FUNDING POLICY
SUPPLEMENTAL PENSION PLAN

As Amended Through June 11, 2020

DALLAS POLICE & FIRE PENSION SYSTEM

FUNDING POLICY
SUPPLEMENTAL PENSION PLAN

Adopted December 12, 2019
Amended through June 11, 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) Supplemental Pension 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 limited by the authority granted to the Board of trustees under Article 6243a-1 of the Texas Civil Statutes and City Ordinance number 23861. Therefore, this document 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 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. 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;
3. Provide a reasonable margin for adverse experience to help offset risks.
4. 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 2040.

D. Actuarial Methods

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

1. Cost Method

The individual entry age normal actuarial cost method.

2. Asset Smoothing

Market value of assets with no asset smoothing.

3. Amortization Policy

The unfunded actuarial accrued liability as of January 1, 2020 will be amortized over a closed, 20-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, 10-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

The City contributes the ADC annually plus any amounts necessary on a monthly basis to currently fund the payments made from the Excess Benefit Plan and Trust.

G. Consideration of Plan Modifications

1. Guidelines for Future Reductions in Contributions

The Board may consider a reduction in City contributions only if the reduction does not result in a funding period that exceeds the Texas Pension Review Board guidelines. The member contribution rates must match the member contribution rates provided for in Article 6243a-1. (See the Funding Policy for the Combined Pension Plan for additional information on changes to member contribution rates.)

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 June 11, 2020 by the Board of Trustees of the Dallas Police and Fire Pension System.

/s/ William F. Quinn

William F. Quinn
Chairman

ATTEST:

/s/ Kelly Gottschalk

Kelly Gottschalk
Secretary