



D A L L A S
POLICE & FIRE
PENSION SYSTEM



MINUTES SUMMARY
Board Meeting
Thursday, October 12, 2017

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees was held at 8:30 a.m. on Thursday, October 12, 2017, in the Second Floor Board Room at 4100 Harry Hines Blvd., Dallas, Texas.

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

A. TRUSTEES

1. The Board welcomed newly-elected and re-elected Trustees for the term that began on September 1, 2017, as follows:

<u>Name</u>	<u>Position</u>	<u>Term of Office</u>
Samuel L. Friar	Fire Fighter Trustee	09/01/2017 – 08/31/2020
Joseph P. Schutz	Police Officer Trustee	09/01/2017 – 08/31/2020
Blaine Dickens	Non-member Trustee	09/01/2017 – 08/31/2019
Gilbert A. Garcia	Non-member Trustee	09/01/2017 – 08/31/2019
Tina Hernandez Patterson	Non-member Trustee	09/01/2017 – 08/31/2019

2. The Board elected officers as follows:

William F. Quinn, Chairman
Nicholas A. Merrick, Vice Chairman
Samuel L. Friar, Deputy Vice Chairman

B. MOMENT OF SILENCE

The Board observed a moment of silence in memory of members and pensioners who recently passed away.

C. CONSENT AGENDA

Approved by the Board, subject to the final review of the staff.

MINUTES SUMMARY
Board Meeting
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D. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Representatives from Segal Consulting, DPFP's actuarial firm, provided an overview of the funding level of the Plan and provided support to the Board in considering topics related to DROP, including DROP Balance Annuitization, DROP Election Revocation, and Hardship Distributions. No motion was made.
2. The Board accepted Segal Consulting's report regarding the Plan's protections from pension abuse, which was provided to assist the Board in conducting the evaluation required by HB 3158.
3. The Board and staff discussed a draft calendar of significant Board agenda items for the next several months. The Board provided direction to staff.
4. The Board and staff discussed an overview of the Investment Policy Statement, reviewed the significant investment activity and the monthly investment reports. They also discussed the portfolio overview and cash flow forecast and excess cash deployment. The Board voted, in light of the recent seating of all trustees and the need for the full Board to study and possibly amend the Investment Policy Statement, to suspend the Investment Policy Statement solely for the purpose of the Board directing staff to invest \$60 million with Income Research & Management in short term core bonds, \$50 million with RBC in emerging markets equity and \$65 million in Global Equity, allocated as directed by the Executive Director.
5. The Board authorized Clarion to consummate the real estate sale of an approximately 25-acre parcel within The Tribute.
6. No motion was made regarding the initial reading and discussion of the 2018 budget.
7. The Board and legal counsel discussed legal issues. No motion was made.
8. No motion was made regarding an application for an On-Duty disability pension.
9. The Board approved an application for death benefits for a disabled child in accordance with Section 6.06(n) of the Plan and granted discretion to the Executive Director to determine the retroactive effective date, taking into account Social Security guidelines.
10. No discussion was held regarding Unforeseeable Emergency Requests from DROP members.

MINUTES SUMMARY
Board Meeting
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11. Discussion of the 2018 regular monthly Board meeting schedule was postponed.
12. The Board postponed discussion of Trustee education and travel.

E. BRIEFING ITEMS

1. The Board heard member and pensioner comments.
2. No discussion was held and no motion was made regarding the Executive Director's report.

The regular Board meeting was adjourned at 3:33 p.m.

SUPPLEMENTAL POLICE AND FIRE PENSION BOARD MEETING

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

The meeting was reconvened at 3:33 p.m.

A. CONSENT AGENDA

Approved by the Board, subject to the final review of the staff.

B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. No discussion was held and no motion was made regarding the investment reports.
2. No discussion was held and no motion was made regarding the initial reading and discussion of the 2018 Supplemental Plan budget.

The Supplemental Board meeting was adjourned at 3:34 p.m.

Dallas Police and Fire Pension System
Thursday, October 12, 2017
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 William F. Quinn, Nicholas A. Merrick, Samuel L. Friar, Ray Nixon, Gilbert A. Garcia, Frederick E. Rowe, Tina Hernandez Patterson, Robert C. Walters, Joseph P. Schutz, Kneeland Youngblood

Present at 8:53 Blaine Dickens

Absent: None

Staff

Kelly Gottschalk, Josh Mond, Summer Loveland, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Milissa Romero, Greg Irlbeck, Linda Rickley

Others

Chuck Campbell, Deborah Brigham, Rocky Joyner, Bohdy Hedgcock, Rhett Humphreys, Nina Cortell, Ben Mesches, David Harper, Ron Weimer, Ken Sprecher, Julian Bernal, Lloyd D. Brown, Larry D. Williams, Jo-Ann Jackson, Dan Wojcik, Ken Haben, Charles Luedeker, Andy Acord, Juan Urreta, Richard Dodge, Jesse Aguirre, W. T. Hilburn, Bill Ingram, James Freeman, D. M. Thomas, B. V. Bailey, Michael Spiotta, Rick Salinas, Danny Millaway, Rojelio Rodriguez, John T. Williams, Jerry Rhodes, Linda Rhodes, Joe Pierce, A. D. Donald, Sam S. Beck, Thomas Payne, Tim Anders, Tristan Hallman, Joe Alexander, Lori Brown, Jack Fink, Zaman Hemani, Josh Womack, David Tafalla, Barry Blonstein

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

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**Regular Board Meeting
Thursday, October 12, 2017**

A. TRUSTEES

1. Welcome of newly elected Trustees

Mr. Quinn, Interim Chairman, welcomed the five remaining Trustees elected pursuant to HB 3158: Samuel L. Friar, Fire Fighter Trustee, Joseph P. Schutz, Police Officer Trustee, Blaine Dickens, Non-member Trustee, Gilbert A. Garcia, Non-member Trustee, Tina Hernandez Patterson, Non-member Trustee. The Trustees briefly introduced themselves. Mr. Dickens was not present.

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2. Election of officers of the Board of Trustees

Mr. Quinn opened the floor for officer nominations, beginning with the office of Chairman.

Mr. Garcia nominated William F. Quinn as Chairman. Mr. Youngblood seconded the nomination. Nominations ceased. The Board voted unanimously to elect Mr. Quinn as Chairman.

Mr. Quinn opened nominations for the office of Vice Chairman. He nominated Nicholas A. Merrick as Vice Chairman. Mr. Nixon seconded the nomination. Nominations ceased. The Board voted unanimously to elect Mr. Merrick as Vice Chairman.

Mr. Quinn opened nominations for the office of Deputy Vice Chairman. Mr. Nixon nominated Samuel L. Friar as Deputy Vice Chairman. Mr. Garcia seconded the nomination. The Board voted unanimously to elect Mr. Friar as Deputy Vice Chairman.

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B. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired police officers W. F. Dyson, Jr., Arthur D. Hudnall, William E. Hall, Tommy Birdsong, James F. Martin, George W. Bedford, Dale L. Mulvany, Bobby W. Pope, active firefighter Taj J. Wright, and retired firefighters James L. Clay, Marcus R. Smedley, Robert G. Damesworth, Robert H. Wesley, Ben F. Williamson, B. R. Hopkins, Jack K. Rhine, Jerry E. Foster, and Christopher Chinn.

**Regular Board Meeting
Thursday, October 12, 2017**

B. MOMENT OF SILENCE (continued)

No motion was made.

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C. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of September 14, 2017

2. Approval of Refunds of Contributions for the Month of September 2017

3. Approval of Estate Settlements

4. Approval of Survivor Benefits

5. Approval of Service Retirements

6. Denial of Unforeseen Emergency Requests

After discussion, Mr. Youngblood made a motion to approve the minutes of the meeting of September 14, 2017. Mr. Nixon seconded the motion, which was approved by the following vote:

For: Youngblood, Nixon, Quinn, Merrick, Rowe, Walters

Abstain: Friar, Garcia, Hernandez Patterson, Schutz

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

After discussion, Mr. Garcia made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Friar seconded the motion, which was unanimously approved by the Board. Mr. Dickens was not present when the vote was taken.

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**Regular Board Meeting
Thursday, October 12, 2017**

D. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Consideration of Deferred Retirement Option Plan (DROP) Policy

- a. DROP Balance Annuitization
- b. DROP Election Revocation
- c. Hardship Distributions

Rocky Joyner, Vice President and Consulting Actuary, and Deborah Brigham, Vice President and Consulting Actuary, of Segal Consulting, DFPF's actuarial firm, provided an overview of the funding level of the Plan and provided support to the Board in considering topics related to DROP, including DROP Balance Annuitization, DROP Election Revocation, and Hardship Distributions.

The DROP Policy must be amended to comply with the changes that HB 3158 made which impact DROP. Staff provided background information and considerations related to the topic areas above and requested direction from the Board on the rules related to these areas. The Board gave direction and directed staff to bring the DROP Policy, with changes, back to the Board for consideration at the special meeting of November 1, 2017.

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The meeting was recessed at 10:56 a.m.

The meeting was reconvened at 11:11 a.m.

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2. Evaluation to identify potential means of abusing the computation of benefits to inflate pension benefits

Ms. Gottschalk stated that HB 3158 added Section 3.01(j-5)(1) to Article 6243a-1, requiring that the Board, by January 1, 2018, conduct an evaluation of how benefits are computed under Article 6243a-1 to identify potential means of abusing the computation of benefits to inflate pension benefits received by pensioners.

Regular Board Meeting
Thursday, October 12, 2017

2. Evaluation to identify potential means of abusing the computation of benefits to inflate pension benefits (continued)

Segal Consulting presented information and their opinion regarding the Plan's protections from pension abuse to assist the Board in conducting the required evaluation. Segal stated, in part, in a letter to Ms. Gottschalk dated October 6, 2017:

In our opinion, the new Plan effectively protects the System from pension abuse. These protections are primarily in the form of pensionable salary and DROP limitations. The Plan's service purchase and COLA rules appear adequate to protect the System from abuses in those areas. The Board's establishment of disability criteria has proven effective in preventing disability abuse.

After discussion, Mr. Garcia made a motion to accept Segal Consulting's report regarding the Plan's protections from pension abuse. Mr. Youngblood seconded the motion, which was unanimously approved by the Board.

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3. Draft calendar of upcoming Board agenda items

Ms. Gottschalk discussed a draft calendar of significant Board agenda items for the next several months. The requirements of HB 3158, DPFPP policy and standard practice and other significant items were included on the calendar, but recurring agenda items related to the day-to-day operations of DPFPP were not included on the calendar.

Based on the deadlines in HB 3158, there are a significant number of items that need to be addressed in the near term. Staff requested the input of the Board on the draft calendar.

The Board provided direction to the staff. No motion was made.

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Regular Board Meeting
Thursday, October 12, 2017

4. Investment Overview and Reports

- a. Overview of Investment Policy Statement
- b. Review of significant investment activity
- c. Monthly investment reports
- d. Portfolio overview and cash flow forecast
- e. Excess cash deployment

The Board and staff discussed an overview of the Investment Policy Statement, reviewed the significant investment activity over the past year and the monthly investment and preliminary performance reports. They also discussed the portfolio overview and a 9-month forward projection of cash flows from private investments, net benefit and operating outflows and the resulting asset allocation through June 30, 2018. Staff and Rhett Humphreys, of NEPC, discussed the recommended rebalancing plan to deploy excess cash currently on hand as of October 2017.

After discussion, Mr. Garcia made a motion in light of the recent seating of all trustees and the need for the full Board to study and possibly amend the Investment Policy Statement, to suspend the Investment Policy Statement solely for the purpose of the Board directing staff to invest \$60 million with Income Research & Management in short term core bonds, \$50 million with RBC in emerging markets equity and \$65 million in Global Equity, with the Global Equity investments allocated as directed by the Executive Director. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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5. Clarion Partners: Potential sale of a parcel of land in The Tribute

Bohdy Hedgcock, Senior Vice President, Clarion Partners, and Rhett Humphreys, Partner, NEPC, were present to discuss the potential sale of an approximately 25-acre parcel of land which is part of The Tribute, a 1,600-acre residential development in The Colony, Texas.

The Board went into a closed executive session – real estate at 11:58 a.m.

The meeting was reopened at 12:32 p.m.

After discussion, Mr. Youngblood made a motion to authorize Clarion Partners to consummate the sale of an approximately 25-acre parcel within The Tribute. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

**Regular Board Meeting
Thursday, October 12, 2017**

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6. Initial reading and discussion of the 2018 Budget

Ms. Loveland presented the initial reading of the 2018 budget, prepared in total for both the Combined Pension Plan and the Supplemental Plan.

No motion was made.

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7. Legal issues

- a. Potential claims involving fiduciaries and advisors
- b. DPF v. The Townsend Group and Gary Lawson
- c. Eddington et al. v. DPF
- d. Rawlings v. DPF
- e. DPF v. Columbus A. Alexander III
- f. Degan et al. v. DPF (Federal suit)
- g. HB 3158

The Board went into a closed executive session – legal at 2:51 p.m.

The meeting was reopened at 3:32 p.m.

No motion was made.

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8. Closed Session - Board serving as Medical Committee

Disability application

The Board went into closed executive session – medical at 12:33 p.m.

The meeting was reopened at 1:34 p.m.

No motion was made regarding the disability application.

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**Regular Board Meeting
Thursday, October 12, 2017**

9. Closed Session - Board serving as Medical Committee

Application for death benefits for disabled child

The Board went into closed executive session – medical at 12:33 p.m.

The meeting was reopened at 1:34 p.m.

After discussion, Ms. Hernandez Patterson made a motion to approve an application for death benefits for a disabled child in accordance with Section 6.06(n) of the Plan and to grant discretion to the Executive Director to determine the retroactive effective date, taking into account Social Security guidelines. Mr. Friar seconded the motion, which was unanimously approved by the Board.

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10. Unforeseeable Emergency Requests from DROP Members

No discussion was held regarding Unforeseeable Emergency Requests from DROP members.

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11. 2018 Board meeting calendar

Discussion of the 2018 Board meeting calendar was postponed to the November 1, 2017 special Board meeting.

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12. Board approval of Trustee education and travel

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

No discussion was held regarding Trustee education and travel.

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**Regular Board Meeting
Thursday, October 12, 2017**

D. BRIEFING ITEMS

1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

The Board heard member and pensioner comments.

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2. Executive Director's report

- a. Open Government Training
- b. Associations' newsletters
 - NCPERS Monitor (August 2017)
 - NCPERS Monitor (September 2017)

No discussion was held. No motion was made.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Nixon and a second by Mr. Garcia, the meeting was adjourned at 3:33 p.m.

[signature]

William F. Quinn
Chairman

ATTEST:

[signature]

Kelly Gottschalk
Secretary

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AGENDA



Date: October 6, 2017

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, October 12, 2017, 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. TRUSTEES

- 1. Welcome of newly elected Trustees**
- 2. Election of officers of the Board of Trustees**

B. MOMENT OF SILENCE

C. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of September 14, 2017

2. Approval of Refunds of Contributions for the Month of September 2017

3. Approval of Estate Settlements

4. Approval of Survivor Benefits

5. Approval of Service Retirements

6. Denial of Unforeseen Emergency Requests

D. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Consideration of Deferred Retirement Option Plan (DROP) Policy

- a.** DROP Balance Annuitization
- b.** DROP Election Revocation
- c.** Hardship Distributions

2. Evaluation to identify potential means of abusing the computation of benefits to inflate pension benefits

3. Draft calendar of upcoming Board agenda items

4. Investment Overview and Reports

- a. Overview of Investment Policy Statement
- b. Review of significant investment activity
- c. Monthly investment reports
- d. Portfolio overview and cash flow forecast
- e. Excess cash deployment

5. Clarion Partners: Potential sale of a parcel of land in The Tribute

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. Initial reading and discussion of the 2018 Budget

7. Legal issues

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.071 of the Texas Government Code.

- a.** Potential claims involving fiduciaries and advisors
- b.** DPFP v. The Townsend Group and Gary Lawson
- c.** Eddington et al. v. DPFP
- d.** Rawlings v. DPFP
- e.** DPFP v. Columbus A. Alexander III
- f.** Degan et al. v. DPFP (Federal suit)
- g.** HB 3158

8. Closed Session - Board serving as Medical Committee

Discussion of the following will be closed to the public under the terms of Section 551.078 of the Texas Government Code:

Disability application

9. Closed Session - Board serving as Medical Committee

Discussion will be closed to the public under the terms of Sections 551.071 and 551.078 of the Texas Government Code.

Application for death benefits for disabled child

10. Unforeseeable Emergency Requests from DROP Members

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.078 of the Texas Government Code.

11. 2018 Board meeting calendar

12. Board approval of Trustee education and travel

- a.** Future Education and Business Related Travel
- b.** Future Investment Related Travel

E. BRIEFING ITEMS

- 1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**

2. Executive Director's report

- a.** Open Government Training
- b.** Associations' newsletters
 - NCPERS Monitor (August 2017)
 - NCPERS Monitor (September 2017)

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.



DISCUSSION SHEET

ITEM #A1

Topic: Welcome of newly elected Trustees

Discussion: Pursuant to HB 3158, five remaining Trustees must be elected by rules established by the Nominations Committee. At the time, the agenda for the October 12, 2017 Board meeting is posted, the results of the election of the three Non-member Trustee Positions or the Police Officer Trustee position will not be known. The results of the Non-member and Police Officer Trustee election will be known by October 10, 2017.

Pursuant to HB 3158, after the election of the five remaining Trustees, the Board will need to adopt rules relating to future elections and would certify the results of these elections.

The Fire Fighter Trustee has been deemed elected and certified by the Nominations Committee. Samuel L. Friar will serve as the Fire Fighter Trustee. The Fire Fighter Trustee position has a term of three years.

The term of any Non-member Trustee candidate receiving more than 50% "Approve" votes will begin immediately upon certification by the Nominations Committee. If a candidate does not receive at least 50% Approve votes an additional election will be held to fill any remaining Non-member Trustee positions. The Non-member Trustees will serve an initial term of two-years, and all subsequent terms will be three-years for both new and reelected Non-member Trustees.

DISCUSSION SHEET

ITEM #A1 (continued)

Five candidates are running for one Police Officer Trustee position. A candidate must receive more than 50% of the votes cast to be elected. If no candidate receives more than 50% of the votes cast, a run-off election will be held between the two candidates receiving the most votes. The term of the Police Officer Trustee will begin immediately upon certification by the Nominations Committee and will be three-years both initially and thereafter.



DISCUSSION SHEET

ITEM #A2

Topic: Election of officers of the Board of Trustees

Discussion: Pursuant to HB 3158, election of Board officers may not occur until the full Board is seated.

Staff

Recommendation: Pursuant to Article 6243a-1, Section 1.53(f), the board shall elect from among its trustees an initial chairman, vice chairman, and deputy vice chairman as soon as possible after all trustees have been appointed or elected, if the board elects to do so, an initial second deputy vice chairman.



ITEM #B

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

(August 10, 2017 – September 30, 2017)

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
W. F. Dyson, Jr.	Retired	Police	Aug. 10, 2017
James L. Clay	Retired	Fire	Aug. 11, 2017
Marcus R. Smedley	Retired	Fire	Aug. 16, 2017
Robert G. Damesworth	Retired	Fire	Aug. 24, 2017
Robert H. Wesley	Retired	Fire	Aug. 29, 2017
Ben F. Williamson	Retired	Fire	Aug. 29, 2017
Arthur D. Hudnall	Retired	Police	Aug. 30, 2017
William E. Hall	Retired	Police	Sept. 4, 2017
Tommy Birdsong	Retired	Police	Sept. 6, 2017
Taj J. Wright	Active	Fire	Sept. 6, 2017
B. R. Hopkins	Retired	Fire	Sept. 8, 2017
James F. Martin	Retired	Police	Sept. 9, 2017

Regular Board Meeting – Thursday, October 12, 2017



ITEM #B
(continued)

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

(August 10, 2017 – September 30, 2017)

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
George W. Bedford	Retired	Police	Sept. 10, 2017
Dale L. Mulvany	Retired	Police	Sept. 23, 2017
Bobby W. Pope	Retired	Police	Sept. 24, 2017
Jack K. Rhine	Retired	Fire	Sept. 25, 2017
Jerry E. Foster	Retired	Fire	Sept. 26, 2017
Christopher Chinn	Retired	Fire	Sept. 30, 2017

Dallas Police and Fire Pension System
Thursday, September 14, 2017
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX

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

ROLL CALL

Board Members

Present at 8:32 William F. Quinn, Ray Nixon, Nicholas A. Marrick, Fredrick E. Rowe, Kneeland Youngblood (via telephone), Robert C. Walters (via telephone)

Absent: None

Staff

Kelly Gottschalk, Josh Mond, Summer Loveland, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Milissa Romero, Linda Rickley

Others

Mike Bartis, Jerry W. Knoerr, Jimmy C. Davis, Tom Moore, Kenneth S. Haben, Rick Salinas, Dan Wojcik, Samuel L. Friar, Julian Bernal, Joseph P. Schutz, Frank Ruspoli, Longburge Williams, David Tafalla, Tim Agla, Lori Brown

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The meeting was called to order at 8:32 a.m.

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A. TRUSTEES

1. Welcome of newly appointed Trustees

The following mayoral appointments to the Dallas Police & Fire Pension System Board were acknowledged: Nicholas A. Merrick, Ray Nixon, William F. Quinn, Frederick E. Rowe, Robert C. Walters, Kneeland Youngblood.

No motion was made.

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**Regular Board Meeting
Thursday, September 14, 2017**

2. Election of Interim Chairman of the Board of Trustees

After discussion, Mr. Nixon made a motion to elect William F. Quinn as Interim Chairman until the full Board is seated. At that time, the full Board will elect a Chairman, Vice-Chairman, and Deputy Vice-Chairman. Mr. Youngblood seconded the motion, which was unanimously approved by the Board.

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B. MOMENT OF SILENCE

This item postponed to a later date.

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C. CONSENT AGENDA

- 1. Approval of Refunds of Contributions for the Month of August 2017**
- 2. Approval of Activity in the Deferred Retirement Option Plan (DROP) for September 2017**
- 3. Approval of Estate Settlements**
- 4. Approval of Survivor Benefits**
- 5. Approval of Service Retirements**
- 6. Approval of Alternate Payee Benefits**
- 7. Approval of Payment of DROP Revocation Contributions**
- 8. Approval of Payment of Military Service Contributions**
- 9. Denial of Unforeseen Emergency Requests**

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

Regular Board Meeting
Thursday, September 14, 2017

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D. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Legal issues

- a. Potential claims involving fiduciaries and advisors**
- b. DPFP v. The Townsend Group and Gary Lawson**
- c. Eddington et al. v. DPFP**
- d. Rawlings v. DPFP**
- e. DPFP v. Columbus A. Alexander III**
- f. Degan et al. v. DPFP (Federal suit)**

The Board went into a closed executive session – legal at 8:57 a.m., which included all Trustees present at the meeting.

The meeting was reopened at 8:59 a.m.

After discussion, Mr. Nixon made a motion to authorized the Executive Director and General Counsel to engage Haynes & Boone to represent DPFP and all DPFP employees named in the pending litigation with Columbus Alexander. Mr. Youngblood seconded the motion, which was unanimously approved by the Board.

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2. Overview of certain Pension System information, policies and data

- a. Organizational structure**
- b. Budget**
- c. Investment Policy Statement and Investment Advisory Committee**
- d. Current contractual agreements**
- e. Insurance policies**
- f. Board policies, including ethics policies**
- g. Board educational requirements**

This item postponed to a later date.

**Regular Board Meeting
Thursday, September 14, 2017**

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3. Closed Session - Board serving as Medical Committee

Disability application

The Board went into closed executive session – medical at 8:38 a.m.

The meeting was reopened at 8:56 a.m.

No motion was made.

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4. Investment reports

This item postponed to a later date.

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5. House Bill 3158 transition status

This item postponed to a later date.

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6. Draft calendar of upcoming Board agenda items

This item postponed to a later date.

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E. BRIEFING ITEMS

1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

This item postponed to a later date.

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**Regular Board Meeting
Thursday, September 14, 2017**

2. Executive Director's report

Associations' newsletters

- NCPERS Monitor (August 2017)

This item postponed to a later date.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Merrick and a second by Mr. Nixon, the meeting was adjourned at 9:00 a.m.

William F. Quinn
Interim Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

ITEM #D1

Topic: Consideration of Deferred Retirement Option Plan (DROP) Policy

- a. DROP Balance Annuitization
- b. DROP Election Revocation
- c. Hardship Distributions

Attendees: Rocky Joyner, Vice President and Consulting Actuary (Segal Consulting)
Deborah Brigham, Vice President and Consulting Actuary (Segal Consulting)

Discussion: The DROP Policy must be amended to comply with the changes that HB 3158 made which impact DROP. Staff will provide background information and considerations related to the topic areas above and is seeking direction from the Board on the rules related to these areas. Direction from the Board will be incorporated into a draft DROP Policy for the Board to consider at the next Board meeting.

Representatives from Segal Consulting, DPFP's actuarial firm, will be present to provide an overview of the funding level of the Plan and provide support to the Board in considering the above topics related to DROP.



DISCUSSION SHEET

ITEM #D2

- Topic:** Evaluation to identify potential means of abusing the computation of benefits to inflate pension benefits
- Attendees:** Rocky Joyner, Vice President and Consulting Actuary (Segal Consulting)
Deborah Brigham, Vice President and Consulting Actuary (Segal Consulting)
- Discussion:** HB 3158 added Section 3.01(j-5)(1) to Article 6243a-1, requiring that the Board conduct an evaluation of how benefits are computed under Article 6243a-1 to identify potential means of abusing the computation of benefits to inflate pension benefits received by pensioners. This evaluation must be completed prior to January 1, 2018.
- Segal Consulting will present information and their opinion regarding the Plan's protections from pension abuse to assist the Board in conducting the required evaluation.
- Staff recommendation:** **Accept** the report and no further action is necessary.



DISCUSSION SHEET

ITEM #D3

Topic: Draft calendar of upcoming Board agenda items

Discussion: Staff has prepared a draft calendar of significant Board agenda items for the next several months. The requirements of HB 3158, DFPF policy and standard practice and other significant items have been included on the calendar. Typically recurring agenda items related to the day-to-day operations of DFPF have not been included on the calendar.

The calendar is based on the assumption that 10 trustees are seated by the October 12 Board meeting. If fewer than 10 trustees are seated by that date, certain of the calendar items will need to be postponed to a later date as action on these items by less than 10 trustees is not permitted under HB 3158. Also, because of the need to begin the annuitization of DROP balances as soon as practicable according to HB 3158 and the steps involved in that process, a Special Board meeting has been tentatively scheduled for November 1.

Based on the deadlines in HB 3158, there are a significant number of items that need to be addressed in the near term. Staff is seeking the input of the Board on the draft calendar.

Draft Timeline of Board Agenda Items

Note: The items listed assume 10 Trustees have been appointed as of the October 12th meeting. 11 Trustees are required for the Election of Officers. Items will be moved to the next month, if required, depending on the results of the Trustee elections.

Month	Item	Discussion/Action	Outside Attendees	Notes	Deadline
November 1 Special Meeting (Tentative)					
Goal: Begin the DROP annuitization payments on November 30, 2017. HB 3158 requires that the DROP annuitization begin as soon as administratively feasible. To meet this goal, direction is needed from the Board as soon as practicable after there are 10 Trustees.					
	DROP Policy	Action - Adopt		Policy based on October 12 Discussion	ASAP
	Hybrid DC/DB plan analysis scope of work presentation	Discussion - Direction	Segal	HB 3158 Section 3.01(j-5)(2)/time intensive	1/1/2018
	Possible sale of a Real Estate Asset	Action	Hearthstone		
	Overview of certain Pension System information	Discussion			
	Major Service Providers	Discussion			
	Investment Advisory Committee	Discussion - Direction	NEPC	HB 3158 Section 4.07(h)	Not specified
	Review of Investment Policy Statement - Required Changes	Discussion - Direction	NEPC	Amend to comply with HB 3158	Not specified
	Investment Policy Statement - Alternative Investments	Discussion - Direction	NEPC	HB 3158 Section 4.071	Ongoing
November	2018 Budget - 2nd Review and Member Comment	Discussion - Direction/Action		DPPF Policy	November
	Budget Policy	Action - Adopt		Amend to comply with HB 3158	12/31/2017
	Requirement for Two Annual Public Meetings	Discussion - Direction		HB 3158 3.01(j-9)	Twice Annually
	Ethics Policy Review	Discussion - Direction		HB 3158 Section 1.54(1) and 3.01r	1/1/2018
	Investment Policy Statement - Lapsed Investments	Discussion - Direction	NEPC	HB 3158 Section 3.04(a-1)	With ED Appointment 1-1-18 Before the 90th day after 11 Trustees are seated
	Governance and Board Conduct	Discussion - Direction		HB 3158 Section 1.53(g)	Trustees are seated
	Trustee Education Requirements	Discussion		Various State Laws	90 days is the first deadline
	Executive Director Appointment	Discussion - Direction		HB 3158 Section 1.54(a)(2) and 3.04	1/1/2018
	Quarterly Financial Reports	Discussion		DPPF Practice	n/a

Draft Timeline of Board Agenda Items

Note: The items listed assume 10 Trustees have been appointed as of the October 12th meeting. 11 Trustees are required for the Election of Officers. Items will be moved to the next month, if required, depending on the results of the Trustee elections.

Month	Item	Discussion/Action	Outside Attendees	Notes	Deadline
December	Ethics Policy	Action - Adopt		HB 3158 Section 1.54(a)(1) and 3.01r	1/1/2018 + annual review
	2018 Budget - Adoption if not adopted in November	Action - Adopt		DPPF Policy	12/31/2017
	Excess Benefit Plan	Discussion - Action	Ice Miller	HB 3158 Section 8.02 and IRS rules	12/31/2017
	3rd Quarter 2017 Investment Performance Analysis	Discussion	NEPC	DPPF Practice	
	2nd Quarter 2017 Private Markets & Real Assets Review	Discussion	NEPC	DPPF Practice	n/a
	Investment Policy Statement Amendments	Action - Adopt	NEPC	HB 3158 Various Sections	Not specified
	Governance and Board Conduct Policy	Action - Adopt		HB 3158 Section 1.53(g)	Before the 90th day after 11 Trustees were seated
	Hybrid DC/DB Plan Analysis Report	Action - Adopt	Segal	HB 3158 Section 3.01(j-5)(2)	1/1/2018
	Legislative Consultants Contract	Discussion - Action		Contract Expiration 12-31-17 & 11-30-18	
	Real Estate Portfolio Briefing	Discussion		Informational	n/a
Asset Review - RCH, Camel Square	Discussion	AEW	Material Assets, Potential Significant Capital Call		
January	Chief Investment Officer	Discussion - Direction		HB 3158 Section 1.54(b)	After ED Appointed
	Chief Legal Officer	Discussion - Direction		HB 3158 Section 1.54(b)	After ED Appointed
	MET Educational Requirements	Discussion - Direction		Informational	Initial requirements completed 1 year from appointment
	HB 3158 training requirements	Discussion - Direction		HB 3158 Section 3.013	Annual Requirement
	Other Private Assets (Excluding Real Estate) Briefing	Discussion		Informational	n/a
Additional items to be scheduled					
	Public Assets Briefing	Discussion		Informational	n/a
	Trustee Election, Vacancy and Removal Rules	Discussion - Action		HB 3158 Section 3.012	Not Specified
	Overpayment Rules	Discussion - Action		HB 3158 Section 6.20	Not Specified
	Consider Rules for the Sale of the DROP Annuity	Discussion - Direction	Ice Miller	HB 3158 Section 6.14(e-3)	Allowed/Not Required
	Schedule MET Training if the Board wants to utilize TEXPERS	Discussion	TEXPERS	State Law	1 year from appointment
	HB 3158 Training	Discussion		HB 3158 Section 3.013	Annual Requirement
	Review Actuarial Assumptions for 1/1/18 Valuation	Discussion - Action	Segal		n/a
	May Consider Equity Adjustments	Discussion		HB 3158 Section 1.47 Part 6A	Allowed/Not Required



DISCUSSION SHEET

ITEM #D4

Topic: Investment Overview and Reports

- a. Overview of Investment Policy Statement
- b. Review of significant investment activity
- c. Monthly investment reports
- d. Portfolio overview and cash flow forecast
- e. Excess cash deployment

Attendees: Rhett Humphreys, Partner (NEPC)

Discussion:

- a. Staff will provide an overview of the Investment Policy Statement which was last amended in May 2016, including a discussion of the roles and responsibilities of the Board, Staff, Investment Advisory Committee and Consultant.
- b. Staff will provide a review of significant investment activity over the past year.
- c. Staff will review the September 2017 monthly investment and preliminary performance reports. The September reports will be provided separately, one day prior to the Board meeting.
- d. Staff will provide a 9-month forward projection of cash flows from private investments, net benefit and operating outflows, and the resulting asset allocation through 6/30/2018.
- e. Staff and NEPC will discuss the recommended rebalancing plan to deploy excess cash currently on hand as of October 2017.



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Review of Significant Investment Activity

October 12, 2017

Investment Activity over past 12 months

In Millions

All numbers in presentation are from 9/30/16 to 9/30/17

SECONDARY SALES PROCEEDS

\$246

INFRASTRUCTURE SALES

\$180

REAL ASSETS SALES

\$88

\$(140)

DEBT PAYOFF

\$(374)

UNFUNDED COMMITMENTS
REDUCTION

\$(410)

NEW INVESTMENTS

Secondary Sales

- Evercore was engaged to broadly market a portfolio of DPF's private fund investments, resulting in **19 bids** for select investments and sub-portfolios
- Staff negotiated **\$7m price increase** with the buyer
- DPF Board approved sale in December 2016
- DPF received **\$246m** in proceeds from the sale of interests in **26 fund** partnerships at a blended price of **88% of NAV**

- Evercore ran a secondary sale process to sell DPFP's direct investment into two North Texas managed lanes investments, North Tarrant Express (NTE) and LBJ Express (LBJ)
- DPFP had invested a combined **\$87 million** into NTE and LBJ
- Evercore received offers from four groups and the Board ultimately approved a sale for **\$180 million** in May 2017 which closed on 9/29/17

Real Estate

- DPFP sold 4 individual real estate assets, as well as several condo units, over the past 12 months
- DPFP has received **\$73m in proceeds** from these sales

Natural Resources (Timber and Agriculture)

- Over the past 12 months, DPFP has received **\$15m** in sales proceeds from timber and agriculture sales
- Based on offers received and properties under contract, DPFP expects to receive another **\$40m** in proceeds by year-end

Debt Pay Off & Unfunded Commitment Reduction

- DFPF paid **\$140m** in principal on its plan-level debt over the last 12 months and the debt was paid off in full in July 2017. DFPF had over \$400m in plan-level debt in 2014.
- Through secondary sales and funding of capital calls, DFPF reduced unfunded commitments (including real estate debt obligation) by **\$374m** over the past 12 months to **\$150m** as of 9/30/17. The secondary sales reduced unfunded commitments by **\$108m**.
- Real estate debt obligation (RCH company level) was reduced from **\$189m** outstanding at 12/31/16 to current level of **\$65m** through a \$56m funding of capital by DFPF and \$68m of payments from RCH with proceeds from property sales.
- With a lower level of unfunded commitments and no plan-level debt remaining, DFPF is better able to plan for cash needs and manage to the target asset allocation with less uncertainty around outflows.

New Investments over past 12 months

DPFP approved and/or funded investments of approximately **\$410m to 6 new managers**

Manager	Asset Category	Asset Class	Amount	Actual/Expected Initial Funding Date
Manulife ¹	Equity	Global Equity	\$95,000,000	6/14/2017
Boston Partners ¹	Equity	Global Equity	\$95,000,000	6/14/2017
RBC ²	Equity	Emerging Markets Equity	\$50,000,000	11/1/2017
Income, Research + Management	Fixed Income	Short Term Core Bonds	\$50,000,000	6/15/2017
Pacific Asset Management	Fixed Income	Bank Loans	\$50,000,000	7/27/2017
Ashmore EM Blended Debt ²	Fixed Income	Emerging Markets Debt	\$70,000,000	11/1/2017

1 – Funded \$70m each to Boston Partners and Manulife in June 2017. DPFP expects another \$25m each to be funded after the October Board meeting.

2 - Board approved investment in July 2017, but funding has not yet occurred.



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9-month Forward Cash Flow Forecast

Cash Flow Forecast – Assumptions

- The forward cash flow forecast was developed to consider the effect of planned dispositions & capital calls to private investments (Private Equity, Private Debt, Real Estate, Natural Resources and Infrastructure) as well as net benefit and operating outflows on:
 1. Asset Allocation
 2. Liquidity Profile
 3. Deployment of DPFP's current excess cash position (~ 10% or \$217m)

- The cash flow assumptions for the private investment portfolio were developed using conservative estimates based on discussions with each respective investment manager.
 - Only sales in process or planned dispositions were included in the projection.
 - Assumes all unfunded capital that is expected to be called is funded within the next 9 months.

- Assumes net benefit outflows of \$7.6m per month and operating overhead outflows of \$803k per month.

- Analysis does not factor in assumed investment growth.

Cash Flow Forecast – Asset Category Level

In Millions (Approximately)

Outflows: Capital Calls, Benefit Payments, Redeployment of cash to liquid managers. Displayed as positive for asset category & negative for cash.

Inflows: Sales proceeds, investment distributions, benefit contributions. Displayed as negative for asset category & positive for cash.

	Current \$ (M)	Private Asset Cash Flow	Benefit/Operating Outflow	Cash Redeployment	6/30/2018 Est. (\$M)
EQUITY	573.4	29.8	0.0	108.0	711.2
FIXED INCOME	342.4	(4.7)	0.0	72.0	409.7
GLOBAL ASSET ALLOCATION (GAA)	137.7	0.0	0.0	20.0	157.7
REAL ASSETS	838.0	(124.3)	0.0	0.0	713.7
CASH	216.9	99.2	(75.6)	(200.0)	40.5
NET ASSET VALUE	2,108.4	-	(75.6)	-	2,032.7



Net cash inflow of **\$99.2 million** expected from private asset portfolio:

- Equity increase driven by assumed capital contributions to private equity funds
- Fixed income decrease driven by note repayment to DFPF on 12/31/17
- Real assets decrease driven by assumed real estate, timber and agriculture planned sales

Cash Flow Forecast – Asset Category Level

In Millions (Approximately)

Outflows: Capital Calls, Benefit Payments, Redeployment of cash to liquid managers. Displayed as positive for asset category & negative for cash.

Inflows: Sales proceeds, investment distributions, benefit contributions. Displayed as negative for asset category & positive for cash.

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NET ASSET VALUE	2,108.4	-	(75.6)	-	2,032.7

Net cash outflow of **\$75.6 million** expected to cover benefit payments and operating expenses through 6/30/18. This also lowers the Net Asset Value of DPFP.

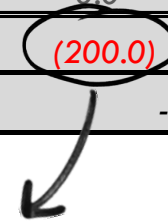
Cash Flow Forecast – Asset Category Level

In Millions (Approximately)

Outflows: Capital Calls, Benefit Payments, Redeployment of cash to liquid managers. Displayed as positive for asset category & negative for cash.

Inflows: Sales proceeds, investment distributions, benefit contributions. Displayed as negative for asset category & positive for cash.

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FIXED INCOME	342.4	(4.7)	0.0	72.0	409.7
GLOBAL ASSET ALLOCATION (GAA)	137.7	0.0	0.0	20.0	157.7
REAL ASSETS	838.0	(124.3)	0.0	0.0	713.7
CASH	216.9	99.2	(75.6)	(200.0)	40.5
NET ASSET VALUE	2,108.4	-	(75.6)	-	2,032.7



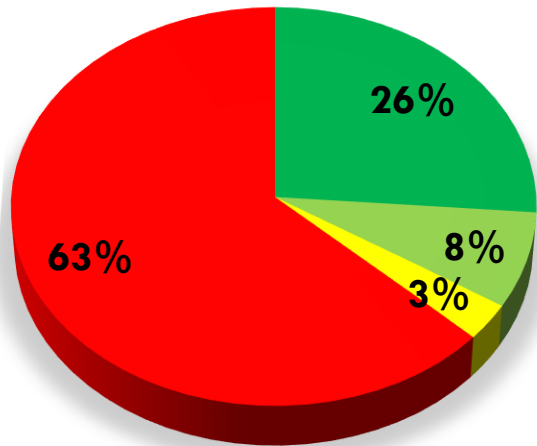
Based on the current cash level, in addition to the expected cash flows over the next 9-months, there should be approximately **\$200m** in cash that can be redeployed into the liquid portion of the DFPF portfolio. This analysis assumes that initial rebalancing of cash follows the plan to be presented at the October 12 Board meeting, along with additional redeployment of cash as it becomes available.

Cash Flow Forecast – Projected Asset Allocation

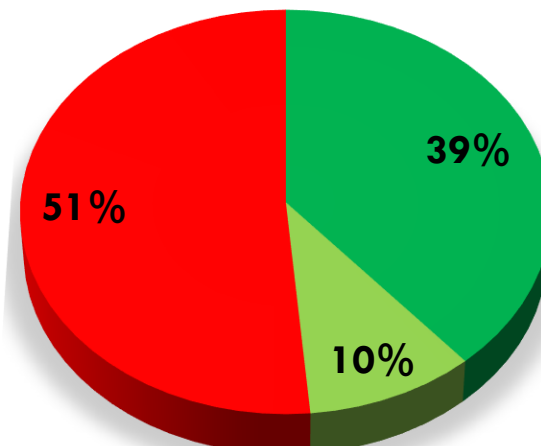
	Current	6/30/2018	Change	Target Range		
	%	Est. %		Low	%	High
EQUITY	27.2%	35.0%	7.8%	20%	30%	40%
FIXED INCOME	16.2%	20.2%	3.9%	15%	33%	38%
GLOBAL ASSET ALLOCATION (GAA)	6.5%	7.8%	1.2%	5%	10%	15%
REAL ASSETS	39.7%	35.1%	-4.6%	20%	25%	45%
CASH	10.3%	2.0%	-8.3%	0%	2%	5%
NET ASSET VALUE	100%	100%				

Cash Flow Forecast – Liquidity Profile

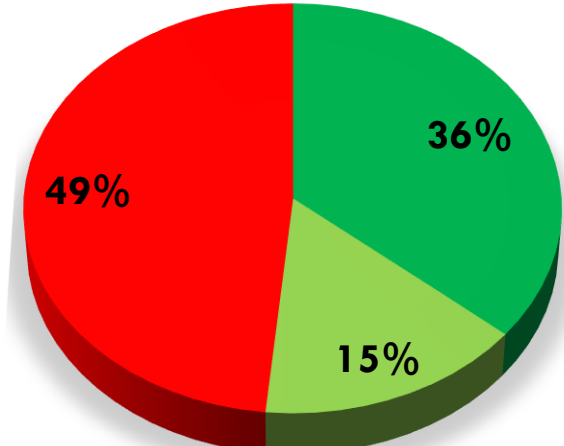
9/30/16



Current



Est. 6/30/18



■ Daily or Weekly ■ Monthly ■ Restricted* ■ Illiquid

* - Assets can be redeemed between monthly and annual basis often with gating, lock-ups or notice of more than 30 days required.

Cash Flow Forecast – Asset Class Detail

	Current \$ (M)	Private Asset Cash Flow	Benefit/Op Outflow	Cash Redeployment	6/30/2018 Est. (\$M)
EQUITY					
Global Equity	344.6			58.0	402.6
Emerging Market Equity	-			50.0	50.0
Private Equity	228.7	29.8			258.5
TOTAL EQUITY	573.4	29.8	0.0	108.0	711.2
FIXED INCOME					
Short Term Core Bonds	50.2				50.2
Global Bonds	65.9				65.9
High Yield	81.6			6.0	87.6
Bank Loans	108.5			10.1	118.6
Emerging Market Debt	19.1			55.9	75.0
Absolute Return & Structured Credit	-				-
Private Debt	17.1	(4.7)			12.4
TOTAL FIXED INCOME	342.4	(4.7)	0.0	72.0	409.7
GLOBAL ASSET ALLOCATION (GAA)					
Risk Parity	80.7			15.0	95.7
GTAA	22.6			5.0	27.6
Absolute Return	34.3				34.3
TOTAL GAA	137.7	0.0	0.0	20.0	157.7
REAL ASSETS					
Liquid Real Assets	-				-
Natural Resources	238.9	(70.0)			168.9
Infrastructure	60.5	2.5			63.0
Real Estate	538.6	(56.8)			481.8
TOTAL REAL ASSETS	838.0	(124.3)	0.0	0.0	713.7
CASH	216.9	99.2	(75.6)	(200.0)	40.5
NET ASSET VALUE	2,108.4	-	(75.6)	-	2,032.7

Cash Flow Forecast – Asset Allocation Detail

	Current	6/30/2018	Change	Target Range		
	%	Est. %		Low	%	High
<u>EQUITY</u>						
Global Equity	16.3%	19.8%	3.5%	10%	20%	23%
Emerging Market Equity	0.0%	2.5%	2.5%	0%	5%	8%
Private Equity	10.8%	12.7%	1.9%	4%	5%	15%
TOTAL EQUITY	27.2%	35.0%	7.8%	20%	30%	40%
<u>FIXED INCOME</u>						
Short Term Core Bonds	2.4%	2.5%	0.1%	0%	2%	5%
Global Bonds	3.1%	3.2%	0.1%	0%	3%	6%
High Yield	3.9%	4.3%	0.4%	2%	5%	8%
Bank Loans	5.1%	5.8%	0.7%	3%	6%	9%
Emerging Market Debt	0.9%	3.7%	2.8%	0%	6%	9%
Absolute Return & Structured Credit	0.0%	0.0%	0.0%	0%	6%	9%
Private Debt	0.8%	0.6%	-0.2%	2%	5%	7%
TOTAL FIXED INCOME	16.2%	20.2%	3.9%	15%	33%	38%
<u>GLOBAL ASSET ALLOCATION (GAA)</u>						
Risk Parity	3.8%	4.7%	0.9%	2%	5%	8%
GTAA	1.1%	1.4%	0.3%	0%	3%	6%
Absolute Return	1.6%	1.7%	0.1%	0%	2%	5%
TOTAL GAA	6.5%	7.8%	1.2%	5%	10%	15%
<u>REAL ASSETS</u>						
Liquid Real Assets	0.0%	0.0%	0.0%	0%	3%	6%
Natural Resources	11.3%	8.3%	-3.0%	3%	5%	10%
Infrastructure	2.9%	3.1%	0.2%	3%	5%	10%
Real Estate	25.5%	23.7%	-1.8%	10%	12%	25%
TOTAL REAL ASSETS	39.7%	35.1%	-4.6%	20%	25%	45%
<u>CASH</u>	10.3%	2.0%	-8.3%	0%	2%	5%
NET ASSET VALUE	100%	100%				



DISCUSSION SHEET

ITEM #D5

Topic: **Clarion Partners: Potential sale of a parcel of land in The Tribute**

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.

Attendees: Bohdy Hedgcock, Senior Vice President (Clarion Partners)
Rhett Humphreys, Partner (NEPC)

Discussion: Clarion will discuss the potential sale of an approximately 25-acre parcel of land which is part of The Tribute, a 1,600 acre residential development in The Colony, Texas. The 1,600 acres are held in a partnership between DPF and Mathews Southwest. Clarion was engaged in October 2015 to take over the investment management of DPF's interest in several Dallas area real estate assets, including The Tribute. Clarion will discuss the potential sale and provide a recommended course of action.

Staff

Recommendation: **Authorize** Clarion to consummate the sale of an approximately 25-acre parcel within The Tribute.



DISCUSSION SHEET

ITEM #D6

Topic: Initial reading and discussion of the 2018 Budget

Discussion: Attached is the budget proposal for Calendar Year 2018.

The budget has been prepared in total for both the Combined Pension Plan and the Supplemental Plan. Total expenses are then allocated to the Supplemental Plan based on plan allocation as reported by JPMorgan.

Due to changes to Section 4.01(a) of the Plan effective September 1, 2017, fees to investment managers and other investment portfolio operating expenses, such as legal, valuation and tax expenses, are now included in the budget for Board approval.

The proposed budget, net of expenses allocated to the Supplemental Plan, totals \$27.4M which is a decrease of 5.4% compared to the equivalent expenses in the prior year budget considering the fact that investment management fees and other investment portfolio operating expenses were not included in the 2017 budget.

Significant changes from the prior year budget and/or projected 2017 actual expenses are explained in the comments accompanying the proposed budget.

Staff

Recommendation: Direct staff to address any proposed amendments, present the amended budget to the Board at the November 9, 2017 Board meeting, and **authorize** the posting of the amended budget to www.dpfp.org for member review prior to the November meeting.

Dallas Police & Fire Pension System
Operating Budget
Calendar Year 2018

Description		2017 Budget	2017 Projected Actual*	2018 Budget	\$ Change	% Change	\$ Change	% Change
					vs Prior Yr Budget	vs Prior Yr Budget	vs Prior Yr Proj. Actual	vs Prior Yr Proj. Actual
Administrative Expenses								
1	Salaries and benefits	4,199,476	4,190,000	3,728,000	(471,476)	(11.2%)	(462,000)	(11.0%)
2	Employment expenses	3,009	450	151,125	148,116	4922.4%	150,675	33483.3%
3	Memberships and dues	17,600	17,600	17,040	(560)	(3.2%)	(560)	(3.2%)
4	Staff meetings	1,000	-	1,000	-	0.0%	1,000	N/A
5	Employee service recognition	1,960	1,200	-	(1,960)	(100.0%)	(1,200)	(100.0%)
6	Member educational programs	2,500	1,500	2,500	-	0.0%	1,000	66.7%
7	Member outreach programs	720	-	-	(720)	(100.0%)	-	N/A
8	Board meetings	13,360	7,000	10,100	(3,260)	(24.4%)	3,100	44.3%
9	Conference registration/materials - Board	51,615	10,000	14,400	(37,215)	(72.1%)	4,400	44.0%
10	Travel - Board	128,335	15,000	25,000	(103,335)	(80.5%)	10,000	66.7%
11	Mileage - Board	5,000	3,100	5,000	-	0.0%	1,900	61.3%
12	Conference/training registration/materials - Staff	32,450	6,800	27,050	(5,400)	(16.6%)	20,250	297.8%
13	Travel - Staff	60,550	32,000	47,000	(13,550)	(22.4%)	15,000	46.9%
14	Liability insurance	447,667	440,000	510,000	62,333	13.9%	70,000	15.9%
15	Communications (phone/internet)	64,312	57,000	49,100	(15,212)	(23.7%)	(7,900)	(13.9%)
16	Information technology projects	20,000	3,000	75,000	55,000	275.0%	72,000	2400.0%
17	IT subscriptions/services/licenses	122,950	84,000	147,100	24,150	19.6%	63,100	75.1%
18	IT software/hardware	39,800	9,400	17,000	(22,800)	(57.3%)	7,600	80.9%
19	Building expenses, incl capitalizable fixed assets	599,266	450,000	409,966	(189,300)	(31.6%)	(40,034)	(8.9%)
20	Repairs and maintenance	97,508	120,000	110,785	13,277	13.6%	(9,215)	(7.7%)
21	Office supplies	31,800	32,000	30,500	(1,300)	(4.1%)	(1,500)	(4.7%)
22	Leased equipment	20,500	24,000	24,500	4,000	19.5%	500	2.1%
23	Postage	27,700	30,000	25,800	(1,900)	(6.9%)	(4,200)	(14.0%)
24	Printing	5,635	5,000	6,370	735	13.0%	1,370	27.4%
25	Subscriptions	2,510	1,200	2,020	(490)	(19.5%)	820	68.3%
26	Records storage	1,200	1,200	1,560	360	30.0%	360	30.0%
27	Administrative contingency reserve	-	150	-	-	N/A	(150)	(100.0%)

**Dallas Police & Fire Pension System
Operating Budget
Calendar Year 2018**

Description		2017 Budget	2017 Projected Actual*	2018 Budget	\$ Change vs Prior Yr Budget	% Change vs Prior Yr Budget	\$ Change vs Prior Yr Proj. Actual	% Change vs Prior Yr Proj. Actual
Investment Expenses								
28	Investment management fees	N/A	17,416,000	17,522,000	N/A	N/A	N/A	N/A
29	Investment consultant and reporting	575,000	489,000	505,000	(70,000)	(12.2%)	16,000	3.3%
30	Bank/security custodian services	328,600	262,000	260,000	(68,600)	(20.9%)	(2,000)	(0.8%)
31	Other portfolio operating expenses (legal, valuation, tax)	N/A	2,187,000	860,000	N/A	N/A	N/A	N/A
Professional Services Expenses								
32	Actuarial services	600,000	500,000	150,000	(450,000)	(75.0%)	(350,000)	(70.0%)
33	Accounting services	59,000	59,000	59,000	-	0.0%	-	0.0%
34	Independent audit	149,500	149,500	155,000	5,500	3.7%	5,500	3.7%
35	Legal fees	2,514,800	1,610,000	2,000,000	(514,800)	(20.5%)	390,000	24.2%
36	Legislative consultants	324,000	307,000	271,000	(53,000)	(16.4%)	(36,000)	(11.7%)
37	Public relations	290,000	245,000	-	(290,000)	(100.0%)	(245,000)	(100.0%)
38	Pension administration software & WMS	271,000	250,000	291,000	20,000	7.4%	41,000	16.4%
39	Business continuity	13,500	15,000	13,500	-	0.0%	(1,500)	(10.0%)
40	Network security	35,000	15,000	33,000	(2,000)	(5.7%)	18,000	120.0%
41	Disability medical evaluations	12,500	7,000	30,000	17,500	140.0%	23,000	328.6%
42	Elections	10,000	32,000	-	(10,000)	(100.0%)	(32,000)	(100.0%)
43	Miscellaneous professional services	122,000	108,000	18,300	(103,700)	(85.0%)	(89,700)	(83.1%)
Total without Investment Expenses not previously budgeted for		11,303,323	9,590,100	9,223,716	(2,079,607)	(18.4%)	(366,384)	(3.8%)
Gross Total		11,303,323	29,193,100	27,605,716	N/A	N/A	(1,587,384)	(5.4%)
Less: Allocation to Supplemental Plan Budget*		75,246	225,166	212,923	N/A	N/A	(12,243)	(5.4%)
Total Combined Pension Plan Budget		11,228,077	28,967,934	27,392,793	N/A	N/A	(1,575,140)	(5.4%)

* Projected based on 9/30/17 YTD annualized

** Allocation to Supplemental is based on JPM allocation between accounts as of 8/31/17 of .7713%

Management Fee Budget - 2018

Asset Category	Asset Class	2018 Management Fee Budget*	Fee as a % of Market Value
Equity	Global Equity	\$ 2,400,000	0.57%
	Emerging Markets Equit	364,000	0.70%
	Private Equity	4,145,000	1.54%
Fixed Income	Liquid Fixed Income	1,973,000	0.48%
	Private Deb	207,000	1.61%
	Risk Parity	837,000	0.84%
GAA	GTAA	287,000	1.00%
	Absolute Return	1,356,000	3.80%
	Natural Resources	1,726,000	0.98%
Real Assets	Infrastructure	1,378,000	2.10%
	Real Estate	2,848,000	0.57%
	TOTAL	\$ 17,522,000	0.83%

* - The Management Fee Budget does not include any carried interest or profit sharing paid to the General Partner ("GP"), which is typical in private equity and debt structures. The budget includes management fees, performance/incentive fees & disposition fees paid to the fiduciary investment manager, as well as the base management fees payable to the GP.

^ - Liquid Fixed Income combines the following asset classes for presentation purposes due to their similar fee levels: Short-Term Core Bonds, Global Bonds, High Yield, Bank Loans & Emerging Markets Debt.

Significant Budget Changes - 2018

Item	2017 Budget	2017 Projected Actual**	2018 Budget	\$ Change vs Prior Yr Budget	% Change vs Prior Yr Budget	\$ Change vs PY Proj Actual	% Change vs PY Proj Actual	Explanation	
INCREASES:									
1	Information technology projects	20,000	3,000	75,000	55,000	275.0%	72,000	2400.0%	Network storage device is end of life and requires replacement.
2	IT subscriptions/services/licenses	122,950	84,000	147,100	24,150	19.6%	63,100	75.1%	Increase in cost for proposed file sharing software for Board materials.
3	Employment expenses	3,009	450	151,125	148,116	4922.4%	150,675	33483.3%	Potential use of search firms for hiring of vacant positions.
4	Liability insurance	447,667	440,000	510,000	62,333	13.9%	70,000	15.9%	Increase due to market factors, as well as claims experience for fiduciary coverage.
REDUCTIONS:									
5	Salaries and benefits	4,199,476	4,190,000	3,728,000	(471,476)	(11.2%)	(462,000)	(11.0%)	Due to payment of one-time employment contract related amounts in 2017.
6	Conference/training registration/materials - Board	51,615	10,000	14,400	(37,215)	(72.1%)	4,400	44.0%	Reduction in anticipated Board participation in conferences.
7	Travel - Board	128,335	15,000	25,000	(103,335)	(80.5%)	10,000	66.7%	Reduction in anticipated Board participation in conferences.
8	Legal fees	2,514,800	1,610,000	2,000,000	(514,800)	(20.5%)	390,000	24.2%	Legal fees in 2017 were partially offset by insurance recoveries totalling \$940K. Total legal expenses are estimated to decrease in 2018.
9	Public relations	290,000	245,000	-	(290,000)	(100.0%)	(245,000)	(100.0%)	Staff is proposing the hiring of an internal communications position in 2018.
10	Miscellaneous professional services	122,000	108,000	18,300	(103,700)	(85.0%)	(89,700)	(83.1%)	In 2017, the budget included leasing commissions for 4100 Harry Hines space available for lease. The space is now fully leased.
11	Actuarial services	600,000	500,000	150,000	(450,000)	(75.0%)	(350,000)	(70.0%)	In 2017, the volume of actuarial services were driven by Plan changes.
12	Building expenses, incl capitalizable fixed assets	599,266	450,000	409,966	(189,300)	(31.6%)	(40,034)	(8.9%)	In 2017, actual tenant improvements for leased space were less than anticipated. Also, continuous cost cutting measures with service provider contracts.
13	Investment consultant and reporting	575,000	489,000	505,000	(70,000)	(12.2%)	16,000	3.3%	Reduction vs PY budget is due to reduced total average NAV.
14	Bank/security custodian services	328,600	262,000	260,000	(68,600)	(20.9%)	(2,000)	(0.8%)	Reduction vs PY budget is due to reduced number of assets and accounts. Anticipated to be in line with actual 2017 fees.



DISCUSSION SHEET

ITEM #D7

Topic: Legal issues

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.071 of the Texas Government Code.

- a. Potential claims involving fiduciaries and advisors
- b. DPF v. The Townsend Group and Gary Lawson
- c. Eddington et al. v. DPF
- d. Rawlings v. DPF
- e. DPF v. Columbus A. Alexander III
- f. Degan et al. v. DPF (Federal suit)
- g. HB 3158

Discussion: Counsel will brief the Board on these issues.



DISCUSSION SHEET

ITEM #D8

Topic: Closed Session - Board serving as Medical Committee

Discussion of the following will be closed to the public under the terms of Section 551.078 of the Texas Government Code:

Disability application

Discussion: Staff will present an application for On -Duty disability pension for consideration by the Board in accordance with Section 6.03 of the Plan. Documentation will be available at the meeting.



D A L L A S
POLICE & FIRE
PENSION SYSTEM



**DISABILITY PENSION
APPLICATION POLICY**

As Amended Through October 12, 2006

DISABILITY PENSION APPLICATION POLICY

Amended Through October 12, 2006

A. PURPOSE

The Board of Trustees ("Board") of the Dallas Police and Fire Pension System ("System") hereby adopts the following as its policy ("Policy") for processing disability pension applications of System members ("Member"). This Policy establishes a coordinated and documented means for considering Members' applications for disability pensions under the Combined Pension Plan ("Plan").

The Board intends that this Policy will clarify the requirements for a disability pension, the rights and responsibilities of the Member and the role of the Staff and Board in the Application process. The System's Administrator will adopt formal and/or informal procedures that will not conflict with this Board Policy to facilitate the disability application process.

B. REASONABLE ACCOMMODATION

As employees of the City of Dallas, Members have the right to reasonable accommodations from their Departments if those accommodations would make it possible to perform their jobs. Persons who feel that a reasonable accommodation might be beneficial should discuss this possibility with their doctor(s) and with their Department before applying for disability benefits.

C. PHYSICIAN

For purposes of this Policy, the term "physician" means a licensed medical doctor or doctor of osteopathic medicine.

D. BOARD MEETING PROCEDURES

1. Unless a Member requests otherwise, any testimony or discussion regarding the Member's medical condition will be held in a session that is closed to the public. The Board will render in open session its determination concerning the Member's disability application. The medical records related to the Member will be kept confidential pursuant to federal law.



D. BOARD MEETING PROCEDURES (continued)

2. The Member may attend all portions of the Board meeting dealing with his or her application in person or through a representative. The Member, or the Member's representative, may be accompanied by legal counsel or any other person desired.
3. The Board may require the Member and any persons who can provide information regarding the Member's disability claim to be present during consideration of the Member's application for disability retirement benefits.
4. The Board, in its sole discretion, may subpoena witnesses (physicians, co-workers, supervisors, or anyone else who can provide useful information).
5. The Member, or the Member's representative, may present evidence that might bear on the Member's entitlement for disability benefits, including testimonial evidence given under oath by any person with knowledge of facts of the situation.
6. The Member may ask the Pension Office to call any person who may have knowledge of the facts of the disability to appear before the Board. Upon receiving such request, the Pension Office will attempt to call the person(s) to appear before the Board. The Member's request must be in writing and should be received by the Pension Office at least 10 working days before the scheduled meeting. Receipt of a request less than 10 days before the meeting may require an additional postponement of the Member's hearing. If a person who may have relevant information is not in attendance the Board may, if it sees fit, attempt to contact that person by speaker telephone during the course of the hearing. Any communication about the matter must be audible to all in attendance.
7. Witnesses, whether called by the board or requested by the Member, may be questioned under oath.
8. When considering an application for disability benefits, the Board may decide that additional information on some subject relating to the application is desirable. If so, then it may defer action until a subsequent meeting.

E. THE BOARD'S DECISION

1. The Board will make its decision whether to grant or deny an application for disability retirement benefits in accordance with this Policy and the requirements of Section 6.03 and 6.05 of the Plan.
 - a. The Board shall have the sole and absolute duty to be the final "finder of fact". The Board will take into account and evaluate the claim of the Member, any reports as to any injury or illness, as well as any evidence in reports submitted by the System's private investigator, the Member's attending physician, the City's Medical Officer and/or the independent physician and any other medical provider, and any other witnesses who present evidence or testimony at the Board meeting.
 - b. As the finder of fact, the Board will determine the weight to give to any reports or testimony using the same considerations that they apply in everyday life when questions of truth and credibility arise. The Board will, for example, consider any possible bias or prejudice a witness may have, his or her interest, or lack of interest in the outcome of the hearing, the person's ability to observe facts correctly, and to remember and relate them truly and accurately. No relevant fact shall be determined merely by the number of witnesses testifying for or against the fact. Whether to believe all, some or none of a witness' testimony is for the Board alone to decide, using each Board member's knowledge of and experience with human nature.
2. The Board's written decision regarding the Member's application for a disability pension will be provided to the Member within 10 working days of the Board's meeting in which the decision was made.

F. RECONSIDERATION OF A BOARD DECISION

1. If a Member's application for a disability pension has been denied, the Board will consider its reactivation only if, within 90 days of the decision, the Member provides the Board with additional medical evidence that directly relates to the disability application and a written request for reactivation.

F. RECONSIDERATION OF A BOARD DECISION (continued)

2. A Member's timely request for reactivation of a Disability Pension Benefit application will be presented to the Board at its next scheduled regular meeting.
3. A Member's request for reactivation of a Disability Pension Benefit application after 90 days from the Board's denial of the Member's application will be treated as a request to initiate an application for a Disability Pension and begin the process again.

G. APPEAL OF BOARD'S DECISION

A Member may seek to appeal the decision of the Board in the Dallas County District Court in accordance with the provisions of Sections 6.18(b) and (c) of the Plan.

H. FAILURE TO COOPERATE

If a Member does not cooperate in the disability application process, such as by failing to respond to requests to schedule required examinations, to appear for any appointment or meeting, or to provide the Pension Office with requested materials, or otherwise fails to actively pursue the application process, the Board may treat the Member's application as withdrawn. If this happens, a Member who still wants to qualify for a Disability Pension Benefit must reapply.

I. OTHER GUIDELINES

1. The Member must pay any costs (his or her own doctor's fees, copying records, etc.) incurred in completing the initial application. The System bears the cost of medical review by the City's Health Director, any independent medical examinations ordered by the System and other reasonable costs associated with the disability application.

I. OTHER GUIDELINES (continued)

2. If the System receives credible information that an applicant is engaging in activities that are inconsistent with the statements made by or on behalf of that person or are inconsistent with payment of disability benefits, the Administrator will advise the Board Chairman of the information. Then, unless instructed by the Chairman to first present the issue to the Board at a Board meeting, the Administrator will obtain the services of a private investigative service. The private investigative service shall be authorized to investigate the accuracy of the information received by the System. Any such investigation shall be conducted with reasonable regard for the Member's dignity, shall not be in violation of law and any report shall be written in a thorough, proper and dignified manner. No activity on the disability pension application or payment will take place pending consideration by the Board of the report of the private investigative service.
3. Any investigator who reports to the Board may be called to testify under oath and may be examined at such time by the Board, the Member or the Member's representative.
4. The Member's failure to appear without good cause shown shall not prevent the Board from considering the matter and entering a final decision based upon all the evidence presented.
5. The Board will process disability pension applications as quickly as possible; however, a minimum of 3 months can be expected for completion of the process.
6. If the Board is unable to complete its review of the Member's application for a disability pension at the first meeting it is considered, and if the Member is eligible for a retirement pension, then the Member may request a retirement pension pending completion of the Board's review. If the Member's application for a disability pension is later granted by the Board, the Board will change the Member's pension status retroactively from Service Retirement to Disability Retirement.
7. Other than as stated in the preceding paragraph, once a Member goes on Service Retirement, or becomes a participant in the System's DROP program, the Member is no longer eligible to apply for a Disability Pension Benefit.

I. OTHER GUIDELINES (continued)

8. If the Board is convinced that the Member's disability is wholly and immediately incapacitating, the Board may waive the requirement that a Member be unable to work for the 90 days immediately preceding the effective date of a disability retirement.
9. The Board may order future medical examinations and recalls. As a general rule, it will not require examinations or recalls more frequently than once in every 6 months.
10. Any application for a service-connected disability will be considered for a non service-connected disability in the event the Board finds the condition is not service connected.

APPROVED on October 12, 2006 the Board of Trustees of the Dallas Police and Fire Pension System.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary





DISCUSSION SHEET

ITEM #D9

Topic: Closed Session - Board serving as Medical Committee

Discussion will be closed to the public under the terms of Sections 551.071 and 551.078 of the Texas Government Code.

Application for death benefits for disabled child

Discussion: Staff will present an application for consideration by the Board of a survivor benefits for a disabled child in accordance with Section 6.06(n) of the Plan. Documentation will be available at the meeting.



DISCUSSION SHEET

ITEM #D10

Topic: Unforeseeable Emergency Requests from DROP Members

Discussion: The Executive Director is seeking Board direction on an Unforeseeable Emergency Request which relates to replacement of personal property as a result of a natural disaster.

The DROP Unforeseeable Emergency Policy allows for a DROP distribution for the repair of damage to a DROP account holder's primary residence not covered by insurance as the result of a natural disaster. The Policy does not directly address the replacement of personal property (which was located in the primary residence in the case of this request) due to damage as a result of a natural disaster. The policy also does not address discuss the whether the reimbursement is based on replacement cost value or actual cash value.

Staff

Recommendation: To be provided at the meeting.



DISCUSSION SHEET

ITEM #D11

Topic: 2018 Board meeting calendar

Discussion: Staff will discuss options for timing of scheduling the 2018 Regular Board meetings. Currently, Board meetings are scheduled for the second Thursday of each month.

In order for staff to provide the most timely monthly investment reporting and quarterly financial statements, meetings cannot be held prior to the second Thursday of each month. If meetings are held prior to the second Thursday, monthly investment reporting would be provided on a one-month lag and quarterly financial statements would be provided in the last month of each quarter for the previous quarter (i.e. 3rd quarter financial statements provided in December). Holding the Board meeting either during the second week of the month on Thursday or Friday or any day during the third week of the month will meet the timeline described above.

In addition, in order to approve the Consent Agenda each month allowing for new retirements and the payment of new monthly pension benefits by the last business day of the month, meetings must be held prior to the 23rd day of each month.

Staff Recommendation: Staff recommends that the Board select a consistent day and time for the regular monthly Board meeting to be scheduled.



DISCUSSION SHEET

ITEM #D12

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.

**Future Education and Business Related Travel
Regular Board Meeting – October 12, 2017**

ATTENDING APPROVED

- 1. Conference:** **NCPERS Legislative Conference**
Dates: January 28-30, 2018
Location: Washington, DC
Est. Cost: TBD
- 2. Conference:** **TEXPERS - Basic Trustee Training Class**
Dates: April 14-15, 2017
Location: South Padre Island, TX
Est. Cost: TBD
- 3. Conference:** **TEXPERS Annual Conference**
Dates: April 15-18, 2017
Location: South Padre Island, TX
Est. Cost: TBD
- 4. Conference:** **PRB: MET Online Core Training: Actuarial Matters**
Dates: Online - Anytime
Location: <http://www.prb.state.tx.us>
- 5. Conference:** **PRB: MET Online Core Training: Benefits Administration**
Dates: Online - Anytime
Location: <http://www.prb.state.tx.us>

6. Conference: **PRB: MET Online Core Training: Ethics**
Dates: Online - Anytime
Location: <http://www.prb.state.tx.us>
7. Conference: **PRB: MET Online Core Training: Fiduciary Matters**
Dates: Online - Anytime
Location: <http://www.prb.state.tx.us>
8. Conference: **PRB: MET Online Core Training: Governance**
Dates: Online - Anytime
Location: <http://www.prb.state.tx.us>
9. Conference: **PRB: MET Online Core Training: Risk Management**
Dates: Online - Anytime
Location: <http://www.prb.state.tx.us>

**Future Investment Related Travel
Regular Board Meeting – October 12, 2017**

NONE



DISCUSSION SHEET

ITEM #E1

- Topic:** Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System
- Discussion:** This is a Board-approved open forum for active members and pensioners to address their concerns to the Board and staff.



DISCUSSION SHEET

ITEM #E2

Topic: Executive Director's report

- a. Open Government Training
- b. Associations' newsletters
 - NCPERS Monitor (August 2017)
 - NCPERS Monitor (September 2017)

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

Open Government Training

- Open Meetings Act and Public Information Act training
- Required by Texas Government Code 551.005 and 552.012
- 2 online videos on the Attorney Generals website
<https://texasattorneygeneral.gov/og/open-government-training>
- Training must be complete within 90 days of the beginning of the Trustees term
- After the completion of each video, please print the certificate of completion and provide it to DPFP to keep on file
- No cost

In This Issue

2 Executive Directors Corner

Photo Illustration © 2017, Depositphotos



The Senate's effort to repeal the Affordable Care Act (ACA) crashed and burned in July, underscoring that no viable plan exists to replace Obamacare despite seven years of Republican rhetoric. But while repeal appears to be dead for now, health care is alive and well as a critical concern for public pension beneficiaries.

Midyear Legislative Webcast Spotlighted Pressures at Local, State and Federal Levels



Attacks on public pensions at the state and local level took the form of “death by a thousand cuts” in the first half of 2017, said NCPERS Executive Director and Counsel Hank Kim.

Hosting the midyear legislative update webcast to members on July 11, Kim said that the attacks were not the “frontal assault” defined-benefit pensions have experienced in recent years. Instead, there were steady attempts around the edges to erode public pensions. Kim moderated a review and outlook discussion between Bailey Childers, executive director of the National Public Pension Coalition, and Anthony Roda, partner with the law firm of Williams & Jensen.

Childers enumerated the trends that she is seeing at the state and local levels. The arguments that anti-pension advocacy groups used after the recession have lost some of their power, Childers said. She noted that the old argument that “we can’t afford public pensions” isn’t working anymore because funding levels have rebounded. Opponents have shifted tactics, arguing that discount rates are too high, she said, adding, “We know that lowering rates just makes pensions look more expensive than they need to be.”

States are also pushing 401(k) plans as alternatives to defined-benefit plans as what she sees as “a sneaky way to undermine the pension little by little,” she said. Childers pointed to Florida, which changed its default plan for new state employees to a 401(k) rather than a pension, and Indiana, which added an optional 401(k) for teachers. The fact that defined-

[CONTINUED ON PAGE 3](#)



Senate's Health Care Fumble Emphasizes Benefits Pressures

The Senate's effort to repeal the Affordable Care Act (ACA) crashed and burned in July, underscoring that no viable plan exists to replace Obamacare despite seven years of Republican rhetoric. But while repeal appears to be dead for now, health care is alive and well as a critical concern for public pension beneficiaries.



Photo Illustration © 2017 Shutterstock.com

If Wall Street had its way, the risk of affording health care in retirement would be shifted entirely onto the shoulders of workers. Both Medicaid and Medicare have come under unrelenting attack. At the same time, pressure on pension funding levels has made it increasingly difficult for some plan sponsors and public pension systems to fund retiree health care. In some cases, they have scaled back or eliminated healthcare benefits.

If Wall Street had its way, the risk of affording health care in retirement would be shifted entirely onto the shoulders of workers.

NCPERS is committed to fighting any rollback of the health insurance benefits for which public-sector workers have sacrificed. Government workers, many of whom put their health on the line in high-risk occupations, should not be shortchanged when it comes to medical care.

We know that the ACA is not perfect. However, we are con-

cerned that ripple effects from steps toward repeal will lead to instability and disruptions in the insurance market. A poorly thought-out repeal or replacement of the ACA will add to the financial pressure on states and cities. If state and local governments have to absorb rising costs for health care and premiums, there may be intensified calls to cut back pension benefits.

Beyond the ACA, there are other medical topics on which we continue to focus. NCPERS supports legislation to allow retired public safety officers to opt into Medicare at age 55. We also want to enhance opportunities for retirees and those on the brink of retiring to purchase health care in retirement; they should be permitted to roll over assets from a governmental plan into a qualified medical trust or voluntary employee beneficiary association and withdraw it tax-free to purchase policies. Finally, we advocate long-overdue updates to the Healthcare Enhancement for Local Public Safety (HELPS) Retirees Act of 2006. It's time to index the \$3,000 annual pretax distribution for health premiums to inflation, and to expand this benefit to all public employees, not just public safety retirees.

The imminent threat of ACA repeal seems to have passed, but health care continues to be a political football. A serious fumble on retirement health care benefits will serve only to increase the pressure on public pensions. ♦

contribution plans don't provide a predictable retirement income is poorly understood by workers, and more education is needed on this point, Childers said.

On the local level, Childers pointed to initiatives to rein in local pension plans. The Texas legislature has been weighing draconian changes to the Houston and Dallas public pension systems. In Michigan, Gov. Rick Snyder, a Republican, convened a task force to debate local pensions and retiree health care. (The task force issued recommendations after the webinar, on July 18.)

Finally, she noted, the U.S. Congress, with White House support, repealed Obama Administration Department of Labor safe harbor regulations to make it easier for states to offer private-sector retirement plans. This setback is not expected to hinder the development

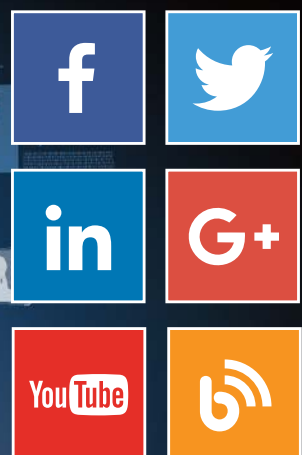
of state-facilitated auto-IRA plans for private-sector employees who work for companies that don't offer retirement benefits. As Kim noted, Vermont enacted legislation to authorize a state-facilitated retirement savings program after the repeal.

Turning to the federal update, Roda noted that legislation has been introduced in Congress "to amend ERISA to provide essentially the same safe harbor that the regulation would have provided, only this would be statutory, a more solid footing." The bill was introduced in the Senate by Sen. Martin Heinrich (D-N.M.) and in the House of Representatives by Rep. Suzanne Bonamici.

Roda noted that health care has "consumed most of the oxygen" on Capitol Hill since January. Whatever is ultimately enacted, it

[CONTINUED ON PAGE 4](#)

Don't Miss NCPERS' Social Media



The Voice for Public Pensions

is highly likely that millions of people will lose insurance coverage, placing added stress on states and localities as they seek medical care. “That’s important to think through for public pensions, because that will be used as an argument to cut back state and local plans.”

Roda mentioned two other initiatives that are under discussion on Capitol Hill. He said he sees interest in the halls of Congress in understanding the insurance needs of public safety employees who retirement in their early to mid 50s, before Medicare kicks in. “An early-age Medicare initiative under discussion, in the very early stages,” he said. In addition, he noted, there is interest in indexing the \$3,000 annual exclusion from pension benefits to compensate public safety employees for some of the cost of health care premiums.

Another issue to keep an eye on is what the regulators are up to related to public safety streams of income that could be restricted, Roda said. The resolution of the pension crisis in Puerto Rico also merits close attention, he said.

The 52-minute webcast, which is available on the NCPERS website, also covered pension developments and possible initiatives in Iowa, Michigan, New Hampshire, New Jersey, Pennsylvania, Texas and Virginia; prospects for federal tax reform; and the outlook for the 2018 elections. Childers also provided an update on initiatives by anti-pension organizations such as the Reason Foundation and the Arnold Foundation. She noted that the American Legislative Exchange Council has formed a pension working group with the Heritage Foundation. ♦

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at <http://ncpers.org/Members/>

NATIONAL CONFERENCE ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS

2017 Public Safety Employees Pension & Benefits Conference

OCTOBER 1 – 4, 2017 | HYATT REGENCY SAN ANTONIO | SAN ANTONIO, TX



NCPERS ACCREDITED FIDUCIARY (NAF) PROGRAM
 Modules 1/2 & 3/4 | September 30 - October 1

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2017 Conferences

September

Public Pension Funding Forum

September 10 - 12
Stanford University
Palo Alto, CA

October

NCPERS Accredited Fiduciary Program (NAF)

September 30 - October 1
San Antonio, TX

Public Safety Employees Pension & Benefits Conference

Oct 1 - 4
Hyatt Regency San Antonio
San Antonio, TX

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The Voice for Public Pensions

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In This Issue

2 Executive Directors Corner



Summer is ending and Labor Day is upon us. As we all enjoy a well-earned day off from work and precious time with friends and family, we must pause to honor the strength and resiliency of American workers.

3 The Fall Congressional Agenda



If you think that autumn really begins when the leaves turn bright red, yellow and orange, then it happens quite late in the year in Washington, D.C. Likewise, it's probably going to take to the end of the year before we know whether the 115th Congress and President Trump will be successful on any of their big three legislative initiatives – repeal-and-replace the Affordable Care Act, tax reform and infrastructure improvements.

Many Funds Posting Double-Digit Returns for Fiscal 2017



Public pension systems' investment returns for the fiscal year that ended June 30, 2017, are trickling in, and the initial results are encouraging. Numerous pension systems are turning in double-digit results, matching or beating key performance benchmarks, and narrowing any funding gaps they may have. The upbeat results have been aided by a strong performance in various asset classes — especially equities — as well as strategic changes made by the pension funds.

Among the cities and states that have made big strides for the fiscal year are:

- California Public Employees Retirement System (11.2% net return.)
- California State Teachers Retirement System (13.4% net return.)
- Kentucky Retirement Systems (13.47% net return.)
- Mississippi Public Employees Retirement System (14.96% net return.)
- Nevada Public Employees Retirement System (11.8% net return.)
- North Carolina Retirement System (10.6% net return.)
- Oklahoma Firefighters Pension and Retirement System (14.3% net return.)
- The City of Philadelphia Employees Retirement System (12.9% net return.)
- Rhode Island State Employees Retirement Fund (11.6% net return.)

The results, some of which are preliminary, underscore the importance of maintaining a long-term perspective on performance. Critics of public pensions tend to focus on quarter-

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Labor Day Spotlights Dignity of Work and Pay

Summer is ending and Labor Day is upon us. Of course, there is far more to the first Monday in September than the barbecues, beach trips, and buying sprees that mark the last weekend of summer. As we all enjoy a well-earned day off from work and precious time with friends and family, we must pause to honor the strength and resiliency of American workers.

Harnessing the collective will of workers has made our country better for all. We can thank generations who went before us for such innovations as wage and benefit laws, the 40-hour work week, paid vacations and sick days, and occupational health and safety rules. These are some of the achievements we have celebrated on Labor Day since its origins in the 1880s.

Fair and equitable compensation is the foundation of the bargain between employers and workers and, certainly in the public sector, a defined-benefit pension is its cornerstone. Public-sector workers continue to accept lower wages than their private-sector counterparts in exchange for the promise of a pension yielding predictable income in retirement. Pensions are part of the compensation equation, not a nice afterthought that states and localities can be allowed to fund or not fund at their whim.

The public's hopes for retirement security underscore that pensions are a meritorious and desirable element of compensation. Gallup's recent State of the American Workplace report found that 51 percent of American workers would quit their job for a new position that offered a defined-benefit pension plan. Only monetary bonuses, at 54 percent, ranked higher as a desirable perk. This finding speaks volumes as to how important long-term financial security is to most Americans, and how well positioned pensions are to foster it.



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Pensions are part of the compensation equation, not a nice afterthought that states and localities can be allowed to fund or not fund at their whim.

The dignity of work suffers when we marginalize the contributions working Americans have made to their own financial security. Millions of public-sector workers have contributed to their pension plans, only to watch states and localities renege on their own contributions. When this happens, they hear a cruel message: Your work matters less than you think.

The valuable and necessary services our public servants perform must be treated with honor, not contempt. We at NCPERS continue to fight every day to protect public pensions, because they make a profound difference in our national well-being and prosperity. ♦

The Fall Congressional Agenda

If you think that autumn really begins when the leaves turn bright red, yellow and orange, then it happens quite late in the year in Washington, D.C. Likewise, it's probably going to take to the end of the year before we know whether the 115th Congress and President Trump will be successful on any of their big three legislative initiatives – repeal-and-replace the Affordable Care Act, tax reform and infrastructure improvements.

With a slim Republican majority of only 52 seats in the Senate, nothing is assured. Moreover, the relationship between President Trump and Senate Majority Leader Mitch McConnell (R-KY) is frayed and not improving. Republican President Trump has ridiculed Republican McConnell's leadership, attacked a number of Republican Senators by name, and is even supporting some of their primary election opponents. Trump has not been overly kind to Republican House Speaker Paul Ryan (R-WI) either. Indeed, we are in strange political times.

The script may already be written on health care, but legislation often dies in Congress only to be resurrected in a modified form. Tax reform and infrastructure, however, are largely blank canvasses. Achieving meaningful tax reform, as opposed to temporary tax cuts, is a heavy lift that was last accomplished in 1986 and only through bipartisan cooperation. President Reagan not only worked with a Republican Senate, but also with a House that was solidly-controlled by Democrats. Thus far, this year's iteration of tax reform finds Republicans trying to pass legislation with only Republican votes – a self-imposed, unnecessary and perhaps self-defeating constraint.

The beginning stages of a serious effort on tax reform could begin in September. However, when Congress returns to session on September 5 it must immediately confront three urgent fiscal matters. First, emergency funding must be approved for the aftermath of Hurricane Harvey in Houston and other Gulf Coast areas. Second, Congress must approve legislation to raise the debt ceiling. This exercise is always a tug-of-war between pragmatists, who believe their mission in Congress is to govern, and fiscal hawks, who want to use the leverage presented by the must-pass, debt ceiling legislation to curb federal spending. This year you can add the President's unpredictable approach to governing to the legislative muddle.

The third issue is overall federal spending. Fiscal year 2018 begins on October 1, which will be less than a month away when Congress reconvenes on September 5. Yet, not a single appropriations bill will have been enacted into law at that point. Unfortunately, this has become typical in the modern political era. Therefore, before the end of September Congress must pass a stop-gap funding bill to provide spending into some portion of the new fiscal year, while it continues to work on full-year appropriations bills. This relatively simple bill, which usually just extends current funding levels for a week or two, could become horribly complicated over President Trump's requirement that funding be provided for the border wall with Mexico.



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In the midst of these major fiscal issues, Congress must find time to deal with tax reform, perhaps make another attempt at health care, and begin the process on infrastructure legislation. Recognizing the difficulties of passing tax reform in this political climate, Speaker Ryan and Ways and Means Committee Chairman Kevin Brady (R-TX) have recently taken to the road to talk not only to corporate CEOs, who are already on board with lowering tax rates, but also to their employees. Brady has been to UPS's global air hub in Louisville, Kentucky, where he spoke to a large group of employees, Brown-Forman Corp, which is also in KY, and Best Buy in Minneapolis, Minnesota. He told the groups that if you leave tax reform just to Washington, it won't get done. Speaker Ryan has visited Intel in Hillsboro, Oregon, and Boeing in Everett, Washington.

This type of outreach will help, but internal procedural hurdles are also substantial. So far Republicans are on a course to consider tax reform under budget reconciliation rules, which can be used only if Congress specifies the procedure in a budget resolution. Some GOP leaders have basically said that without a budget, tax reform will not be possible. However, even with the incentive of tax reform, Republicans have not yet agreed on budget levels for fiscal year 2018. Conservative Freedom Caucus members, led by Rep. Mark Meadows (R-NC), may withhold their votes on the budget until they see actual details on tax reform. There are some 36 members of the Freedom Caucus in the House. That's enough to stop the Republican Leadership from moving forward, as we witnessed in the beginning stages of the health care debate.

If tax reform begins to move this fall, it could pose some challenges for the state and local governmental plan community. First, Senate Finance Committee Chairman Orrin Hatch's (R-UT) annuity accumulation retirement plan proposal (included in S. 2381, 114th Congress) could be a part of a reform bill. This federal enabling legislation would permit state and local plan sponsors to establish annuity accumulation plans. The plans would provide for the purchase of single-year, fixed rate annuity contracts. Employer contributions are the only funding stream for the plan. In practice, if a plan sponsor went down this path, they would likely freeze their existing defined benefit plan.

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DOUBLE-DIGIT RETURNS CONTINUED FROM PAGE 1

to-quarter returns, fretting loudly when funds fall short of targeted performance levels. But pension fund managers have a long-term investing horizon, knowing that gains historically exceed losses over the long haul. When investments are made over a 10, 20 or 30 year horizon, one period of relatively low returns is typically offset by gains in other periods.

Low-balling projected rates of return has become a favorite sport of public pension critics, and is a way of distorting the outlook for public pensions. Critics use other distortions, such as imposing theoretical market prices on future pension obligations – to fiddle with the numbers in a bid to make eventual pension outlays seem impossibly large. ♦

FALL AGENDA CONTINUED FROM PAGE 3

NCPERS has many concerns about this proposal, including a belief that the final replacement income provided by the annuities will be much lower than that of a DB plan, the lack of survivor and disability benefits for public safety employees, new costs for aggregating the annuities per participant, and the reliance on state guaranty associations as the financial backstop.

Proponents of the Public Employee Pension Transparency Act (PEPTA), including Chairman Hatch, may advocate for its inclusion in a tax reform bill. PEPTA would require for the first time that state and local governmental plan sponsors report their funded status to the federal Treasury Department. The reports would be based on two different sets of numbers: (1) the plan's current assumed rate of return; and (2) a Treasury bond yield curve. The latter method will, of course, result in a significantly lower funding level on paper as well as more negative media attention on the funded status of public plans.

In the retirement area, House Republicans are seriously considering making it a requirement that all new contributions to defined contribution plans (e.g., IRAs, 401(k), 457(b) and 403(b) plans) be made under the rules related to Roth accounts. Those rules require that contributions be made with after-tax dollars but are tax-free at distribution. Because a full or partial Roth mandate would accelerate

taxable income into the 10-year federal budget window, the proposal would generate new revenues to offset tax rate reductions. This proposal was part of the 2014 tax reform legislation drafted by then-Ways and Means Chairman Dave Camp (R-MI). Roth expansion proposals warrant attention by our community.

In addition, red flags have been raised in the recent past about provisions in the tax code that are unique to 457(b) and 403(b) plans. Previous proposals would subject 457(b) plans to the 10 percent early withdrawal penalty and conform the annual contribution limits for 457(b) and 403(b) plans to those that apply to 401(k) plans.

Please be assured that NCPERS will monitor developments in these areas very closely as the fall Congressional agenda evolves. ♦

***Tony Roda** is a partner at the Washington, D.C. law and lobbying firm Williams & Jensen, where he specializes in legislative and regulatory issues affecting state and local pension plans. He represents NCPERS and individual pension plans in California, Ohio, Tennessee and Texas.*

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September 30 – October 1
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Public Safety Employees Pension & Benefits Conference

Oct 1 – 4
Hyatt Regency San Antonio
San Antonio, TX

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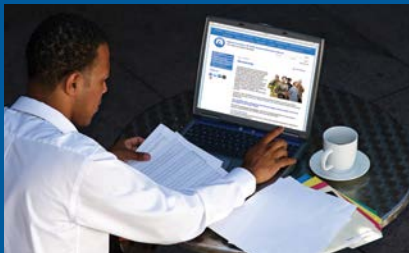
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