DALLAS POLICE & FIRE PENSION SYSTEM

HB 3158
PENSION CHANGES

ACTIVE MEMBERS

Effective 9-1-2017

Agenda

HB 3158 - Overview

- Passed by the legislature and signed by the Governor on May 31, 2017
- The legislation significantly amends Article 6243a-1 of the Texas Statutes
- The Plan changes are projected to result in a solvent plan
- Effective date: September 1, 2017

- A link to the full bill can be found at www.dpfp.org
- This presentation highlights those items that impact current active members

Why was HB 3158 necessary?

- July 2015, DPFP's actuary reported that the fund was projected to run out of money

- After the initial insolvency projection, the remaining life of the fund became much shorter as investment asset values decreased further and DROP balances were withdrawn from the fund

- Plan amendments presented to the members for a vote failed

Why was HB 3158 necessary?

- Without legislation, <u>all payments to all members</u> would have stopped in less than 10 years

- The dramatic changes are necessary to continue to pay retirement and DROP payments

- Even with the changes, the fund will be at a very low funding level for years. Any disruption can have a big impact. We cannot guaranty that additional changes won’t be necessary in the future but HB 3158 provides a path to solvency.

Governance

- Until 10 trustees are seated, the Board is limited to carry out only “ordinary course of business activity”
  - *Setting the rules for the DROP annuities is not considered “ordinary course”*

- 11 trustees are required before the election of the Board chair, vice chair, deputy vice chair

Governance

- Ongoing:
  - *If the Board considers any of the following in the future, at least 8 trustees must approve:*
    - Decrease member benefits
    - Increase member contributions
    - Decrease city contributions
    - Start a new plan
    - Adopt equity adjustments (“clawbacks”)

Governance

- Board of Trustees effective September 1, 2017
  - *6 trustees appointed by the Mayor, in consultation with the City Council*
  - *3 trustees vetted and nominated by the Nominations Committee*
    - Elected as a slate- active and retirees vote on the slate
  - *1 current or retired firefighter – active members vote*
  - *1 current or retired police officer – active members vote*

Governance

- Criteria for Trustees
  - *All trustees must have demonstrated financial, accounting, business, investment, budgeting, real estate, or actuarial expertise*
  - *May not be a current elected official of the city or a current city employee*
  - *Former city employees (excludes police and firefighters) can serve as a trustee after 2 years of separation from the city*
  - *Term limits of 6 consecutive years apply to non-police and firefighter trustees*

Nominations Committee

- 12-member committee
  - *Executive Director - presiding officer, non-voting member*
  - *A representative from each of the 11 associations named in the bill (7 active, 4 retiree)*
- Role
  - *Vet and nominate a slate of candidates to be elected (3 trustees)*
  - *Election rules for the 5 trustees not appointed by the Mayor will be set by:*
    - Nominations Committee for the initial election, and
    - Board in consultation with the Nominations Committee for subsequent elections
  - *Determine the staggered terms (5 trustees)*
  - *Remove nominated trustees for cause (5 trustees)*

Changes for Active Members Hired Prior to 3-1-11

- Contribution rate increases from 8.5% to 13.5% beginning the pay period starting on or after September 1, 2017
- Maximum benefit 90% of computation pay instead of 96%
- Generally, computation pay is a bifurcated calculation using the highest 36 consecutive months for service prior to 9-1-17 and 60 months for service after 9-1-17
- Generally, the multiplier is bifurcated based on service and/or age before and after 9-1-17

Changes for Active Members Hired Prior to 3-1-11

- Maximum multiplier for service prior to 9-1-17 is 3%, maximum multiplier for service after 9-1-17 is 2.5%

- Normal retirement age is 58 instead of 50

- DROP changes and changes once retired are described on other slides

Changes for Active Members Hired After 2-28-11

- Contribution rate increases from 8.5% to 13.5% effective the first pay period starting on or after 9-1-2017
- Vesting period is lowered from 10 to 5-years
- At normal retirement, the multiplier is 2.5% for <u>all years of service</u> instead of 2.0% for service up to 20 years, 2.5% years 20-25 and 3% for service over 25 years
- Normal retirement age increased from 55 to 58
- Early retirement options. No early retirement options previously
- Disability benefits are now on par with pre 2-28-11 members

Other Items of Interest

- Survivor benefits did not change, including the 50%, 100% J & S and the Special Survivor benefits

- Minimum benefit amounts did not change

Benefit Formula: Hired Prior to 3-1-11

Highest Average 36-months* Computation Pay **X** Service **Prior** to 9-1-2017 **X** Multiplier **=** Partial Benefit

+

Highest Average 60-months Computation Pay **X** Service **After** 9-1-2017 **X** Multiplier **=** Partial Benefit

Total Benefit

* Members hired prior to 3-1-11, with less than 20 years of service on 9-1-17 must use the Highest Average 60-months Computation Pay for both the-pre and post 9-1-17 calculation in the 20 & out option.

Benefit Formula – Hired After 2-28-11

Highest Average 60-months Computation Pay	X	All Service	X	Multiplier	=	Benefit

Highest Average Computation Pay Example for Members Hired Before 3-1-11

Member Retires in January 2021		
Year	Annual Comp Pay	
2016	$ 72,000	
2017	$ 73,000	
2018	$ 74,000	$74,000 60-month average
2019	$ 75,000	$75,000 36-month average
2020	$ 76,000	

Note: The actual calculation is done using monthly data. Annual data is used to facilitate illustration.

Multiplier Used in the Benefit Calculation

- Members may be eligible for varying benefit calculations, depending on age and years of service
  - *Choose the <u>highest eligible benefit</u>*

- The benefit is capped at the greater of 90% or the 8-31-2017 benefit

Members Hired Prior to 3-1-11 with 20 years of Service

- If the member reached 20 years of service <u>prior to 9-1-17</u> then:
  - *If the benefit at 3% for pre 9-1-17 service plus 2.5% for post 9-1-17 service is $\geq$ 90%, use 3% pre and 2.5% post, if not:*
  - *Use **Table 1** for pre 9-1-17 service and **Table 2** for post 9-1-17 service*
- If the member reached 20 years of service <u>after 9-1-17</u> then:
  - *If the benefit at 3% for pre 9-1-17 service plus 2.5% for post 9-1-17 service is $\geq$ 90%, <u>use 2.5% for all service based on 60 month average comp pay</u>, if not:*
  - *Use **Table 2** for all service, based on 60 month average comp pay*

Table 1	
Age	**Multiplier**
50 & older	3.00%
48 & 49	2.75%
47	2.50%
46	2.25%
45 & younger	2.00%

Table 2	
Age	**Multiplier**
58 & older	2.50%
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 & younger	2.00%

Members Hired Prior to 3-1-11 with 20 years of Service Prior to 9-1-17 - Example

Service Prior to 9-1-17	21 Years
Service After to 9-1-17	5 Years
Age at Retirement	54
Highest Ave 36-Months Comp Pay	$75,000
Highest Ave 60-Months Comp Pay	$74,000

Table 1	
Age	**Multiplier**
50 & older	3.00%
48 & 49	2.75%
47	2.50%
46	2.25%
45 & younger	2.00%

Example Benefit Calculation:

$75,000 36-mo comp pay	X	21 Years	X	3.0% From Table 1	=	$47,250 Partial Annual Benefit
						+
$74,000 60-mo comp pay	X	5 Years	X	2.1% From Table 2	=	$7,770 Partial Annual Benefit

$55,020 Total Annual Benefit

Table 2	
Age	**Multiplier**
58 & older	2.50%
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 & younger	2.00%

Service x multiplier= (21 X 3%)+(5 X 2.1%) = 73.5%

Members Hired Prior to 3-1-11 with 20 years of Service Reached after 9-1-17 - Example

Service Prior to 9-1-17	19 Years
Service After to 9-1-17	8 Years
Age at Retirement	48
Highest Ave 36-Months Comp Pay	N/A
Highest Ave 60-Months Comp Pay	$74,000

Table 2	
Age	Multiplier
58 & older	2.50%
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 & younger	2.00%

Example Benefit Calculation:

$74,000 60-mo comp pay	X	27 Years	X	2.0% From Table 2	=	$39,960 Annual Benefit

Service x multiplier= 27 X 2.0% = 54.0%

Members Hired Prior to 3-1-11 with 20 years of Service - ≥90% Example

Service Prior to 9-1-17	24 Years
Service After to 9-1-17	7.2 Years
Age at Retirement	56
Highest Ave 36 Months Comp Pay	$75,000
Highest Ave 60 Months Comp Pay	$74,000

24 Years	X	3.0% Max	=	72.0%		
				+		90%
7.2 Years	X	2.5% Max	=	18.0%		

Example Benefit Calculation:

$75,000 36-mo comp pay	X	24 Years	X	3.0% Max	=	$54,000 Partial Annual Benefit		
						+		$67,320 Total Annual Benefit
$74,000 60-mo comp pay	X	7.2 Years	X	2.5% Max	=	$13,320 Partial Annual Benefit		

Service x multiplier= (24 X 3%)+(7.2 X 2.5%) = 90%

Members Hired Prior to 3-1-11 Who are at Least 50 Years Old

- Use the 3% multiplier for pre 9-1-17 service plus *Table 2* for post 9-1-17 service

Note: It does not matter whether the member turned 50, pre or post 9-1-17

Table 2	
Age	**Multiplier**
58 & older	2.50%
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 & younger	2.00%

Members Hired Prior to 3-1-11 Who are at Least 50 Years Old - Example

Service Prior to 9-1-17	19 Years
Service After to 9-1-17	8 Years
Age at Retirement	51
Highest Ave 36-Months Comp Pay	$75,000
Highest Ave 60-Months Comp Pay	$74,000

Table 2	
Age	Multiplier
58 & older	2.50%
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 & younger	2.00%

Example Benefit Calculation:

$75,000 36-mo comp pay	X	19 Years	X	3.0% Max	=	$42,750 Partial Annual
						+
$74,000 60-mo comp pay	X	8 Years	X	2.0% From Table 2	=	$11,840 Partial Annual

$54,590
Total Annual
Benefit

Service x multiplier= (19 X 3%)+(8 X 2.0%) = 73%

Members Hired Prior to 3-1-11 - Actuarially Reduced Benefit

- If the member either turned 45 prior to 9-1-17 or turned 53 after 9-1-17 then they are eligible for an actuarially reduced benefit
  - *If the member turned 45 prior to 9-1-17:*
    - Use the 3% multiplier for pre 9-1-17 service plus ***Table 2*** for post 9-1-17 service, then reduce this amount by 2/3rds of 1% for each full month prior to the age 50
  - *If the member turned 53 after 9-1-17:*
    - Use the 3% multiplier for pre 9-1-17 service plus ***Table 2*** for post 9-1-17 service, then reduce this amount by 2/3rds of 1% for each full month prior to the age 58

Table 2	
Age	**Multiplier**
58 & older	2.50%
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 & younger	2.00%

Members Hired after 2-28-11 with 20 years of Service

Table 2	
Age	**Multiplier**
58 & older	2.50%
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 & younger	2.00%

- If the member has <u>at least 20 years</u> of service-
  - *If the multiplier at 2.5% times all service is ≥ to 90%, use 2.5%*
  - *If the member is ≥58, use 2.5% for all service*
  - *If the member is < 58, use the better of the following:*
    - Use multiplier from *Table 2* *("20 and out"),*
    - If the member is at least 53, use 2.5% for multiplier for all service, reduced by 2/3rds of 1% for each month prior to age 58 (actuarially reduced)

- Benefits are based on 60-month computation pay

Members Hired after 2-28-11 with less than 20 years of Service

- If the Member has <u>< 20 years</u> of service-
  - *If the member is <u>></u> 58 - use 2.5% for multiplier for all service*
  - *If the member is age 53-57 – use 2.5% for multiplier for all service reduced by 2/3rds of 1% for each month prior to age 58*
  - *If the member is <53, not yet eligible for benefit*

- Benefits are based on 60-month computation pay

Members Hired after 2-28-2011 - Example

Service Prior to 9-1-17	5 Years
Service After to 9-1-17	27 Years
Age at Retirement	58
Highest Ave 36-Months Comp Pay	N/A
Highest Ave 60-Months Comp Pay	$74,000

Table 2	
Age	**Multiplier**
58 & older	2.50%
57	2.40%
56	2.30%
55	2.20%
54	2.10%
53 & younger	2.00%

Example Benefit Calculation:

$74,000 60-mo comp pay	X	32 Years	X	2.5% From Table 2	=	$59,200 Annual Benefit

Service x multiplier= 32 X 2.5% = 80.0%

Changes Impacting Active DROP

- Contribution rate increases from 4% to 13.5% effective with the first pay period beginning on or after 9-1-2017

- Base benefit remains the same after 9-1-17 as it was prior 9-1-17

- All prior Cost of Living Adjustments (COLA) granted remain

- Previously granted benefit supplements will remain at the current level

Changes Impacting Active DROP

- Effective 1-1-2018, if a member has 10 or more years in DROP, their deferrals into DROP will cease until the member retires. These payments are forfeited.

- DROP balances do not earn interest while in Active DROP

- Automatic COLA is eliminated and replaced with an ad hoc COLA after retirement based on <u>criteria</u> that are likely not to be achieved for decades

- Benefit supplement is eliminated for those not already receiving it

Active DROP “Undo” Election

- A DROP Undo is allowed for members who entered DROP prior to June 1, 2017. The Undo is allowed from 9-1-2017 until 2-28-2018.

- The DROP Undo is not allowed if money was transferred out the DROP account for any reason

- The new Board will set the DROP Undo rules so no Undo elections will be accepted until after that occurs

Future Benefit Payments after Retirement

Pension benefit checks will not increase for most members for many years

- The automatic COLA has been eliminated
  - *An ad hoc COLA is included in the Plan but it is unlikely that the criteria for the Board to grant an ad hoc COLA will be achieved for several decades*

- No new benefit supplements will be granted. If a member doesn't qualify for the benefit supplement by September 1st, they will not receive the supplement.

DROP Account Payments after Retirement

- DROP balances at 9-1-2017 will be annuitized over the member's remaining life expectancy, with interest

- DROP amounts deferred after 9-1-2017 will be annuitized over a member's remaining life expectancy, with <u>no</u> interest

- Annuitization will be based on the age and interest rates applicable at the time of retirement

- The DROP annuitization payment will be added to the monthly benefit direct deposit

DROP Balance Annuitization

- The new Board will adopt the life expectancy tables and interest rates. Until such new rules are adopted, the current DROP Policy Addendum will remain in place.

- The member can choose to receive their annuity payments monthly or annually
  - *This is a one time, irrevocable election*

- All annuity payments, whether monthly or annual, will have the same tax withholding as the monthly benefit payment

- No rollovers are allowed per IRS regulations
  - *Annuity payments are not eligible for rollover under the Internal Revenue Code and Treasury Regulations. See Code Sections 401(a)(31)(D) and 402(c)(4) and Treasury Regulation 1.402(c)-2.*

DROP Account Payments after Retirement

- The new Board will determine the treatment of the annuity for survivors, beneficiaries and alternate payees upon the annuitant's death

- DROP payments due to Hardship needs will be allowed
  - *The new Board will adopt rules for Hardships*

- Divorce- the DROP account will be split according to the QDRO and the spouse will have their own annuity which will be paid based on rules to be adopted by the new Board

DROP Annuitization Example

Life Expectancy*

Sample Table/Selected Years		
Current Age	**Life Expectancy Factor - Years**	**Mortality Estimate - Age**
0	82	82
50	34	84
60	25	85
70	17	87
80	10	90
90	5	95

Annuity Calculation

- At 8-31-17:
  - *DROP Balance $500,000*
- Retirement in 2022:
  - *DROP Balance $700,000*
- Annuity Term: 30 years*, monthly payments
- Interest rate: 2.80%*
- Annuity of pre-9-1-17 balance: $2,014.80
- Annuity of post 9-1-17 balance: $555.56
- Total Monthly DROP payment: $2,570.36
- Annuity ends in 2052

*Life expectancy and interest rates seen here are for example purposes only. Actual life expectancy table and interest rates are to be determined by the new Board.

Equitable Adjustments (“Clawbacks”)

- Implementation of equitable adjustments requires the approval of at least 8 trustees

- Equitable adjustments relate to interest and COLA accrued into DROP balances

- If the Board implements the equity adjustments and a member challenges the action within 90-days, the Texas Supreme Court will have exclusive and original jurisdiction to hear the case

- If the challenge is filed within the 90-days, the Board may not administer the equitable adjustments until the case is complete

City Contributions

- Effective 9-1-17, the City is required to pay the greater of 34.5% of Computation Pay or a “floor” amount, plus an extra $13 million annually for the first 7 years.

- In 2024, based on an actuarial analysis, if the funding level does not meet the Texas Pension Review Board funding guidelines. The Board must adopt rules to comply with funding and amortization period requirements under Sec 802 of the Texas Government Code.

Next Steps

- Sign up for eCorrespondence
- Follow DPFP on social media – Facebook and Twitter (@DPFP_Info)
- Monitor communication from DPFP and the website (www.dpfp.org) for more information about the DROP annuitization and other rules adopted by the new Board
- Watch for information on the trustee election in the coming months
- Contact our Retirement Counselors with questions

Questions?

Contact our office with questions or to set up an appointment with one of our Retirement Counselors by calling 214-638-3863, or send questions to info@dpfp.org.