

# PENSION UPDATE



Volume 2004.10, October 2004  
Dallas Police & Fire Pension System



## The Pension System's 2005 Budget

**T**he Pension System's annual proposed budget process is underway again. As a matter of fact, you can find the proposed budget for 2005 in this edition of the *Pension Update*, and see what you think. Creating a budget is a long and arduous process, especially for the System's administrator and staff.



*Rector C. McCollum,  
Police Trustee*

You may recall that the System has changed from doing business on an October through September (fiscal) year to a January through December (calendar) year. The change required one 15-month year to square everything away, from October 1, 2003, to December 31, 2004. The budget process now starts in August, as Fire Trustee George Tomasovic pointed out in last month's newsletter.

We are now to the second and final reading of the 2005 budget, and the Board will approve it at the November 11<sup>th</sup> Board meeting. You are invited to that meeting.

### ***Budget Highlights***

At the staff's request, the Board recently approved a needed position. An Internal Control

*continued on page 2*

### ***Pension System's Budget***

#### ***Second Public Hearing November 11***

**A**s Trustee Rector C. McCollum states in his article on this page, the second and final reading of the budget for Pension System Members will be at the November 11<sup>th</sup> Board meeting. The proposed budget's first reading was at the October 14<sup>th</sup> Board meeting. The proposed budget may be changed or amended at November meeting. This meeting is an opportunity for you to provide input to the Board. The meeting will be held at 10 a.m. at the Pension System office, 2301 N. Akard Street, Suite 200.

### ***Overview***

The Police and Fire Pension System had \$2.22 billion in assets at market value as of June 30, 2004. In 2003, the System received \$94.6 million in contributions and \$112.8 million in investment income and paid out \$96.8 million in benefits and refunds.

The proposed budget covers the period from January 1, 2005, through December 31, 2005. The proposed Administrative Budget is \$2.7 million, and the proposed Professional Services Budget, before Invest-

*continued on page 2*

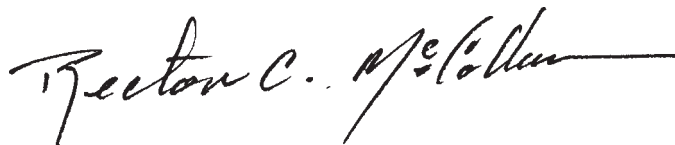
**McCollum — 2005 Budget, continued from page 1**

Manager position will be filled in the near future. This person will monitor the System’s investment accounting and manage general internal controls.

I commend the System’s staff for their tireless work toward providing services for Members. In April 2003, they hired Gale Paul as a Pensioner Advocate in an effort to bring the System to the Pensioners. The network and services she has put in place are amazing.

The Dallas Police & Fire Pension System works hard to serve its Members well—at all stages of Members’ careers. If you have not yet taken advantage of any of the educational classes, such as PREP or Financial Planning, you should strongly consider it.

Regards,



—Rector C. McCollum, Police Trustee



**2005 Professional Services Budget**

*Noninvestment Manager Fees:*

Election Telephone Voting	\$15,000
Financial Control System - Financial Monitoring	42,000
Hillco Partners LLC - Legislative Consultant	57,000
Investment Research Expense	135,500
Iron Mountain/Safe Site - Records Management	16,891
JPMorgan-Chase - Custodial Services	300,000
Lawson, Fields, & Calhoun, P.C. - Legal	340,000
Legislative Conferences and Meetings	40,000
Levi, Ray & Shoup, Inc. - Enhancements & Maintenance	172,000
Locke Liddell & Sapp LLP - Legislative Consultant	104,450
Mellon Consultants, Inc. - Actuarial	155,000
Mir Fox Rodriguez, P.C. - Independent Audit	24,000
Misc. Professional Services	4,000
Network Security	26,125
Real Estate Consulting	142,000
Research Institute of America - Legal Data Services	4,000
Wilshire Associates - Investment Consultant	245,000
<b>All Noninvestment Manager Fees</b>	<b>\$1,822,966</b>

*Investment Manager Fees:*

All Investment Managers - Average 60 basis points	\$14,951,569
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**Total =====> \$16,774,535**

**Pension System Budget, continued from page 1**

ment Manager Fees, is \$1.8 million. Investment Manager Fees are estimated at \$14.9 million.

**Administrative Budget**

The Administrative Budget includes the expenses necessary to the everyday operations of the System. The proposed Administrative Budget is an increase of 2.6% from the 2003–2004 budget primarily to provide additional funding for Financial Planning sessions for active and retired Members, Board and staff education, and salaries (tied to a proposed City increase). The budget reduces ex-

penses for copying, business continuity, and City services.

**Professional Services Budget**

*Noninvestment Manager Fees*

This section of the budget funds expenses for professional services provided by outside vendors, including consultants that monitor and advise the Board regarding investment performance. The Board enters into contracts as necessary to assist the System in carrying out the functions of administering the System.

## 2005 Administrative Budget

### Salaries & Benefits:

Bus Pass	\$180
Employer Pension Contributions	183,567
Insurance	162,255
Longevity Pay	13,968
Medicare	19,383
Overtime	4,000
Salary	1,654,823
Sick Leave	64,406
Unemployment	4,000
Workers Comp.	8,500
<b>Sub-Total Salaries &amp; Benefits</b>	<b>\$2,115,082</b>

### Supplies & Materials:

Educational Supplies	\$40,205
Office Supplies	58,290
Postage	73,435
<b>Sub-Total Supplies &amp; Materials</b>	<b>\$171,930</b>

### Services:

Business Continuity	\$36,600
Communications	57,080
Contingency Reserve	50,000
Continuing Education	102,500
Copy Machine	14,400
Employment Expenses	5,020
Medical	6,800
Memberships	16,970
Mileage Reimbursement	5,500
Office Insurance *	18,500
Printing	89,250
Repairs & Maintenance	17,500
Staff Development	37,725
Subscriptions	2,850
<b>Sub-Total Services</b>	<b>\$460,695</b>

Fixed Assets-General \$72,000

Revenue From Supplemental (\$51,223)

**Total =====> \$2,768,484**

\* Included City Service Expense

The noninvestment manager fees portion of the budget reflects an increase of 1.8% compared to the 2003–2004 budget. A noteworthy addition to this portion of the proposed budget is funding to monitor state and federal legislative activities.

### Investment Manager Fees

This section of the budget includes fees for the more than 20 investment professionals hired by the Board to manage and invest the System's assets. Fees paid to investment managers are based on a percentage of the market value of the assets invested. As the market value increases, so do the fees.

System assets increased by more than 30% during 2003. Investment Manager fees are projected to increase accordingly.

### Summary

Budgets and operating costs for defined benefit plans, such as the Dallas Police and Fire Pension System, are measured as a percent of the market value of the assets. The goal of pension systems like ours is to operate at 1.0% or less of assets. The projected total of all costs for 2005 (administrative and professional services) is approximately \$19.44 million. The total costs of operating the Pension System will be approximately 0.87% of the System's approximate market value (\$2.224 billion).

### Questions

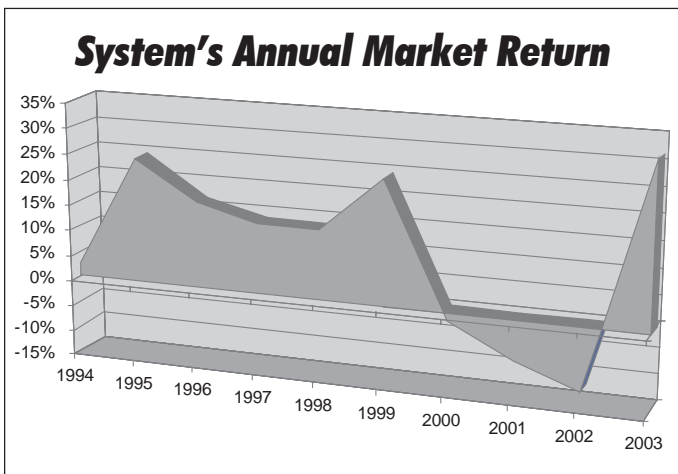
If you have questions or comments about the proposed budget, call the Pension System office at 214.638.3863, call your Board Members, see our Web site at [www.dpfp.org](http://www.dpfp.org), or attend the November Board meeting. If you would like to see the complete budget packet as presented to the Board, call the Pension System office, and ask for Richard Tettamant or Don Rohan.



# New DROP Interest Rate

The annual interest rate paid on DROP (Deferred Retirement Option Plan) accounts increased from 9.00% to 9.25% on October 1, 2004.

Under the provisions in the Plan Document, the System determines the annual interest rate by averaging the rates of return for the previous 10 years. The average return during the last 10 years is 10.58%. See the chart below.



The 10-year average of the annual market return on the Systems' investments for the preceding 10 calendar years is 10.58%. The long-term rate of return on plan assets used to value the liabilities of the System is 8.5%.

Year	Rate of Return
1994	2.78%
1995	24.33%
1996	16.69%
1997	13.84%
1998	13.68%
1999	24.39%
2000	-1.52%
2001	-7.76%
2002	-12.26%
2003	31.65%
<b>10-year average</b>	<b>10.58%</b>

Under provisions in the Plan Document, the interest rate cannot go below 8% or above 10%. It also cannot change more than 0.25% from the preceding year's rate.

If you have questions about the DROP program, please see our Web site at [www.dpfp.org](http://www.dpfp.org), call the Pension System office at 214.638.3863 or 1.800.638.3861, or send us an e-mail at [info@dpfp.org](mailto:info@dpfp.org).



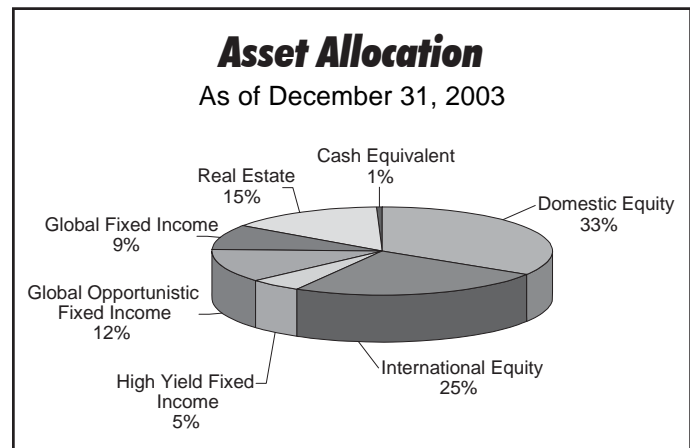
# Investment Policy and Asset Allocation

## Diversification for Stability and Growth

The main objective of the System's investment policy is to follow an asset allocation plan that maximizes return while preserving asset value.

A cornerstone of this policy is diversification. Investments are diversified among various asset classes, including common stocks, bonds, real estate, foreign securities, and short-term cash instruments. See the "Asset Allocation" chart for percentages invested in each area.

The goal of this policy is to provide benefits to our participants and their beneficiaries through a carefully planned and executed investment program. The Board monitors performance return throughout the year and reallocates funds as needed to maintain the correct ratios.



Pension System assets were diversified into the categories shown above as of December 31, 2003.



# Pension System Membership

The actuarial valuation from January 1, 2004, shows that the number of Members and Qualified Survivors participating in the System has grown from approximately 5,000 to more than

## Pension Plan Participants

As of December 31, 2003

Active Members .....	4,606
Pensioners .....	2,025
Beneficiaries .....	711
Disabled Pensioners .....	211
<b>Total .....</b>	<b>7,553</b>

*The Pension System serves 7,553 Members and their families.*

7,500 during the past 20 years, an increase of approximately 2,500 participants. See the chart, "Pension Plan Participants."

In December 2003, there were 4,606 active Members of the System. The average Firefighter is 42.99 years of age with 17.20 years of service with the

## Active Membership of the System

As of December 31, 2003

Years of Service	Fire	Police	Total
5 or fewer	291	599	890
5-9	192	409	601
10-14	176	583	759
15-19	305	447	752
20-24	174	288	462
25-29	60	83	143
30 or more	4	1	5
DROP Members	<u>471</u>	<u>523</u>	<u>994</u>
<b>Total</b>	<b>1,673</b>	<b>2,933</b>	<b>4,606</b>

*The chart above shows the total number of Active Firefighters and Police Officers and how many in each age group.*

City of Dallas. The average Police Officer is 40.76 years of age and has 14.60 years of service. The chart, "Active Membership of the System," provides an analysis of the membership by years of service.



## Congratulations Retirees!



### Police Department

*Sandra D. Caro*

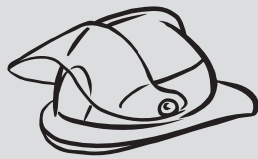
*Gary R. Henry*

*Devoda Robinson, Jr.*

### Fire Department

*Mickie A. Dye*

*David M. Stambaugh*



## Pension System Calendar

- **November 2**—Election Day
- **November 11**—Board meeting; Second public reading of Pension System's 2005 budget
- **November 25-26**—Thanksgiving Holiday, Pension System office closed
- **December 9**—Board meeting
- **December 24**—Christmas Holiday, Pension System office closed

**October 2004**

- **2005 Budget**
- **New DROP Rate**
- **Investment Policy and Asset Allocation**
- **System Membership**
- **New Retirees**
- **System Calendar**

**2005 PREP and Financial Planning**

**G**et tools for retirement planning, and find sources for in-depth financial and legal analysis of your personal finances in one of the 2005 PREP sessions or Financial Planning Seminars. Your \$20 refundable deposit will confirm a reservation for you and your Spouse. If you attend the entire day, your check will be returned. Call the Pension System at 214.638.3863.

**PREP**

- February 17
- April 20
- June 15
- August 16
- September 14
- October 10
- November 15

**Financial Planning**

- January 19
- March 16
- May 18
- July 27
- November 7
- December 2

*Join us in 2005,  
and prepare for your future!*

**BOARD OF TRUSTEES**



**Gerald Brown, Chairman**

**Steven G. Shaw, Vice-Chairman**

**Gary W. Edge, Deputy Vice-Chairman**

**Donald W. Hill**

**John M. Mays**

**Rector C. McCollum**

**Maxine Thornton-Reese**

**George J. Tomasovic**

**Steven H. Umlor**

**Richard H. Wachsman**

**Richard L. Tettamant,  
Administrator**

**Brian F. Blake,  
Assistant Administrator**

**Donald C. Rohan,  
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