

Pension Update

Volume 2003.09, September 2003

A Publication of the Dallas Police and Fire Pension System

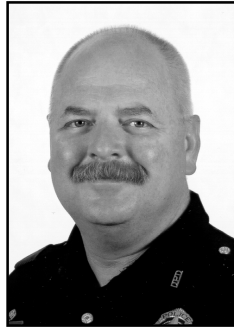


D A L L A S
POLICE & FIRE
PENSION SYSTEM



The Supplemental Pension Plan 101

Due to recent command staff developments within the Police Department, I have received a few calls regarding the Supplemental Plan, sometimes called the “executive pension.”



*Rector C. McCollum,
Police Trustee*

I have to admit that before I became aware of how it worked, I was suspicious of it. Rumors fueled all kinds of theories about it being an exclusive “old boys club” where big money was secretly amassed by the upper echelon while the rest of us got the crumbs. These theories were supported by accusations that the exclusive few also got “bonuses” due to the dedicated efforts of loyal troops—who, I might add, were not part of the profit sharing.

Actually, the Supplemental Pension Plan, created in 1973, is simply an extension of Plan B for Members promoted above the highest civil service rank. Because officers of the Police and Fire Departments above the rank of captain earned more than the highest civil service rank pay, part of their salaries was not eligible for use in calculating their pension benefits.

Supplemental Pension Plan participants contribute 8.5% of their entire

Funding the Pension System

The funding of pension plans, such as the Dallas Police and Fire Pension System, can be compared to a three-legged stool. The legs of the stool are as follows:



*Steven G. Shaw,
Police Trustee*

- (1) Contributions by employees and the employer
- (2) Rates of return on investments
- (3) The present value of all future benefits to be paid out to current and future Pensioners

If any one leg of the stool is either too short or too long, the ability to balance the stool becomes a challenge. Based on certain assumptions, such as mortality tables, salary increases, inflation, anticipated return on investments, etc., the Trustees strive to stay on the path to being “fully funded” over a 40-year period, which is the recommendation of the General Accounting Standards Board (GASB).

During the past three years, the leg of the stool representing the present value of benefits to be paid out has grown longer, primarily due to longer life expectancy and significant pay raises. At the same time, the leg of the stool representing investment re-

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Supplemental Pension Plan 101, continued from page 1

pay to the Pension System. Part of that contribution goes to Plan B (based on the civil service pay of the highest rank achieved before promotion to the executive level) and part goes to the Supplemental Pension Plan (based on the remaining pay above the highest civil service rank achieved).

The calculation for normal Plan B retirement benefits is below. This example uses the salary from the Uniformed Police Salary Schedule as the Computation Pay.

Example:

Police Deputy Chief Johnson leaves Active Service and applies for a retirement pension at **age 50**. He is paid in Plan B as a captain—the highest civil service rank he achieved before promotion to the executive level.

Avg. Computation Pay for highest civil service rank achieved = \$6,754.02

Pension Service = 20 years

Pension benefit is:

$\$6,754.02 \times 20 \times 3\% = \$4,052.41$

The calculation for Supplemental Pension Plan retirement benefits is below.

Police Deputy Chief Johnson's Average Computation Pay, including the Supplemental Computation Pay, is \$7,474.67 per month.

Calculate the benefit based on the full Computation Pay, and then *subtract* the Plan B benefit.

Avg. Computation Pay = \$7,474.67

Pension Service = 20 years

Supplemental Pension Plan benefit is:

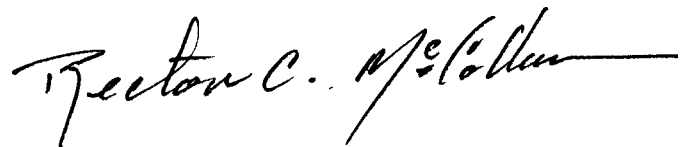
$\$7,474.67 \times 20 \times 3\% = \$4,484.80$ minus
 $\$4,052.41$ (the Plan B benefit) = \$432.39

Police Deputy Chief Johnson will receive a pension benefit from Plan B of \$4,052.41 plus a pension benefit from the Supplemental Pension Plan of \$432.39 for a total of \$4,484.80 per month.

So, there is the Supplemental Pension Plan, short and simple. I hate to have to throw water on smoldering rumors, but there is not really any secret scheme where you can spend a few years in the Supplemental Pension Plan, then buy a mansion on the ninth fairway. It is just an extension of Plan B to provide benefit calculations for the few command staff officers above the highest civil service rank.

If you have any other questions, see the *Member Handbook* or the *Supplemental Pension Plan Document*, both available on the Web site: www.dpfp.org. Or call the Pension System office at 214.638.3863.

Regards,



—Rector C. McCollum, Police Trustee

Look Who Retired... Congratulations!

Fire Department



David H. Coughran



Larry D. Patrick

Kenneth R. Pigg

Police Department



Charles W. Hudson



Jack E. Martindale

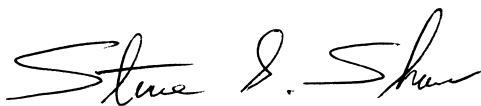
William J. Prestenberg

Pension System Funding, continued from page 1

turns has become shorter, due to economic conditions and stock market returns. Finally, the third leg of the stool (contributions) has become somewhat shorter, due to the large number of members in DROP, who no longer contribute to the System.

This has resulted in the “years to fund” of the plan increasing from 19 years to 69 years, which is outside the recommended funding period for public pension plans. A similar funding challenge is facing 84% of all pension plans in the nation and is not unique to our plan.

The Board of Trustees and the staff constantly work to identify prudent alternative investments that will increase the rate of return on assets. Our fund is viewed nationally as a leader in the area of enhanced returns through investments in private real estate, Real Estate Investment Trusts (REITs), timber, distressed debt, high yield bonds, and energy. Board members and staff regularly attend workshops and conferences aimed at increasing our expertise in these areas of investments so that we can continue to offer what we believe are the best pension benefits of any public plan. If you have any questions regarding funding of the plan, please feel free to contact a Member of the Board of Trustees at 214.638.3863.



—Steven G. Shaw, Police Trustee

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Richard Wachsman, continued from page 4

The language on the ballot read, “The constitutional amendment providing that certain benefits under certain local public retirement systems may not be reduced or impaired.” The language of the entire amendment can be read by going to the Texas State Secretary of State Web site at www.sos.state.tx.us.

The passage of this legislation brings Texas into line with other states, such as Oklahoma, Louisiana, Florida, Kentucky and Illinois—41 states in all—that have taken steps to protect the retirement interests of their public employees. With this new state law, Active Members and Pensioners who have met all requirements to receive retirement benefits are assured to receive the benefits they have earned. Even during tough economic times, our pension benefits are safe.

Thanks again to everyone whose vote, hard work, and donations made this campaign successful.



—Richard H. Wachsman, Pensioner Fire Trustee

**Pension System
Calendar**

- **October 9**—Board of Trustees meeting
- **October 13–16**—Board of Trustees meeting
- **October 22**—PREP (full)
- **November 7**—PREP (full)
- **November 10**—Friends of the Dallas Police Awards Banquet
- **November 13**—Board of Trustees meeting
- **November 27–28**—Thanksgiving holiday, Pension System office closed



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2301 North Akard Street, Suite 200
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September 2003

FIRST CLASS MAIL

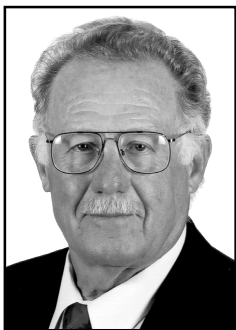
"Serving Those Who Protect the Dallas Community"

In This Issue:

- *The Supplemental Pension Plan*
- *Pension System Funding*
- *Constitutional Amendment Election Results*

Dallas County Overwhelmingly Approves Prop. 15

Texas Constitutional Amendment Election Results



*Richard H. Wachsman,
 Pensioner Fire
 Trustee*

In September, an overwhelming 79.5% of Dallas county voters cast votes in favor of Prop. 15, the proposed constitutional amendment to protect the pensions of public employees. Voters across the state of Texas trailed only slightly with 70.59% of voters in favor of Prop. 15. Thanks to all of you who supported this important legislation with your votes and with your financial contributions.

The passage of this amendment, H.J.R. No. 54, protects the benefits that public employees have earned. Now that voters of Texas have passed the resolution, the accrued benefits of retired public employees cannot be reduced or impaired if plan benefits are changed. This legislation assures us that we will get the retirement benefits we were promised while working. The legislation addresses only our pension benefit. It does **not** include health benefits or life insurance benefits.

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