansion on December 10.

Why? Vocal opposition by public sector workers—specifically, Kentucky's beleaguered teachers—played a critical role. Dedicated educators endured four years of Bevin's insults as he labeled them “selfish” and “thugs” for daring to stand up for pensions and school budgets. In one radio interview on pension reform, Bevin likened teachers to



“drowning victims” who need to be “knocked out and dragged to shore for their own good.”

Bevin made a basic mistake: Instead of working with Kentucky's teachers to improve public education, he steadily demeaned and attacked them. The result was that about 1,000 members of the Kentucky Education Association volunteered for the Beshear campaign.

*Yes, it is hard work to be actively engaged in the policy issues that shape our world. But it's a little easier when you see the results of engagement.*

“I'm so proud of us!” a school librarian commented on the page of Kentucky 120 United, a grassroots group of 7,000 teachers and educators who organized the state's teachers strikes in 2018.

[CONTINUED ON PAGE 8](#)

# Cap on Discount Rates for Multiemployer Pension “Taft-Hartley” Plans

By Tony Roda

**O**f considerable interest to actuaries, economists, trustees, and policymakers is the discussion of what is an appropriate assumed rate of investment return (i.e., discount rate) for pension plans. Earlier this year I wrote about the major themes that are driving retirement and pension policy in this current 116th Congress – the discount rate discussion was one of those themes.

During a House Ways and Means Committee markup of retirement legislation this spring, the discount rate issue was raised

by four Republican members: Reps. Drew Ferguson (GA), Tom Rice (SC), David Schweikert (AZ), and Jodey Arrington (TX). In taking aim at a provision to give pension funding relief to certain ERISA-covered, privately-held, community newspapers, they argued that by allowing the plans to use a higher discount rate and a longer amortization period, the newspapers would be allowed to systematically and legally underfund their pension plans.

Discount rates have an inverse relationship to the estimate of a pension plan’s future liabilities, i.e., the higher the discount rate, the lower the estimate of future liabilities. This, in turn, directly affects the estimates of plan costs and, consequently, the level of required employer contributions in multiemployer pension plans (both employer and employee contributions in the context of public pension plans).

Congressman Schweikert added that one aspect of the newspaper provision was positive – the requirement that any pension plan taking advantage of the funding relief would have to calculate the funding targets and normal cost of any new benefit accruals by using the U.S. Treasury obligation yield curve. Schweikert said that this concept, once put into statute, should be applied to multiemployer and governmental pension plans.



As our community knows, the reporting requirements of the proposed Public Employee Pension Transparency Act (PEPTA) mandate the use of the Treasury yield curve to calculate the funded status of public pension plans. We have opposed this legislation since it was first introduced in 2010 because it will cause unnecessary alarm among plan participants about funding levels and will not provide any useful economic data with which to analyze the sustainability of public plans.

The discussion on discount rates had been rhetorical until just recently. It is now a more practical challenge for multiemployer plans – the collectively-bargained plans for private-sector workers, known as Taft-Hartley plans.

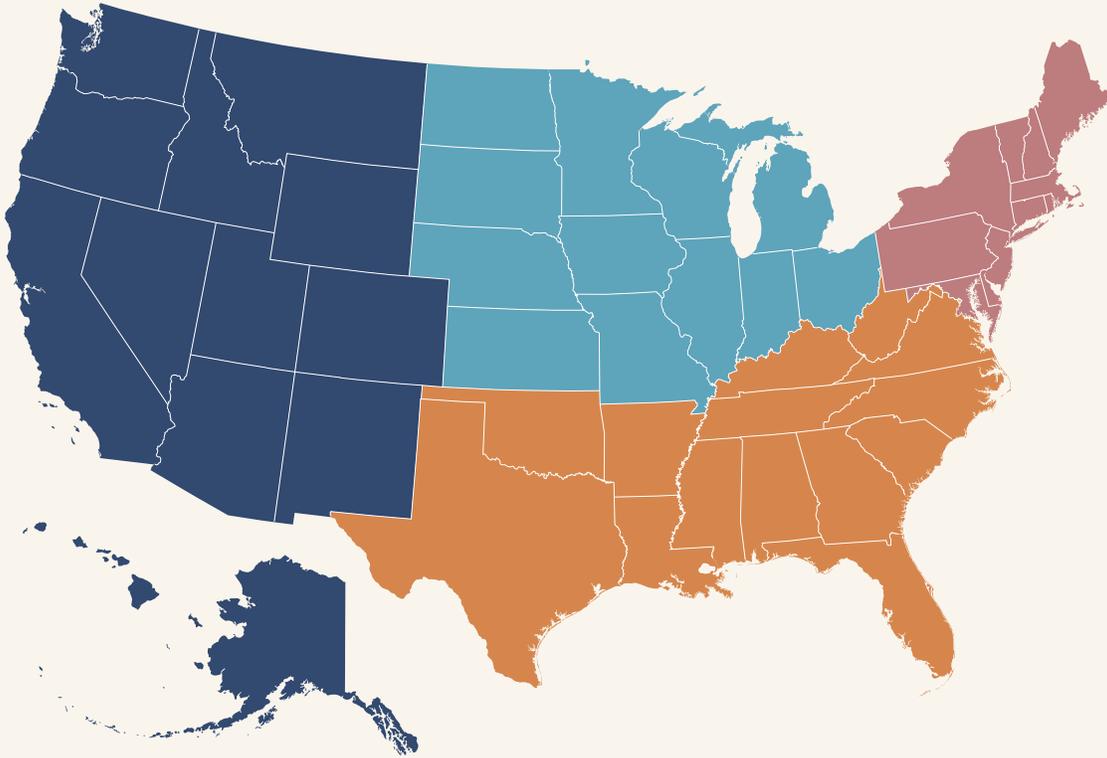
We’ve been watching legislation in this area because of potential parallels in how Congress might treat state and local governmental plans in future legislation, particularly on issues related to discount rates.

On November 20, Senate Health, Education, Labor, and Pensions Committee Chairman Lamar Alexander (R-TN) and Finance Committee Chairman Chuck Grassley (R-IA) unveiled a new proposal on multiemployer pension plans. Discount rates that these

[CONTINUED ON PAGE 6](#)

## NCPERS Around the Regions

This month, we will highlight California, Pennsylvania, Kentucky, and Illinois.



### WEST: California



The Davis City Council on November 5 approved a four-year contract with the Davis Police Officers Association, including provisions to strengthen recruitment and retention with raises.

The contract, which runs through June 2023, covers sworn law enforcement officers, public safety dispatchers and support personnel. The city announced that its goal was “to keep Davis law enforcement competitive with other agencies.”

The package includes pay adjustments to bring compensation closer to prevailing rates. The city had determined that some positions were 5 percent or more below market, making it easier for other jurisdictions to pick off the city’s law enforcement employees.

As part of the plan, the Davis Police Officers Association agreed to a cost-sharing formula in the last two years of the contract,

shifting some of the risk of rising pension costs to employees. Employees could potentially pay one percent of salary each year if pension costs to the city are higher than projected by CalPERS. The state pension plans projections are incorporated into the city’s long-term fiscal model.

“By reaching this agreement with DPOA, the majority of city employees are now covered by an innovative cost sharing agreement that will ultimately benefit the employees, the city and the taxpayers,” said Mayor Brett Lee.

The agreement also includes annual 2 percent cost of living adjustments; a hazard pay premium of 5 percent for police service specialists who come into contact with toxic, explosive or other hazardous substances; and shift differentials of 5 percent for employees who work night shifts and 2.5 percent for those who work swing shifts.

[CONTINUED ON PAGE 5](#)

## AROUND THE REGIONS CONTINUED FROM PAGE 4

**NORTHEAST:  
PENNSYLVANIA**

Lawmakers in both chambers of the General Assembly are working to add Pennsylvania to the growing list of states that are considering legislation to automatically enroll workers in a retirement savings program.

In the state Senate, Democratic Sen. Art Haywood and Republican Sen. Patrick Browne are preparing bipartisan legislation to create the Keystone Saves Program, a statewide auto-individual retirement account, or auto-IRA. Keystone Saves would provide a retirement savings option to workers who lack access to a workplace retirement account.

On November 22, State Reps. Michael Driscoll, a Democrat, and Michael Pfeiffer, a Republican, introduced bipartisan legislation that would make Pennsylvania the latest state to enact an auto-IRA program.

The legislative initiatives are an outgrowth of Pennsylvania's Treasury Private Sector Retirement Security Task Force, which recommended the creation of auto-IRAs in a report issued in March 2019.

Pennsylvania Treasurer Joe Torsella praised the developing legislation as a "common-sense solution" to a problem that is growing nationwide: helping private sector workers and retirees prepare for retirement. Without legislation, Torsella, the state will have to dig into its coffers and its most vulnerable citizens will be harmed.

In a co-sponsorship memorandum issued September 12, Haywood and Browne outlined the rationale for the program as well as its contours. They said the plan would benefit more than 2 million Pennsylvanians who currently do not have access to an employer-sponsored retirement plan.

A lack of adequate retirement savings "not only presents a problem for retirees themselves, but also the Commonwealth," Haywood and Browne wrote. Between 2015 and 2030, financial unprepared retirees could cost the state an additional \$14 billion in social services, and reduced consumer spending would depress tax collections by \$1.4 billion, they said.

Under the auto-IRA program, the State Treasurer would manage the accounts, much like it manages a 529 plan college savings programs, the senators said. "This program will be an entirely new and separate

program from our current state pension plans. All monies deposited within these accounts by employees will remain property of the employee and cannot be construed, or used, as property of the Commonwealth," they pointed out.

Haywood has testified to the impact of creating payroll deduction plans to foster savings. "Before my wife and I began auto savings we saved little," he said at a public stakeholder meeting in Allentown on October 15. "However, after starting auto savings from payroll, our savings increased significantly and helped us to pay for our three children to attend college. The same can happen for retirement."

State-run auto-IRA plans are currently in place or underway in six states: California, Connecticut, Illinois, Maryland, New Jersey and Oregon.

**SOUTH:  
Kentucky**

Educators and public pension advocates left their mark on the 2019 gubernatorial elections as Kentucky's Republican Governor, Matt Bevin, lost his bid for re-election. Bevin, who conceded on November 14—nine days after the election—will be succeeded December 10 when the governor-elect—Attorney General Andy Beshear, a Democrat—is sworn in.

Bevin's departure caps four years of constant clashes with teachers and pension advocates, underscoring the impact of activism. Public opinion polls have shown Bevin to be one of the most unpopular governors in the country, and a high-profile face-off with teachers undoubtedly contributed to the negative impressions.

Teachers stormed the Capitol last spring in protest of budget cuts, low pay and threats to their pensions. They also staged a walk out. Teachers succeeded in halting reform plans put forth by Bevin in 2018, but battles over public pensions continued to rage throughout 2019.

The battle, waged with vetoes and special sessions, ultimately resulted were a mixed bag. The governor on July 24 signed into law a pension reform bill that would force quasi-governmental agencies to leave the \$2 billion Kentucky Employees Retirement System for

CONTINUED ON PAGE 9

**RETIREMENT AND MEDICAL BENEFITS CONTINUED FROM PAGE 1**

Nearly three-fourths (74 percent) of Millennials (born between 1981 and 1991) said a pension benefit was a major reason they chose a public sector job, while 85 percent say they plan to stay with their current employer until they are eligible for retirement or can no longer work.

In other key findings:

Benefits are among the most important job features for state and local employees. Health insurance is very important to 78 percent of state and local employees, and retirement benefits are very important to 73 percent. Salary is less important, at 71 percent.

Most state and local employees agree they could earn a higher salary in the private sector and a pension factors into the competitiveness of their compensation. Only 22 percent of state and local employees say their salaries are very competitive, and 80 percent say they could earn a higher salary in the private sector. Most public workers (72 percent) expect to be financially secure in retirement, but the vast majority of state and local employees are concerned about cuts to retirement benefits (cited by 86 percent) and government officials underfunding pension plans (85 percent).

Workers said cutting state and local employee benefits could drive them out of the public workforce. More than half of state and local employees (58 percent) say that switching them out of a pension into an individual retirement plan, like a 401(k)-style plan, would make them more likely to leave their job. Some 73 percent say they would be more likely to leave their job if their pension were cut, and 79 percent say they would be more likely to leave their job if their healthcare benefits were cut.

State and local employees say eliminating pensions has risks. Nearly all (92 percent) state and local employees say eliminating pensions for the public workforce will weaken governments' ability to attract and retain qualified workers to deliver public services. The vast majority (83 percent) say eliminating pensions would weaken public safety. Similarly, 87 percent say eliminating pensions would weaken the U.S. education system.

The survey was conducted by Greenwald Associates between August 22 and September 12, 2019. Participants included 1,118 public sector employees, including 362 teachers, 284 police officers, 204 firefighters and 268 others. ♦

**"TAFT-HARTLEY" PLANS CONTINUED FROM PAGE 3**

plans may use in the future would be capped. See the [Technical Explanation](#), pp.25-30, but specifically pp. 29-30 for the cap on discount rates, which is restated below:

- The proposal regulates the assumed discount rate used by actuaries to project the liabilities of a multiemployer plan.
- The assumed rate is limited to the lesser of the actuary's best estimate of future investment experience under the plan or a cap.
- The cap is equal to the lesser of (1) a 24- month average of the third segment of the yield curve plus 2 percent, or (2) 6 percent.
- The maximum rate will be phased in over five years, beginning in plan year 2020. The cap applies to the assumptions with respect to the determination of all plan liabilities.

Please note that the second segment rate is currently 3.07 percent.

NCPERS is seeking input on how such a cap would affect state and local governmental plans, if it were to be imposed on them by federal legislation in some future Congress.

The authors of the bill made clear that they are concerned that the average discount rate being used by multiemployer plans is inappropriately high – 7.13 percent. That rate is well below the

average rate currently used by state and local governmental plans, which is approximately 7.4 percent. It is clear, then, that the same arguments would be used in an effort to cap the discount rates of public pension plans and that those arguments will be presented with an even greater sense of urgency.

As the 116th Congress takes further action on retirement and pension legislation, we will closely monitor any legislation affecting discount rates. Please know that NCPERS will continue to be actively engaged on this issue on behalf of state and local governmental pension plans. ♦

*[Tony Roda](#) is a partner at the Washington, D.C. law and lobbying firm [Williams & Jensen](#), where he specializes in federal legislative and regulatory issues affecting state and local governmental pension plans. He represents NCPERS and statewide, county, and municipal pension plans in California, Georgia, Kentucky, Ohio, Tennessee, and Texas. He has an undergraduate degree in government and politics from the University of Maryland, J.D. from the Catholic University of America, and LL.M (tax law) from the Georgetown University Law Center.*



# National Conference on Public Employee Retirement Systems

ADVOCACY

RESEARCH

EDUCATION

# 2020 Legislative Conference

January 26-28, 2020  
Capital Hilton Hotel | Washington, DC

**Policy Day  
January 28**

Visit [www.ncpers.org/legislative](http://www.ncpers.org/legislative) for more information

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EXECUTIVE DIRECTOR'S CORNER CONTINUED FROM PAGE 2

The Kentucky gubernatorial election offers a vivid example of what we can accomplish when we organize and stand up for public pensions and their constituencies.

It goes without saying that a great deal is at stake as we head into the 2020 elections and beyond. Now is the time to begin paying laser attention to the important races in your backyard. Who is running for Congress? Is there any fresh opposition? What is your member's voting record on the issues that matter most to us, including tax policy, employer pickups, pension transparency, and healthcare benefits?

One great way to immerse yourself in the issues that will dominate the 2020 elections is to attend the NCPERS Legislative Conference in Washington January 26-28. We will focus on the 2020 congressional agenda and national elections, among other pressing considerations.

If you're trying to understand the best way to jump in and be a more effective advocate for public pensions, we are only a call away and we're ready to help you. ♦



**Don't Miss NCPERS' Social Media**

The image features a hand holding a tablet computer. A glowing blue globe is positioned above the tablet, surrounded by various digital icons and social media symbols. On the right side of the image, there are five social media icons: Facebook, Twitter, LinkedIn, YouTube, and RSS. At the bottom right, the NCPERS logo is displayed, which includes a circular emblem with a building and the text 'NCPERS 1941'. Below the logo is the tagline 'The Voice for Public Pensions'.

**AROUND THE REGIONS CONTINUED FROM PAGE 5**

Non-Hazardous employees if they are unable or unwilling to pay rising pension contribution costs.

On August 22, however, the pension funds got a shot in the arm with two cash infusions. The non-hazardous employees fund received a \$60 million infusion from the state’s general fund surplus for fiscal year 2020, while the Teachers’ Retirement System medical insurance fund received \$70 million from the general fund surplus.

Bevin’s attacks on public education and his criticism of teachers hurt his chances and helped lift support for Beshear. His disapproval rating increased to 57 percent in early 2018 when the teacher walkouts occurred. In the latest survey—conducted from July 1 through Sept. 30—53% of respondents disapproved of Bevin, and just 34% approved.

**MIDWEST:  
Illinois**



Both houses of the Illinois General Assembly have approved legislation to consolidate 649 downstate Illinois police and fire pensions into two unified systems. At press time, the bill was awaiting Governor J.B. Pritzker’s signature.

The consolidation bill, which was a priority for Pritzker, was approved 96-14 by the Illinois House of Representatives on November 13. A day later, the Senate approved it on a 42-12 vote.

The 649 pension plans have combined assets of \$14.3 billion. The bill reorganizes them into two statewide pension accounts — one for police officers and one for firefighters, a move intended to boost investment returns and reduce administrative costs. Pritzker, who advocated for the consolidation, has estimated that combining funds into larger pools could generate \$850 million to \$2.5 billion in added investment returns in the first five years. The newly consolidated funds are expected to be operational by July 1, 2023.

Both chambers of the General Assembly approved the bill after it hit a roadblock over a technical issue. Negotiators agreed to remove language that had prompted some local government officials to withdraw their support. The issue, raised by the Illinois Municipal League, focused on language in the bill affecting determinations of eligibility for retirement, disability of death benefits under the plans. The League said the bill would have stripped cities, counties and other municipal governments of the ability to intervene in or review administrative proceedings on these matters.

“What we celebrate here is truly monumental,” Pritzker said after Senate passage. “One of the most critical long-term challenges that we face in Illinois is our underfunded pension liabilities and the surging property tax burdens that they create. This consolidation marks a vital step forward for our fiscal future.”

The *Chicago Sun-Times* noted that the consolidation plan was Pritzker’s number one priority during the fall veto session. Cook County and Chicago’s nine pension plans have an average actuarial value of \$3.5 billion per fund, but the 649 suburban and downstate plans only average \$22 million, a task force found in October. ♦

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### January

**Legislative Conference**  
January 26 - 28  
Washington, DC

### May

**Trustee Educational Seminar (TEDS)**  
May 9 - 10  
Las Vegas, NV

**Program for Advanced Trustee Studies (PATS)**  
May 9 - 10  
Las Vegas, NV

**NCPERS Accredited Fiduciary Program (All modules)**  
May 9 - 10  
Las Vegas, NV

**Annual Conference & Exhibition (ACE)**  
May 10 - 13  
Las Vegas, NV

### July

**Chief Officers Summit (COS)**  
July 22 - 24  
Chicago, IL

### August

**Public Pension Funding Forum**  
August 23 - 25  
Chicago, IL

### October

**NCPERS Accredited Fiduciary Program (All modules)**  
October 24 - 25  
Location TBD

**Public Safety Conference**  
October 25 - 28  
Location TBD

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