EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS FUNDING POLICY

Introduction

This funding policy outlines a formal long-term strategy for financing the pension obligation accruing under the Plan with the goal of achieving a funded ratio that is equal to or greater than 100%, as required by Texas Government Code §802.2011.

This policy is limited by the authority granted to the Board of Trustees (the Board) under the plan document governing the Employees' Retirement Fund of the City of Dallas, Dallas City Code Chapter 40A (Chapter 40A). Therefore, this document creates a framework for proactively managing risks by outlining how the Board will approach future changes to benefit and contributions levels under different conditions.

Funding Priorities

The primary funding priorities are to:

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

Funding Objectives

The plan's funding objective is a fully funded plan with no unfunded liabilities.

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

1. **Cost Method –** The individual entry age normal actuarial cost method, which finances the cost of accruing benefits as a level percentage of pay over the period from the member's entry into the plan until their termination or retirement;

2. **Asset Smoothing –** A five-year asset smoothing period in which 20% of the difference between expected investment income and actual investment income is recognized in the current and each subsequent year; and

3. **Amortization Policy –** The amortization payment will be calculated as a level percent of payroll, as follows:

    a. For valuations prior to the retirement of the pension obligation bonds (the POBs), the amortization payment will be calculated using an open period amortization method with a single 30-year amortization base.

    b. For valuations after the retirement of the POBs, the proposal for the amortization payment period will be determined by the ERF Board in place at that time, based on advice from the plan's actuary.

Actuarial Assumptions Guidelines
According to Chapter 40A, the plan must conduct a comprehensive experience study at least once every 5 years. The Board may review actuarial assumptions annually, based on advice from the plan's actuary. All assumptions will be determined based on actuarial standards of practice considering both actual experience and reasonable future expectations.

Actuarially Determined Contribution Benchmark
The plan document, Chapter 40A, outlines the actuarially determined contribution benchmark. The plan document establishes a contribution corridor which means that in a given year the contribution rate may not be equal to the ADC. It can be higher or lower. Chapter 40A also provides that a maximum 36% of pay will be contributed by the City and active members towards the retirement

program. This contribution includes both contributions to the Plan and any remaining payments on the POBs with the POBs being paid first and the remaining contributions to the plan. It is the intent of the Board that the ADC determined by a given valuation will be contributed in the fiscal year beginning nine months after the valuation date. Given the timing of the valuation, this process allows the City sufficient time to budget year-to-year changes in the City contribution rate.

Given the current funded status of the plan, the plan is not expected to make meaningful progress towards the goal of 100% funding until after the POBs have been retired. The Board intends to use projections to track the long-term expectations of the plan to ensure the plan remains on track to become fully funded within 30 years after the elimination of the POBs.

After the retirement of the POBs, the Board will notify the City upon receipt of 3 consecutive actuarial valuations showing the plan is not expected to be fully funded within 30 years of the valuation date.

Consideration of Plan Modifications (Benefits and/or Contributions)
The Chapter 40A amendment process requires all interested parties to approve any changes not required by Federal law. Chapter 40A may not be amended except by a proposal initiated by either the board or the city council that results in an ordinance approved by the board, adopted by the city council, and approved by a majority of the voters voting at a general or special election.

Guidelines for Future Reductions in Contributions
The Chapter 40A governs the plan automatically for any adjustments to the contribution rates by active members and the City.

Guidelines for Future Benefit Enhancements
The Board believes it is best to support such benefit enhancements only when the funded ratio is equal to or greater than 100% after incorporating the benefit enhancement.

Review of Funding Policy
This policy may be amended from time-to-time to reflect changes in other Board policies or the Plan document. Suggested changes to the policy may be submitted to the Board in writing for consideration at future meetings.

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS:

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Randy Bowman, Chair
Board of Trustees
Employees' Retirement Fund of the City of Dallas

ATTEST:

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Cheryl D. Alston, Executive Director
Employees' Retirement Fund of the City of Dallas

APPROVED AS TO FORM:
LOCKE LORD LLP

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Stefan Smith, Partner
Locke Lord LLP

This Policy was adopted on February 11, 2020.