FUNDING POLICY

COMBINED PENSION PLAN

As Amended Through July 9, 2020

DALLAS POLICE & FIRE PENSION SYSTEM

FUNDING POLICY
COMBINED PENSION PLAN

Adopted December 12, 2019
Amended through July 9, 2020

A. Introduction

This funding policy outlines a formal long-term strategy for financing the pension obligations accruing under the Dallas Police and Fire Pension System (DPFP) Combined Plan with the goal of achieving an actuarial funded ratio that is equal to or greater than 100%, as required by Texas Government Code §802.2011.

This policy is subject to the authority granted to the Board of Trustees under Article 6243a-1 of the Texas Revised Civil Statutes (the "Statute"). It was contemplated when HB 3158 was passed, and the Statutes reflect that in 2024 an analysis will be conducted to assess the adequacy of the funding of Plan and, if necessary, changes may be made at that time. Therefore, this policy creates a framework for proactively managing risks by outlining how the Board will approach future changes to benefit and contributions levels under different conditions in advance of the 2024 analysis. In the event this policy conflicts with any statutory language, the statute shall prevail.

B. Funding Priorities

The primary funding priorities are to:

1. Ensure the security of accrued benefits by making certain contributions and assets are sufficient to pay benefits when due.
2. Limit the volatility of contribution rates for both the members of DPFP and the City of Dallas, consistent with other funding objectives.
3. Ensure that each generation of members and taxpayers incurs the cost of benefits for the employees who provide services to them, rather than deferring those costs to future members and taxpayers;
4. Provide a reasonable margin for adverse experience to help offset risks.
5. Continue progress of systematic reduction of the Unfunded Actuarial Accrued Liability.

C. Funding Objectives

The system's funding objective is to achieve a funded ratio of 100% or more by 2045.

D. Actuarial Methods

The Board uses the following actuarial methods for purposes of actuarial valuations and the determination of the benchmark Actuarially Determined Contribution (ADC):

1. **Cost Method**
   The individual entry age normal actuarial cost method.

2. **Asset Smoothing**
   A five-year asset smoothing period where 20% of any gain or loss is recognized in each subsequent year.

3. **Amortization Policy**
   The unfunded actuarial accrued liability as of January 1, 2020 will be amortized over a closed, 25-year period using the level percent of payroll amortization methodology. Beginning on January 1, 2021, each year's experience due to actuarial gains and losses, or plan, assumption, and method changes, will be amortized over a closed, 20-year period using the level percent of payroll amortization methodology.

E. Actuarial Assumptions Guidelines

A comprehensive experience study will be completed at least once every 5 years with possible review of individual assumptions more frequently, based on advice from the system's actuary. All assumptions will be determined based on actuarial standards of practice taking into account both actual experience and reasonable future expectations.

F. Actuarially Determined Contribution Benchmark

This policy has outlined a benchmark ADC for establishing a path towards achieving the goal of 100% funding. The following will trigger the Board to act to adjust or recommend adjustments to benefit and/or contribution levels.

The Board will notify the City of Dallas upon receipt of two actuarial valuations showing the actual contribution varies from the ADC by more than 2%. In such a case, if the actual contributions are under the ADC by more than 2%, with a two-thirds vote of the Board, the Board will recommend an increase in City contribution rates. If the actual contributions are 2% over the ADC, with a two-thirds vote of the Board, and if the reduction does not extend the funding period, the Board may recommend a decrease in the City's contribution rate. If the actual rate is within 2% of the ADC, no change is required to be recommended.

G. Consideration of Plan Modifications

1. Guidelines for Future Reductions in Contributions

With a two-thirds vote of the Board and agreement of the City, the City contributions may be lowered only if the reduction does not increase the period to amortize the unfunded liability (6243a-1, 4.02(b)(3)). The Statute does not provide authority for the Board to lower member contribution rates. Once there is no longer an unfunded liability, the contribution rates of both the City and DPFP members are adjusted based on the Statute.

2. Guidelines for Future Benefit Enhancements

The Statute specifically controls the criteria for granting a cost of living adjustment, the reduction of the retirement age and reducing the amortization period of the DROP annuities. For all other benefit enhancements not specifically mentioned in the Statute, the Statute allows the Board to enhance benefits only if after taking the enhancement into consideration the funding period does not exceed 25 years.

H. Risk-Sharing Mechanisms

The Board has determined that the key risk facing the system is when actual experience diverges from actuarial assumptions, resulting in actuarial losses. The normal cost rate for future members is less than the current member contribution rates, so the Board does not believe it is appropriate to either increase member contribution rates or decrease benefits to decrease the unfunded liability through 2024. If necessary, the City's contribution rate would need to be increased through 2024. During 2024, the Statute requires that an independent actuary perform an analysis to determine if DPFP meets Texas Pension Review Board pension funding guidelines and, if not, recommend changes to benefits or to member or city contribution rates. Not later than November 1, 2024, the DPFP Board is required adopt a plan that complies with funding and amortization period requirements under Section 802 of the Government Code and takes into consideration the independent actuary's recommendations.

I. Review of Funding Policy

This policy may be amended from time-to-time to reflect changes in other Board policies, emerging best practices for public defined benefit pension plans, prevailing opinions of future Board members, and suggested changes by system stakeholders.

J. Effective Date

APPROVED on July 9, 2020 by the Board of Trustees of the Dallas Police and Fire Pension System.

/s/ William F. Quinn

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William F. Quinn
Chairman

ATTEST:

/s/ Kelly Gottschalk

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Kelly Gottschalk
Secretary