

AGENDA



Date: January 8, 2016

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, January 14, 2016, 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. MOMENT OF SILENCE

B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of December 10, 2015

2. Approval of Refunds of Contributions for the Month of December 2015

- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for January 2016**
- 4. Approval of Estate Settlements**
- 5. Approval of Survivor Benefits**
- 6. Approval of Service Retirements**
- 7. Approval of Alternate Payee Benefits**
- 8. Spouse Wed After Retirement (SWAR)**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. AEW – RED Consolidated Holdings/The Union

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.

2. The Townsend Group: Third Quarter 2015 Performance Report

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.

3. 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

4. GMO: Asset allocation education and market update

5. Investment reports

6. Ad hoc committee reports

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.

7. Employee recognition – Fourth Quarter 2015

- a. Employee of the Quarter Award
- b. The William G. Baldree Employee of the Year Award

8. Service Provider Review

9. Outside legal counsel

10. Board policies

- a. DROP Policy
- b. Uniformed Services Leave Payback Policy & Procedure

11. Board Members' reports on meetings, seminars and/or conferences attended

- a. Society of Pension Professionals
- b. NEPC Public Funds Workshop

12. 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. Police Officer and Firefighter pay lawsuits
- b. 2014 Plan amendment election and litigation
- c. Potential claims involving real estate transactions

D. 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. Associations' newsletters**
 - NCPERS Monitor (December 2015)
 - TEXPERS Outlook (January 2016)
 - b. Future continuing education and investment research programs and conferences**

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.



ITEM #A

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

(December 4, 2015 – January 6, 2016)

FIRE	ACTIVE/ RETIRED	DATE OF DEATH	POLICE	ACTIVE/ RETIRED	DATE OF DEATH
William C. Adams	Retired	Dec. 6, 2015	Daniel H. Barber	Retired	Dec. 30, 2015
R. A. Daniell, Jr.	Retired	Dec. 9, 2015	Lee B. Bourland	Retired	Dec. 27, 2015
Bill G. Malone	Retired	Dec. 12, 2015	William C. Dean	Retired	Dec. 28, 2015
C. L. Reed	Retired	Dec. 28, 2015	Kenneth M. Francis	Retired	Dec. 8, 2015
Charles O. Williams	Retired	Dec. 9, 2015	William R. Fulghum	Retired	Dec. 20, 2015
			John G. Mitchell	Retired	Dec. 18, 2015
			Rio S. Pierce	Retired	Dec. 23, 2015
			Frank M. Rose	Retired	Dec. 17, 2015
			Melvin T. Safford	Retired	Dec. 22, 2015

Regular Board Meeting – Thursday, January 14, 2016

**Police and Fire Pension System
Thursday, December 10, 2015
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX**

Regular meeting, Samuel L. Friar, Chairman, presiding:

ROLL CALL

Board Members

Present: Samuel L. Friar, Joseph P. Schutz, Scott Griggs, Brian Hass, Kenneth S. Haben, Erik Wilson, Tho T. Ho, Gerald D. Brown, Clint Conway, John M. Mays, Philip T. Kingston

Absent: Lee M. Kleinman (on City business)

Staff

Kelly Gottschalk, Joshua Mond, James Perry, Summer Loveland, John Holt, Corina Terrazas, Carlos Ortiz, Pat McGennis, Ryan Wagner, Milissa Romero, Christina Wu, Linda Rickley

Others

Gary Lawson, Richard Brown, Martin Rosenberg, David Confer, Stacey Magee, Courtney Cahill, Ron Pastore (by telephone), Mark Morrison (by telephone), Mark Porath (by telephone), Bryce Brunsting (by telephone), Todd Rosa (by telephone) Dennis Bush (by telephone), Seth Bancroft, Rhett Humphreys, Keith Stronkowsky, Jeff Roberts, Cheryl Hunt, William Hunt, Ken Sprecher, George D. Payne, Stephen D. Jones, Gary S. Beck, Dan Wojcik, Wes Johnson, Darrell Dugan, Jerry M. Rhodes, Nancy Kirkpatrick, Larry Lewis, A. D. Donald, Steve Myers, Michael Bell, John T. Williams, Sherryl L. Scott, Jim Aulbaugh, Ron Pinkston, Sandy Alexander, Ryan Sawyer, Ashley Lee, Jason Trahan, Steve Thompson

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

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A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of active police officer, Steven J. McKee, retired police officers, Richard C. Baumgardner, Guy D. Benningfield, Norman D. Cates, Ray Hawkins, Ronald G. Heath, Ronnie N. Mason, Clarke I. Maxwell, J. R. Morrow and Ivan R. Stephens, and retired firefighter, Billy M. Peacock, who recently passed away.

**Regular Board Meeting
Thursday, December 10, 2015**

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B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of November 12, 2015

- 2. Approval of Refunds of Contributions for the Month of November 2015**
- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for December 2015**
- 4. Approval of Estate Settlements**
- 5. Approval of Survivor Benefits**
- 6. Approval of Service Retirements**
- 7. Approval of Alternate Payee Benefits**
- 8. Approval of Payment of Previously Withdrawn Contributions**
- 9. Approval of Payment of DROP Revocation Contributions**
- 10. Approval of Payment of Military Leave Contributions**

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

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C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Clarion: Four Leaf

Ms. Gottschalk stated that at the June 18, 2015 meeting, the Board engaged Clarion Partners to take over the investment management of Four Leaf, a 110-acre acre site located in Glendale, Arizona, as of August 1, 2015. The property was previously

**Regular Board Meeting
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1. Clarion: Four Leaf (continued)

internally managed by DFPF staff. Clarion, represented by David Confer, Managing Director, Stacey Magee, Director, and Courtney Cahill, Senior Associate, discussed their review of Four Leaf and provided recommendations on strategic alternatives for the investment. The Townsend Group, represented by Richard Brown, Principal, and Martin Rosenberg, Principal, was also present to provide input and a recommendation.

The Board went into a closed executive session – real estate at 8:37 a.m.

The meeting was reopened at 9:08 a.m.

Clarion recommended that DFPFS continue to hold the Asset, while undertaking a number of steps to improve its marketability, limit risk, control costs, and explore potential exit options. Staff and Townsend concurred with Clarion's recommendation.

After discussion, Mr. Gerald Brown made a motion to authorize Clarion to hold the Four Leaf property while continuing diligence on site improvements and to actively market the site. Mr. Haben seconded the motion, which was unanimously approved by the Board.

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2. BTG Pactual Asset Management

Investment Staff stated that BTG Pactual Timberland Investment Group (“BTG TIG”) manages a \$65 million timberland portfolio for DFPF with properties in Texas, Brazil, Uruguay and South Africa. In 2013, BTG TIG purchased Regions Timberland Group, the original manager of the DFPF account since inception in 2006. On November 25, 2015, Andre Santos Esteves, the CEO of BTG Pactual Group, the parent company of BTG Pactual Asset Management, was detained for questioning in connection with a corruption scandal surrounding the Brazilian state-run oil company Petrobras. Mr. Esteves has resigned as CEO and Chairman of the Board at BTG Pactual.

Staff and Townsend reviewed this matter with the Board and provided a recommendation to monitor developments to ensure that the situation does not negatively affect operations or BTG's ability to manage DFPF's portfolio.

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2. BTG Pactual Asset Management (continued)

After discussion, Mr. Mays made a motion to direct staff to monitor developments at BTG Pactual to ensure that the situation does not negatively affect the operations of BTG TIG or their ability to manage the DPFP portfolio. Mr. Brown seconded the motion, which was unanimously approved by the Board.

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3. Hearthstone

- a. Nampa update
 - b. Spring Valley update
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- a. At the August 27, 2015 meeting, the Board approved several recommendations from Hearthstone, which included listing the Nampa property for sale. Hearthstone, represented by Mark Porath, Bryce Brunsting, Todd Rosa, and Dennis Bush, participated by telephone to discuss a potential sale of the property. The Townsend Group was present and provided a recommendation.
 - b. Hearthstone also provided an update on the Spring Valley property, which is 6,000 acres of land zoned for residential development located in Eagle, Idaho.

The Board went into a closed executive session – real estate at 3:00 p.m.

The meeting was reopened at 3:17 p.m.

Hearthstone recommended that the Nampa property be sold. Staff and Townsend concurred with this recommendation.

After discussion, Mr. Brown made a motion to authorize Hearthstone to consummate the sale of the Nampa property, subject to the final approval of the Executive Director. Mr. Kingston seconded the motion, which was unanimously approved by the Board.

Mr. Brown made a motion to receive and file the Spring Valley update. Mr. Ho seconded the motion, which was unanimously approved by the Board.

**Regular Board Meeting
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4. AEW – Akard Place

AEW, who assumed the investment management of DFPF’s interest in RED Consolidated Holdings (“RCH”) in April of 2015, participated by telephone to provide an update on Akard Place, a RCH land holding located in Dallas, TX, and seek further direction from the Board. AEW representatives were Ron Pastore and Mark Morrison.

The Board went into a closed executive session – real estate at 9:11 a.m.

The meeting was reopened at 10:06 a.m.

After discussion, Mr. Haben made a motion to authorize AEW to continue working on DFPF’s behalf on a transaction involving Akard Place. Mr. Hass seconded the motion, which passed by the following vote:

For: Haben, Hass, Wilson, Schutz, Ho, Brown, Conway, Mays
Against: Griggs, Kingston
Abstain: Friar

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The meeting was recessed at 10:08 a.m.

The meeting was reconvened at 10:17 a.m.

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5. The Townsend Group – change of ownership consent

Investment Staff stated that on October 15, 2015, it was announced that NorthStar Asset Management (NYSE: NSAM) would acquire a majority ownership of The Townsend Group, DFPF’s real asset consultant. The transaction is expected to close in the first quarter of 2016 following satisfaction of all closing conditions. Per the Investment Management Agreement between DFPF and The Townsend Group, DFPF is required to consent to the ownership change. The Townsend Group was present and answered questions on the transaction.

After discussion, Mr. Haben made a motion to consent to The Townsend Group’s change of ownership consent and authorize the Executive Director to perform all necessary acts, exercise all appropriate discretion to consummate, and execute the contract amendment. Mr. Kingston seconded the motion, which was unanimously approved by the Board.

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6. Closed Session – Board serving as Medical Committee

The Board went into a closed executive session – medical at 10:19 a.m.

The meeting was reopened at 10:23 a.m.

After discussion, Mr. Brown made a motion to approve the application for an on-duty disability pension, subject to a two-year recall and an Annual Earnings Test Review. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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7. W.R. Huff Asset Management: Huff Global Pooled

Based on a recent account review, NEPC and Staff recommended liquidating the investment in the W.R. Huff Asset Management Huff Global Pooled Trust and redeploying these funds.

After discussion, Mr. Brown made a motion to approve liquidation of the WRH Global Securities Pooled Trust portfolio and direct the Executive Director to either maintain proceeds for liquidity or utilize proceeds for leverage reduction. Mr. Kingston seconded the motion, which was unanimously approved by the Board.

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8. NEPC: Third Quarter 2015 Investment Performance Analysis and Second Quarter 2015 Private Markets Review

Rhett Humphreys, Partner, Keith Stronkowsky, Senior Consultant, and Jeff Roberts, Senior Research Consultant – Private Markets, of NEPC, DPFP’s general investment consultant, presented the Third Quarter 2015 Investment Performance Analysis and Second Quarter 2015 Private Markets Review.

After discussion, Mr. Mays made a motion to receive and file the NEPC reports. Mr. Haben seconded the motion, which was unanimously approved by the Board.

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9. Asset allocation education – Hedge funds

As a continuation of the asset allocation process, Seth Bancroft, CFA, Research Consultant, of NEPC, DFPF’s general investment consultant, provided an educational session on hedge fund investments.

After discussion, Mr. Brown made a motion to receive and file the hedge funds educational presentation by NEPC. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 2:11 p.m.

The meeting was reconvened at 2:18 p.m.

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10. Long – Term Financial Stability Sub-committee

Mr. Hass, Sub-committee Chair, gave an overview in open session of the sub-committee’s process.

The Board went into a closed executive session – legal at 10:42 a.m.

The meeting was reopened at 11:49 a.m.

After discussion, Mr. Brown made a motion to receive and file the briefing by the Long-Term Financial Stability Sub-committee. Mr. Kingston seconded the motion, which was unanimously approved by the Board.

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11. Member communications

Staff presented the results of their member communications review based on discussions during the 2015 Annual Board/Staff Workshop and 2016 budget presentations.

After discussion, Mr. Haben made a motion to distribute the DFPF newsletters online only beginning in March 2016. Mr. Hass seconded the motion, which passed by the following vote:

**Regular Board Meeting
Thursday, December 10, 2015**

11. Member communications (continued)

For: Haben, Hass, Ho, Brown, Conway, Kingston, Friar
Against: Mays, Schutz

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12. Investment reports

Mr. Perry reviewed the investment performance and rebalancing reports with the Board.

After discussion, Mr. Haben made a motion to receive and file the Group Trust Asset Allocation Report, Monthly NAV and DROP Balances Report, DROP as % of NAV Report, the JPMorgan DPFPS Performance - Preliminary Report Package, and the Real Estate Detailed Allocation. Mr. Brown seconded the motion, which was unanimously approved by the Board.

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13. Legal issues

- a. Police Officer and Firefighter pay lawsuits
- b. 2014 Plan amendment election and litigation
- c. Potential claims involving real estate transactions

The Board went into a closed executive session – legal at 3:31 p.m.

The meeting was reopened at 3:48 p.m.

Mr. Brown made a motion to receive and file the legal briefing. Mr. Kingston seconded the motion, which was unanimously approved by the Board.

D. ADDENDUM

13. Legal issues

- d. Dallas Morning News open records request

The Board went into a closed executive session – legal at 3:31 p.m.

The meeting was reopened at 3:48 p.m.

**Regular Board Meeting
Thursday, December 10, 2015**

13. Legal issues (continued)

d. Dallas Morning News open records request (continued)

After discussion, Mr. Mays made a motion to receive and file the briefing. Mr. Ho seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 3:57 p.m.

The meeting was reconvened at 4:06 p.m.

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14. 2016 Annual Board/Staff Workshop

Staff requested further Board direction in order to make arrangements for the 2016 workshop venue.

After discussion, Mr. Mays made a motion to direct staff to make arrangements for a three-day off-site workshop located within approximately a one-hour driving distance from the metroplex for October 17-19, 2016. Mr. Kingston seconded the motion, which was unanimously approved by the Board.

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15. Staff and Board Members' reports on due diligence meetings, seminars and/or conferences attended

Reports were given on the following meetings. Those who attended are listed.

a. National Pension and Institutional Investor Summit

Messrs. Brown, Schutz, Conway

b. III: Defined Contribution Summit

Mr. Haben

c. Texans for Secure Retirement Meeting

Mr. Brown

**Regular Board Meeting
Thursday, December 10, 2015**

15. Staff and Board Members' reports on due diligence meetings, seminars and/or conferences attended (continued)

d. Due Diligence: Townsend Group

Messrs. Schutz, Wagner

After discussion, Mr. Brown made a motion to receive and file the reports. Mr. Ho seconded the motion, which was unanimously approved by the Board.

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16. 2015 Personalized Benefit Statement and Deferred Retirement Option Plan (DROP) Statement for Members of the Dallas Police & Fire Pension System

Staff presented the draft 2015 Personalized Benefit Statement and the draft 2015 Personalized DROP Fire Pension Statement for Members and Pensioners, as well as the actuarial letter that will accompany the statements.

After discussion, Mr. Brown made a motion to receive and file the staff briefing on the 2015 Personalized Benefit Statement and DROP Statement for Members of the Dallas Police & Fire Pension System, as well as the actuarial letter that will accompany the statements. Mr. Ho seconded the motion, which was unanimously approved by the Board.

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17. Service provider review

At the November 12, 2015 Board meeting, the Board directed staff to begin the service provider review process by bringing to the Board DPFP's legislative consultants for review. The staff requested further guidance and clarification as to how the Board would like the review to be structured.

The Board provided direction. No motion was made.

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**Regular Board Meeting
Thursday, December 10, 2015**

18. Pension Review Board

- a. Educational Requirements and PRB reporting
- b. Board appointments

Mr. Mond reviewed the Texas Pension Review Board’s Minimum Educational Requirements for Trustees and the recent recommendation by the PRB Education and Research Committee on reporting of compliance failures, as well as recent appointments to the PRB Board.

After discussion, Mr. Brown made a motion to receive and file the staff briefing on the Pension Review Board. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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19. Ad hoc committees

Mr. Friar discussed Ad hoc committees and stated that each committee will give a report to the full Board on a bi-monthly basis. He removed himself from the Long-Term Financial Stability Sub-committee and appointed Lee Kleinman in his place, effective January 1, 2016.

No motion was made.

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D. BRIEFING ITEMS

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

Received comments during the open forum for members and pensioners.

No motion was made.

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**Regular Board Meeting
Thursday, December 10, 2015**

2. Executive Director's report

- a. Associations' newsletters
 - TEXPERS Outlook (December 2015)
- b. Future continuing education and investment research programs and conferences

Mr. Haben made a motion to receive and file the Executive Director's report. Mr. Mays seconded the motion, which was unanimously approved by the Board.

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Haben and a second by Mr. Mays, the meeting was adjourned at 4:36 p.m.

Samuel L. Friar
Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

ITEM #C1

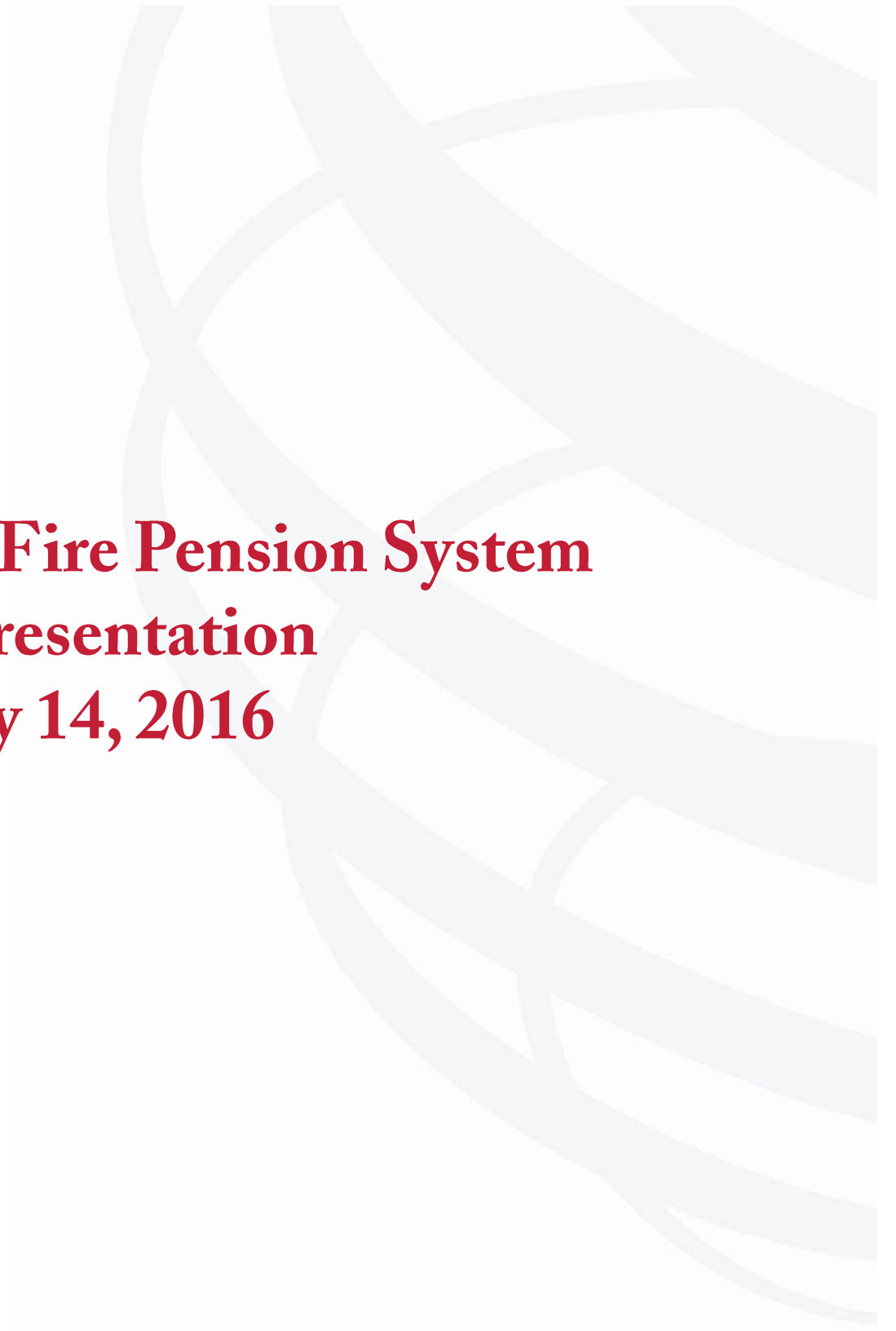
Topic: AEW – RED Consolidated Holdings/The Union

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: Ron Pastore, Senior Portfolio Manager
Mark Morrison, Assistant Portfolio Manager

Discussion: AEW, who took over the investment management of DPFP's interest in RED Consolidated Holdings ("RCH") in April 2015, will be present to discuss investment options on The Union, previously referred to as Akard Place, an RCH land holding located in Dallas, TX. The Townsend Group will also be present to provide input and a recommendation.

Staff Recommendation: Authorize AEW to approve RCH's investment in The Union.

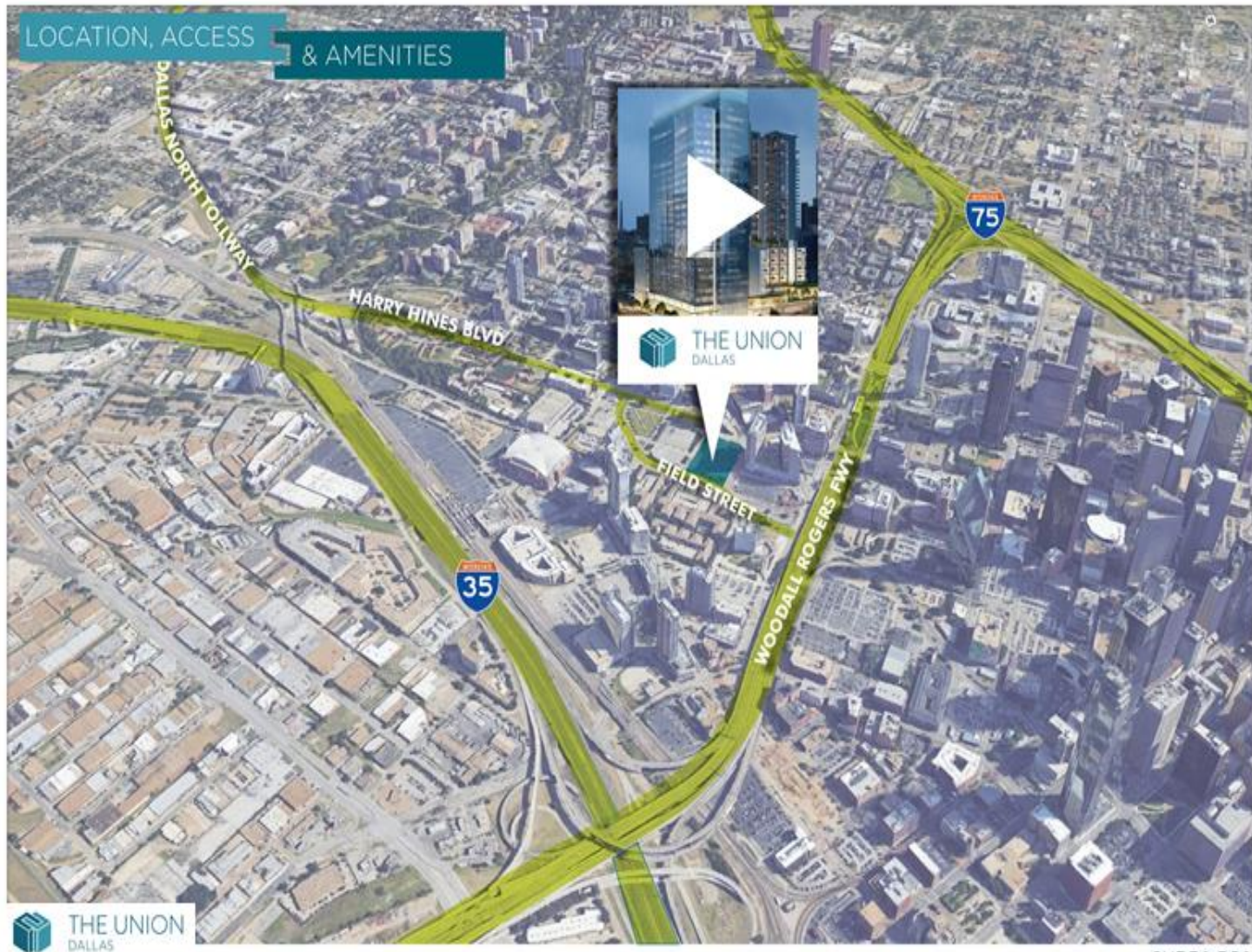


**Dallas Police and Fire Pension System
Board Presentation
January 14, 2016**

AEW Recommendation

- In its role as strategic oversight manager for DPF’s investment in RED Consolidated Holdings (“RCH”), AEW has reviewed RED’s recommendation to move forward with development of The Union, a fully entitled, mixed-use Class A complex on the site of DPF’s former headquarters.
 - AEW has reviewed the due diligence materials prepared by RED, in its role as RCH’s operating partner, and concurs with RED’s recommendation.
- The Union complex will include first class office, residential and restaurant uses, a full-line grocery store, and an open-air landscaped pedestrian plaza.
- RED Consolidated Holding’s (RCH) – DPF’s operating partner and owner of the site – will contribute the development site into a new joint venture, managed by RCH, in exchange for a promoted 20% equity interest in the overall Union project;
 - DPF’s existing loan on the site will be paid off at close.
 - The 80% joint venture partner is a well-capitalized equity source.
 - The balance of the project will be capitalized with third party debt that minimizes guaranty exposure to RCH.
- AEW’s recommendation is supported by significant pre-leasing with 45% of the commercial component of the project pre-leased to credit tenants.
- The Union is a well-conceived mixed-use project that brings important new amenities to Dallas’ dynamic Uptown neighborhood.
 - The project will bring Uptown’s second grocer - a full line Tom Thumb – along with several signature restaurants to a rapidly growing residential and office district;
 - The signature ground floor open-air plaza improves pedestrian linkage between Klyde Warren Park, Victory Park and the Katy Trail;
 - Strong institutional investor interest maximizes the pool of potential buyers upon project completion, with the complex structured to allow the sale of separate components – retail, residential and office – in the future.

Location



SLIDE 1 OF 1

Rendering

TOM THUMB STARBUCKS



THE UNION
DALLAS

SLIDE 1 OF 4

Rendering

THE PARK

RESTAURANTS & AMENITY DECK





DISCUSSION SHEET

ITEM #C2

Topic: **The Townsend Group: Third Quarter 2015 Performance Report**

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: Richard Brown – Principal
Martin Rosenberg – Principal
Jeff Leighton – Associate

Discussion: The Townsend Group, DPF's real asset investment consultant, will present the above report.

Staff Recommendation: **Receive and file.**

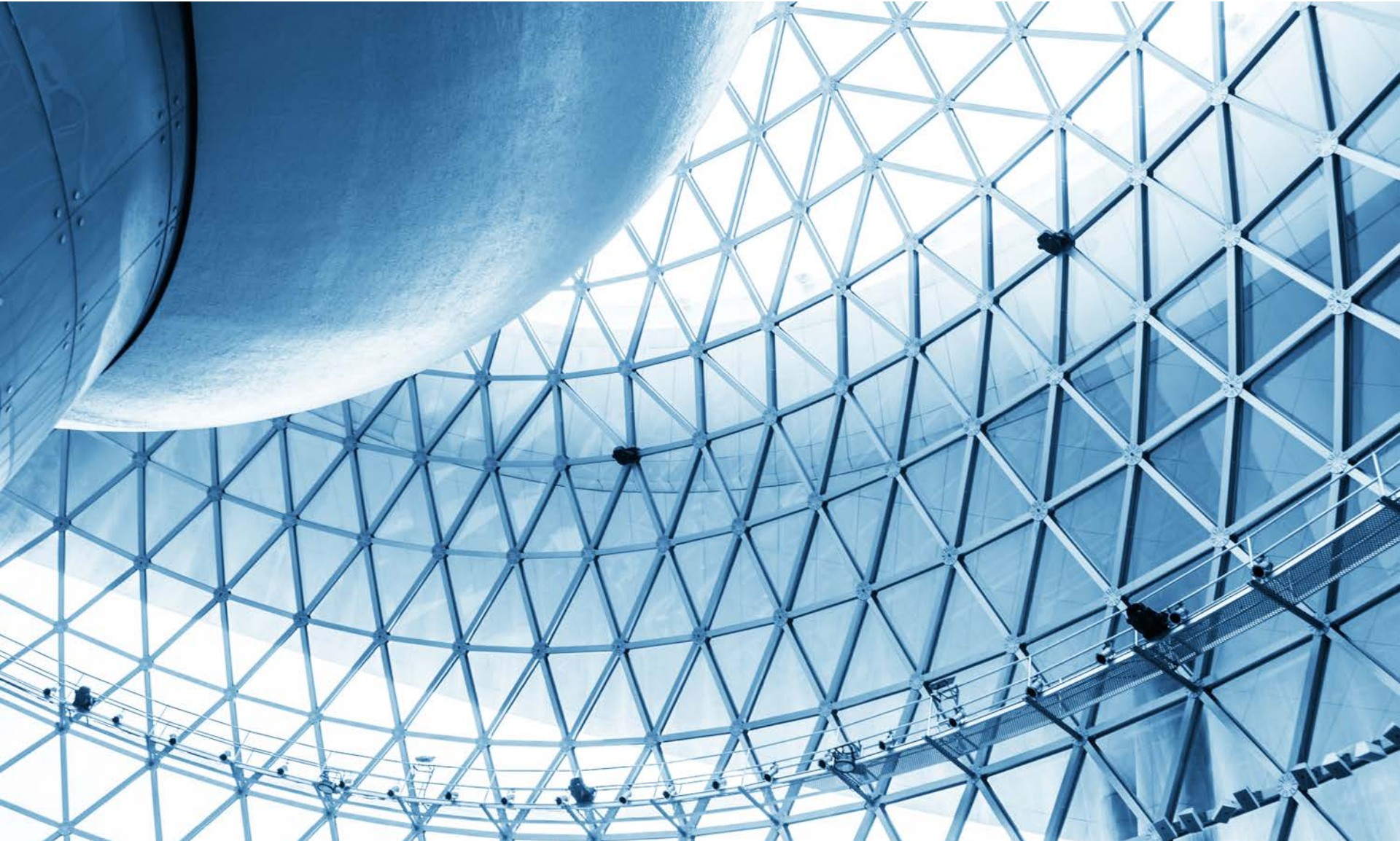


TOWNSEND
GROUP

**Dallas Police & Fire Pension System
Third Quarter 2015
Real Asset Performance and Portfolio Review**

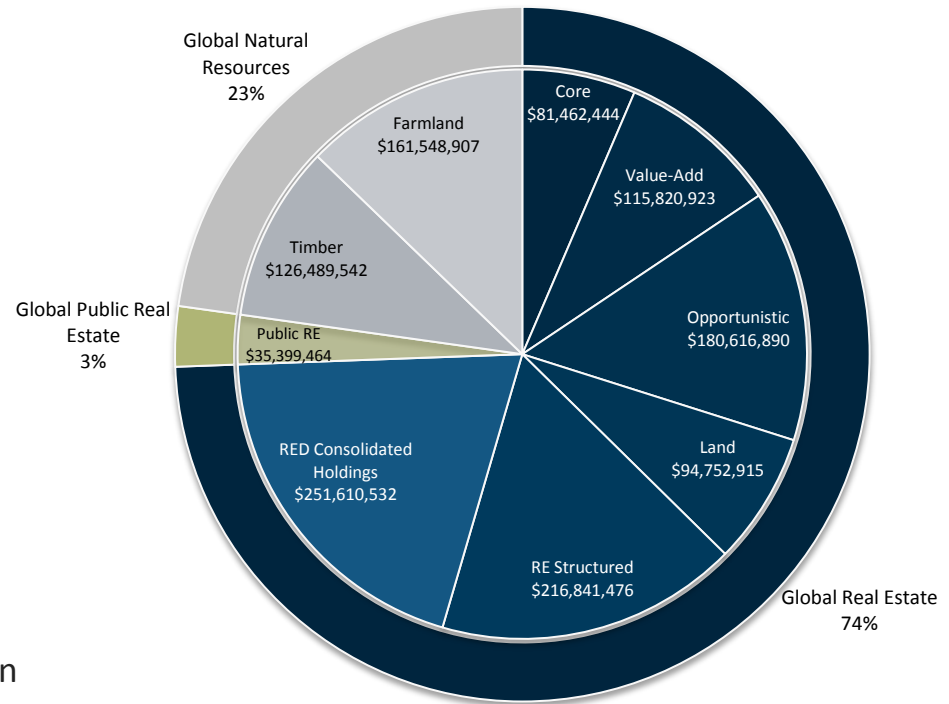
January 2015

Portfolio Overview



Real Asset Portfolio Composition

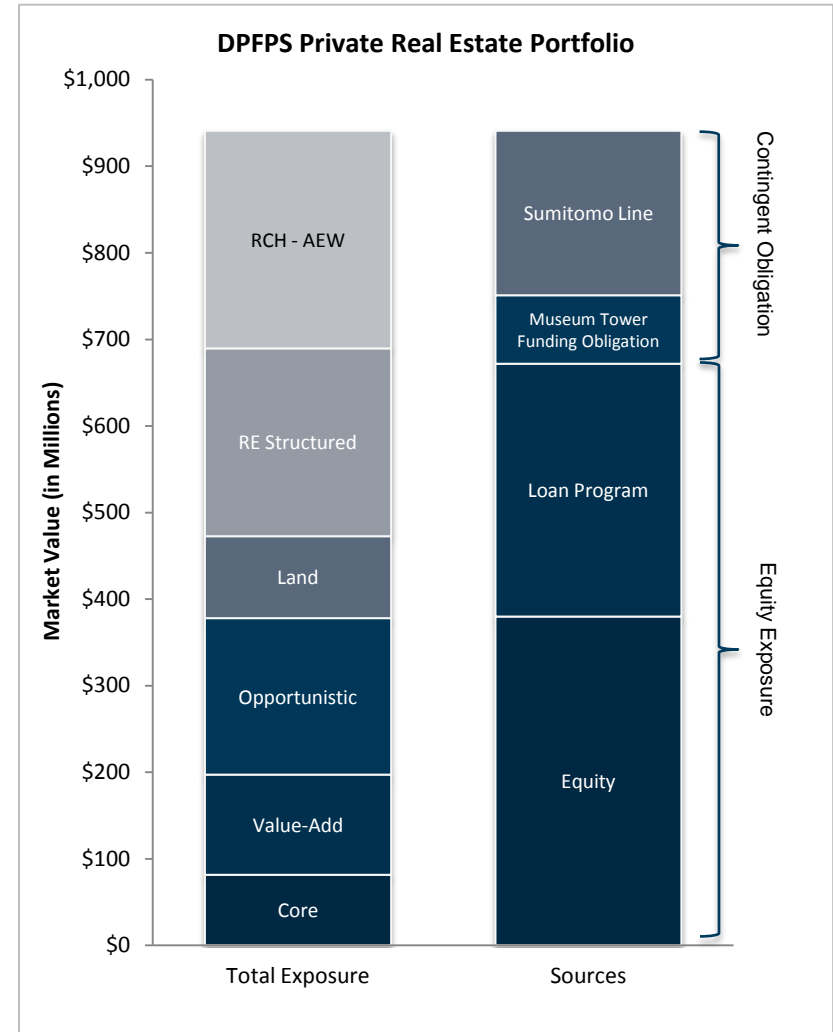
- The assets covered by this report are spread across different segments of the DPFPS broader investment portfolio:
 - Global Real Estate
 - Global Real Estate Securities (included in the DPFPS' Global Equities allocation)
 - Global Natural Resources
 - Timber
 - Farmland
 - RED Consolidated Holdings was moved from the Global Private Equity Portfolio to the Global Real Estate Portfolio effective April 1, 2015. As a result, RCH is included in Global Real Estate market values and performance shown in this report.



Exposure reflects total DPFPS investment position gross of the loan program. The opportunistic portfolio also includes DPFPS' funding obligation to the Museum Tower investment. Portfolio composition shown above is as of 3Q15. Exposure reflects RED Consolidated Holdings which was transferred to Global Real Estate from the Private Equity Portfolio as of 2Q15. RED Consolidated Holdings exposure includes the Sumitomo Line capital commitment obligation.

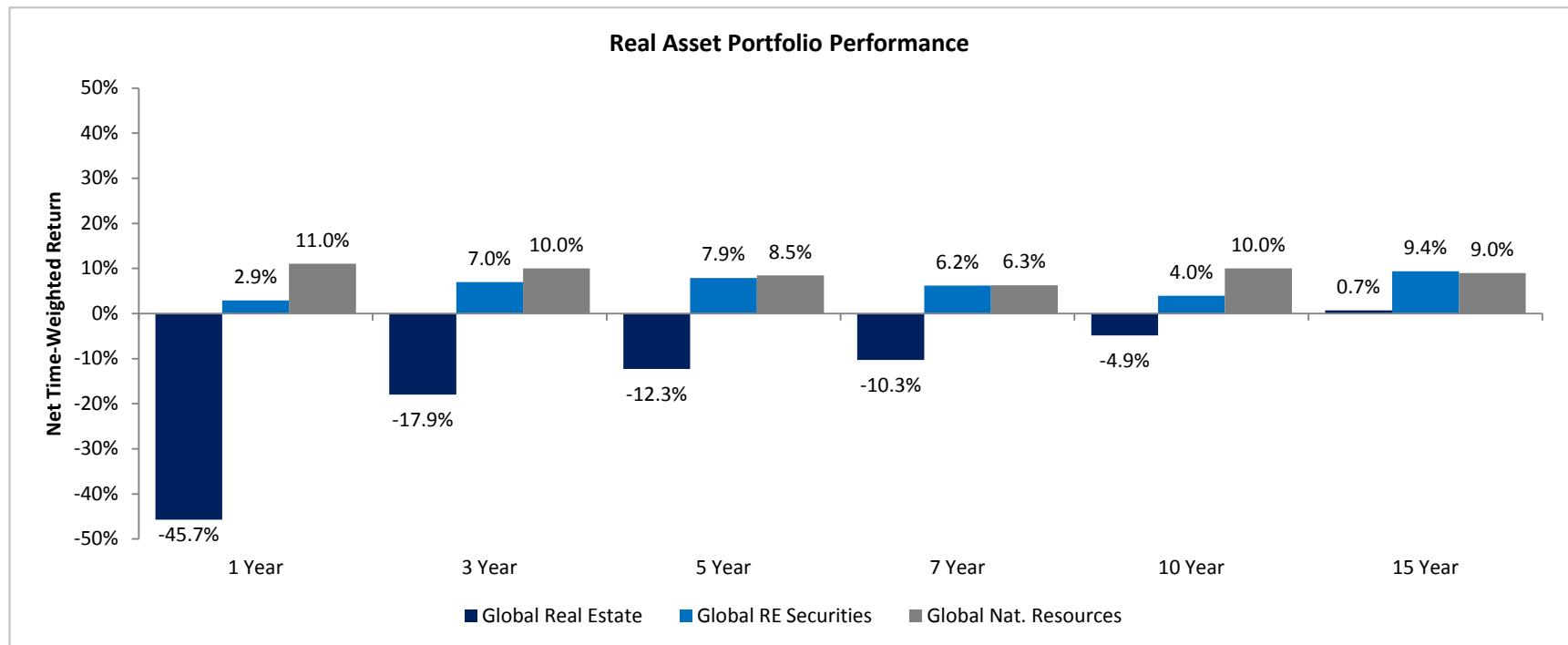
Global Real Estate Exposure

- DPFPS has a current target allocation to Real Estate of 15%, with a range of 10% to 20%.
- On September 30, 2015, equity exposure in the Global Real Estate Portfolio was 21.7% of total net assets. This exposure includes investments funded through the loan program.
- DPFPS also has contingent obligations, which are shown in the graph to the right but not included when calculating total exposure.

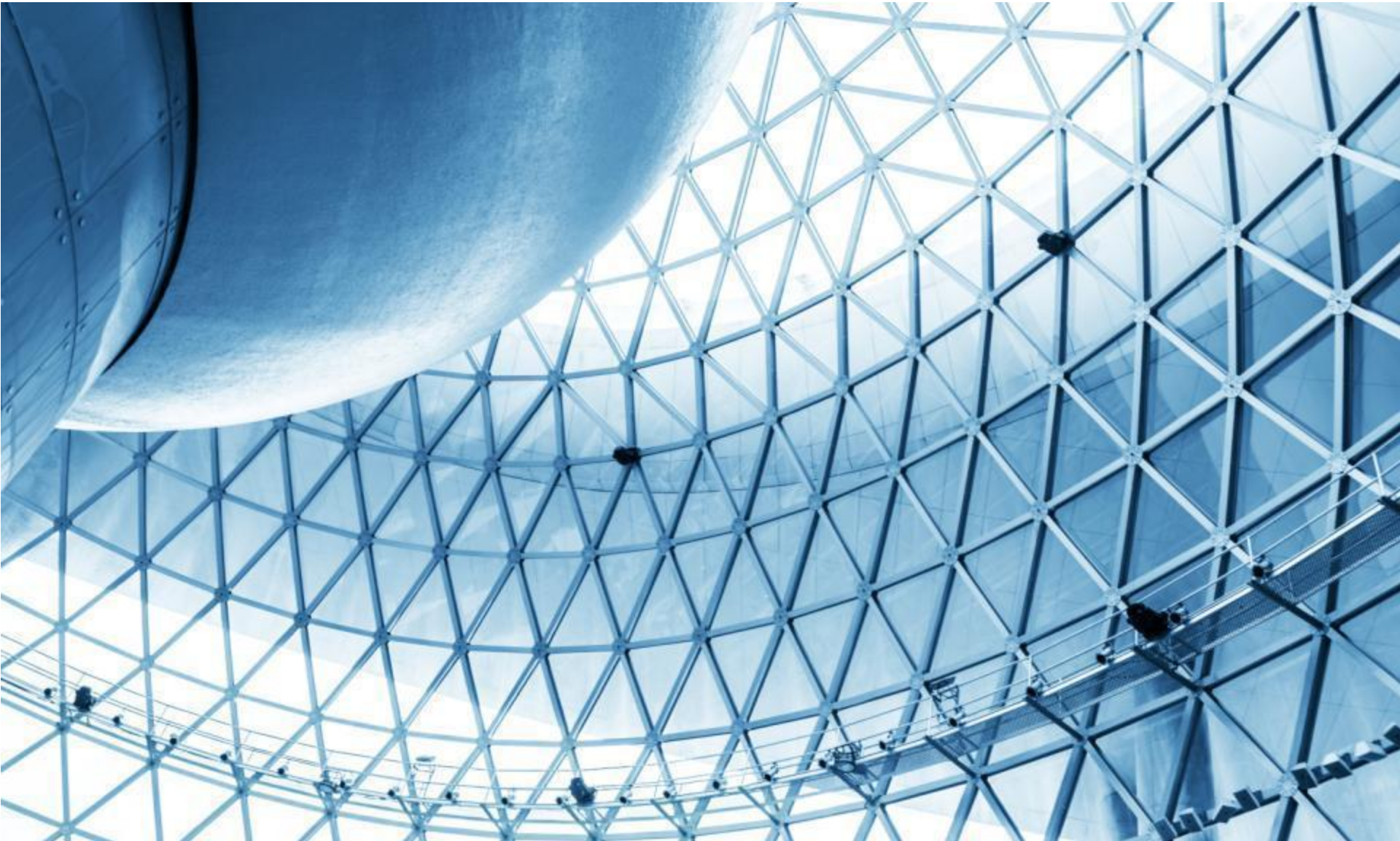


Reported Performance By Portfolio

- Global Real Estate Securities and Global Natural Resources have outperformed Global Real Estate over all time periods.
- Global Real Estate performance has been impacted negatively by land and opportunistic investments.

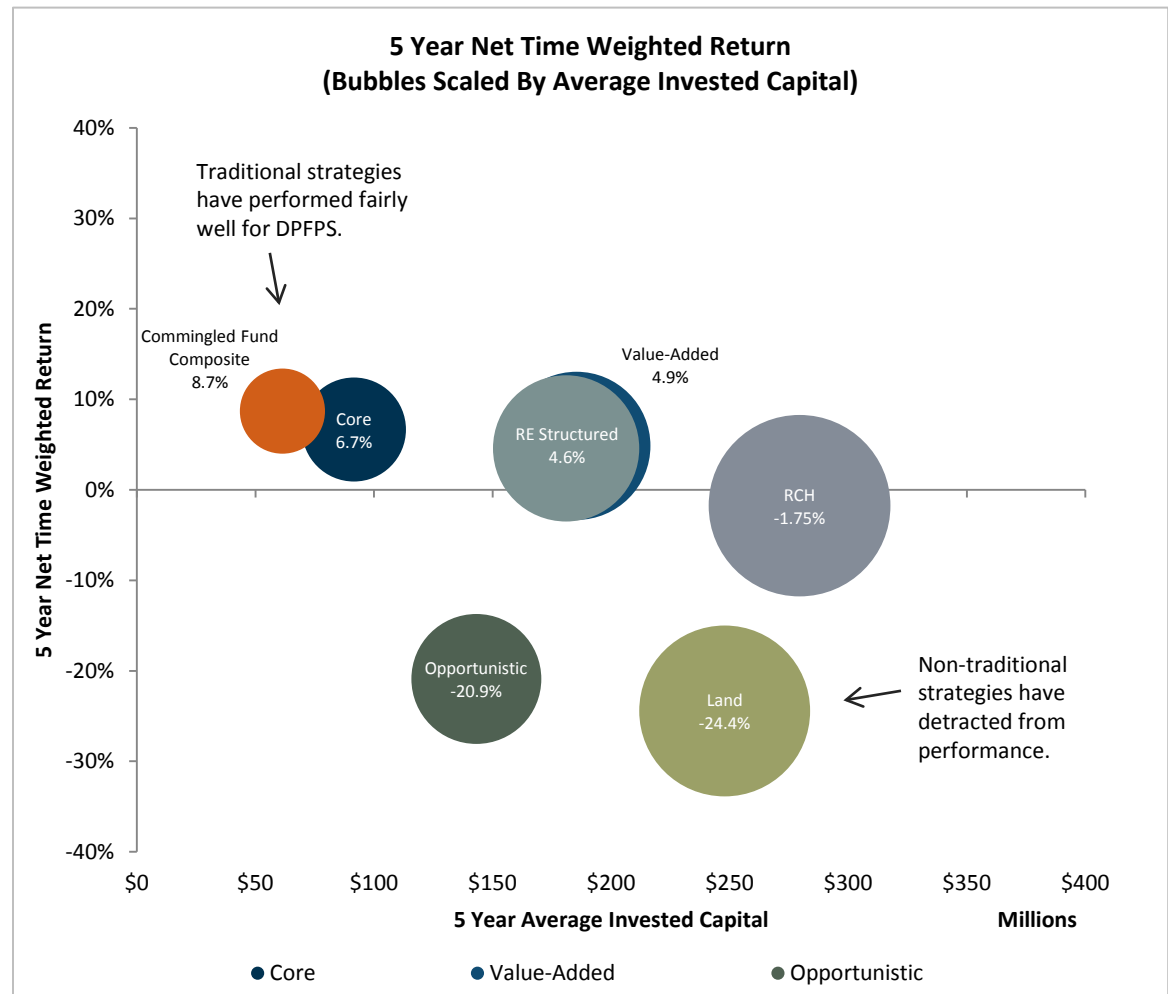


Global Real Estate Performance



Long Term Performance

- Long-term performance has varied by strategy.

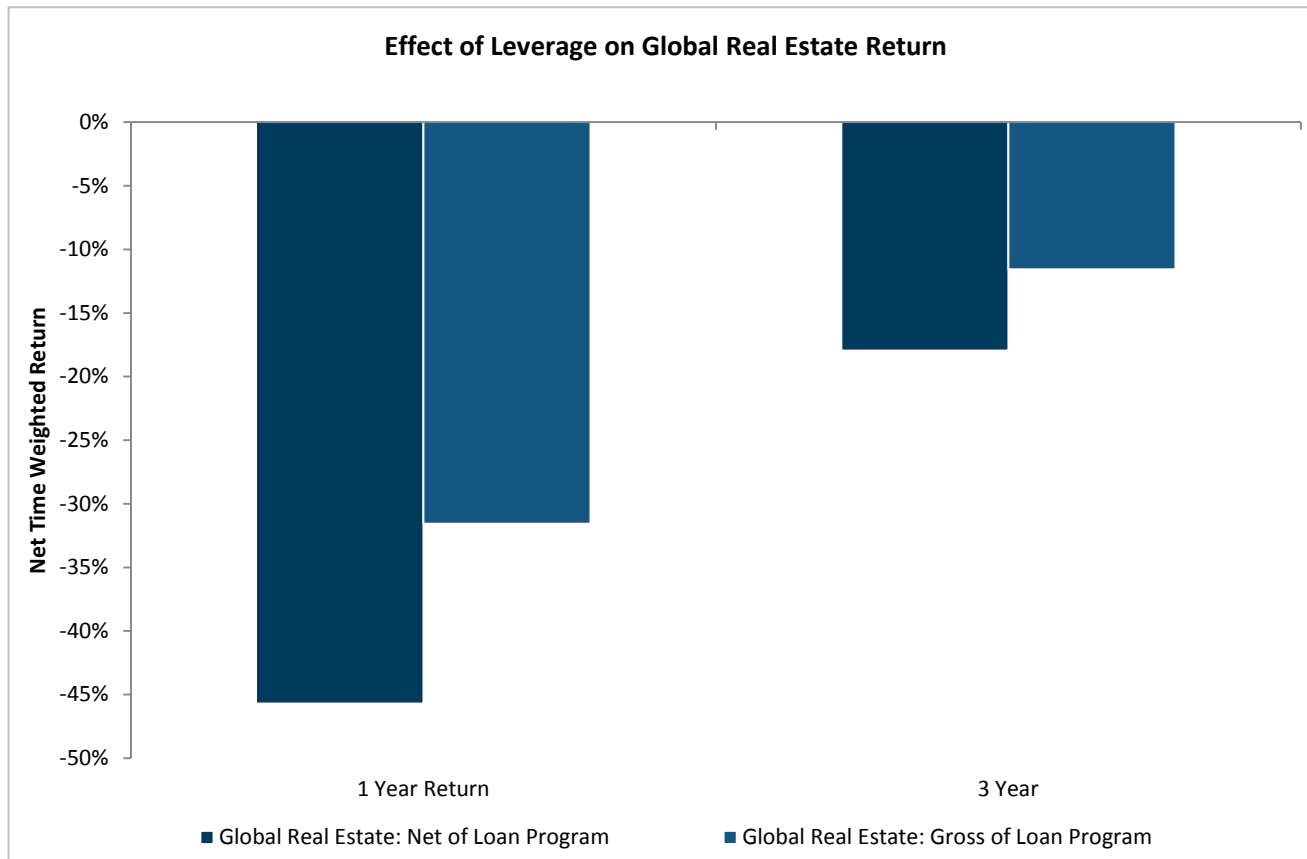


Note: Commingled Fund Composite and RCH contain overlapping exposures with other composites. RCH historical performance includes return data for when the asset was classified in the Private Equity Portfolio.



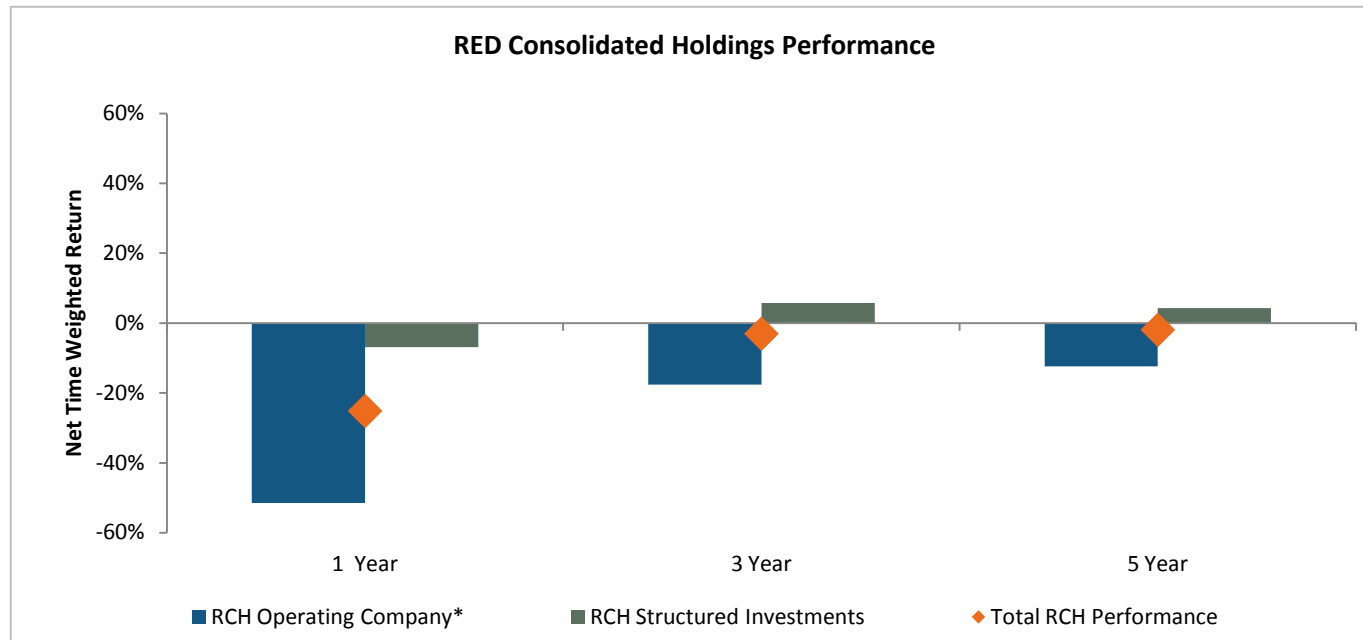
Loan Program

- The Loan Program has had a negative impact on total returns.
- Effective 4Q15, the loan program will be excluded from the real estate portfolio and reported as an obligation of the total plan.

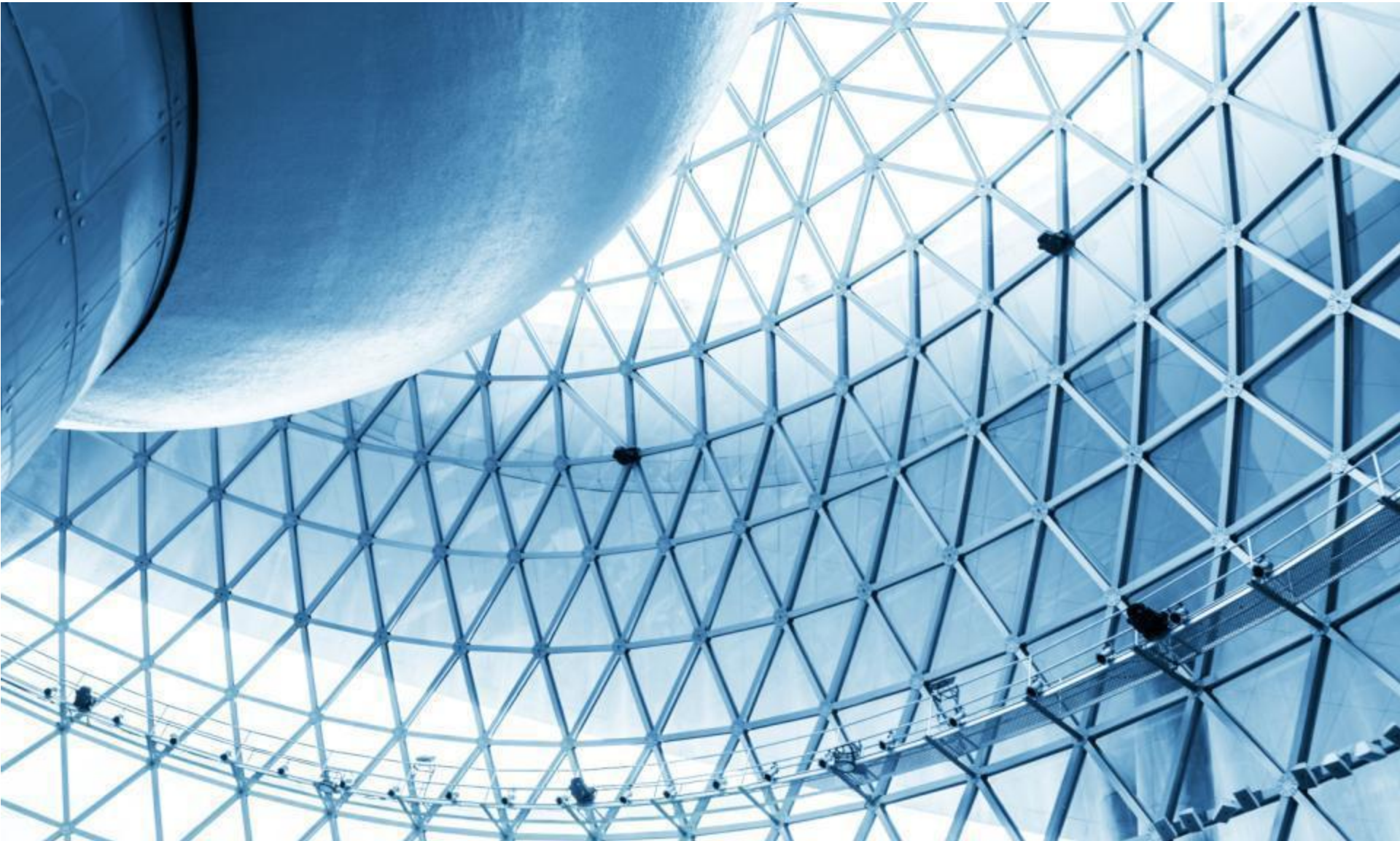


RED Consolidated Holdings

- The DPFPS' investment in RED Consolidated Holdings consists of three primary exposures:
 1. An entity investment in the operating company that has historically been included in the Private Equity portfolio, but as of April 1st, 2015 was categorized within the Global Real Estate allocation.
 2. Structured investments (loans and preferred equity) that have historically been included in the Global Real Estate portfolio.
 3. A capital commitment obligation by DPFPS of \$190 million, which can be drawn only under a limited set of circumstances.

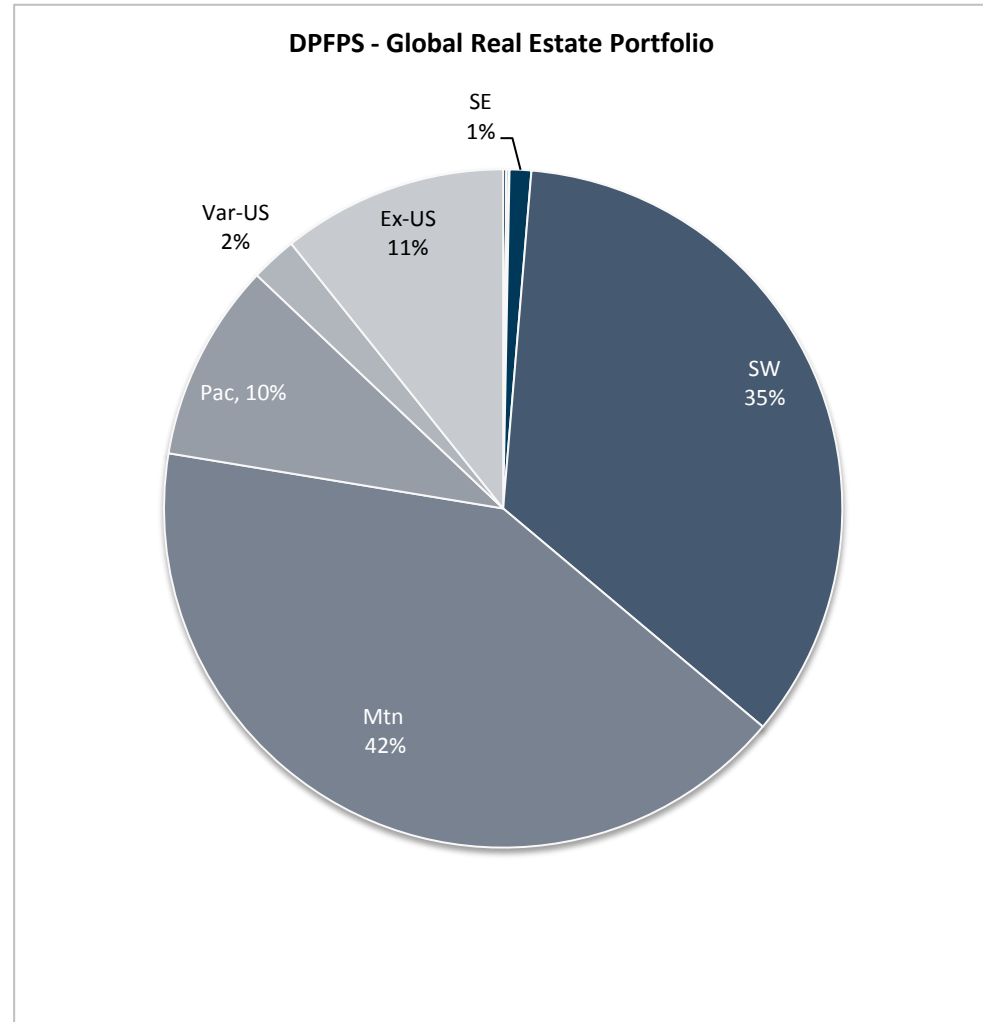


Global Real Estate Portfolio Composition



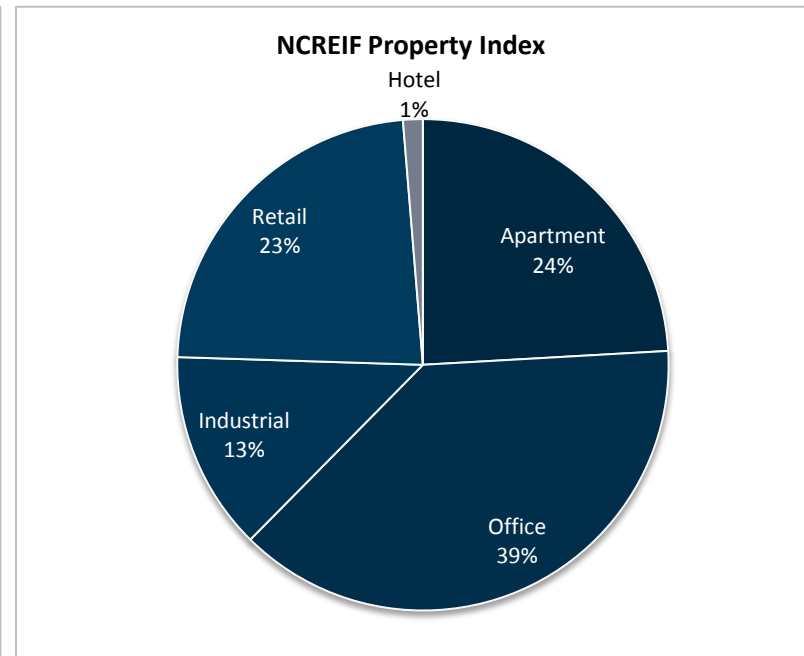
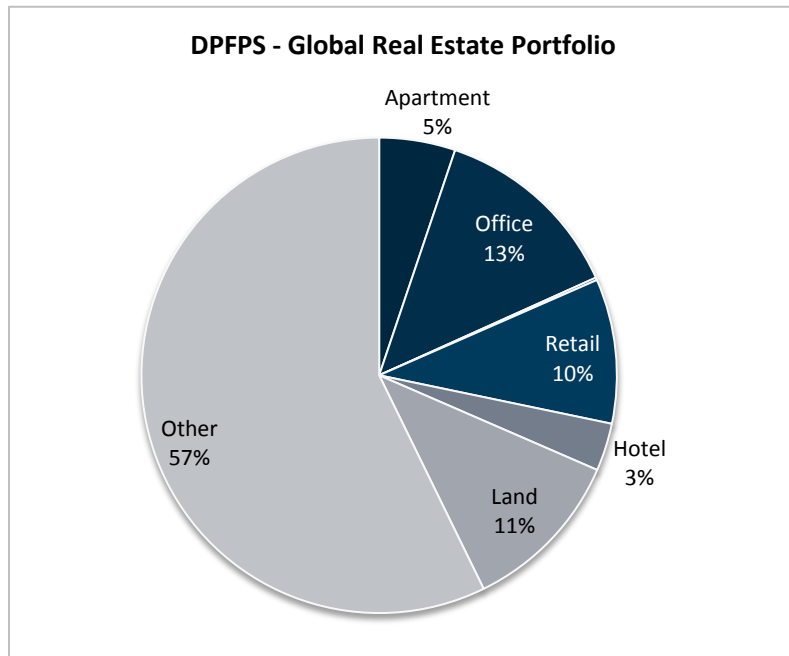
Geographic Diversification

- The Global Real Estate Portfolio has limited exposure to gateway markets (Boston, New York, San Francisco, Washington DC).
- Ex-US exposure is moderate and comprised of mostly Europe.



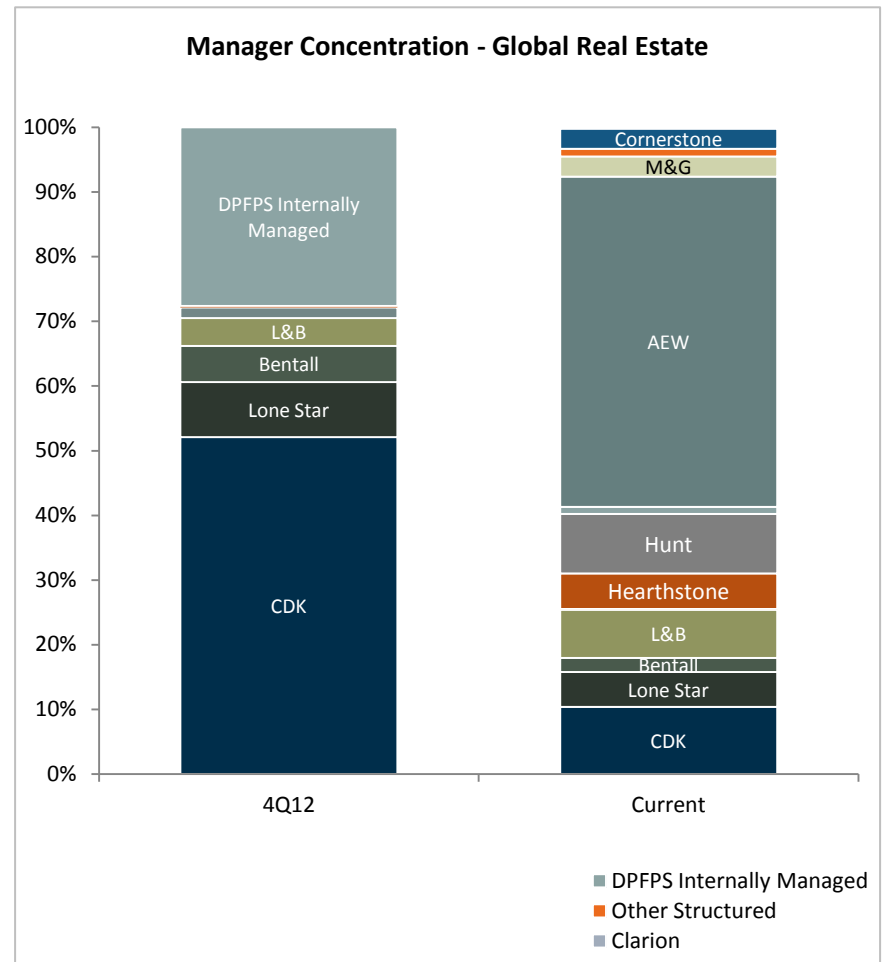
Property Type Diversification

- The Global Real Estate Portfolio is concentrated in land investments and mixed-use projects.

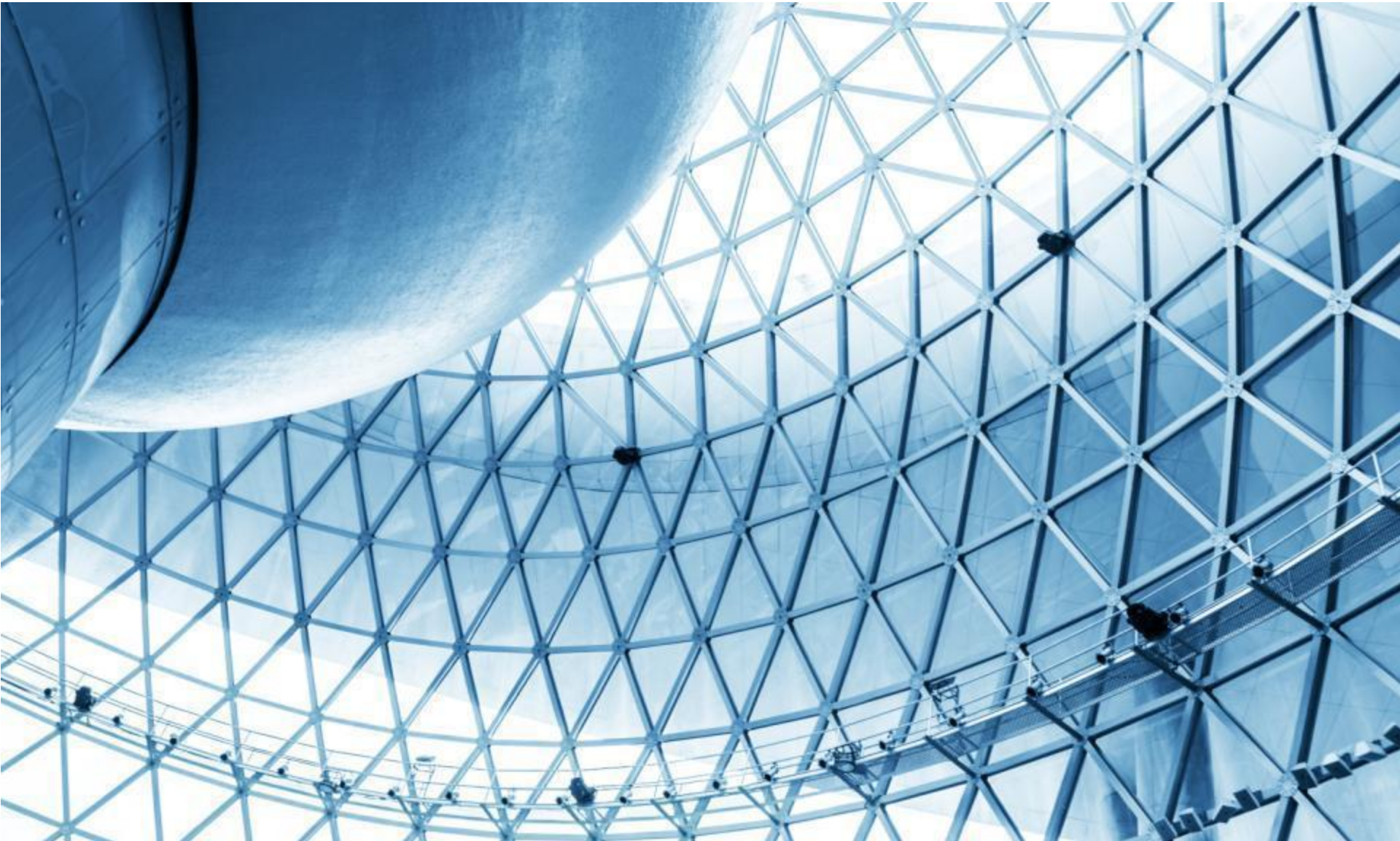


Manager Diversification

- Townsend continues to believe that manager diversification is an important tool to reduce risk.
- Manager diversification has improved substantially.
- AEW currently has a large position. AEW is a trusted fiduciary and is working diligently to reduce exposure through the realization of investments.

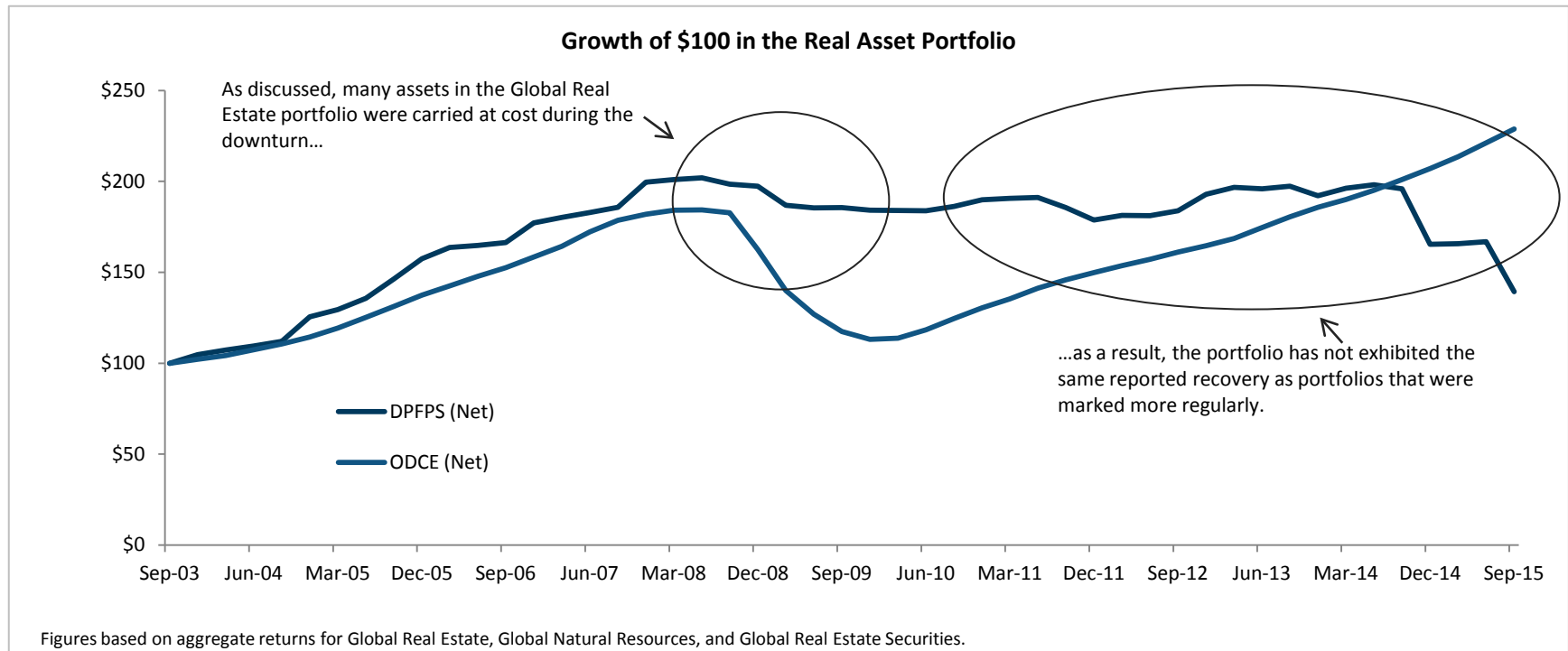


Long-Term Performance: All Covered Investments



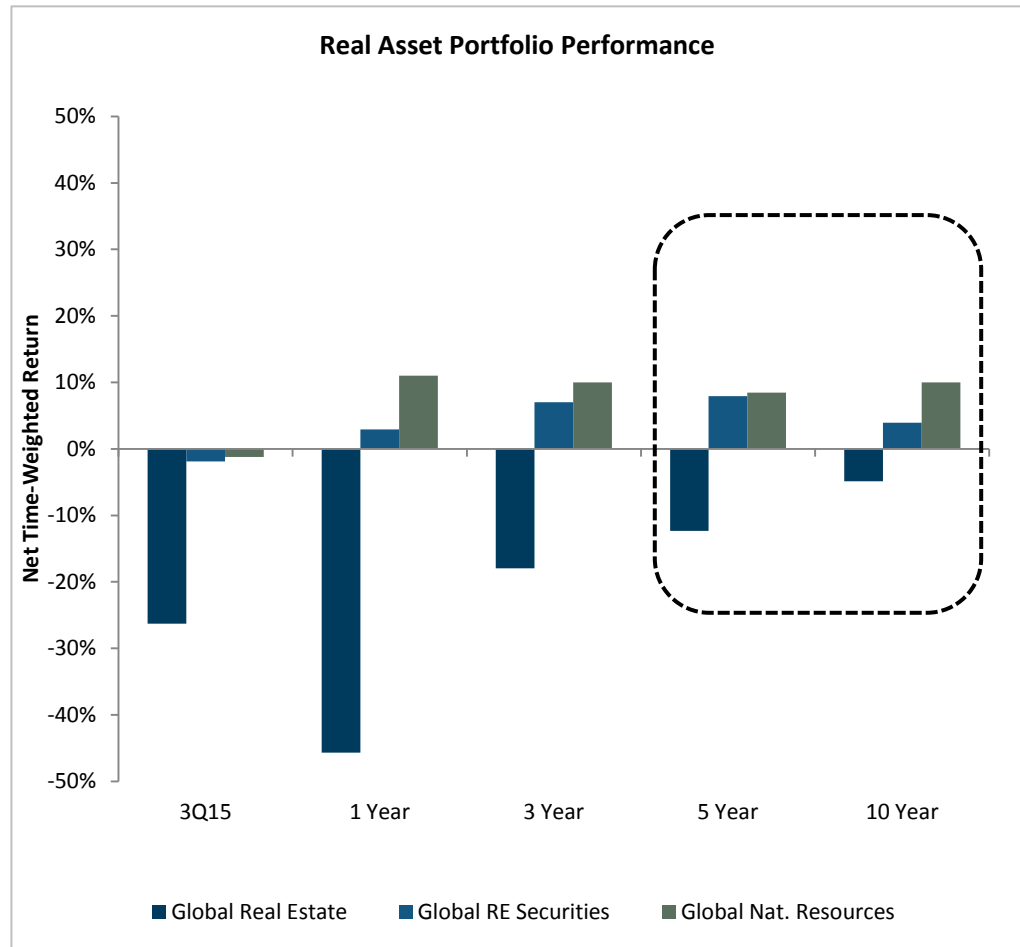
Longer-Term Performance

- Returns in the Global Natural Resources and Global Public Real Estate Securities portfolios helped mitigate the underperformance relative to the ODCE in the Global Real Estate portfolio.
- Best practice valuation methods have recently been applied to assets transitioned to new fiduciaries. As a result, many assets previously carried at cost have been marked to market.

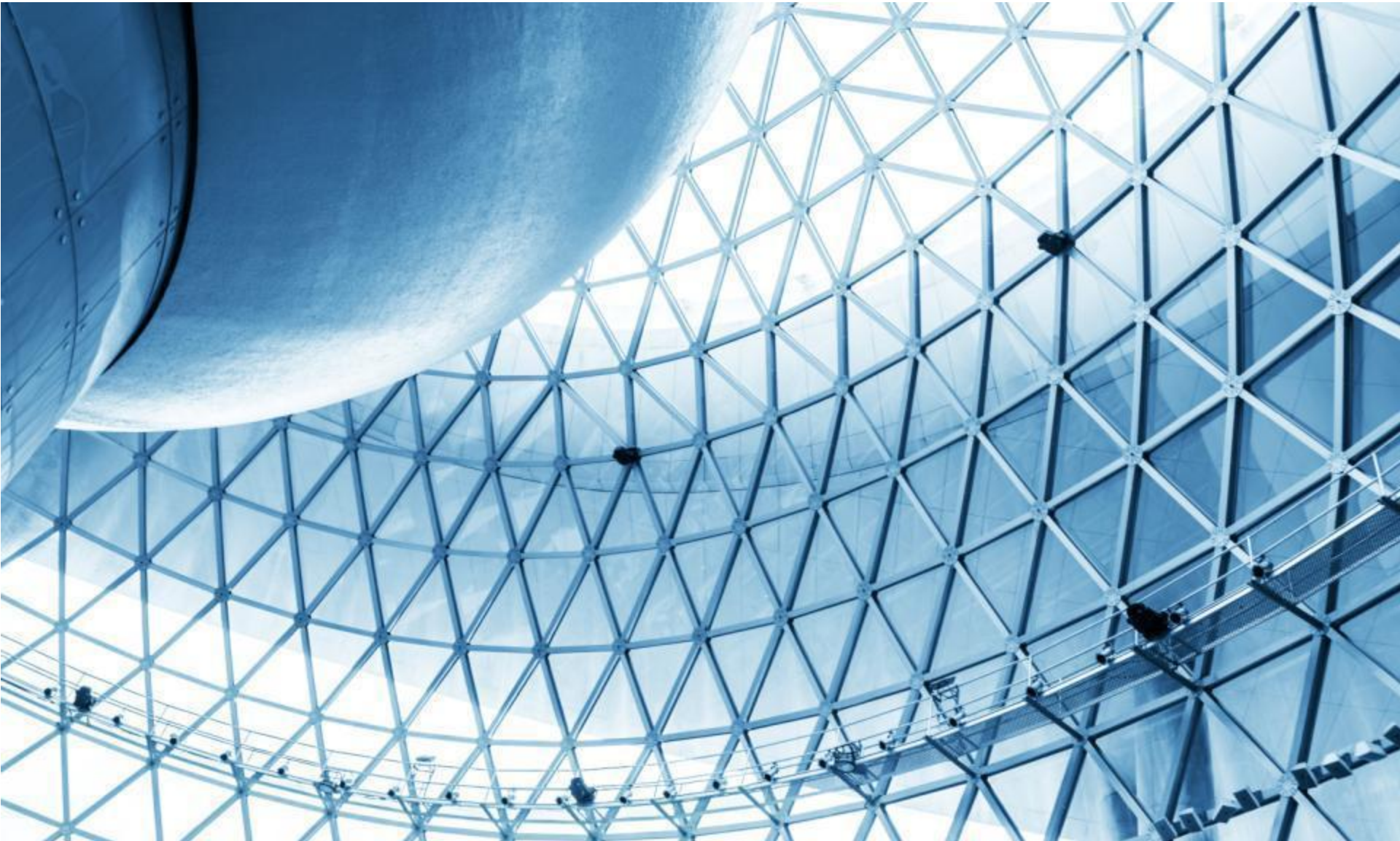


Longer-Term Performance (Cont'd)

- Over the five and ten year periods, Global Natural Resources and Global Public Real Estate Securities were accretive to performance.
- Global Natural Resources was the strongest performer over the five and ten year time periods.

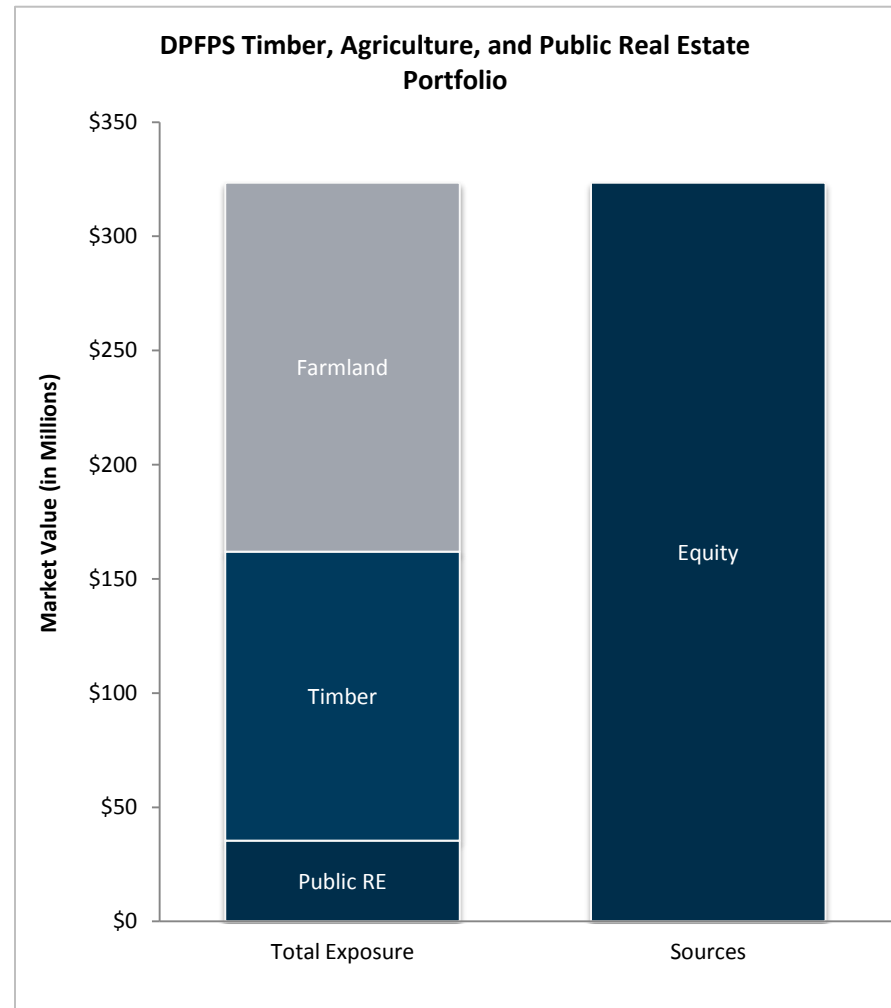


Portfolio Composition: Covered Investments Excluding Real Estate



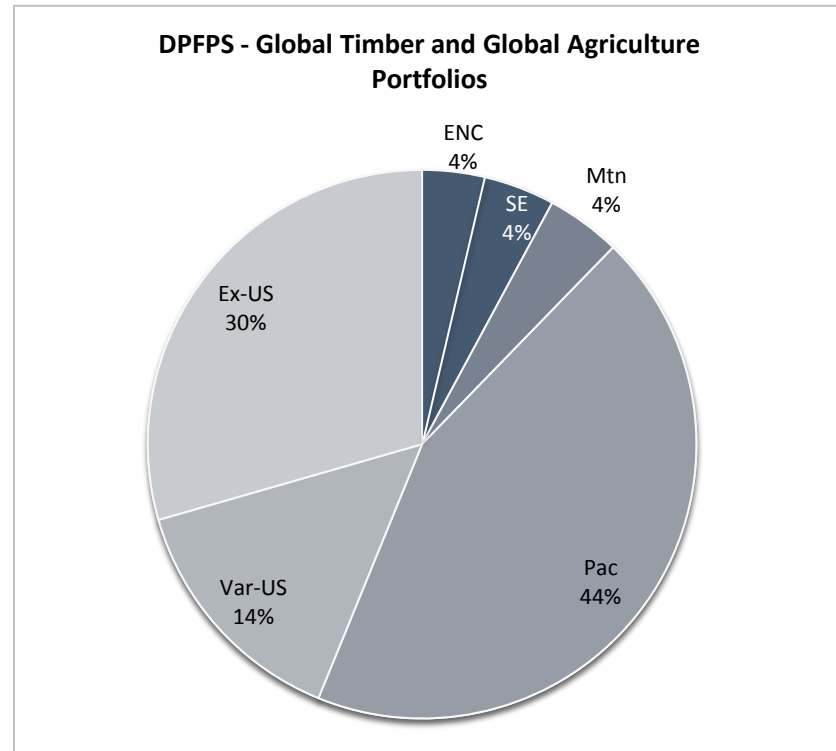
Timber, Agriculture, and Public Real Estate Exposure

- As of third quarter 2015, total exposure to Timber, Agriculture, and Public Real Estate represented approximately \$323 million, or 11.6% of DPFPS' total net assets.
- A hold/sell analysis is being requested to managers within the natural resources portfolio.



Geographic Diversification

- The Global Natural Resources Portfolio includes ex-US exposure in Brazil, South Africa and Uruguay for Timber, and Australia for Agriculture.





DISCUSSION SHEET

ITEM #C3

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 an 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.



DISCUSSION SHEET

ITEM #C4

Topic: **GMO: Asset allocation education and market update**

Attendees: Catherine LeGraw, Senior Portfolio Strategist
Lisa Stanton, Client Relationship Manager

Discussion: As DPFPP prepares for an asset allocation study, Staff invited GMO to provide an educational presentation on asset allocation and to present their 7-year asset class real return forecasts. GMO will walk through the steps to build out their forecast analysis using their expectations of various asset classes, discuss why allocations shift over time and will review the efficient frontier at different points in time.

GMO has been one of DPFPP's Global Asset Allocation (GAA) managers since August 2007. GMO manages \$122 million for DPFPP, invested in the Global Allocation Absolute Return (GAAR) portfolio which is split (80/20) between two strategies; Benchmark-Free Fund III and Multi-Strategy Fund respectively.

Staff Recommendation: **Receive and file.**

GMO

North America | Europe | Asia-Pacific

Dallas Police & Fire Pension System

January 14, 2016



Catherine LeGraw

Ms. LeGraw is a member of GMO's Asset Allocation team. Prior to joining GMO in 2013, she worked as a director at BlackRock. Previously, Ms. LeGraw was an analyst at Bear, Stearns & Co. She received her B.S. and her B.A. in Economics from the University of Pennsylvania. She is a CFA charterholder.



Lisa Stanton

Ms. Stanton is a client relationship manager on GMO's Global Client Relations team located in the Berkeley office. Prior to joining GMO in 2012, she was a managing director of iShares at BlackRock. Previously, she worked at AXA Rosenberg as the global head of product management. Ms. Stanton earned her B.B.A in Finance from Southern Methodist University. She is a CFA charterholder.

- **GMO Investment Philosophy and Approach to Asset Allocation**
- **Capital Markets Outlook (7-Year Asset Class Forecasts)**
- **How Bad is Emerging, and How Good is the U.S.?**
- **Appendix**

GMO's Edge:

We blend proven traditional judgments with innovative quantitative methods to identify undervalued securities and markets.

Success Factors:

Discipline, value orientation, investment research, risk control, size limitation.

Motivation/Focus:

Private partnership founded in 1977; investment management is our only business.

Stability:

GMO has low turnover of investment professionals.

Current Scale:

More than 100 investment professionals and more than 550 employees worldwide.



Assets Under Management:

\$104 billion of assets under management, including:

Asset Allocation:	\$69 billion	Absolute Return:	\$12 billion
Equities:	\$53 billion	Real Assets:	\$2 billion
Fixed Income:	\$15 billion		

As of 9/30/15

Source: GMO

The asset breakout above includes double-counting of assets, as certain Asset Allocation and Absolute Return assets are also counted in underlying Equities and Fixed Income strategies. Thus, assets may not add up to the total AUM figure shown.

Real Assets includes GMO Renewable Resources assets. Assets managed by GMO Renewable Resources, a joint venture, are not part of the GIPS compliant firm, GMO.

GMO Capital Markets Outlook



One true advantage: the long horizon



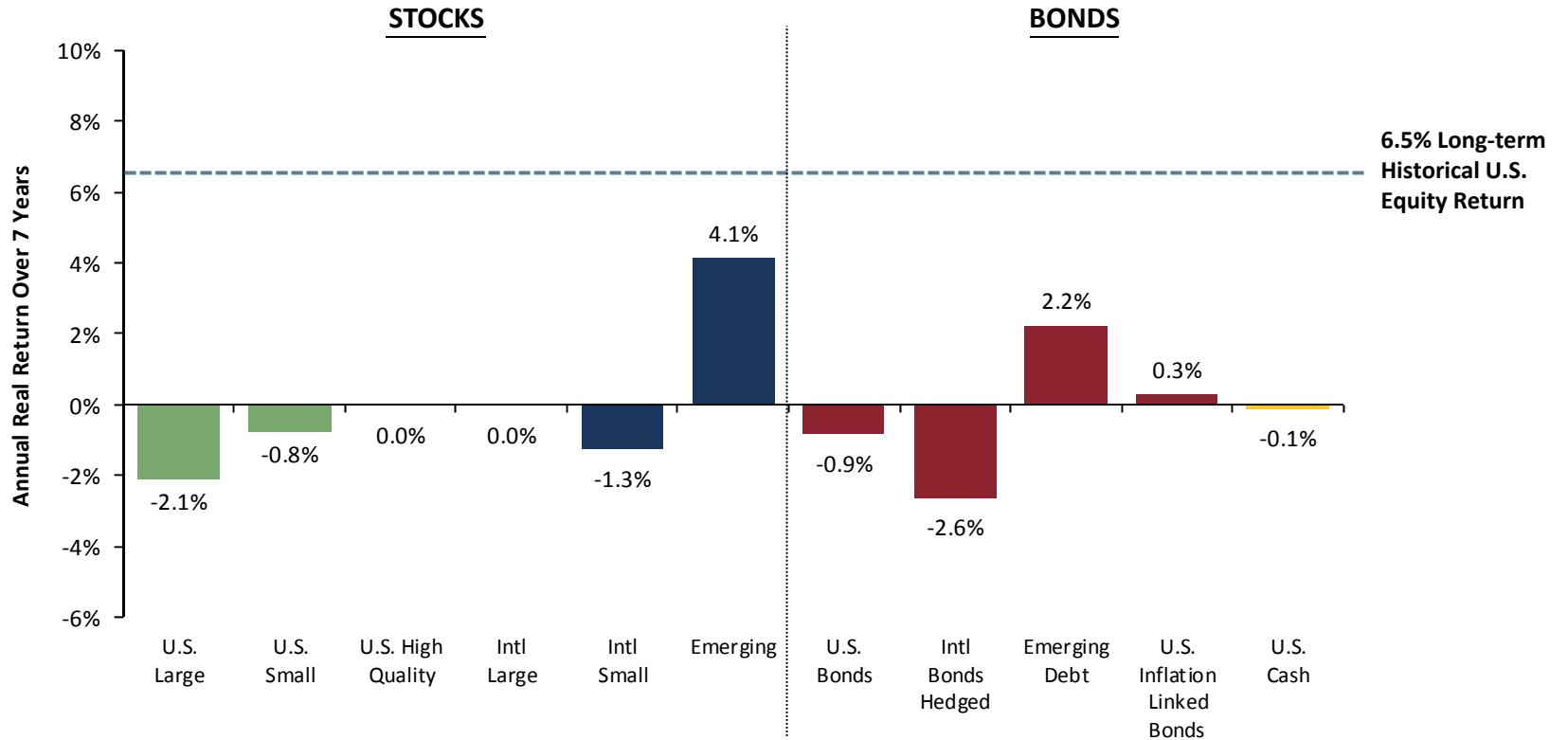
Overpaying is the greatest risk



Career risk governs the short run

7-Year Asset Class Real Return Forecasts*

As of November 30, 2015

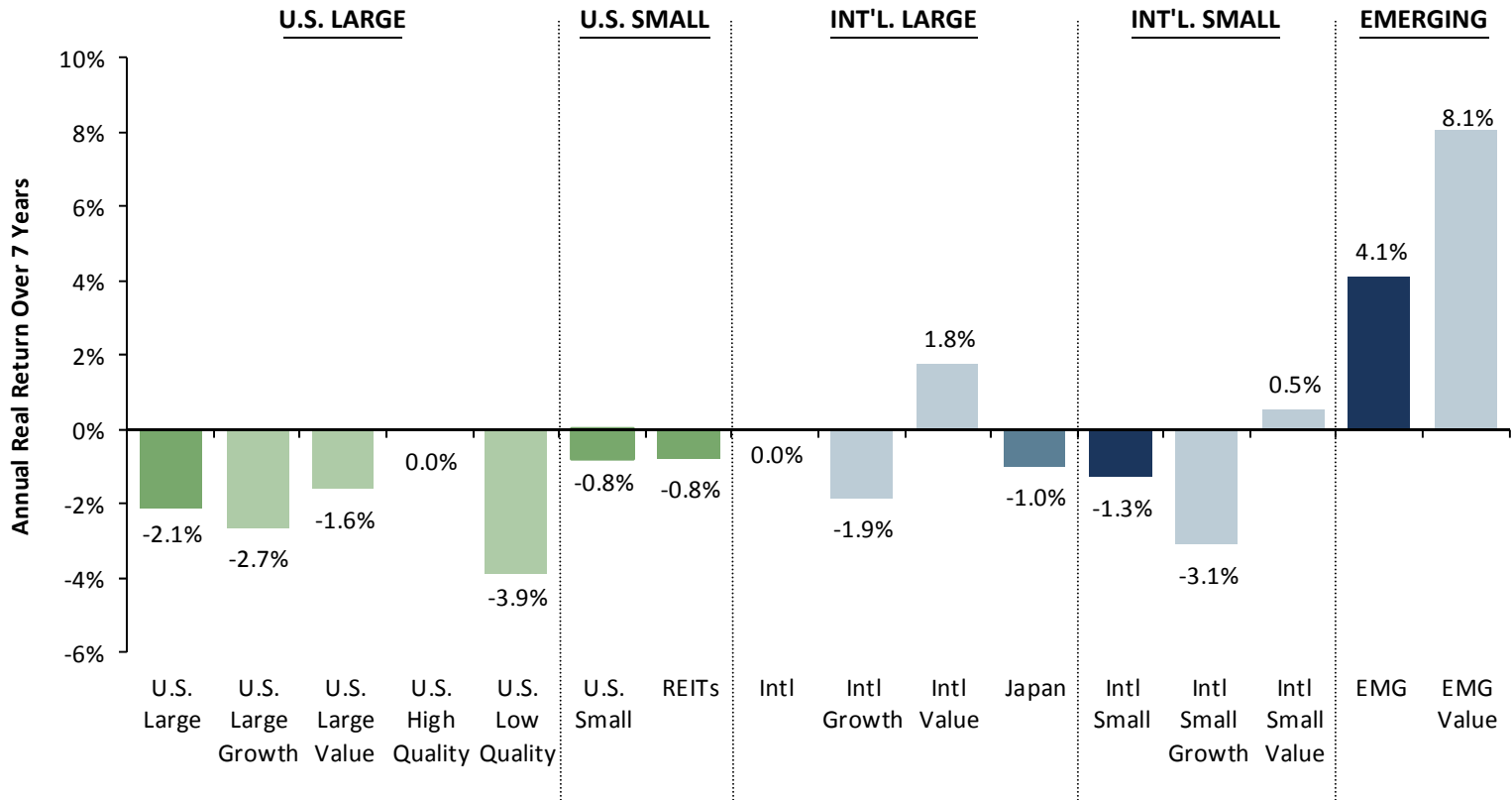


Source: GMO

*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

7-Year Global Real Return Equity Forecasts*

Value and growth within large and small stocks, and REITs, as of November 30, 2015

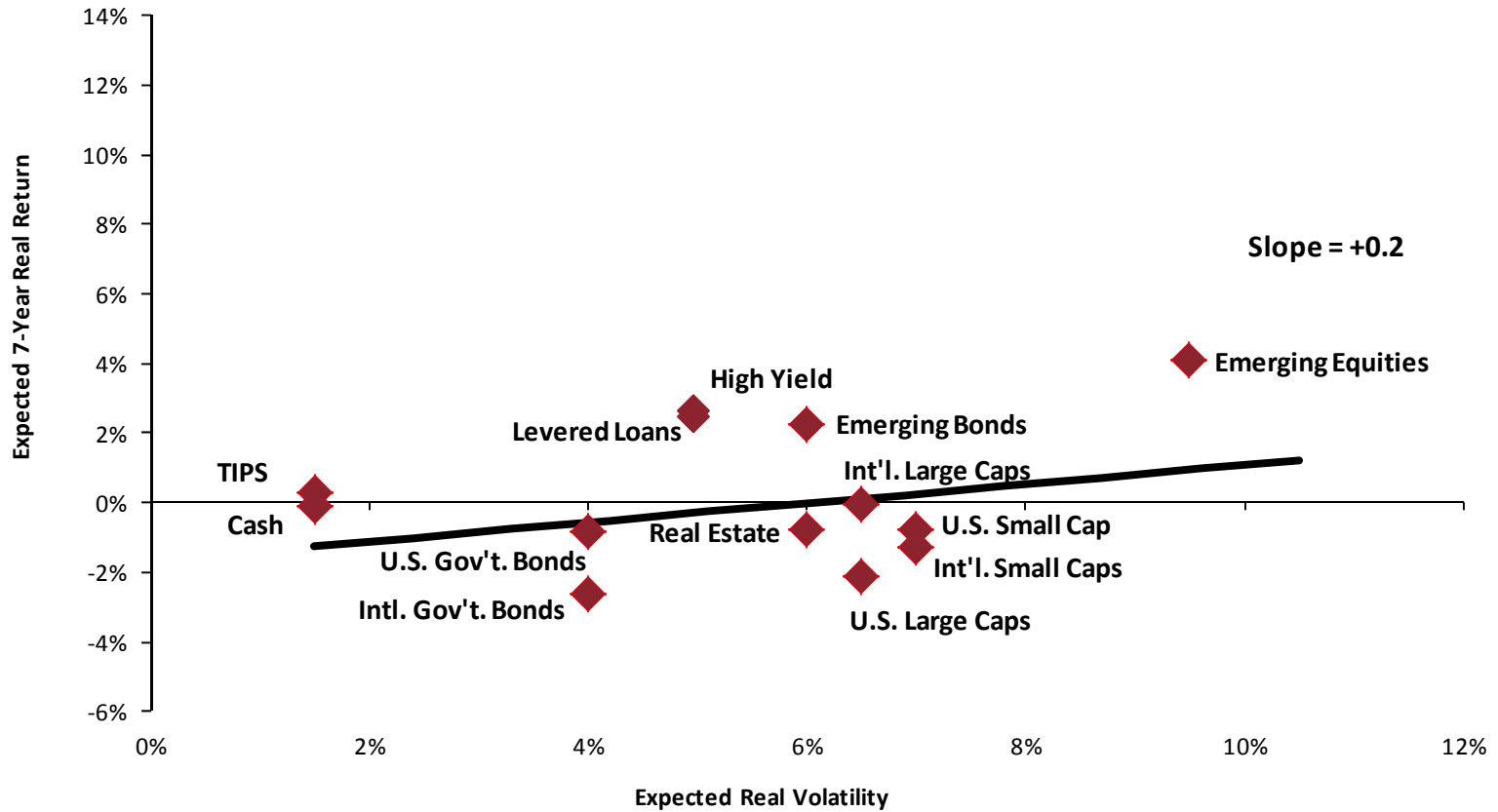


Source: GMO

*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

Asset Class Volatility/Return Trade-Off

November 30, 2015



Source: GMO

The expectations provided above are based upon the reasonable beliefs of the Asset Allocation team and are not a guarantee. Expectations speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update such expectations. Expectations are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in the expectations above.

How Bad Is Emerging, and How Good Is the U.S.?

What Are the Major Ways Forecasts Could Be Wrong?

GMO forecasts assume equity returns are driven by normalized earnings yield

Major factors that could derail that:

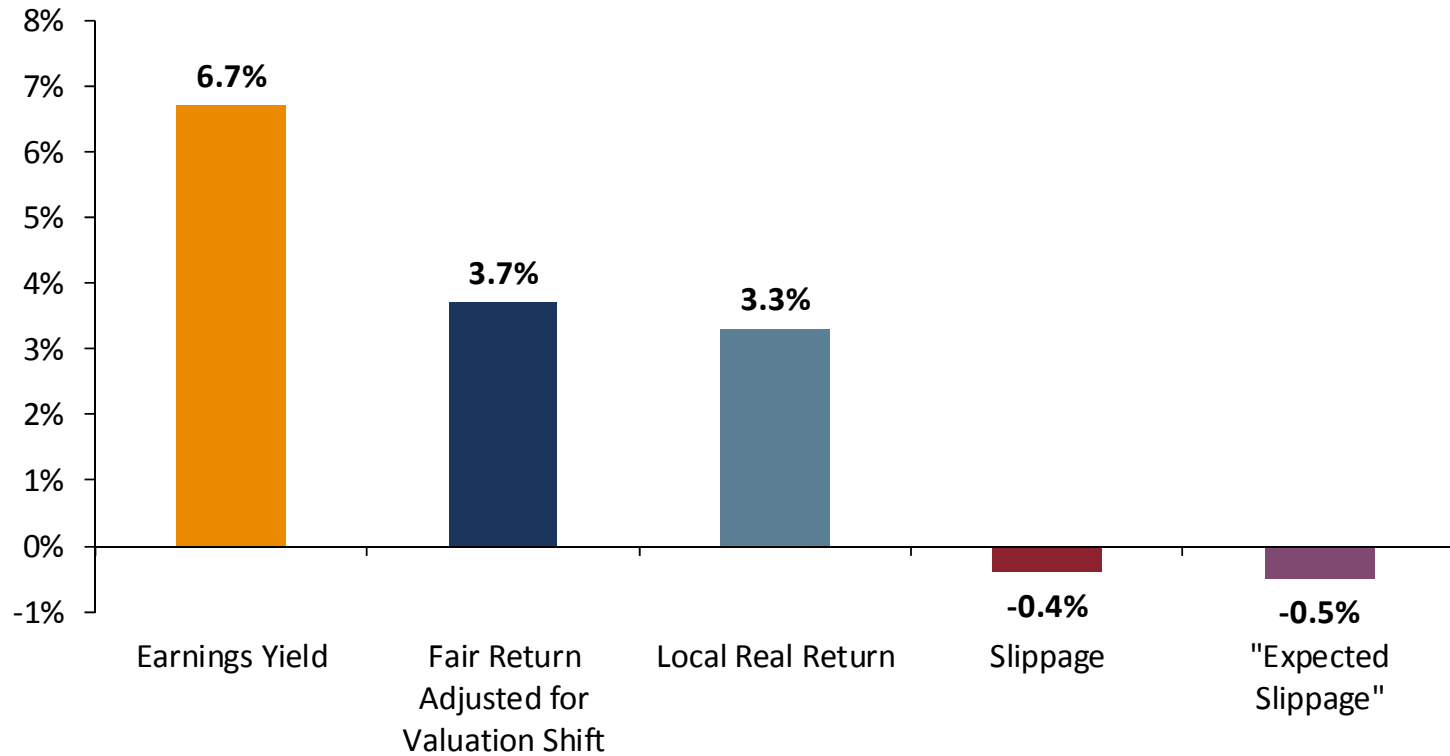
- Equity group is not “equity-like”
 - If growth is materially better or worse than what can be explained by retained earnings, fair P/E needs to be adjusted

- Our normalization of earnings is far off
 - It’s impossible to know true “normal” earnings, and our estimates could be off base

- Malign currency effect leading to either one or two in dollar terms even if not in local
 - What if the currency falls and earnings don’t rise?

Has Emerging Been Equity-Like?

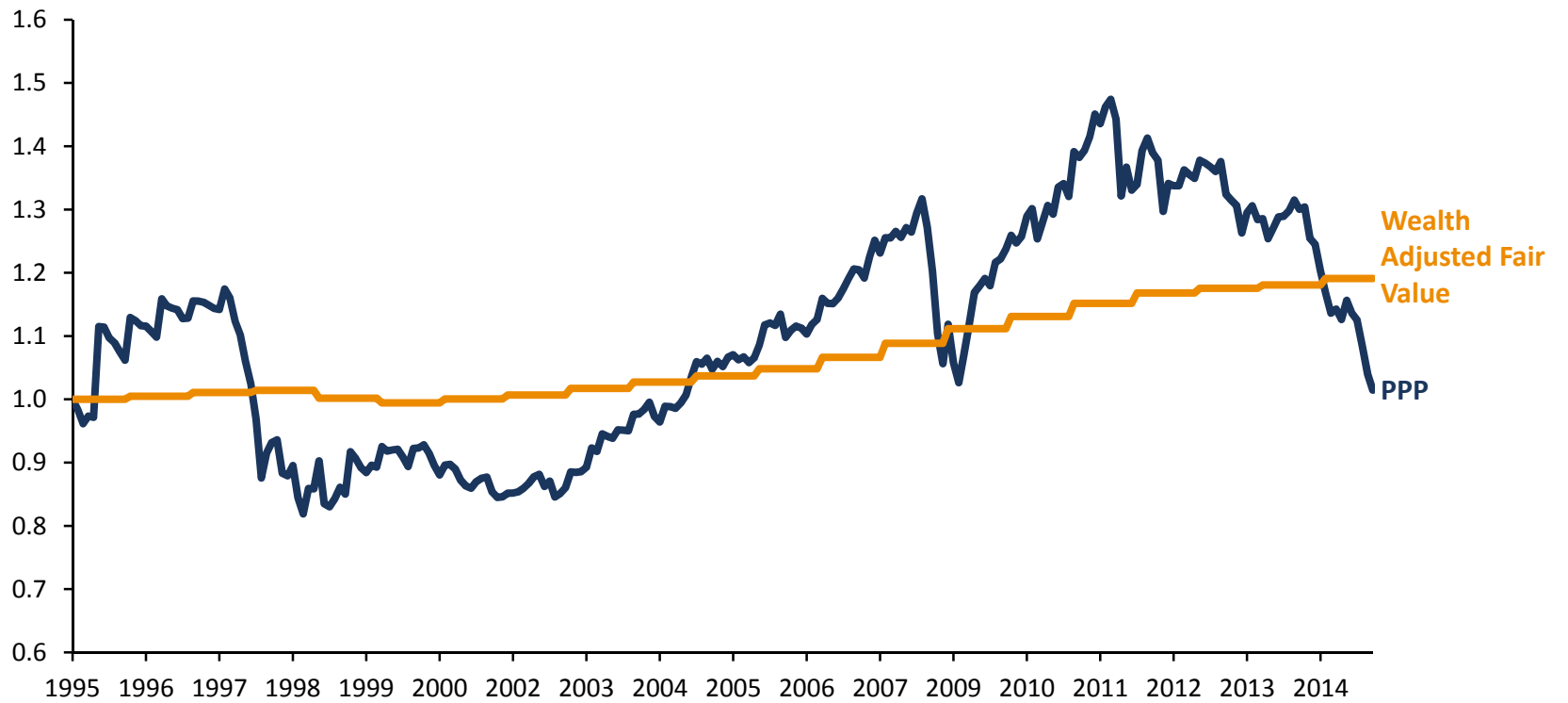
Have the returns been commensurate with earnings yield adjusted for valuation shift?



:
As of 9/30/15
Source: MSCI, Standard & Poor's, GMO
Returns calculated over a 20-year period ending on September 30, 2015

Are Emerging Currencies Cheap Today?

We think so, even if they haven't lost ground in aggregate over their history



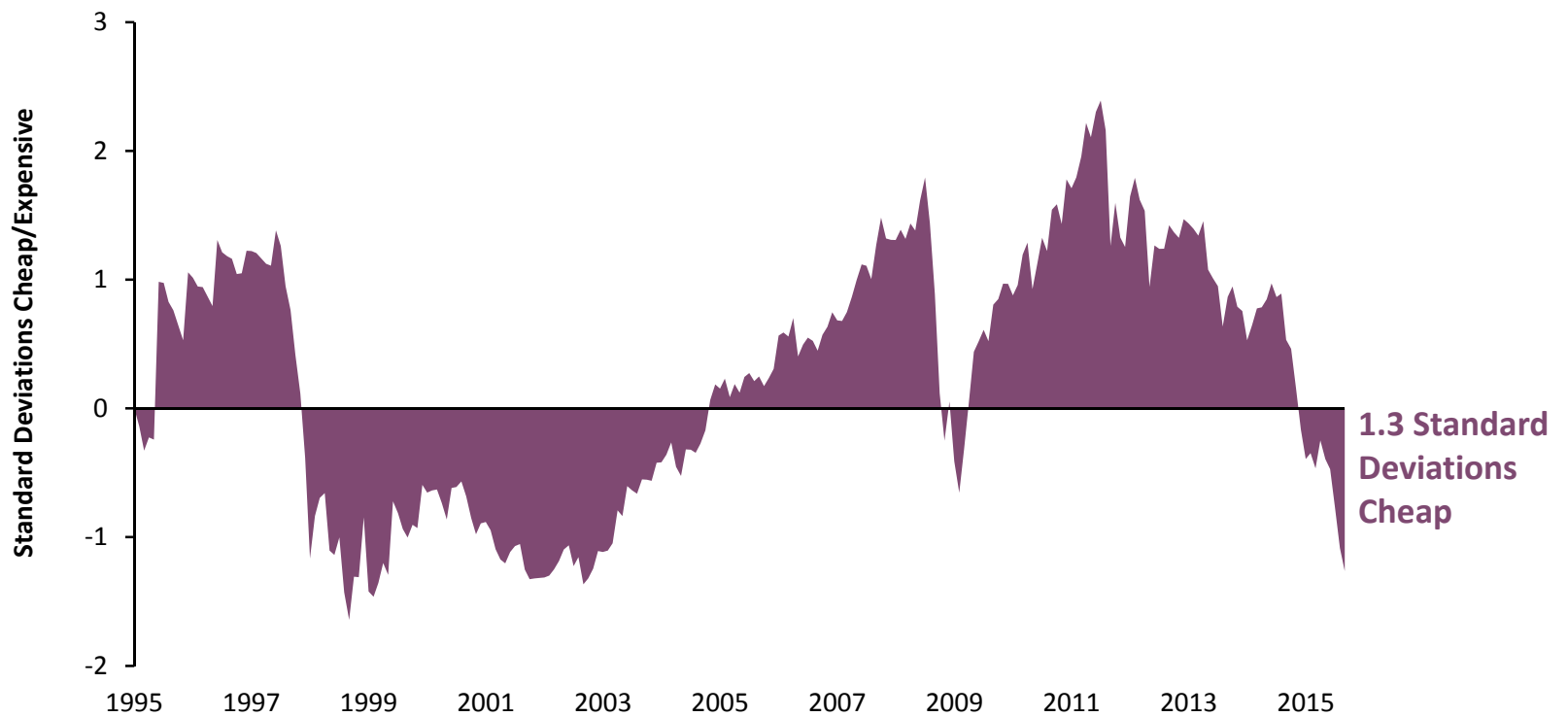
As of 9/30/2015

Source: J.P. Morgan, Datastream, GMO

Equally weighted index of Brazil, China, Indonesia, India, Korea, Malaysia, Mexico, Russia, Taiwan, and South Africa

Are Emerging Currencies Cheap Today?

Adjusted for their productivity gains, emerging currencies are currently 1.3 standard deviations cheap



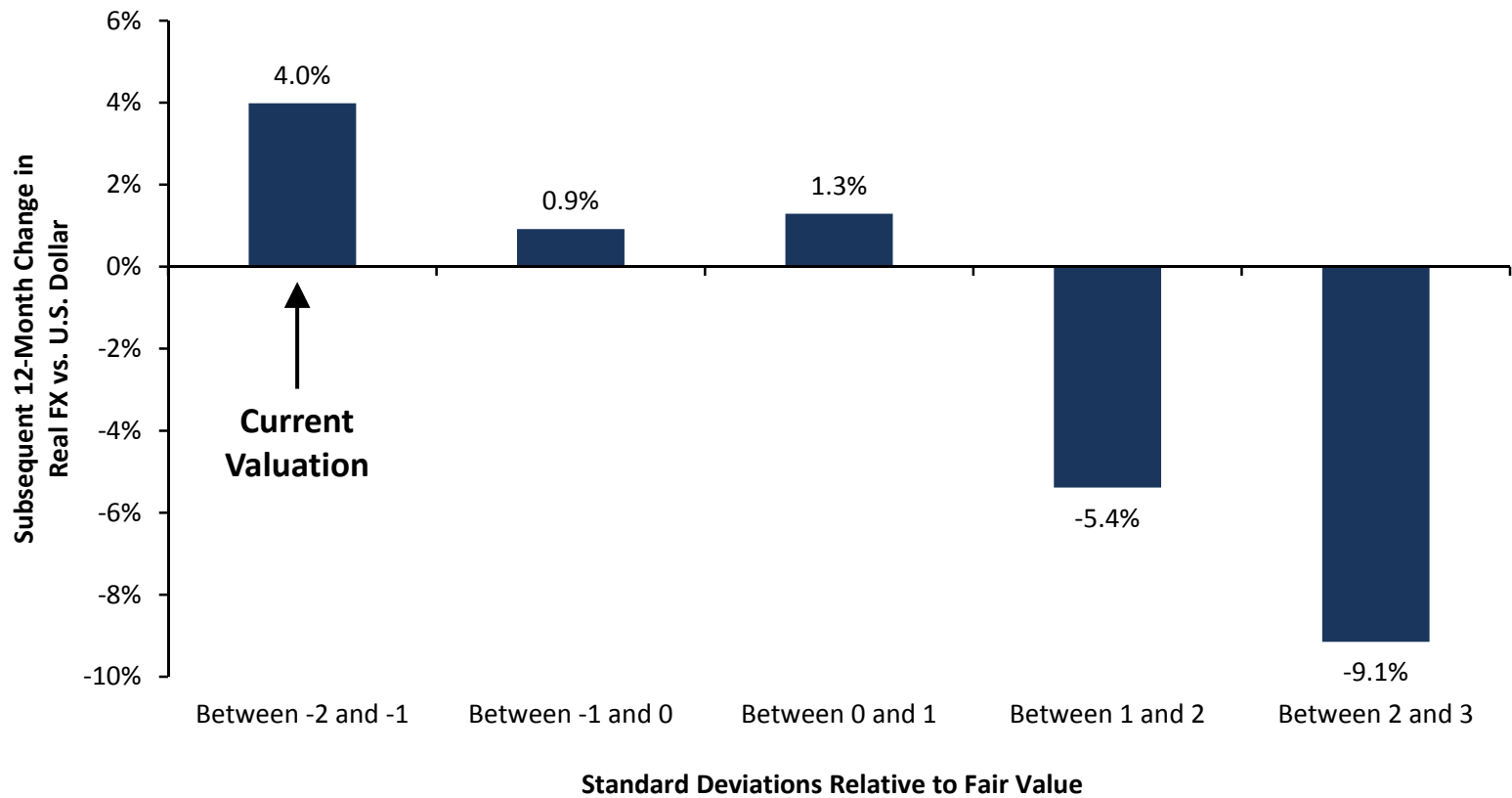
As of 9/30/15

Source: J.P. Morgan, Datastream, GMO

Equally weighted index of Brazil, China, Indonesia, India, Korea, Malaysia, Mexico, Russia, Taiwan, and South Africa

Does Cheapness Matter for Emerging Currencies?

Cheapness has translated into real FX gains



As of 9/30/15

Source: J.P. Morgan, Datastream, GMO

Performance of equally weighted index of Brazil, China, Indonesia, India, Korea, Malaysia, Mexico, Russia, Taiwan, and South Africa

Caveats to Emerging Currency Cheapness

They have outperformed when cheap, but...

There are significant challenges in comparing currencies of countries at very different levels of wealth and with very different economic structures

- We cannot be as confident in their cheapness as we can with developed countries

A falling currency creates two problems for an emerging country that would not exist for a developed one

- Foreign currency borrowing becomes harder to service
- Rising import prices can cause inflation expectations to rise, affecting both future inflation and monetary policy flexibility

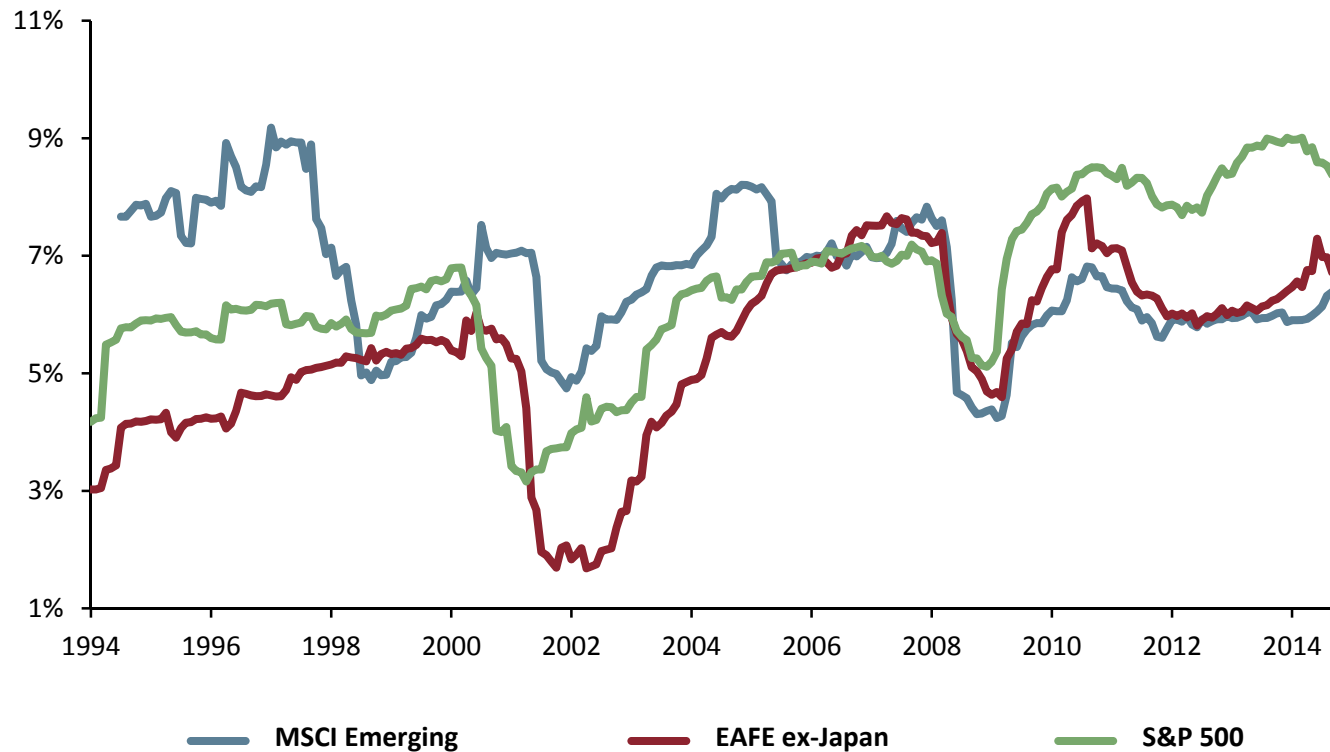
DuPont Equation

$$ROE = \text{Profit Margin} \times \text{Asset Turnover} \times \text{Leverage Ratio}$$

Profit Margins for Emerging

Emerging profit margins seem to be converging to developed market levels

Return on Sales

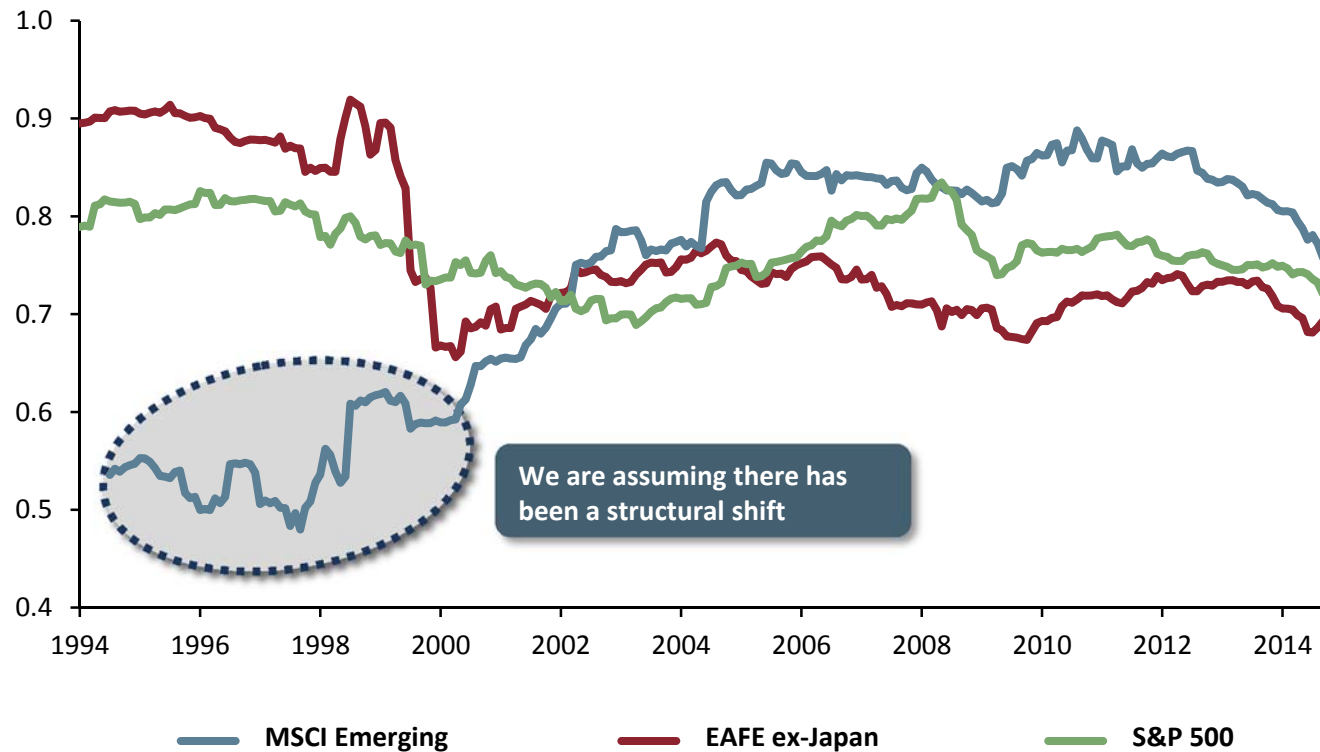


As of 9/30/15
Source: MSCI, Worldscope, Compustat, GMO
All equity universes exclude financials and resource companies

Emerging Asset Turnover

Something funny seems to have happened in the early 2000s

Asset Turnover

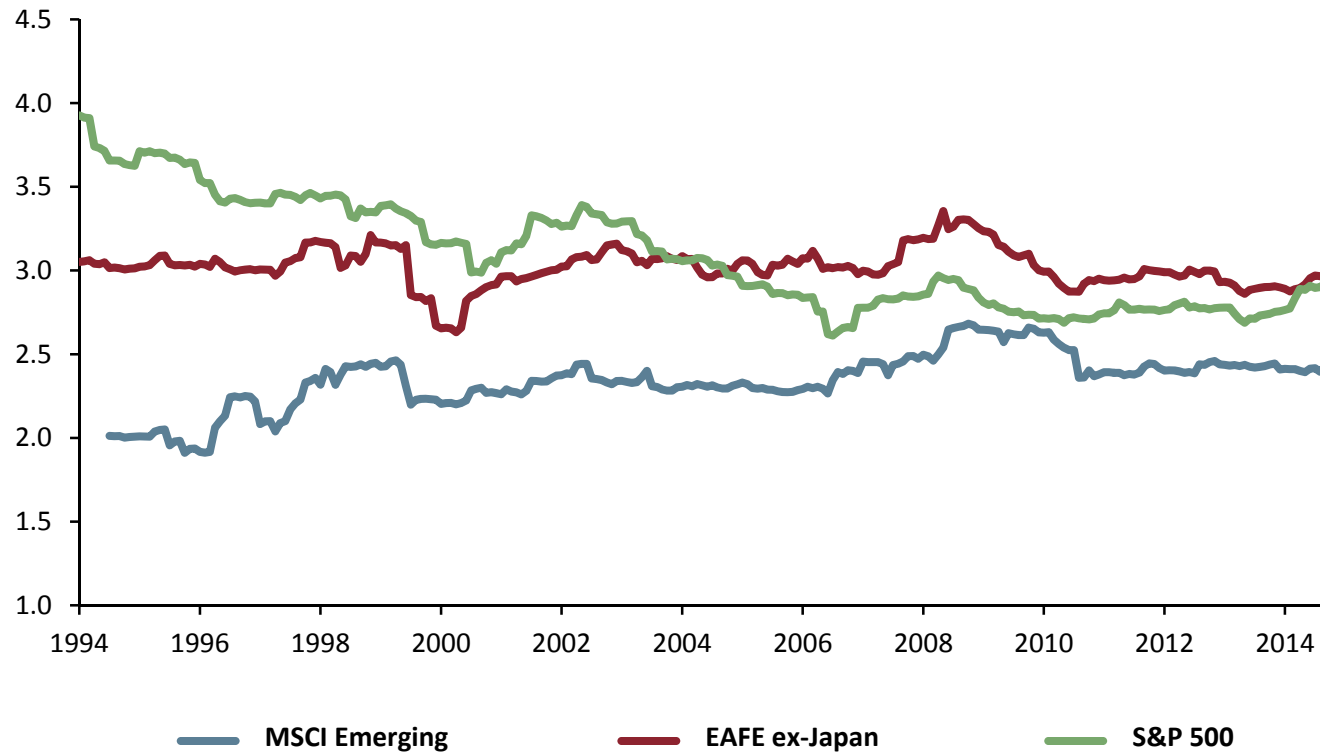


As of 9/30/15
Source: MSCI, Worldscope, Compustat, GMO
All equity universes exclude financials and resource companies

Emerging Leverage Ratio

Leverage has been broadly stable

Leverage Ratio



As of 9/30/15
 Source: J.P. Morgan, Datastream, GMO
 Leverage ratio is total assets/equity
 All equity universes exclude financials and resource companies

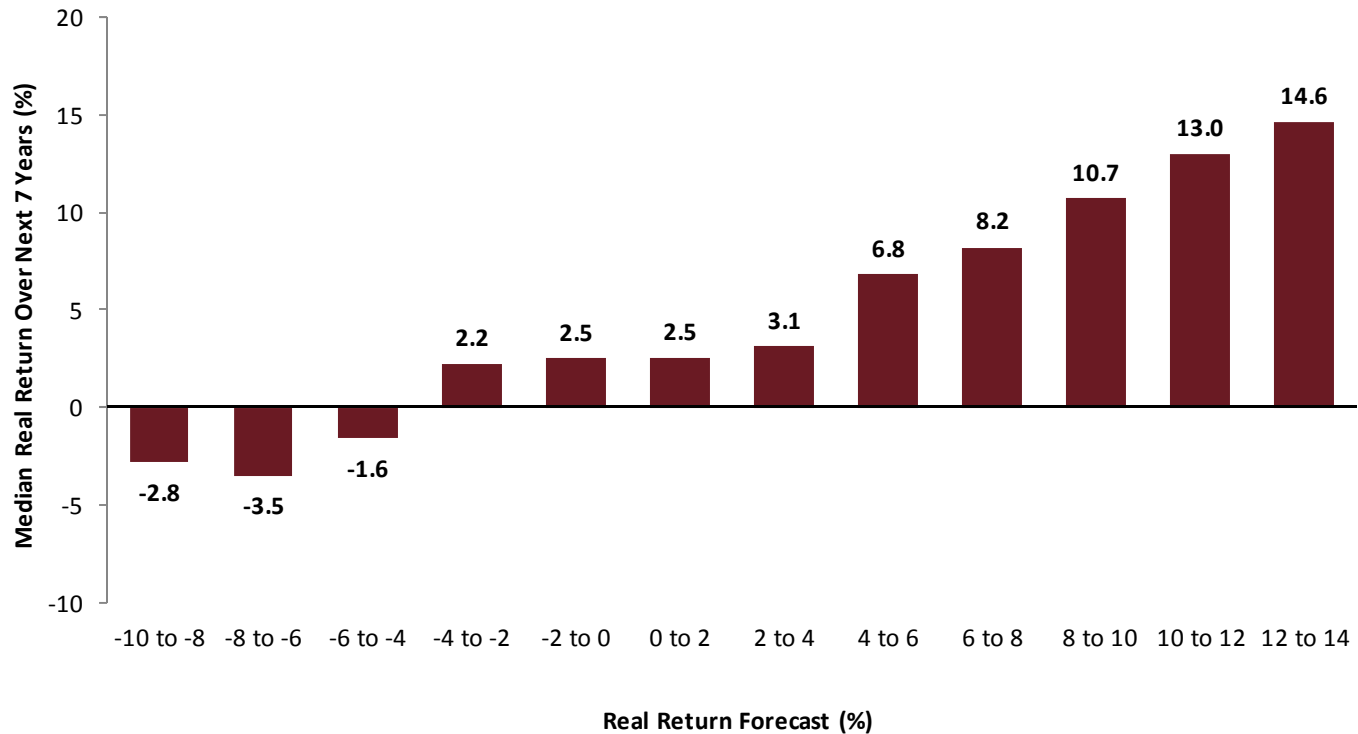
- Emerging market equities have acted “equity-like” in the 20 years or so in which we have data for them.
- Emerging currencies are also plausibly a risk asset, but there does seem to be a material equity risk premium beyond the currency effect.
- Emerging currencies have gotten hit very hard lately. They look cheap, but that isn’t a guarantee of a good outcome.
- We exclude financials and resource companies from our emerging forecast. If we included them using similar methodology, emerging would look considerably cheaper.
- There are plenty of reasons to be scared by emerging, but no obvious ones to believe our forecast methodology is biased.

- In the long run, the U.S. equity market has been a strong performer, but that can be explained by the U.S. having been neither invaded nor having suffered massive inflation
- Evidence in the long and medium term does not suggest that the U.S. has acted “better than equities”
- Recent profitability has been exceptionally good on some measures and merely very good on others
- We may be being too tough in our normalization of earnings, but it seems just as plausible that we are being too friendly

Appendix

Mean Reversion Drives Everything

The realized performance of our forecasts since June 1994



As of 11/30/15

Source: GMO

Analysis uses 7-year GMO asset class forecasts for 21 asset classes from June-1994 (start date is September-1996 for REITS, June-1998 for TIPS, and July-2004 for U.S. Quality and U.S. Junk). GMO began making 7-year asset class forecasts in 2002 and previously made 10-year asset class forecasts. 10-year asset class forecasts are converted into 7-year forecasts by assuming 3 years of equilibrium returns at the end of the 7-year period. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. Returns and forecasts are annualized.



DISCUSSION SHEET

ITEM #C5

Topic: Investment reports

Attendees: Maples Fund Services – Mark Weir, Senior Vice President

Discussion: Review of investment reports.

Staff Recommendation: Receive and file.



DISCUSSION SHEET

ITEM #C6

Topic: Ad hoc committee reports

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.

Discussion: A brief update on the Governance ad hoc committee will be provided.

Staff

Recommendation: Receive and file.



DISCUSSION SHEET

ITEM #C7

Topic: Employee recognition – Fourth Quarter 2015

- a. Employee of the Quarter Award
- b. The William G. Baldree Employee of the Year Award

Discussion:

- a. The Chairman will present a performance award for Employee of the Quarter, Fourth Quarter 2015.
- b. The Chairman will present the Jerry Baldree Employee of the Year Award for 2015. The Employee of the Year is chosen from among the four Employee of the Quarter Award recipients for the year.

Staff Recommendation: Receive and file.



DISCUSSION SHEET

ITEM #C8

Topic: Service Provider Review

Discussion:

- a. Legislative Consultants
 - b. Buck Consultants, Actuarial Services
-
- a. During the December 2015 meeting, the Board asked staff to provide information about the use of legislative consultants by other pension systems in Texas. Based on our review, lobbyists are registered as working on behalf of Texas County & District Retirement System, Texas Municipal Retirement System, Austin Fire Fighters Relief & Retirement Fund, Austin Police Retirement System, El Paso Firemen & Policemen's Pension Fund, Fort Worth Employees' Retirement Fund, Houston Firefighters' Relief & Retirement Fund, Houston Municipal Employees Pension System, Houston Police Officer's Pension System and DFPF. While the majority of the pension systems do not have legislative consultants specifically contracted with them, they may receive legislative services from their general city legislative consultants if and when necessary. Staff will provide additional information at the meeting.
 - b. If desired, the Board may discuss and provide direction related to Buck Consultants.

Staff

Recommendation:

Provide further direction, if any, to staff with respect to review of DFPF's legislative consultants and Buck Consultants.



DISCUSSION SHEET

ITEM #C9

Topic: Outside legal counsel

Discussion: Staff seeks direction from the Board on outside legal counsel. Gary Lawson and other members of the law firm Strasburger & Price LLP have provided various types of legal services to DPF for more than two decades. Gary Lawson submitted a letter of resignation to DPF on December 14, 2015. Other members of Strasburger & Price have provided legal services on various matters such as plan design changes, tax, open government issues, and a small number of ongoing investment related issues.

Currently, DPF is engaged with other outside legal counsel to provide support on litigation (Haynes & Boone LLP and Calhoun & Associates), condominium related legal matters (Winstead PC), potential claim investigation (Diamond McCarthy LLP), investments (Jackson Walker LLP) and securities monitoring (numerous firms).

DPF staff and the Board have an ongoing need for legal advice related to general pension, tax, public entity issues, governance, employment and other matters. Staff is seeking direction on how the Board would like to address the need for outside legal counsel, including whether to continue to utilize the attorneys at Strasburger & Price on a go-forward basis in areas they are currently handling.

Staff

Recommendation: **Direct** staff to bring to the Board for its review qualified legal counsel for ongoing advice on pension and tax issues and open government issues. **Permit** staff to continue to utilize Strasburger & Price attorneys for the matters they are currently handling, pending any potential change by the Board.



DISCUSSION SHEET

ITEM #C10

Topic:

Board policies

- a. DROP Policy
- b. Uniformed Services Leave Payback Policy & Procedure

Discussion:

- a. Two changes to the DROP Policy are being proposed. The first is to provide that a person who marries a Member in DROP does not automatically become the beneficiary of that Member's DROP account upon such marriage. Rather, the Member's named beneficiary would not automatically change after a marriage occurring while a Member is in DROP. Rather, a Member would need to change their beneficiary designation form for a marriage occurring while they are in DROP if they desired their new spouse to be their beneficiary. This change would not affect Members in DROP who are currently married.

The second change is to limit the number of rollovers a retiree can make to two per calendar year. Rollovers are administratively complex and it is staff's position that two is a sufficient number to allow retirees adequate flexibility in dealing with their DROP accounts.

- b. Staff is proposing one change to the Uniformed Services Leave Payback Policy & Procedure. Currently, the policy provides for payback of contributions during military leave at the rate prescribed by the Uniformed Services Employment and Reemployment Rights Act (USERRA). USERRA requires that a Member be given three times the amount of time of their absence to repay contributions without interest. There are



DISCUSSION SHEET

ITEM #C10

(continued)

numerous situations where Members are gone for very short time periods, some as little as two days, and often the same Member may have many of these short breaks in service, sometimes with the latter breaks overlapping the time allotted to repay the contribution on the first break. In addition, staff has reviewed the history of these breaks and believes given the history of repayments, very little interest income is being earned by DPFP for repayments occurring past the time allotted by USERRA.

In order to simplify administration of this policy, staff is proposing that Members be given until December 31 of the following year to repay any military leave contributions without interest. Staff believes that the cost of administering the current policy is greater than the benefit gained by the small amount of interest being received.

Staff

Recommendation:

Approve the DROP Policy and the Uniformed Services Leave Payback Policy & Procedure as amended.



D A L L A S
POLICE & FIRE
PENSION SYSTEM



**DEFERRED RETIREMENT OPTION PLAN
POLICY (DROP)**

As Amended Through January 14, 2016

DALLAS POLICE AND FIRE PENSION SYSTEM
and
DALLAS POLICE & FIRE SUPPLEMENTAL PENSION PLAN

DEFERRED RETIREMENT OPTION PLAN
POLICY

Adopted December 10, 1992
Amended through January 14, 2016

A. PURPOSE

1. This policy provides rules governing the Deferred Retirement Option Plan (“DROP”) of the Combined Pension Plan of the Dallas Police and Fire Pension System (“DPFP”) and of the Supplemental Pension Plan where applicable. It is intended to provide flexibility to DROP participants and their beneficiaries in commencing, continuing, stopping, revoking or recommencing the deferral of some or all of their retirement pensions into their DROP account, and in making total or partial withdrawals from their DROP accounts to the extent consistent with the qualification of the Plan under Section 401 of the Internal Revenue Code (“Code”) and efficient administration.
2. Any reference in this policy to a provision of the Combined Pension Plan shall also be considered a reference to the comparable provision of the Supplemental Pension Plan if the applicant is a member of the Supplemental Pension Plan.
3. The Executive Director will develop written procedures to implement this policy.
4. This Policy may be amended at any time by the Board of Trustees (“Board”), consistent with the terms of the Plan.

B. DEFINITIONS

1. **Active DROP** - The program whereby a Member while still in Active Service may elect to have an amount equal to the pension the Member could otherwise be eligible to receive credited to a DROP notational account on the Member’s behalf. A Member, as of his or her intended date of participation in Active DROP, must be eligible to retire and receive an immediate pension. An election to enter Active DROP is irrevocable except for the one-time revocation window for certain Members that is described in paragraph C.10.



B. DEFINITIONS (continued)

2. **Retiree DROP** - The program whereby a Member upon leaving Active Service and making application for a service retirement or a Pensioner at any time before the required beginning date for required minimum distributions under Section 401(a)(9) of the Code, whether or not the Member or Pensioner participated in DROP while in Active Service, may defer receipt of the pension benefit payments into DROP. In order to be eligible to enter DROP, a person who is not an active Member as of his or her intended date to join Retiree DROP must either be currently retired under one of the provisions of Section 6.01 or 6.02 of the Combined Pension Plan or be eligible to, and actually irrevocably elect to, retire under one of those provisions no later than the intended date of DROP participation.

C. ACTIVE DROP

1. The application of any Member applying for Active DROP participation, including the application of any Member who has revoked a prior period of DROP participation pursuant to paragraph C.10, will be placed on the agenda for a Board meeting for consideration and approval.
2. If the Board ratifies the DROP application, the application will become effective as of the date requested in the DROP application, but not earlier than the first day of the next month following the date on which the Member filed the application.
3. At the time of entry into Active DROP, the Member must irrevocably select the plan benefit he or she will receive at the time his or her pension benefit will later commence with the Member's pension benefit calculated as of the effective date of entering DROP. While on Active Service, these amounts will be credited to the DROP participant's account. Notwithstanding the foregoing, a Member who is participating in Active DROP may elect on leaving Active Service to receive an actuarially reduced benefit under the 100% joint and survivor benefit option.
4. In the event a Group B Member, who was previously a Member in DFPF's Old Pension Plan or Plan A, elects to receive a Group A pension at the time of DROP entry, the amount equal to the difference between the Group B contributions paid by the Member and Group A contributions that would have been payable for that same period of time will be credited to his or her DROP account. There will be no distribution of such amounts to the Member upon his or her election to participate in Active DROP.

C. ACTIVE DROP (continued)

5. Once a Member has elected to participate in Active DROP, that election and the person's status as a result of that election are irrevocable except as expressly provided at Section 6.14(j) of the Combined Pension Plan and as further described in paragraph C.10.
6. The Member's eligibility for the benefit supplement described in Section 6.13 of the Combined Pension Plan will be determined based on the Member's years of Pension Service as of the effective date of the Member's participation in Active DROP.
7. A Group B Member who is promoted to a rank that is higher than the highest Civil Service Rank for the City of Dallas after the effective date of his or her participation in DROP will not participate in the Supplemental Pension Plan.
8. As of the effective date of his or her participation in DROP, the Member will no longer be entitled to obtain additional Pension Service by repaying previously withdrawn contributions or paying for any Pension Service that could have been purchased prior to DROP entry under Section 4.04, 5.01, 5.07 or 5.09 of the Combined Pension Plan. However, a Member who is entitled, under Section 5.08 of the Combined Pension Plan, to purchase credit for Pension Service for any period he or she was on a military leave of absence may still purchase that service credit after entering Active DROP so long as the required contributions are made no later than the time provided by the Uniformed Services Employment and Reemployment Rights Act ("USERRA").
9. Effective for the first pay period that ends on or after December 31, 2014, all Active DROP participants shall have Member contributions at a rate of 4% withheld from their Computation Pay or Base Pay, as applicable.
10. DROP Revocation
 - (a) A Member who was an Active DROP participant on or before April 1, 2015, has a one-time opportunity to revoke his or her DROP election. The revocation must be made before the earlier of June 30, 2015, or the date the Member terminates Active Service, and is made by filing, with the Executive Director, a completed Deferred Retirement Option Plan (DROP) Election Revocation form designed by DPFP.
 - (b) Upon such termination the Member's DROP account is eliminated in its entirety. Also, the Member will not have Pension Service for the period of DROP participation except to the extent that the Member pays in accordance with paragraph C.11, the contributions that would have been

paid for the relevant period had the Member not been a participant in DROP.

C. ACTIVE DROP (continued)

- (c) No Member shall be entitled to revoke his or her DROP participation if any money has been transferred out of such Member's DROP account. After a member revokes his or her DROP election, such member shall have Member contributions required of non-DROP Members withheld from their pay starting with the next pay period after the revocation.
11. Pension Service will be credited for all or part of the period of revoked DROP participation if the Member who revoked the DROP participation makes the Member contributions, without interest, that would have been made if the Member had not been a DROP participant. Contributions will be accepted by DFPF at any time before the earlier of (i) the Member leaves Active Service or (ii) enters DROP. The contributions will be applied to purchase Pension Service for the most recent period of DROP participation for which Member contributions have not been received. Payment may be by personal check if the check is for the lesser of \$500 or the total amount of contributions required to provide all the Pension Service the Member is entitled to obtain for the period of DROP participation. Direct rollovers from other tax qualified plans, government Section 457 deferred compensation plans or Section 403(b) annuity arrangements will be accepted. To the extent permitted by the City, Member contributions may be withheld from the Member's pay and forwarded to DFPF.
 12. The Plan Executive Director is authorized to issue a procedure regarding the manner in which contributions will be accepted and Pension Service credited.
 13. Distributions may not be made from a Member's Active DROP account while the Member is on Active Service.
 14. Notwithstanding paragraph C.13, a Member may direct DFPF to transfer all or a portion of the Member's Active DROP account to the City of Dallas 401(k) Retirement Savings Plan (the "401(k) Plan"). Such a transfer may be made only if the Member is an active participant in the 401(k) Plan and no transfer may be made if the Member had an earlier transfer made at any time within the prior twelve (12) months.

D. RETIREE DROP

1. On leaving Active Service and applying for a service retirement, a Member may elect to defer all or part of his or her monthly pension benefit into Retiree DROP.

D. RETIREE DROP (continued)

2. A Pensioner, whether or not the Pensioner was a DROP participant while on Active Service, may elect to defer all or part of his or her monthly pension benefit into Retiree DROP through December of the later of the year the Pensioner attains age 70 ½ or left Active Service. A Pensioner receiving a disability pension under Section 6.04 or 6.05 of the Combined Pension Plan is not eligible to defer his or her pension into Retiree DROP.
3. During any period a Pensioner elects to defer all of the Pensioner's monthly benefit amount into Retiree DROP, the Pensioner may elect to have amounts deducted from the deferral pursuant to Section 9.03(d) of the Combined Pension Plan.
4. A Pensioner who participates in Retiree DROP will commence, or recommence, to receive a monthly pension upon revoking the election to defer all or part of his or her pension to DROP or as of January 1 of the later of the year the Pensioner attains age 70 ½ or left Active Service .
5. The election by a Member or a Pensioner to defer all or part of his or her pension benefits into Retiree DROP does not require Board approval.
6. By federal law, payments from the Excess Benefit Plan created under Section 9.02 of the Combined Pension Plan may not be credited to a Member's DROP account.

E. DISTRIBUTIONS AND TRANSFERS FROM DROP

1. The Board of Trustees may at any time extend the time necessary to process DROP distributions.
2. No DROP distribution will be paid or otherwise distributed to a DROP participant before that DROP participant has left Active Service.
3. To the extent permissible under federal tax laws, on leaving Active Service and at any time thereafter, a DROP participant may elect to receive payment from his or her DROP account in any of the following forms:
 - (a) a lump-sum distribution of some or all of the amount of the DROP account credited to the DROP participant, which generally may be timely rolled over;

- (b) substantially equal payments made for a specific period of time; or
- (c) regular installment amounts added to the monthly benefit payment.

E. DISTRIBUTIONS AND TRANSFERS FROM DROP (continued)

4. Commencing in the latest of the year beginning January 1, 2015, the year a DROP participant leaves Active Service or the year the DROP participant attains age 70 ½, and notwithstanding paragraph 3 above, the DROP participant shall receive annual distributions from his or her DROP account that are no less than the greater of:
 - (a) the required minimum distribution (“RMD”) under Section 401 (a) (9) of the Code; or,
 - (b) an amount that will result in the total distribution of the DROP account before the tenth anniversary of the date such distribution commenced. Specifically in the year such distribution commenced, the DROP participant shall receive no less than one-tenth of the participant’s DROP account balance as of the beginning of that calendar year. The participant shall take one-ninth of the balance as of the beginning of the second year, one-eighth of the balance as of the beginning of the third year, one-seventh of the balance as of the beginning of the fourth year, etc., until the tenth year, when the Participant shall take a distribution of the remaining amount in the Participant’s DROP account before the tenth anniversary date of the first distribution in the initial year.
5. Each January, DPFPP will advise DROP participants who will be required to receive a required annual distribution that year of the required distribution amount based on paragraph 4(b) above. In December of each year, DPFPP will reconcile Participant DROP accounts to identify those DROP participants who have not met the required annual distribution amount and will then issue to each DROP participant, as necessary, payment of the remaining amount necessary to meet the requirement. Such payments will be made as close to the end of the year as administratively feasible.
6. A DROP account shall continue to accrue interest until the account is fully paid out.
7. Whether receiving monthly benefit payments or deferring into a Retiree DROP account, a DROP participant may elect to take lump sum distributions in accordance with the provisions below.

- (a) Lump sum distributions may be made as soon as administratively feasible after receipt of a DROP participant's written, notarized request on an original form provided by DFPF's administrative office.

E. DISTRIBUTIONS AND TRANSFERS FROM DROP (continued)

- (b) Lump sum distributions are subject to the following limits:
 - (i) The minimum lump sum distribution is \$1,000 per distribution.
 - (ii) The maximum distribution is limited to the Member's account balance.
- 8. A DROP participant may file a completed Distribution Form available at or by request from the administrative office or online at the DFPF website (www.dppf.org) with DFPF's administrative office, and may select, change or modify the election on the Distribution Form at any time before distributions would otherwise commence by executing and delivering a new signed Distribution Form to DFPF's administrative office. Any filing of a Distribution Form whether an original filing, a revocation of an earlier filing, or an amendment to an earlier filing, will take effect as soon as administratively feasible after it has been received and accepted.
- 9. A DROP participant will be allowed to revoke or amend his or her Distribution Form at any time after distributions have commenced, and before the DROP participant attains the age of seventy and one-half (70 1/2), by filing a new Distribution Form with DFPF's administrative office. After the age of seventy and one-half (70 1/2), a DROP participant may only accelerate and not delay the time of payment of DROP distributions.
- 10. DROP distributions paid as monthly installments will be paid on the regularly scheduled month end payroll added to the DROP participant's regular monthly benefit payment effective as soon as is reasonably possible after receipt of a validly completed Distribution Form.
- 11. DFPF's Board and staff cannot provide legal or financial advice regarding the desirability of any particular distribution or transfer.
- 12. A DROP participant's account is subject to the community property laws of the state of Texas, and is therefore subject to division by a court pursuant to a Qualified Domestic Relations Order. DFPF will accept Qualified Domestic Relations Orders that require a division of a DROP participant's account.
- 13. A DROP participant will be eligible to rollover distributions tax-free from their account to another retirement account twice in any calendar year.

F. DEATH BENEFITS AND DESIGNATION OF BENEFICIARIES

1. A DROP participant will have the opportunity to designate a primary beneficiary (or primary beneficiaries) and a contingent beneficiary (or contingent beneficiaries) of his or her DROP account either when filing the application for DROP participation, or thereafter, on a Beneficiary Form provided by DPFPP for this purpose.
2. Beneficiaries of a Member's DROP account are not limited to the qualified survivors as defined in the Combined Pension Plan. Upon request, DPFPP will divide a deceased DROP participant's account among the designated beneficiaries at the time of the DROP participant's death.
3. DPFPP will pay a deceased participant's DROP account to any properly designated beneficiary. A beneficiary that is not an individual may not be a designated beneficiary for purposes of satisfying the minimum distribution requirements of the regulations under Section 401(a)(9) of the Code. Nevertheless, the beneficiaries of a trust may be treated as the beneficiaries of the DROP account and DPFPP may make DROP account payments to the trust if all the trust's beneficiaries can be identified and the DROP participant and trustee provide DPFPP with the information required by the regulations under Section 401(a)(9) of the Code. DPFPP cannot provide advice as to whether the beneficiaries will be helped or harmed by naming a trust to receive DROP distributions. Therefore, it is very important that competent estate planning counsel be consulted before action is taken.
4. Upon the death of a DROP participant, the DROP participant's account becomes the property of the surviving spouse unless either (i) the surviving spouse has specifically waived his or her right to such funds or (ii) the surviving spouse's marriage to the DROP participant occurred after January 14, 2016 and the participant had already joined DROP and named a beneficiary other than the surviving spouse, or other beneficiary or beneficiaries, and will be transferred to the name of the surviving spouse or beneficiary or beneficiaries. Benefits will be paid to the designated beneficiaries in accordance with the last Distribution Form on file in the DPFPP administrative office upon that office's receipt of sufficient evidence of the DROP participant's death.
5. Funds held in a beneficiary's DROP account will be credited with interest earnings, in accordance with the provisions of the Combined Pension Plan as in effect from time to time, until completely distributed.

F. DEATH BENEFITS AND DESIGNATION OF BENEFICIARIES (continued)

- (a) Commencing in the latest of the year beginning January 1, 2015, the year after the year of death of the DROP participant or the year the beneficiary attains age 70 ½, and notwithstanding paragraph E.3 above, a beneficiary who is the surviving spouse of a DROP participant shall receive annual distributions from his or her DROP account that are no less than the greater of:
- i. the RMD under Section 401 (a) (9) of the Code; or,
 - ii. an amount that will result in the total distribution of the DROP account before the tenth anniversary of the date such distribution commenced. Specifically in the year such distribution commenced, the DROP spouse beneficiary shall receive no less than one-tenth of the Participant's DROP account balance as of the beginning of that calendar year. The spouse beneficiary shall take one-ninth of the beginning year balance the second year, one-eighth of the beginning year balance the third year, one-seventh of the beginning year balance the fourth year, etc., until the tenth year, when the spouse beneficiary shall take a distribution of the remaining amount in the spouse beneficiary's DROP account before the tenth anniversary date of the initial year's payment.
- (b) A beneficiary who is a surviving spouse of a DROP participant who had already commenced the start of the accelerated distribution in accordance with paragraph E.4(b) above would continue to receive distributions over the remainder of the accelerated schedule established for the DROP participant.
- (c) DFPF will pay a deceased participant's DROP account to a non-spouse beneficiary in a full distribution of the DROP account within six months after the deceased DROP participant's death.
- (d) A non-spouse beneficiary of a DROP participant deceased as of the effective date of this revised policy shall take distribution of the DROP account in accordance with the provisions of paragraphs (a) i and ii above commencing in the year beginning January 1, 2015.
- (e) DFPF will pay to an Alternate Payee the portion of a DROP participant's DROP account awarded to the Alternate Payee in a full distribution of the DROP account within six months after the transfer of funds to the Alternate Payee's DROP account.

F. DEATH BENEFITS AND DESIGNATION OF BENEFICIARIES (continued)

- (f) An Alternate Payee owner of a DROP account as of the effective date of this revised policy shall take distribution of the DROP account in accordance with the provisions of paragraphs (a) i and ii above commencing in the year beginning January 1, 2015.
6. Distributions will be made to satisfy the RMD regulations under Section 401(a)(9) of the Code.

APPROVED on January 14, 2016 by the Board of Trustees of the Dallas Police and Fire Pension System.

Samuel L. Friar
Chairman

Attested:

Kelly Gottschalk
Secretary



D A L L A S
POLICE & FIRE
PENSION SYSTEM



**DEFERRED RETIREMENT OPTION PLAN
POLICY (DROP)**

As Amended Through January~~May~~ 14, 2016~~5~~

DALLAS POLICE AND FIRE PENSION SYSTEM
and
DALLAS POLICE & FIRE SUPPLEMENTAL PENSION PLAN

DEFERRED RETIREMENT OPTION PLAN
POLICY

Adopted December 10, 1992
Amended through ~~January~~ **May 14, 2016**

A. PURPOSE

1. This policy provides rules governing the Deferred Retirement Option Plan (“DROP”) of the Combined Pension Plan of the Dallas Police and Fire Pension System (“DPFP”) and of the Supplemental Pension Plan where applicable. It is intended to provide flexibility to DROP participants and their beneficiaries in commencing, continuing, stopping, revoking or recommencing the deferral of some or all of their retirement pensions into their DROP account, and in making total or partial withdrawals from their DROP accounts to the extent consistent with the qualification of the Plan under Section 401 of the Internal Revenue Code (“Code”) and efficient administration.
2. Any reference in this policy to a provision of the Combined Pension Plan shall also be considered a reference to the comparable provision of the Supplemental Pension Plan if the applicant is a member of the Supplemental Pension Plan.
3. The ~~Administrator~~ Executive Director will develop written procedures to implement this policy.
4. This Policy may be amended at any time by the Board of Trustees (“Board”), consistent with the terms of the Plan.

B. DEFINITIONS

1. **Active DROP** - The program whereby a Member while still in Active Service may elect to have an amount equal to the pension the Member could otherwise be eligible to receive credited to a ~~Deferred Retirement Option Plan~~ DROP notational account on the Member’s behalf. A Member, as of his or her intended date of participation in Active DROP, must be eligible to retire and receive an immediate pension. An election to enter Active DROP is irrevocable except for the one-time revocation window for certain Members that is described in paragraph C.10.



B. DEFINITIONS (continued)

2. **Retiree DROP** - The program whereby a Member ~~up~~on leaving Active Service and making application for a service retirement or a Pensioner at any time before the required beginning date for required minimum distributions under Section 401(a)(9) of the ~~Internal Revenue~~ Code, whether or not the Member or Pensioner participated in DROP while in Active Service, may defer receipt of the pension benefit payments into ~~the Deferred Retirement Option Plan~~DROP. In order to be eligible to enter DROP, a person who is not an active Member as of his or her intended date to join Retiree DROP must either be currently retired under one of the provisions of Section 6.01 or 6.02 ~~of the Combined Pension Plan~~ or be eligible to, and actually irrevocably elect to, retire under one of those provisions no later than the intended date of DROP participation.

C. ACTIVE DROP

1. The application of any Member applying for Active DROP participation, including the application of any Member who has revoked a prior period of DROP participation pursuant to paragraph C.10, will be placed on the agenda for a Board meeting for consideration and approval.
2. If the Board ratifies the DROP application, the ~~Application~~application will become effective as of the date requested in the DROP ~~Application~~application, but not earlier than the first day of the next month following the date on which the Member filed the ~~Application~~application.
3. At the time of entry into Active DROP, the Member must irrevocably select the plan benefit he or she will receive at the time his or her pension benefit will later commence with the Member's pension benefit calculated as of the effective date of entering DROP. While on Active Service, these amounts will be credited to the DROP participant's account. Notwithstanding the foregoing, a Member who is participating in Active DROP may elect on leaving Active Service to receive an actuarially reduced benefit under the 100% joint and survivor benefit option.
4. In the event a Group B Member, who was previously a Member in DFPF's Old Pension Plan or Plan A, elects to receive a Group A pension at the time of DROP entry, the amount equal to the difference between the Group B contributions paid by the Member and Group A contributions that would have been payable for that same period of time will be credited to his or her DROP account. There will be no distribution of such amounts to the Member upon his or her election to participate in Active DROP.



C. ACTIVE DROP (continued)

5. Once a Member has elected to participate in Active DROP, that election and the person's status as a result of that election are irrevocable except as expressly provided at ~~Plan~~ Section 6.14(j) of the Combined Pension Plan and as further described in paragraph C.10.
6. The Member's eligibility for the benefit supplement described in Section 6.13 of the Combined Pension Plan will be determined based on the Member's years of Pension Service as of the effective date of the Member's participation in Active DROP.
7. A Group B Member who is promoted to a rank that is higher than the highest Civil Service Rank for the City of Dallas after the effective date of his or her participation in DROP will not participate in the Supplemental Pension Plan.
8. As of the effective date of his or her participation in DROP, the Member will no longer be entitled to obtain additional Pension Service by repaying previously withdrawn contributions or paying for any Pension Service that could have been purchased prior to DROP entry under Section 4.04, 5.01, 5.07 or 5.09 of the Combined Pension Plan. However, a Member who is entitled, under Section 5.08 of the Combined Pension Plan, to purchase credit for Pension Service for any period he or she was on a military leave of absence may still purchase that service credit after entering Active DROP so long as the required contributions are made no later than the time provided by the Uniformed Services Employment and Reemployment Rights Act ("USERRA").
9. Effective for the first pay period that ends on or after December 31, 2014, all Active DROP participants shall have Member contributions at a rate of 4% withheld from their Computation Pay or Base Pay, as applicable.
10. DROP Revocation

- (a) A Member who was an Active DROP participant on or before April 1, 2015, has a one-time opportunity to revoke his or her DROP election. The revocation must be made before the earlier of June 30, 2015, or the date the Member terminates Active Service, and is made by filing, with the ~~Plan Administrator~~Executive Director, a completed Deferred Retirement Option Plan (DROP) Election Revocation form designed by DPFP.
- (b) Upon such termination the Member's DROP account is eliminated in its entirety. Also, the Member will not have Pension Service for the period of DROP participation except to the extent that the Member pays in accordance with paragraph C.11, the contributions that would have been

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paid for the relevant period had the Member not been a participant in DROP.

C. ACTIVE DROP (continued)

(c) No Member shall be entitled to revoke his or her DROP participation if any money has been transferred out of such Member's DROP account. After a member revokes his or her DROP election, such member shall have Member contributions required of non-DROP Members withheld from their pay starting with the next pay period after the revocation.

11. Pension Service will be credited for all or part of the period of revoked DROP participation if the Member who revoked the DROP participation makes the Member contributions, without interest, that would have been made if the Member had not been a DROP participant. Contributions will be accepted by DPFPP at any time before the earlier of (i) the Member leaves Active Service or (ii) enters DROP. The contributions will be applied to purchase Pension Service for the most recent period of DROP participation for which Member contributions have not been received. Payment may be by personal check if the check is for the lesser of \$500 or the total amount of contributions required to provide all the Pension Service the Member is entitled to obtain for the period of DROP participation. Direct rollovers from other tax qualified plans, government Section 457 deferred compensation plans or Section 403(b) annuity arrangements will be accepted. To the extent permitted by the City, Member contributions may be withheld from the Member's pay and forwarded to DPFPP.

12. The Plan Executive Director is authorized to issue a procedure regarding the manner in which contributions will be accepted and Pension Service credited.

13. Distributions may not be made from a Member's Active DROP account while the Member is on Active Service.

14. Notwithstanding paragraph C.13, a Member may direct DPFPP to transfer all or a portion of the Member's Active DROP account to the City of Dallas 401(k) Retirement Savings Plan (the "401(k) Plan"). Such a transfer may be made only if the Member is an active participant in the 401(k) Plan and no transfer may be made if the Member had an earlier transfer made at any time within the prior twelve (12) months.

D. RETIREE DROP

1. On leaving Active Service and applying for a service retirement, a Member may elect to defer all or part of his or her monthly pension benefit into Retiree DROP.

Commented [SL4]: Should this be removed? Also there are references to C.10 that would need to be removed

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D. RETIREE DROP (continued)

2. A Pensioner, whether or not the Pensioner was a DROP participant while on Active Service, may elect to defer all or part of his or her monthly pension benefit into Retiree DROP through December of the later of the year the Pensioner attains age 70 ½ or ~~leaves~~ Active Service. A Pensioner receiving a disability pension under Section 6.04 or 6.05 of the Combined Pension Plan is not eligible to defer his or her pension into Retiree DROP.
3. During any period a Pensioner elects to defer all of the Pensioner's monthly benefit amount into Retiree DROP, the Pensioner may elect to have amounts deducted from the deferral pursuant to Section 9.03(d) of the Combined Pension Plan.
4. A Pensioner who participates in Retiree DROP will commence, or recommence, to receive a monthly pension upon revoking the election to defer all or part of his or her pension to DROP or as of January 1 of the later of the year the Pensioner attains age 70 ½ or ~~leaves~~ Active Service .
5. The election by a Member or a Pensioner to defer all or part of his or her pension benefits into Retiree DROP does not require Board approval.
6. By federal law, payments from the Excess Benefit Plan created under Section 9.02 of the Combined Pension Plan may not be credited to a Member's DROP account.

E. DISTRIBUTIONS AND TRANSFERS FROM DROP

1. The Board of Trustees may at any time extend the time necessary to process DROP distributions.
2. No DROP ~~benefit distribution~~ will be paid or otherwise distributed to a DROP participant before that DROP participant has left Active Service.
3. To the extent permissible under federal tax laws, on leaving Active Service and at any time thereafter, a DROP participant may elect to receive payment from his or her DROP account in any of the following forms:
 - (a) a lump-sum distribution of some or all of the amount of the DROP account credited to the DROP participant, which generally may be timely rolled over;
 - (b) substantially equal payments made for a specific period of time; or

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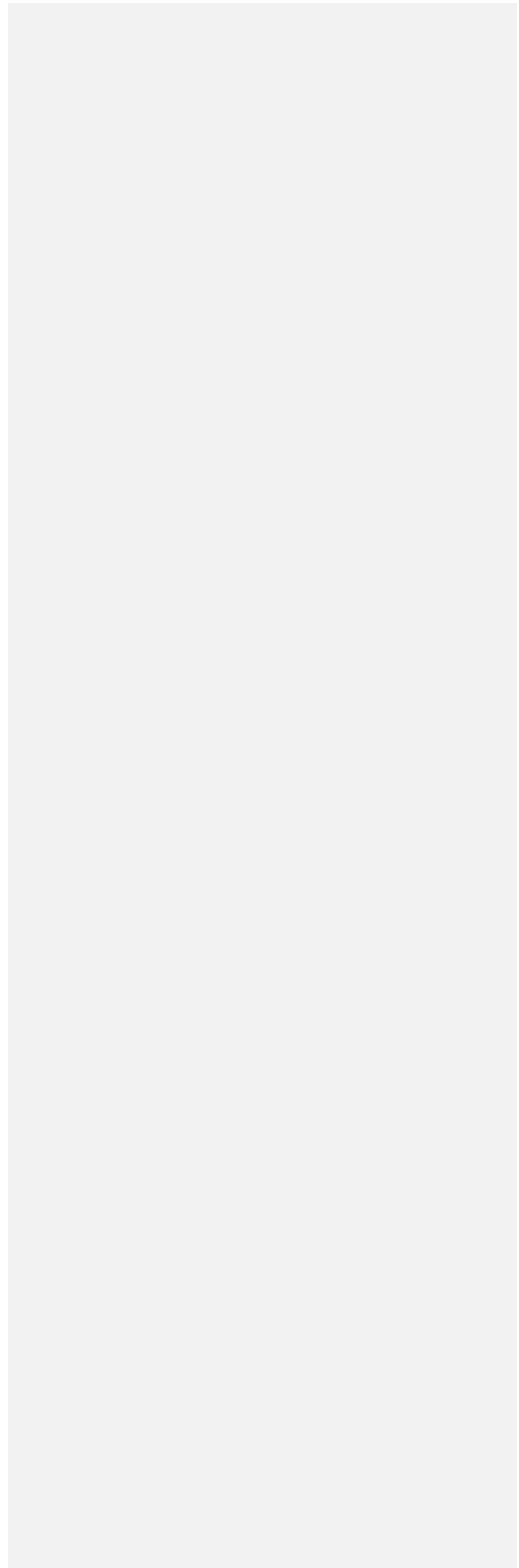


- (c) regular installment amounts added to the monthly benefit payment.

E. DISTRIBUTIONS AND TRANSFERS FROM DROP (continued)

4. Commencing in the latest of the year beginning January 1, 2015, the year a DROP participant leaves Active Service or the year the DROP participant attains age 70 ½, and notwithstanding paragraph 3 above, the DROP participant shall receive annual distributions from his or her DROP account that are no less than the greater of:
 - (a) the required minimum distribution (“RMD”) under Section 401 (a) (9) of the ~~Internal Revenue Code~~; or,
 - (b) an amount that will result in the total distribution of the DROP account before the tenth anniversary of the date such distribution commenced. Specifically in the year such distribution commenced, the DROP participant shall receive no less than one-tenth of the participant’s DROP account balance as of the beginning of that calendar year. The participant shall take one-ninth of the balance as of the beginning of the second year, one-eighth of the balance as of the beginning of the third year, one-seventh of the balance as of the beginning of the fourth year, etc., until the tenth year, when the Participant shall take a distribution of the remaining amount in the Participant’s DROP account before the tenth anniversary date of the first distribution in the initial year.
5. Each January, DPFPP will advise DROP participants who will be required to receive a required annual distribution that year of the required distribution amount based on paragraph 4(b) above. In December of each year, DPFPP will reconcile Participant DROP accounts to identify those DROP pParticipants who have not met the required annual distribution amount and will then issue to each DROP pParticipant, as necessary, payment of the remaining amount necessary to meet the requirement. Such payments will be made as close to the end of the year as administratively feasible.
6. A DROP account shall continue to accrue interest until the account is fully paid out.
7. Whether receiving monthly benefit payments or deferring into a Retiree DROP account, a DROP participant may elect to take lump sum distributions in accordance with the provisions below.
 - (a) Lump sum distributions may be made as soon as administratively feasible after receipt of a DROP participant’s written, notarized request on an original form provided by ~~DPFP’s~~the administrative office.





E. DISTRIBUTIONS AND TRANSFERS FROM DROP (continued)

- (b) Lump sum distributions are subject to the following limits:
 - (i) The minimum lump sum distribution is \$1,000 per distribution.
 - (ii) The maximum distribution is limited to the Member's account balance.
- 8. A DROP participant may file a completed Distribution Form available at or by request from the administrative office or online at the DFPF website (www.dfpf.org) with DFPF's administrative office, and may select, change or modify the election on the Distribution Form at any time before distributions would otherwise commence by executing and delivering a new signed Distribution Form to DFPF's administrative office. Any filing of a Distribution Form whether an original filing, a revocation of an earlier filing, or an amendment to an earlier filing, will take effect as soon as administratively feasible after it has been received and accepted.
- 9. A DROP participant will be allowed to revoke or amend his or her Distribution Form at any time after distributions have commenced, and before the DROP participant attains the age of seventy and one-half (70 1/2), by filing a new Distribution Form with DFPF's administrative office. After the age of seventy and one-half (70 1/2), a DROP participant may only accelerate and not delay the time of payment of DROP ~~benefits~~[distributions](#).
- 10. DROP ~~benefits distributed~~[distributions paid](#) as monthly installments will be paid on the regularly scheduled month end payroll added to the DROP participant's regular monthly benefit payment effective as soon as is reasonably possible after receipt of a validly completed Distribution Form.
- 11. DFPF's Board and staff cannot provide legal or financial advice regarding the desirability of any particular distribution or transfer.
- 12. A DROP participant's account is subject to the community property laws of the state of Texas, and is therefore subject to division by a court pursuant to a Qualified Domestic Relations Order. DFPF will accept Qualified Domestic Relations Orders that require a division of a DROP participant's account.
- 13. A DROP participant will be eligible to rollover distributions tax-free from their account to another retirement account twice in any calendar year.



F. DEATH BENEFITS AND DESIGNATION OF BENEFICIARIES

1. A DROP participant will have the opportunity to designate a primary beneficiary (or primary beneficiaries) and a contingent beneficiary (or contingent beneficiaries) of his or her DROP account either when filing the ~~Application~~application for DROP participation, or thereafter, on a Beneficiary Form provided by DFPF for this purpose.
2. Beneficiaries of a Member's DROP account are not limited to the qualified survivors as defined in the Combined Pension Plan. Upon request, DFPF will divide a deceased DROP participant's ~~account among the designated beneficiaries at the time of the DROP participant's death, in order that the minimum required distributions may be determined separately over the life expectancy of each participant.~~
3. DFPF will pay a deceased participant's DROP account to any properly designated beneficiary. A beneficiary that is not an individual may not be a designated beneficiary for purposes of satisfying the minimum distribution requirements of the regulations under Section 401(a)(9) of the Code. Nevertheless, the beneficiaries of a trust may be treated as the beneficiaries of the DROP account and DFPF may make DROP account payments to the trust if ~~all the trust's beneficiaries can be identified and the DROP participant and trustee~~ provide DFPF with the information required by the regulations under Section 401(a)(9) of the Code. DFPF cannot provide advice as to whether the beneficiaries will be helped or harmed by naming a trust to receive DROP distributions. Therefore, it is very important that competent estate planning counsel be consulted before action is taken.
4. Upon the death of a DROP participant, the DROP participant's account becomes the property of the surviving spouse, ~~unless either (i) the surviving spouse or she~~ has specifically waived his or her right to such funds ~~or (ii) the surviving spouse's marriage to the DROP participant occurred after January 14, 2016 and the participant had already joined DROP and named a beneficiary other than the surviving spouse,~~ or other beneficiary or beneficiaries, and will be transferred to the name of the surviving spouse or beneficiary or beneficiaries. Benefits will be paid to the designated beneficiaries in accordance with the last Distribution ~~Election~~ Form on file in the DPFP administrative office upon that office's receipt of sufficient evidence of the DROP participant's death.
5. Funds held in a beneficiary's DROP account will be credited with interest earnings, in accordance with the provisions of the Combined Pension Plan as in effect from time to time, until completely distributed.

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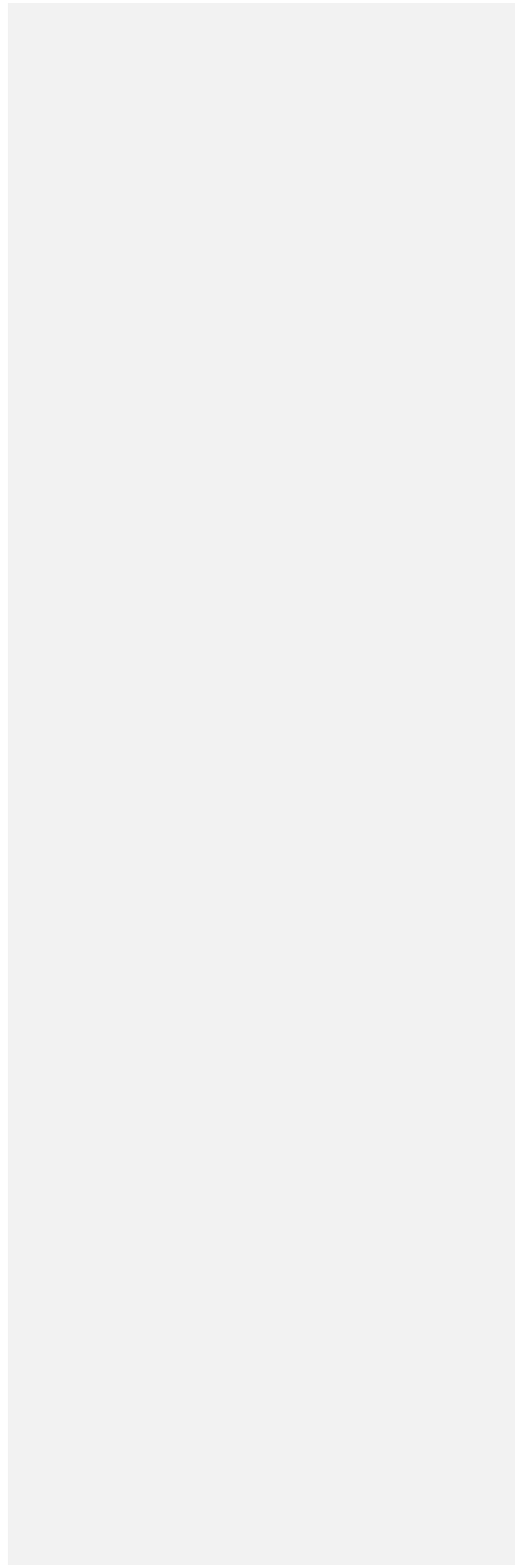
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F. DEATH BENEFITS AND DESIGNATION OF BENEFICIARIES (continued)

- (a) Commencing in the latest of the year beginning January 1, 2015, the year after the year of death of the DROP participant or the year the beneficiary attains age 70 ½, and notwithstanding paragraph E.3 above, a beneficiary who is the surviving spouse of a DROP participant shall receive annual distributions from his or her DROP account that are no less than the greater of:
 - i. the ~~required minimum distribution (“RMD”)~~ under Section 401 (a) (9) of the ~~Internal Revenue Code~~; or,
 - ii. an amount that will result in the total distribution of the DROP account before the tenth anniversary of the date such distribution commenced. Specifically in the year such distribution commenced, the DROP spouse beneficiary shall receive no less than one-tenth of the Participant’s DROP account balance as of the beginning of that calendar year. The spouse beneficiary shall take one-ninth of the beginning year balance the second year, one-eighth of the beginning year balance the third year, one-seventh of the beginning year balance the fourth year, etc., until the tenth year, when the spouse beneficiary shall take a distribution of the remaining amount in the spouse beneficiary’s DROP account before the tenth anniversary date of the initial year’s payment.
- (b) A beneficiary who is a surviving spouse of a DROP participant who had already commenced the start of the accelerated distribution in accordance with paragraph E.4(b) above would continue to receive distributions over the remainder of the accelerated schedule established for the DROP participant.
- (c) DPFP will pay a deceased participant’s DROP account to a non-~~s~~Spouse beneficiary in a full distribution of the DROP account within six months after the deceased DROP participant’s death.
- (d) A non-~~s~~Spouse beneficiary of a DROP participant deceased as of the effective date of this revised policy shall take distribution of the DROP account in accordance with the provisions of paragraphs (a) i and ii above commencing in the year beginning January 1, 2015.
- (e) DPFP will pay to an Alternate Payee the portion of a DROP ~~p~~Participant’s DROP account awarded to the Alternate Payee in a full distribution of the DROP account within six months after the transfer of funds to the Alternate Payee’s DROP account.





F. DEATH BENEFITS AND DESIGNATION OF BENEFICIARIES (continued)

- (f) An Alternate Payee owner of a DROP account as of the effective date of this revised policy shall take distribution of the DROP account in accordance with the provisions of paragraphs (a) i and ii above commencing in the year beginning January 1, 2015.

- 6. Distributions will be made to satisfy the ~~required minimum distribution~~RMD regulations under Section 401(a)(9) of the ~~Internal Revenue~~Code.

APPROVED on ~~January~~May 14, 2016~~5~~ by the Board of Trustees of the Dallas Police and Fire Pension System.

~~Samuel L. Friar~~George Tomasovic
Chairman

Attested:

Kelly Gottschalk
Secretary



Uniformed Services Leave Payback Policy & Procedure

**As amended through
January 14, 2016**

DALLAS POLICE AND FIRE PENSION SYSTEM

UNIFORMED SERVICES LEAVE PAYBACK POLICY

Effective April 21, 1988
Amended January 14, 2016

A. PURPOSE

The Board of Trustees ("Board") of the Dallas Police and Fire Pension System ("DPFP") has established the following policy and procedure to permit Members of the Combined Pension Plan and the Supplemental Pension Plan to pay contributions for certain periods of service with one or more of the Uniformed Services of the United States of America, and receive credit for Pension Service for such periods.

B. COVERAGE

In general, persons who return to employment with the Dallas Police or Fire Department after a period of service in any Uniformed Service of the United States of America have rights, protected by the Uniformed Services Employment and Reemployment Rights Act ("USERRA") if their return to employment occurs on or after December 12, 1994. Certain persons who returned to employment before December 12, 1994 also have rights to obtain Pension Service for their Uniformed Service under the terms of the Vietnam Era Veterans Readjustment Assistance Act of 1974 and the Combined Pension Plan. For this purpose, "Uniformed Service" means service in: the United States Army, Air Force, Navy, Marine Corps, or Coast Guard, including the reserve components thereof; the Army National Guard and the Air National Guard when engaged in active duty for training, inactive duty training, or full-time National Guard duty; the commissioned corps of the Public Health Service; and any other category of persons designated by the President in time of war or national emergency. Uniformed Service includes the time it is necessary to be absent for an examination to determine fitness to perform any of the duties described above.

Persons described in paragraph C(1) below who return to employment with the Dallas Police or Fire Department after a period of service in a Uniformed Service will be entitled to pay the amounts described in paragraph E(3) or (4), whichever is applicable, and receive Pension Service for the period of Uniformed Service leave.

C. ELIGIBILITY

- (1) The following Members are entitled to pay contributions to receive Pension Service for periods in which they were in a Uniformed Service ("Uniformed Service Leave Payment"):



C. ELIGIBILITY (continued)

- (a) Any Member who was inducted into any Uniformed Service;
 - (b) Any Member who enlisted in a Uniformed Service, other than as a reservist, whose Uniformed Service between June 24, 1948 and August 1, 1961, did not exceed four years, or whose Uniformed Service began after August 1, 1961, and did not exceed five years (if the fifth year is at the request and convenience of the United States Government), and who was honorably discharged, is guaranteed, under the provisions of coverage described above, the right to restore Pension Service under this Policy and Procedure. The four- and five-year leaves permitted herein apply to all of a Member's employment with the City of Dallas as a Police Officer or Fire Fighter, i.e., service credit established for an enlistment plus any number of re-enlistments or redeployments may not exceed the four- or five-year limitations stated above;
 - (c) Any Member ordered to an initial period of active duty for training in a Reserve Component of any Armed Force of the United States of not less than twelve consecutive weeks;
 - (d) Any Member serving in a Reserve Component of any Armed Force of the United States; and
 - (e) Any Member who served in any Uniformed Service of the United States, whether or not the Member is described in Paragraphs C(1)(a), (b), (c) or (d) above, if such Member returns to employment with the Dallas Police or Fire Department on or after December 12, 1994. Pension Service granted under the authority of this Paragraph C(1)(e), when added to Pension Service granted under Paragraphs C(1)(a), (b), (c), or (d) above, may not exceed five (5) years.
- (2) Except as provided in Paragraph E(7), a Member who desires to participate in DFPF's Deferred Retirement Option Plan ("DROP"), will no longer be eligible to make payments in accordance with this policy and procedure as of his or her effective date of participation in DROP.
- (3) The rules governing payment of contributions for any other policy or procedure adopted by the Board are unaffected by this policy and procedure.

D. REQUIREMENTS FOR PENSION SERVICE CREDIT

- (1) A Member described in Paragraphs C(1)(a), (b), or (e) above, who desires to pay his or her Uniformed Service Leave Payment under this policy and procedure must have re-applied for reinstatement of employment with the Police or Fire Department of the City of Dallas as a Police Officer or Fire Fighter within 90 days of discharge from the Uniformed Service;
- (2) A Member described in Paragraph C(1)(c) above, who desires to pay his or her Uniformed Service Leave Payment under this policy and procedure must have returned to employment with the Police or Fire Department of the City of Dallas as a Police Officer or Fire Fighter within 31 days of discharge from duty in the Reserve Unit;
- (3) Pension Service is available under this policy and procedure only if the Member was honorably discharged from the Uniformed Service.
- (4) Under no circumstances may the Pension Service granted under this policy and procedure result in a Member having more Pension Service than he or she would have had if there had been no service in the Uniformed Service.

E. PROCEDURE

- (1) Any Member who returns to employment with the City of Dallas as either a Police Officer or Fire Fighter within the period prescribed above may, at any time, prior to subsequent termination of such employment, apply to the Board to re-pay his or her Uniformed Service Leave Payment to DPFP. Pension Service may be recovered not only for the period of Uniformed Service but also for up to 90 days after release from the Uniformed Service, or the date the member returns to employment with the Police or Fire Department of the City of Dallas as either a Police Officer or Fire Fighter, whichever is earlier.
- (2) A Member desiring to pay his or her Uniformed Service Leave Payment must submit a written request, which shall include all enlistment papers, uniformed orders, and discharge papers, to the Executive Director of DPFP.

E. PROCEDURE (continued)

(3) Except as described in Paragraph E(4) below, DPFPP's administrative office shall then determine the amount of the Member's Uniformed Service Leave Payment by determining the amount the Member would otherwise have paid had the Member not been in a Uniformed Service (the "Principal Amount") together with the interest (if required) the Member must pay to DPFPP ("Accumulated Interest"). The Accumulated Interest shall be computed at a daily rate that will equal the rate of return used in DPFPP's actuarial assumptions for the period of time from the date the Member last returned to the Police or Fire Departments of the City of Dallas as a Police Officer or Fire Fighter after the Uniformed Service until such date as a written request to make the Uniformed Service Leave Payment (Principal Amount and Accumulated Interest) is made.

(4) To the extent that the Member makes the required contributions within the period prescribed by this Paragraph E(4), no interest shall be required on the contributions. The contributions must be made before the end of the period that begins on the date of return to employment and whose duration is the greater of (a) three times of length of Uniformed Service during that break or (b) December 31 of the year following the end of each break, but in no event may such repayment period exceed 5 years. The amount of contributions required under this Paragraph E(4) shall be based on the Computation Pay (and Supplemental Computation Pay, if applicable), the Member would have earned but for the period of Uniformed Service. The City of Dallas, not the Member, shall be responsible for funding the part of the contributions that would have been paid by the City but for the Uniformed Service. If the Member makes some, but not all, of the contributions allowed under Paragraph E(4), Pension Service for which the contributions have been made shall be provided and the Member will be entitled, but not required, to acquire the remaining pension service credit in accordance with Paragraph E(3).

(5) It is intended that the total amount of the Uniformed Service Leave Payment be paid in a lump sum; however, solely to accommodate the wishes of a Member, installment payments will be accepted and separately accounted for by DPFPP. Upon receipt of each installment payment, DPFPP's administrative office shall determine the amount of any remaining Principal Amount together with any Accrued Interest owed by the Member.

(6) No Pension Service for any period of Uniformed Service will be granted to a Member under Paragraph E(3) until such time as the Uniformed Service Leave Payment is paid in full, and the Board approves the grant of credit for Pension Service to the Member.



- (7) A Member who is or would have become eligible to enter the DROP program during a period of Uniformed Service, and who returns to employment with the Police or Fire Department on or after December 12, 1994, shall be entitled to enter DROP effective on or after the date the Member could have entered DROP but for the Uniformed Service by paying the Member contributions, which would have been made but for the Uniformed Service, within the period specified in Paragraph E(4). DPFPP will retroactively adjust the Member's DROP entry date and DROP account to reflect the entry date selected by the Member.
- (8) The fact that a Member has made full payment of his or her Uniformed Service Leave Payment will be placed on the Board's monthly or special agenda for Board's approval, and upon the Board's approval, the Member will receive credit for Pension Service attributable to such payment for periods of Uniformed Service.
- (9) If payment of the entire amount of the Uniformed Service Leave Payment is not received by DPFPP before a Member leaves employment with the City of Dallas as a Police Officer or Fire Fighter, all amounts (Principal Amount and Accumulated Interest) that were paid by the Member after the period described in Paragraph E(4) expired, and separately accounted for by DPFPP, shall be refunded
- (10) Uniformed Services Leave Payback Policy & Procedure

E. PROCEDURE (continued)

to the Member. In the event a Member dies before the Board receives payment for the entire amount of his or her Uniformed Service Leave Payment, all such amounts paid by the Member shall be refunded to his or her Qualified Survivors, or if none, to his or her estate.

- (11) Except as provided above in Paragraph E(4), the entire amount of the Uniformed Service Leave Payment must be received by DFPF before the effective date of a Member's participation in DROP; otherwise, all amounts (Principal Amount and Accumulated Interest) paid by the Member and separately accounted for by DFPF shall be refunded to the Member.
- (12) If a Member decides to revoke his or her election to make the Uniformed Service Leave Payment under the terms of this policy and procedure prior to payment in full, all amounts (Principal Amount and Accumulated Interest) paid by the Member pursuant to Paragraph E(3) and separately accounted for by DFPF shall be refunded to the Member.
- (13) DFPF will not pay interest on the Principal Amount or Accumulated interest as paid by a Member and separately accounted for, whether or not such payments are refunded to the Member for any reason.

F. EFFECTIVE DATE

The effective date of this amended policy and procedure shall be January 14, 2016.

Samuel L. Friar
Chairman

Kelly Gottschalk
Executive Director



Uniformed Services Leave Payback Policy & Procedure

As amended through ~~February 8, 2001~~
January 14, 2016

DALLAS POLICE AND FIRE PENSION SYSTEM

UNIFORMED SERVICES LEAVE PAYBACK POLICY

Effective April 21, 1988

Amended ~~February 8, 2001~~ January 14, 2016

A. PURPOSE

The Board of Trustees ("Board") of the Dallas Police and Fire Pension System ("~~System~~DPFP") has established the following policy and procedure to permit Members of the Combined Pension Plan and the Supplemental Pension Plan to pay contributions for certain periods of service with one or more of the Uniformed Services of the United States of America, and receive credit for Pension Service for such periods.

B. COVERAGE

In general, persons who return to employment with the Dallas Police or Fire Department after a period of service in any Uniformed Service of the United States of America have rights, protected by the Uniformed Services Employment and Reemployment Rights Act ("USERRA") if their return to employment occurs on or after December 12, 1994. Certain persons who returned to employment before December 12, 1994, also have rights to obtain Pension Service for their Uniformed Service under the terms of the Vietnam Era Veterans Readjustment Assistance Act of 1974 and the Combined Pension Plan. For this purpose, "Uniformed Service" means service in: the United States Army, Air Force, Navy, Marine Corps, or Coast Guard, including the reserve components thereof; the Army National Guard and the Air National Guard when engaged in active duty for training, inactive duty training, or full-time National Guard duty; the commissioned corps of the Public Health Service; and any other category of persons designated by the President in time of war or national emergency. Uniformed Service includes the time it is necessary to be absent for an examination to determine fitness to perform any of the duties described above.

Persons described in pParagraph C(1) below who return to employment with the Dallas Police or Fire Department after a period of service in a Uniformed Service will be entitled to pay the amounts described in pParagraph E(3) or (4), whichever is applicable, and receive Pension Service for the period of Uniformed Service leave.

C. ELIGIBILITY

- (1) The following Members ("~~Eligible Members~~") are entitled to pay contributions to receive Pension Service for periods in which they were in a Uniformed Service ~~of the United States~~ ("Uniformed Service Leave Payment"):



C. ELIGIBILITY (continued)

- (a) Any Member who was inducted into any Uniformed Service ~~of the United States~~;
 - (b) Any Member who enlisted in a Uniformed Service ~~of the United States~~, other than as a reservist, whose Uniformed Service between June 24, 1948; and August 1, 1961, did not exceed four years, or whose Uniformed Service began after August 1, 1961, and did not exceed five years (if the fifth year is at the request and convenience of the United States Government), and who was honorably discharged, is guaranteed, under the provisions of coverage described above, the right to restore Pension Service under this Policy and Procedure. The four- and five-year leaves permitted herein apply to all of a Member's employment with the City of Dallas as a Police Officer ~~or~~, Fire ~~F~~fighter ~~or Fire Inspector~~, i.e., service credit established for an enlistment plus any number of re-enlistments or redeployments may not exceed the four- or five-year limitations stated above.;
 - (c) Any Member ordered to an initial period of active duty for training in a Reserve Component of any Armed Force of the United States of not less than twelve consecutive weeks;
 - (d) Any Member serving in a Reserve Component of any Armed Force of the United States; and
 - (e) Any Member who served in any Uniformed Service of the United States, whether or not the Member is described in Paragraphs C(1)(a), (b), (c) or (d) above, if such Member returns to employment with the Dallas Police or Fire Department on or after December 12, 1994. Pension Service granted under the authority of this Paragraph C(1)(e), when added to Pension Service granted under Paragraphs C(1)(a), (b), (c), or (d) above, may not exceed five (5) years.
- (2) Except as provided in Paragraph E(7), an ~~Eligible Member~~ Member who desires to participate in ~~the System's DFPF's~~ Deferred Retirement Option Plan ("DROP"), will no longer be eligible to make payments in accordance with this policy and procedure as of his or her effective date of participation in DROP.

(3) The rules governing payment of contributions for any other policy or procedure adopted by the Board are unaffected by this policy and procedure.
Uniformed Services Leave Payback Policy & Procedure
As Amended through ~~February 8, 2001~~ January 14, 2016
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D. REQUIREMENTS FOR PENSION SERVICE CREDIT

- (1) A Member described in Paragraphs C(1)(a), (b), or (e) above, who desires to pay his or her Uniformed Service Leave Payment under this policy and procedure must have re-applied for reinstatement of employment with the Police or Fire Department of the City of Dallas as a Police Officer or Fire Fighter within 90 days of discharge from the Uniformed Service;
- (2) A Member described in Paragraph C(1)(c) above, who desires to pay his or her Uniformed Service Leave Payment under this policy and procedure must have returned to employment with the Police or Fire Department of the City of Dallas as a Police Officer or Fire Fighter within 31 days of discharge from duty in the Reserve Unit;
- ~~(3) A Member described in Paragraph C(1)(d) above, must have been on leave without pay for a period in excess of 15 days.~~
- (3) ~~(3)~~ Pension Service is available under this policy and procedure only if the Member was honorably discharged's release from the Uniformed Service ~~was under honorable conditions~~.
- (4) Under no circumstances may the Pension Service granted under this policy and procedure result in a Member having more Pension Service than he or she would have had if there had been no service in the Uniformed Service.

E. PROCEDURE

- (1) Any Member who returns to employment with the City of Dallas as either a Police Officer or Fire Fighter within the period prescribed above may, at any time, prior to subsequent termination of such employment, apply to the Board to re-pay his or her Uniformed Service Leave Payment to ~~DPFP~~ the System. Pension Service may be recovered not only for the period of Uniformed Service but also for up to 90 days after release from the Uniformed Service, or the date the member returns to employment with the Police or Fire Department of the City of Dallas as either a Police Officer or Fire Fighter, whichever is earlier.
- (2) ~~An Eligible Member~~ Member desiring to pay his or her Uniformed Service Leave Payment must submit a written request, which shall include all



enlistment papers, uniformed orders, and discharge papers, to the Executive Director~~Administrator~~ of DPFP~~the System~~.

Uniformed Services Leave Payback Policy & Procedure

As Amended through ~~February 8, 2001~~ January 14, 2016

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E. PROCEDURE (continued)

~~(4)~~(3) Except as described in Paragraph E(4) below, ~~the System's DPFP's~~ administrative office shall then determine the amount of the Eligible Member~~Member's~~ Uniformed Service Leave Payment by determining the amount the Eligible Member~~Member~~ would otherwise have paid had the Eligible Member~~Member~~ not been in a Uniformed Service (the "Principal Amount") together with the interest (if required) the Eligible Member~~Member~~ must pay to ~~the System DPFP~~ ("Accumulated Interest"). The Accumulated Interest shall be computed at a daily rate that will equal~~calculated at~~ the rate of ~~interest return~~ used in ~~DPFP the System's~~ actuarial assumptions, ~~compounded annually~~ daily for the period of time from the date the Eligible Member~~Member~~ last returned to the Police or Fire Departments of the City of Dallas as a Police Officer or Fire Fighter after the Uniformed Service until such date as a written request to make the Uniformed Service Leave Payment (Principal Amount and Accumulated Interest) is made.

~~(3)~~ ~~(4)~~ (3) ~~A Member who returns to employment with the Police or Fire Department on or after December 12, 1994 shall have the opportunity to make the Member contributions the Member would have made but for the absence to serve in the Uniformed Service and receive Pension Service Credit for the period of the absence in accordance with the foregoing provisions of this pPolicy and procedure, provided the conditions of this Paragraph E(4) are met. To the extent that the Member makes the required contributions within the period prescribed by this Paragraph E(4), no interest shall be required on the contributions. The contributions must be made before the end of the period that begins on the date of return to employment and whose duration is the three times the period of the Uniformed Service but not in excess of five (5) years. In the event of multi-deployments, the repayment time for each must be completed within a period of time equal to the greater/lesser of; (a) three times of length of Uuniformed Sservice during that break; or (b) December 31 of the year following the end of each break, but in no event may such repayment period exceed 5 years. In the event another deployment occurs before the prior allowance period of repayment ends; the repayment period will be suspended until date of return to employment. As such with multi redeployments one could have multiple periods of time to recover military leave with each occurrence complying with the lesser of (a) three times the period in Uniformed Service during that break or; (b) 5 years. The amount~~

of contributions required under this Paragraph E(4) shall be based on the Computation Pay (and Supplemental Computation Pay, if applicable), the Member would have earned but for the period of Uniformed Service. ~~To the extent that the Member makes the required contributions within the period prescribed by this Paragraph E(4), no interest shall be required on the contributions.~~ The City of Dallas, not the Member, shall be responsible for funding the part of the contributions that would have been paid by the City but for the Uniformed Service. If the Member makes some, but not all, of the contributions allowed under Paragraph E(4), Pension Service for which the contributions have been

E. PROCEDURE (continued)

made shall be provided and the Member will be entitled, but not required, to acquire the remaining pension service credit in accordance with Paragraph E(3).

- (5) It is intended that the total amount of the Uniformed Service Leave Payment be paid in a lump sum; however, solely to accommodate the wishes of an eligible Member, installment payments will be accepted and separately accounted for by ~~the SystemDPFP~~. Upon receipt of each installment payment, ~~the SystemDPFP's~~ Administrative Office shall determine the amount of any remaining Principal Amount together with any Accrued Interest owed by the Eligible Member~~Member~~.
- (6) No Pension Service for any period of Uniformed Service will be granted to a ~~n-eligible~~ Member under Paragraph E(3) until such time as the Uniformed Service Leave Payment is paid in full, and the Board approves the grant of credit for Pension Service to the Member. ~~at a regular or special meeting.~~
- (7) A Member who is or would have become eligible to enter the DROP program during a period of Uniformed Service, and who returns to employment with the Police or Fire Department on or after December 12, 1994, shall be entitled to enter DROP; effective on or after the date the Member could have entered DROP but for the Uniformed Service by paying the Member contributions, which would have been made but for the Uniformed Service, within the period specified in Paragraph E(4). ~~DPFPThe System~~ will retroactively adjust the Member's DROP entry date and DROP account to reflect the entry date selected by the Member.
- ~~(5)~~(8) The fact that an Eligible Member~~Member~~ has made full payment of his or her Uniformed Service Leave Payment will be placed on the Board's monthly or special agenda for Board's approval, and upon the Board's approval, the eligible Member will receive credit for Pension Service attributable to such payment for periods of Uniformed Service.
- ~~(8)~~(9) If payment of the entire amount of the Uniformed Service Leave Payment is not received by ~~the SystemDPFP~~ before an Eligible Member~~Member~~ leaves employment with the City of Dallas as a Police Officer or; Fire Fighter ~~or Fire Inspector~~, all amounts (Principal Amount and Accumulated Interest) that were paid by the Eligible Member~~Member~~ after the period described in Paragraph E(4) expired, and separately accounted for by ~~the SystemDPFP~~, shall be refunded

E. PROCEDURE (continued)

to the Member. In the event a Member dies before the Board receives payment for the entire amount of his or her Uniformed Service Leave Payment, all such amounts paid by the Member shall be refunded to his or her Qualified Survivors, or if none, to his or her estate.

~~(6)~~**(10)** Except as provided above in Paragraph E(4), the entire amount of the Uniformed Service Leave Payment must be received by ~~the System~~DPFP before the effective date of an ~~Eligible Member~~Member's participation in DROP; otherwise, all amounts (Principal Amount and Accumulated Interest) paid by the ~~Eligible Member~~Member and separately accounted for by ~~the System~~DPFP shall be refunded to the ~~Eligible Member~~Member.

~~(7)~~**(11)** If a Member decides to revoke his or her election to make the Uniformed Service Leave Payment under the terms of this policy and procedure prior to payment in full, all amounts (Principal Amount and Accumulated Interest) paid by the ~~Eligible Member~~Member pursuant to Paragraph E(3) and separately accounted for by ~~the System~~DPFP shall be refunded to the Member. ~~Amounts paid in accordance with Paragraph E(4), and within the period prescribed therein, may not be refunded; instead the Member will receive full credit for a proportionate part of the Pension Service the Member was eligible to obtain.~~

~~(8)~~**(12)** ~~DPFP~~The ~~System~~ will not pay interest on the Principal Amount or Accumulated interest as paid by a Member and separately accounted for, whether or not such payments are refunded to the Member for ~~whatever any~~ reason.

F. EFFECTIVE DATE

The effective date of this amended policy and procedure shall be ~~February 8, 2001~~ January 14, 2016.

EF GH

~~Samuel L. Friar~~ Gerald Brown
Chairman



ABCD

Kelly Gottschalk~~Richard L. Tettamant~~
Executive Director~~Administrator~~

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DISCUSSION SHEET

ITEM #C11

Topic: Board Members' reports on meetings, seminars and/or conferences attended

- a. **Conference:** Society of Pension Professionals GB, JS, CW
Dates: December 15, 2015
Location: Dallas, TX

- b. **Conference:** NEPC Public Funds Workshop SF, JS, KG, JP
Dates: January 11-12, 2016
Location: Phoenix, AZ

Staff

Recommendation: Receive and file.



DISCUSSION SHEET

ITEM #C12

Topic: Legal issues including, but not limited to:

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. Police Officer and Firefighter pay lawsuits
- b. 2014 Plan amendment election and litigation
- c. Potential claims involving real estate transactions

Discussion:

- a. Eric Calhoun will be present to brief the Board on the status of the lawsuits.
- b. The General Counsel will brief the Board on the status of the litigation.
- c. Attorneys from Diamond McCarthy will be present to brief the Board on the status of their review and to give recommendations to the Board.

Staff

Recommendation:

- a. **Receive and file.**
- b. **Receive and file.**
- c. Available at the meeting.



DISCUSSION SHEET

ITEM #D1

- 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.
- Staff**
- Recommendation:** Receive and file.



DISCUSSION SHEET

ITEM #D2

- Topic:** Executive Director's report
- a. Associations' newsletters
 - NCPERS Monitor (December 2015)
 - TEXPERS Outlook (January 2016)
 - b. Future continuing education and investment research programs and conferences
- Discussion:** The Executive Director will brief the Board regarding the attached information.
- Staff**
- Recommendation:** Receive and file.



DOL Issues Secure Choice Regulation and Guidance

On November 16 the US Department of Labor (DOL) issued a [proposed regulation](#) and [interpretive bulletin](#) on a high priority for NCPERS members: facilitating state-sponsored retirement plans for private-sector workers. This action comes four months after President Obama directed DOL to revise federal pension regulations that hindered the creation of state-based retirement savings initiatives.

The proposed changes to the Employee Retirement Income Security Act (ERISA) of 1974 and the interpretive bulletin stand to benefit the 68 million US employees who currently lack access to retirement plans at work. In a clear victory for NCPERS, the interpretive bulletin clarifies that states may sponsor and administer multiple-employer plans, an approach NCPERS has advocated since it unveiled its Secure Choice Pension proposal in 2011.

Since NCPERS unveiled the Secure Choice Pension proposal in 2011, it has inspired more than a dozen state and local governments to explore and plan state-sponsored retirement programs for private-sector

employees. Four states (Illinois, Massachusetts, Oregon, and Washington) are currently implementing such programs, and six more (California, Connecticut, Minnesota, Utah, Vermont, and Virginia) are studying their feasibility.

The proposed regulation, meanwhile, would establish a safe harbor under ERISA for states that require employers without retirement savings plans to automatically enroll their employees in individual retirement accounts funded by payroll deduction. The proposal clarifies that such “auto-IRAs” are not employee pension benefit plans for the purposes of ERISA.

NCPERS encourages you to familiarize yourselves with the contents and to advise it of any comments. During a 60-day period for public comment, NCPERS will be engaging with its members to review the proposed regulation and interpretive bulletin and to seek input. It will submit comments to DOL by the comment closing date of January 19, 2016. Please do not hesitate to contact NCPERS with your thoughts and questions.

Highlights from around the States

Arizona



The National Public Pension Coalition delivered grassroots training to prepare 40 activists for a likely fight over a bid to water down pension benefits for Arizona State University employees. The university’s leadership has been working to move employees out of the Arizona State Retirement System and into 401(k)-style plans – a move that could destabilize the whole system. Future trainings are being planned across Arizona.

Kentucky



The Republican governor-elect, Matt Bevin, advocates 401(k)-style retirement plans for state employees. In one of his first postelection speeches on November 20, he identified the state public

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States continued from page 1

retirement system as the “most critical” challenge his administration will face and said he intends to present a plan to state lawmakers in the legislative session that begins in January. Bevin takes office on December 8.

Michigan



On October 27, Governor Rick Snyder (R) issued an executive order to combine the management of the state’s pension systems. Executive Order 2015-13 created the State of Michigan Retirement Board, which would consolidate administration and oversight of the State Employees Retirement System Board, the Judges’ Retirement System Board, and the Military Retirement Provisions. There has been no movement on Senate Bill 102, which would convert the Michigan Public School Employee Retirement System’s pension program to a defined-contribution plan.

Pennsylvania



A five-month-long budget impasse was unresolved at the time of this publication. The contours of a tentative budget framework were laid

out on November 10 by Democratic governor Tom Wolf and the Republican-led legislature. However, two weeks later, no legislation had been introduced, and proposed tax increases remained unresolved. The state has been operating without a budget since June 30. The delay means, however, that there’s still time to urge lawmakers to rethink a cornerstone of the framework – the creation of a side-by-side hybrid pension, which would cut pension benefits by as much as 23 percent for new workers.

Wisconsin



Sponsors have failed thus far to gain traction on two bills that would undercut state employee benefits. One bill (Senate Bill 329) would raise the minimum retirement age for employees in the state retirement system by two years. The second bill (Senate Bill 328) would alter the formula for calculating pension benefits by tweaking final average-salary calculations.

Congressional Wrap-up

This article outlines the legislative highlights of the first session of the 114th Congress related to state and local governmental pension plans. The session, which will conclude in a few days, also saw the election of

a new House Speaker, Rep. Paul D. Ryan of Wisconsin, and new House Ways and Means Committee Chairman, Rep. Kevin Brady of Texas. The committee, which has jurisdiction over the federal tax code, plays a critical role in the development of any new law affecting public pension plans, which are tax-qualified entities under the Internal Revenue Code.

Benefits for Public Safety

NCPERS worked to enact and applauds two new federal tax laws related to benefits for public safety employees and their survivors that were signed into law in 2015. On May 22, President Obama signed H.R. 606, the Don’t Tax Our Fallen Public Safety Heroes Act. The measure, which is now [Public Law 114-14](#), clarifies that federal and state law-based survivor benefits on behalf of a public safety officer who has died as the direct and proximate result of a personal injury sustained in the line of duty are exempt from federal tax. The legislation was approved on a 413–0 vote in the House and by voice vote in the Senate. It was sponsored by Reps. Erik Paulsen (R-MN) and Bill Pascrell (D-NJ).

In addition, on June 29, the president signed H.R. 2146, the Defending Public Safety Employees’ Retirement Act. The bill, which is now [Public Law 114-26](#), strengthens the exemption in

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Wrap-up continued from page 2

Internal Revenue Code section 72(t)(10) for public safety employees from the early withdrawal penalty in three major ways: (1) adds federal public safety employees to the exemption, (2) includes distributions from defined-contribution plans, and (3) allows retirees to modify a stream of substantially equal periodic payments without incurring a recapture tax penalty. The changes are effective for distributions made after December 31, 2015. It is worth noting that new Ways and Means chairman Kevin Brady is the author of the original section 72(t)(10), which was widely supported in the public safety community.

Tax Reform and Major Pension Legislation

The 114th Congress has not yet considered or even seen the introduction of any major tax reform or pension legislation that could carry additional positive or negative retirement provisions. NCPERS has been concerned about Senate Finance Committee chairman Orrin Hatch's (R-UT) annuity accumulation proposal, which is designed to replace state and local governmental defined-benefit plans with annual annuity contracts. Further, the public pension plan community has been concerned during recent years about the Public Employee Pension Transparency Act, which would require any state or local plan with an unfunded liability, however small, to

recalculate its funded status based on a US Treasury obligation yield curve and report that number to the US Treasury Department. NCPERS will continue to closely monitor any developments on these issues.

Funding for Teacher Pensions

In February, the House approved legislation to reauthorize the Elementary and Secondary Education Act (ESEA). An amendment, which was successfully offered by Rep. Robert Dold (R-IL) on the House floor, sought to prevent the use of ESEA monies to address underfunding issues related to teacher pensions in Illinois. The amendment would bar any state that receives funds under ESEA from requiring a local education agency to use those funds to make contributions to a teacher retirement system in excess of normal cost. Normal cost is defined in the amendment to not include any accrued unfunded liabilities.

The amendment targets unfunded liabilities in Illinois that were caused by a sponsor's failure to make actuarially determined pension contributions. However, it fails to take into account that unfunded liabilities may be caused by more factors than sponsor underfunding. For instance, investment performance, low interest rates, and actuarial assumptions are factors often found to create unfunded liabilities. The public pension community believes that the provision would have broad

unintended consequences and would sweep into it states that are on a responsible and prudent path toward ensuring adequate pension funding. NCPERS worked with other national groups and individual pension plans in opposition to the amendment. I am pleased to report that the House and Senate conferees on the ESEA bill recently agreed to drop the provision. The conference report will be filed and voted on in December.

Medicare Part B Premiums

The recently enacted Budget Act of 2015 includes a provision to provide significant relief from a scheduled 52 percent increase in Medicare Part B premiums. Due to a hold-harmless provision in the Social Security Act that protects most beneficiaries from benefit reductions in years when there are no cost-of-living adjustments, the Part B premium increases will be borne by only about 30 percent of Medicare beneficiaries. The beneficiaries who are affected are those who are not enrolled in both Medicare and Social Security, that is, many state and local government employees.

Fortunately, a bipartisan deal was struck to lessen the impact. Instead of a monthly premium increase to \$159.30 (up from \$104.90 per month), the Budget Act provides for an increase to \$123.00 per month. In other words, the increase will be approximately \$18 per month

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instead of \$54 per month. Also, \$3 of the monthly increase will be in place for only five years.

NCPERS and a coalition of education organizations have been lobbying on this issue throughout the fall. They have urged President Obama to halt an unusually steep increase in Medicare Part B premiums before it takes effect in January. Five organizations that signed an October 26 letter to the president pointed out that retired teachers and public safety employees would bear a disproportionate burden of the anticipated monthly increase.

The Budget Act of 2015 was signed into law by President Obama on November 2, 2015.

As the 114th Congress continues its work into next year, please be assured that NCPERS will be an active and vocal voice for state and local governmental pension plans in our nation's capital.

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.

NCPERS and NCTR File Amicus Brief to Defend Public Pensions in the *Friedrichs* Case Before US Supreme Court

NCPERS, along with the National Council on Teacher Retirement (NCTR), has [filed an amicus curiae](#) (friend of the court) brief in the case of *Friedrichs v. California Teachers Association*, which will be argued before the US Supreme Court on January 11, 2016. NCTR and NCPERS were compelled to file this amicus brief because opponents of public pensions have used this case to argue deceptively and erroneously that collective bargaining is the cause of underfunding of public pensions.

The *Friedrichs* case deals with the issues of agency shop agreements and fair-share fees. The case was filed by Rebecca Friedrichs, a California teacher. In California, a union may become the exclusive bargaining representative of public teachers and may establish an agency shop arrangement with a school district. Under this arrangement, all employees can be required to either join the union or pay a fair-share service fee – essentially an agency fee – that is generally the same amount as union dues. These agency shop fees can be used only for matters germane to collective bargaining, which means that unions must identify both the agency portion of the fee and the nonchargeable portion. To avoid paying nonchargeable portions, teachers must typically

affirmatively object and renew the opposition in writing every year.

Friedrichs seeks to overturn the 1977 *Aboud* ruling, in which the Supreme Court for the first time ruled that this agency shop approach could apply to government workers, provided that the fees nonunion members pay are related directly to union expenses for collective bargaining, administering the union contract with the employer, or internal grievance procedures. Other amicus briefs in support of the petitioner Friedrichs have claimed that union collective bargaining is responsible for underfunded pensions and the difficult fiscal situations that some states face. Specifically,

- Illinois governor Rauner's brief insinuates that union activity is responsible for "structural budget deficits" and "repeated credit downgrades in Illinois,"
- the Illinois State Workers' brief argues that Illinois' "enormous unfunded pension liability" is the "product of public sector unions' bargaining and influence," and
- the brief filed by state attorneys general for the States of Alabama, Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Indiana, Kansas, Michigan, Nebraska, Nevada, Oklahoma, South Carolina, Texas, Utah, West Virginia, and Wisconsin argues that collective bargaining by public-sector unions led to Detroit's unfunded pension liability and eventual bankruptcy.

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NCPERS' amicus brief points out that not only are the arguments put forth by Governor Rauner and the Illinois Workers disingenuous but "they are flatly contradicted by recent findings of the Illinois Supreme Court," which recently noted that the problem of inadequate funding of public pensions preceded collective bargaining and has been around for nearly 100 years in that state.

As for the state attorneys general brief, NCTR and NCPERS note that its "unsupported argument that collective bargaining by public-sector unions led

to Detroit's unfunded pension liability and eventual bankruptcy does not withstand scrutiny." Instead, the major contributors to Detroit's bankruptcy included depopulation and long-term unemployment, which caused Detroit's property and income tax revenues to plummet; slashing of state-revenue sharing; unfavorable debt financing; and general cash-flow problems.

Furthermore, NCTR and NCPERS point out that the state attorneys general's arguments attempting to blame the bankruptcy filings by the city of Stockton and the city of San

Bernardino on public pensions and, by implication, collective bargaining and union activity are also not supported by the facts and fail to acknowledge the role of California's housing bubble and the California housing bust on these two jurisdictions.

The NCTR/NCPERS amicus brief concludes by stating that "issues related to public-pension funding are not germane" to the underlying case before the Supreme Court, and that the arguments by certain amici "relating to public-pension funding should be rejected." ■

Don't Miss NCPERS' Social Media



The Voice for Public Pensions

Countdown to Election Day 2016: Advancing the Public Pension Agenda

Election Day 2015 is behind us – and now the countdown to the 2016 presidential election and race for control of the House and Senate begins in earnest. During the next 11 months, NCPERS will closely monitor campaigns to gauge support of, or opposition to, the interests of public pension beneficiaries. It also will be deeply involved in providing candidates with information about and insight into critical issues.

The general election of November 3, 2015, was an off-year race, meaning no federal offices were in contention. Nevertheless, the election season underscored the challenges and opportunities that lie ahead. At the federal level, we are looking at at least one more year of divided government, with the House and Senate in Republican hands and a Democratic White House.

Three states elected governors in November. Kentucky flipped from Democratic to Republican control, Louisiana transitioned from Republican to Democratic, and Mississippi stayed in Republican hands.

Significantly, the gubernatorial race reinforced that Kentucky is a battleground state for public pensions. Kentucky's newly elected governor, Matt Bevin, has argued that defined-benefit plans are not viable. He has advocated shifting future public

employees into defined-contribution plans, such as 401(k) plans.

Four states – Louisiana, Mississippi, New Jersey, and Virginia – elected state lawmakers in 2015. In the New Jersey General Assembly, all 80 seats were up for election. (There was no Senate race.) New Jersey's Democrats picked up four seats, increasing their majority over the Republicans to 52–28. In the other states, however, Republicans maintained control of both House and Senate chambers.

Meanwhile, over the course of 2015, three special elections were held for the US House of Representatives, in Illinois, Mississippi, and New York. These three Republican seats came open after one member died and two resigned. In each case, Republicans held onto the district.

Far more telling than the general and special election results was the upheaval in the House Republican leadership. Notwithstanding the Republicans' legislative majority, the internal squabble showed that there are cracks in party solidarity and that a large portion of voters is alienated from the Republican establishment.

Speaker of the House John Boehner (R-OH) resigned from his leadership position and from Congress after years of fractious infighting in the House Republican Caucus, where mainstream Republicans are

increasingly pitted against members of the far-right and libertarian movements. The subsequent withdrawal of majority leader Kevin McCarthy (R-CA) from the race for Speaker also demonstrated the rising power of the far right in the Republican Caucus.

As the presidential race plays out in 2016, the Republicans' ability to create consensus within their own party will be sorely tested. At this writing, 14 candidates are still in the race for the Republican nomination, and three have already dropped out. Such division can accrue only to the benefit of the three Democratic candidates for the nomination.

Five Key Questions to Answer in 2016:

- To what degree will public pensions be a political football in state and local elections?
- Will presidential candidates make retirement security a big part of their campaigns?
- How many states will introduce and pass state-sponsored (Secure Choice-type) retirement savings plans for the private sector?
- Will the Department of Labor's proposed regulation for state-sponsored retirement savings plans get finalized?
- Will Speaker Ryan and the Republican-controlled Congress start laying the foundation for Medicare privatization? ■

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Labor, Employee Groups Oppose Naming of Arnold Foundation's Josh McGee to Texas Pension Board

A host of groups representing Texas's police, firefighters, teachers and the public pension systems that serve them are vehemently opposed to Gov. Gregg Abbott's appointment of an Arnold Foundation official to the State Pension Review Board.

Josh McGee, the vice president of public accountability for the Laura and John Arnold Foundation, has long advocated for a shift away from the traditional defined benefit (DB) public pension model in favor of a defined contribution (DC) or cash balance hybrid system.

Abbott also named McGee, who lives in Houston, as the Board's presiding officer for a term set to expire on Jan. 31, 2021.

The Board is composed of seven members, appointed by the governor, with the advice and consent of the Texas State Senate. The Board reviews all Texas public retirement systems, both state and local, for actuarial soundness and compliance with state law.

Labor organizations characterized McGee's appointment as a betrayal of trust by the governor.

A dozen labor groups representing police and firefighters called on Abbott to rescind the appointment, calling McGee one of the state's harshest critics of public pensions.

"This appointment is a serious threat to the livelihood of officers who sacrifice so much for the people of Texas," Charley Wilkison, executive director of the Combined Law Enforcement Associations of Texas, told the Austin American Statesman. "We are deeply

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disappointed that the governor did not reach out to law enforcement before making this ill-advised appointment.”

Texas first responder groups also came out in strong opposition to McGee’s appointment, saying he is a paid advocate whose job it is to abolish traditional pension benefits for police officers and fire fighters.

They claim there is an ethical conflict of interest because of McGee’s executive position at the Arnold foundation and asked that – short of Gov. Abbott withdrawing the appointment – McGee should at the very least resign from his paid position at the foundation in which he advocates to end or curtail DB public employee pension benefits.

The following groups released a statement saying they “stand unanimously in opposition” to McGee’s appointment to serve on the Board: the Texas Municipal Police Association, Fraternal Order of Police Texas State Lodge, Harris County Deputies Association, Dallas Police Association, Houston Professional Fire Fighters Association Local 341, Dallas Fire Fighters Association, Texas State Association of Fire Fighters, Houston Police Retired Officers’ Association, and the Houston Police Officers’ Union.

“I am very concerned with the message that this kind of appointment sends,” said Meredith Williams, executive director of the National Council on Teacher Retirement (NCTR), according to a blog post by Leigh Snell, the NCTR’s director of federal relations. “Placing a very vocal advocate of converting public sector DB plans to a defined contribution or cash balance model in such a visible position could be viewed as a very powerful endorsement of that agenda.”

The saving grace might be that Keith Brainard, the director of research for the National Association of State Retirement Administrators (NASRA) and a supporter of the traditional DB pension model, also will be serving on the Board and could act as a check against McGee’s expected efforts to try to convert public funds to a DC or cash balance model.


“It is one thing to have a defender of the current public sector model on the board, but I am confident that Keith does not envision himself there to promote the conversion of the private sector to DB plans,” Williams was quoted by Snell as saying. “But make no mistake, that cannot be said of Mr. McGee’s motives, I fear.”

The Texas Retired Teachers Association sent out a strongly worded membership alert, telling its membership that protecting retirement benefits was,

and would continue to be, the top priority of the association.

“As many of our members are aware, the Laura and John Arnold Foundation is the leading organization in the nation attacking public pension funds,” the alert stated. “Josh McGee serves as Vice-President of the LJAF and ‘leads the organization’s nationwide efforts to improve retirement security.’”

For his part, McGee said in a statement released by the Arnold Foundation that, “I am excited by the opportunity that the Governor has given me to help improve public workers’ retirement security and pension plan sustainability. I look forward to serving the Governor and the people of Texas on the Pension Review Board.”

On the Web at: <http://www.mystatesman.com/news/news/greg-abbotts-pension-board-pick-draws-protests-fro/npbHL/>, <http://www.breitbart.com/texas/2015/12/03/texas-first-responders-oppose-governors-state-pension-review-board-appointee/>, <http://www.chron.com/opinion/outlook/article/McGee-On-pensions-Houstonians-should-decide-6563628.php>, <http://gov.texas.gov/news/appointment/21733>, <http://www.cleat.org/2015/12/abbotts-appointment-of-anti-law-enforcement-pension-lobbyist-to-state-pension-board-is-an-affront-to-law-enforcement/>, <http://www.trta.org/legislation/legislative-updates/membership-alert-governor-abbott-appoints-controversial-and-outspoken-public-pension-critic-chairman-of-state-pension-review-board/> and <http://www.tmpa.org/news-article/texas-first-responders-groups-oppose-governor-abbotts-presiding-officer-appointment-to-the-state-pension-review-board-of-texas/>. 

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Two Texas Public Pensions Rank Among Top 10 in Private Equity Returns

Two Texas public pension funds made the Top 10 ranking of funds that generated the highest rate of return from their private equity portfolios, as compiled by the Private Equity Growth Capital Council (PEGCC).

The annual ranking found that the Teacher Retirement System of Texas (TRS) was second overall, with a 17.8 percent annualized 10-year return on private equity investments. The Houston Firefighters' Relief and Retirement Fund (HFRRF) was fourth on the list, with a 16% annualized 10-year return on private equity.

The annual ranking of large public pension funds revealed which pensions generated the highest rate of return from their private equity portfolios and which ones invested the most in private equity.

TRS was ranked third in its total private equity investment, at \$17.9 billion, while HFRRF did not make the Top 10 in that category.

The report found that the Massachusetts Pension Reserves Investment Trust Fund rose to first place based on its private equity returns, up from second place last year.


The report found that private equity delivered a 12.1 percent annualized return to the median public pension over the last 10 years, higher than any other asset class.

"This study shows that private equity is the best performing asset class for public pension funds over the long term," Bronwyn Bailey, PEGCC vice president of research, said in a statement. "Private equity not only strengthens the performance of pensions' investment portfolios, it is a critical component to the retirement security of millions of Americans."

It was the fourth year in a row that HFRRF was recognized in the annual ranking. Linda Calnan, HFRRF's senior investment officer, has managed the HFRRF private equity portfolio since 2003, spanning the entire period of the PEGCC's study.

Periodic asset allocation studies are performed to assist the HFRRF Investment Committee with asset allocation decisions, including private equity. These studies have suggested that private equity should make up between 11% and 18% of the HFRRF portfolio.

The HFRRF was created by state statute and has been administered by its Board of Trustees since its founding in 1937.

On the Web at: <http://www.pegcc.org/app/uploads/2015-pension-fund-analysis1.pdf>, <http://houston.citybizlist.com/article/322168/houston-firefighter-pension-fund-among-top-ten-in-nation> and <https://www.hfrrf.org/default.aspx>. 

GASB Issues New Pension Guidance Designed to Assist Certain Governments

The Governmental Accounting Standards Board (GASB) has issued guidance designed to assist governments that participate in certain private or federally sponsored multiple-employer defined benefit (DB) pension plans (such as Taft-Hartley plans and plans with similar characteristics).




During the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, stakeholders raised concerns regarding the inability of a small group of governments whose employees are provided pensions through such multiple-employer pension plans to obtain measurements and other relevant data points needed to comply with the requirements of that Statement.

This new guidance removes an impediment to complying with the GASB's financial reporting requirements for governments participating in certain multiple-employer DB pension plans. It also promotes enhanced consistency among those applying the standards.

The new guidance in GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, assists these governments by focusing employer accounting and financial reporting requirements for those pension plans on obtainable information.

In lieu of the existing requirements under Statement 68, the new guidance establishes separate requirements for employers that participate in these pension plans.

Statement 78 establishes the criteria for identifying the applicable pension plans and addresses measurement and recognition of pension liabilities, expense and expenditures; note disclosures of descriptive information about the plan, benefit terms and contribution terms; and required supplementary information presenting required contribution amounts for the past 10 fiscal years.

On the Web at: http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176167710777&acceptedDisclaimer=true and http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176160220621&acceptedDisclaimer=true. 

Study Shows that Traditional DB Pensions Outperform 401(k)-Style DC Plans


New research by the Center for Retirement Research at Boston College (CRR) finds that defined benefit (DB) pension plans outperformed 401(k)-style defined contribution (DC) plans by an average of 0.7 percent per year from 1990 through 2012. The findings controlled for plan size and asset allocation.

In addition, much of the money accumulated in 401(k)s is eventually rolled over into IRAs, which earn even lower returns, according to the research by Alicia H. Munnell, Jean-Pierre Aubry and Caroline V. Crawford.

One reason for the lower returns in 401(k)s and IRAs was higher fees, which should be a major concern as they can sharply reduce a saver's nest egg over time, the authors wrote.

The research was based on the U.S. Department of Labor's Form 5500, which collects data related to employee benefits, taxes and economic trends and policies.

Data from the Investment Company Institute show that returns for IRAs, which hold the bulk of the money, are about 1 percent less than in DC plans. Forgoing returns over long time periods means that assets at retirement will be sharply reduced, the authors wrote. "Saving is too hard to have fees eat up such a large portion of investment earning."

On the Web at: http://crr.bc.edu/wp-content/uploads/2015/12/IB_15-211.pdf and <http://blogs.wsj.com/moneybeat/2015/12/15/401ks-vs-pensions-pensions-do-better/>. 

Market Rules for Resource Extraction Issuers Proposed

Resource extraction issuers would have to disclose payments made to the U.S. federal government or foreign governments for the commercial development of oil, natural gas or minerals, according to proposed rules issued by the Securities and Exchange Commission (SEC).

The proposed rules, mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, are intended to further the statutory objective to advance U.S. policy interests by promoting greater transparency about payments related to resource extraction.

Under the proposed rules, an issuer would be required to disclose payments made to the U.S. federal government or a foreign government if the issuer is required to file annual reports with the commission under the Securities Exchange Act. The issuer also would be required to disclose payments made by a subsidiary or entity controlled by the issuer.

The proposed rules would implement a statutory mandate and require disclosure consistent with other payment transparency disclosure regimes around the world.

On the Web at: <http://www.sec.gov/rules/proposed/2015/34-76620.pdf>. 

Compliance Outreach Program for Municipal Advisors to Be Held in Philadelphia

The Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), and the Municipal Securities Rulemaking Board (MSRB) announced that registration is open for the Compliance Outreach Program for Municipal Advisors that will take place in Philadelphia on Feb. 3, 2016, and be webcast live on the SEC website.

The SEC's Office of Compliance Inspections and Examinations, in coordination with the SEC's Office of Municipal Securities, is partnering with FINRA and the MSRB to sponsor the program. Similar to the compliance outreach programs for broker-dealers and investment advisers, the municipal advisor program will provide municipal advisor professionals a forum for discussions with regulators about recent exam findings, regulatory issues, and compliance practices.

This year's outreach program is designed to promote compliance with municipal advisor rules by providing municipal advisor professionals with the opportunity to interact with all three regulators and to discuss regulatory and compliance issues with their industry peers.

On the Web at: <http://www.sec.gov/news/pressrelease/2015-270.html>. 

Public Funds Becoming More Cost-Effective; Funding Levels on the Rise, Study Finds

U.S. public pension funds continue to adopt substantial organizational and operational changes to ensure their long-term sustainability in the wake of the dramatic investment losses experienced after the 2008 financial crisis.

These efforts include increasing member contribution rates, expanding operational benchmarking and more diligent oversight.

However, some are still paying unusually high investment management fees, according to the 2015 annual study of public funds by the National Conference on Public Employee Retirement Systems (NCPERS), the largest trade association for public sector pension funds.

NCPERS' annual study took the measure of 179 state and local pension funds with 13.5 million participants and \$2 trillion in assets.

The average funded level for responding sponsors was 74.1 percent in the 2015 study, up from 71.5 percent in 2014.

The report maintained that public pension funds are becoming more cost effective. On average, funds paid 60 basis points in investment management and advisory fees, a decrease of 1 basis point from 2014 (100 basis points equals 1 percentage point).

But the study also showed that some funds pay exorbitantly higher fees. One fund with about 700 participants was paying 300 basis points in management fees. The NCPERS report did not break out the name of the funds or their specific value.

Several funds are paying more than 225 basis points in fees; and some funds with at least 10,000 participants are paying more than 100 basis points in fees, as are several other funds with more than 100,000 participants. The average of 60 basis points paid in fees on \$2 trillion of assets amounts to \$12 billion.

Investment returns were one reason behind the improved funding status, the report said. The one-year average return for the funds was 11.2 percent, despite lackluster equity markets in calendar year 2015.

Not all responding funds had the same fiscal-year ending date, however. Investment return data was measured for the fiscal year ending in September 2015, meaning some funds benefited from strong equity market returns into the end of calendar year 2014.

The three-year average return for investments was 10.7 percent; the five-year average 11.2 percent; the 10-year average 7 percent; and the 20-year average 8.5 percent, according to the study.

The average one-year assumed rate of investment return was 7.5 percent, down 0.2 percent from 2014. The inflation assumption remained steady at 3.2 percent.

Domestic equity was the most heavily weighted asset, with the funds averaging a 29.7 percent asset allocation to U.S. stocks. Domestic equity returned an average of 33.4 percent.

Domestic fixed-income was the second highest average asset allocation, at 15 percent. Its one-year average return was 11.9 percent.

Pension funds continue to lower their amortization periods, another factor in the improved average funding ratio. The average amortized time calculated was 25.2 years, down from 25.9 years in 2014.

Also, plans that use a five-year pension-smoothing period, which allows funds to spread out liabilities over five years, are now beyond the shadow of the financial crisis, a factor also aiding in improved funding status.

Investment returns accounted for 75 percent of average plan revenue in 2015, while employer contributions were 19 percent, and participant contributions were 7 percent, a 1 percent drop from 2014.

In the past two years, 41 percent of plans have increased employee contributions, and another 11 percent plan to in the next two years, according to the report.

On the Web at: <http://www.ncpers.org/files/%2820151117%29%20NCPERS%20Public%20Retirement%20Systems%20Study%20Report.pdf>

2015 NCPERS
Public Retirement Systems Study
November 2015

Study conducted by the
National Conference on Public Employee Retirement Systems and
Cobalt Community Research

2015 a Good Year for Public Employee Pensions: Head of Pension Coalition

When it comes to states paying their annually required contributions to their public pension systems, the math is pretty simple, according to a blog published in the Huffington Post by Bailey Childers, executive director of the National Public Pension Coalition. States that paid in full have the best funded plans, while those that skipped or reduced their ARCs are struggling with their finances.

Not surprisingly, responsible states that make their yearly required pension contributions have pensions that are fully funded and in some cases have surpluses, Childers wrote. Those that don't, such as Illinois and New Jersey, have underfunded pension plans that are in crisis.

Traditional defined benefit pensions remain the best way to provide retirement security and attract and retain quality nurses, teachers, firefighters and other public employees, Childers wrote. "Pooled risk among pension participants means no one is left to fend for themselves against market forces."

In addition, 401(k)s have proven to be "a tremendous failure at delivering retirement security – with the exception of the super-rich," she wrote.

Hybrid proposals, usually comprised of a reduced defined benefit pension combined with a new 401(k)-style account may, on their face, sound like a good compromise for workers. But in reality, a hybrid results in reduced retirement security for workers, Childers wrote.

Many efforts to shift away from traditional pensions were thwarted in 2015, she added.

"All told, 2015 was a good year for working families that rely on pensions for a modest, secure retirement. The strength of funds is steadily improving and states rejected ideologically-driven attacks on pensions – and all of this is good for taxpayers. 2016 is sure to bring new challenges, but public employees and their families can look back on 2015 and feel a little more secure about their retirement."

On the Web at: http://www.huffingtonpost.com/bailey-childers/the-year-in-retirement-se_b_8821640.html.

SEC Proposes a New Derivatives Rule

The Securities and Exchange Commission (SEC) has proposed a new rule designed to enhance the regulation of the use of derivatives by registered investment companies, including mutual funds, exchange-traded funds (ETFs) and closed-end funds, as well as business development companies. The proposed rule would limit funds' use of derivatives and require them to put risk management measures in place which would result in better investor protections.

The proposal is designed to modernize the regulation of funds' use of derivatives and safeguard both investors and the U.S. financial system. Derivatives can raise risks for a fund, including risks related to leverage, and that is why the SEC wants to require funds to monitor and manage derivatives-related risks and to provide limits on their use.

The Investment Company Act limits the ability of funds to engage in transactions that involve potential future payment obligations, including derivatives such as forwards, futures, swaps and written options. The proposed rule would permit funds to enter into these derivatives transactions, provided that they comply with certain conditions.

Under the proposed rule, a fund would be required to comply with one of two alternative portfolio limitations designed to limit the amount of leverage the fund may obtain through derivatives and certain other transactions.

On the Web at: <http://www.sec.gov/rules/proposed/2015/ic-31933.pdf>.

Are you on track to meet the PRB Minimum Training Requirements by 12/31/16?

Ensure your plan is in compliance

Visit <http://www.prb.state.tx.us/resource-center/trustees-administrators/educational-training-program/> to learn more.

Watch for an announcement from the PRB about online classes coming soon.

Contact TEXPERS at texpers@texpers.org with questions.

TEXPERS Basic Trustee Training (BTT) meets the PRB rules

Next class: April 2 in Dallas

Public Accountants Suspended for Deficient Auditing Practices

The Securities and Exchange Commission (SEC) suspended five accountants and two audit firms from practicing or appearing before the SEC after they violated key rules that are designed to preserve the integrity of the financial reporting system.

According to the SEC's orders instituting the settled administrative proceedings, the accountants and firms at various times performed deficient audits of public companies, jeopardized the independence of other audits and falsified and backdated audit documents, among other misconduct.

The SEC's found violations by Peter Messineo and his firm Messineo & Co., Charles Klein and his firm DKM Certified Public Accountants, Robin Bigalke, Joseph Mohr, and Richard Confessore.

Messineo and his firm, which had more than 70 corporate clients, skipped mandatory quality reviews for their own audits and performed deficient quality reviews for audits by another audit firm, the SEC alleged.

To cover up these violations, Bigalke falsified and backdated audit documents in her role as Messineo & Co.'s senior accountant, the complaint alleged. She also arranged with Mohr, the firm's quality reviewer, the backdating of quality review documents.

Mohr falsely identified himself as a certified public accountant during a time when was not licensed as a CPA, the SEC added.

Messineo served as the CFO of two public companies being audited by Klein and DKM. Messineo falsely certified the companies' public filings despite knowing that auditor independence rules were being violated as Confessore was improperly serving conflicting roles as a member of the DKM audit team and an employee of Messineo & Co., the SEC said.

After Messineo resigned from his CFO positions at both public companies, he merged his audit firm into DKM and exacerbated DKM's independence issues because he retained ownership interests in the two companies while DKM continued to audit them, the complaint alleged.

On the Web at: <http://www.sec.gov/litigation/admin/2015/34-76607.pdf>, <http://www.sec.gov/litigation/admin/2015/34-76608.pdf>, <http://www.sec.gov/litigation/admin/2015/34-76609.pdf>, <http://www.sec.gov/litigation/admin/2015/34-76610.pdf> and <http://www.sec.gov/litigation/admin/2015/34-76611.pdf>.

Audit Firm Grant Thornton Ignored Red Flags and Fraud Risks, SEC Claims

The national auditing firm Grant Thornton LLP and two of its partners agreed to settle charges by the Securities and Exchange Commission (SEC) that they ignored red flags and fraud risks while conducting deficient audits of two publicly traded companies that wound up facing SEC enforcement actions for improper accounting and other violations.

Grant Thornton admitted to the wrongdoing and agreed to forfeit approximately \$1.5 million in audit fees and interest plus pay a \$3 million penalty.

An SEC investigation found that Grant Thornton and two engagement partners repeatedly violated professional standards, and their inaction allowed the companies to make numerous false and misleading public filings.

The engagement partners were Melissa Koeppel, who worked on the deficient audits of both publicly traded companies, and Jeffrey Robinson, who worked on one of the deficient audits, which spanned from 2009 to 2011 and involved senior housing provider Assisted Living Concepts (ALC) and alternative energy company Broadwind Energy.

On the Web at: <http://www.sec.gov/litigation/admin/2015/34-76536.pdf> and <http://www.sec.gov/litigation/admin/2015/34-76537.pdf>.

TEXPERS 27th Annual Conference

*Stay Ahead of the Fed: Rising Rates
and What's Next*

April 3rd - 6th, 2016

Sheraton Dallas



**Registration
Opening Soon!**

**Basic Trsuttee Training Saturday
Golf Tournament Sunday morning**

**Sessions On: Macro-Investing,
Real Estate, Currency, What's the
Feds Next Move, O&G Outlook and
much, much more!**

Pennsylvania House Rejects Effort to Create Hybrid Public Pension Plan

The Pennsylvania House in December voted 149-52 against a bill that would have forced newly hired teachers and state workers into a hybrid system made up of a traditional pension along with a 401(k)-style plan.

The bill would have established a hybrid pension plan for future state and school employees and modified future benefits of current members of the \$51.7 billion Public School Employees' Retirement System and the \$27 billion State Employees' Retirement System, both in Harrisburg. The two plans have combined unfunded liabilities of \$60.1 billion.

House Majority Leader Dave Reed (R), who argued strongly in favor of the bill, said the pension changes were needed to address costs that have been increasing for school districts and state government.

In July, Gov. Tom Wolf (D) vetoed a pension reform bill that proposed all new state and public school employees be enrolled in a mandatory defined contribution plan, as well as offering an optional cash balance plan.


In September, Wolf proposed a new pension system that included a mandatory 401(k)-style plan for all new employees making at least \$75,000 in annual income. In addition, all employees would be given the option to participate only in a defined contribution plan at their time of hire. The plan also featured a risk-sharing component for all new employees.

Every Democrat voted against the bill, along with a majority of Republicans.

The legislative defeat also collapsed a proposed deal to solve the state's six-month-old budget impasse. The pension changes were part of a framework that Wolf had negotiated with the Republican-controlled General Assembly, along with higher taxes to increase education funding and reforms to the state-controlled system of selling wine and liquor.

Pennsylvania has been without a budget since the start of July, leaving schools and government agencies scrambling to pay bills.

The vote represents a win for unions that represent teachers and government workers, as well as for those who fought the tax increase.

On the Web at: <http://www.mcall.com/news/breaking/mc-pa-budget-bill-defeated-20151219-story.html> and http://www.philly.com/philly/news/politics/20151221_Lawmakers_huddle_in_effort_to_fix_budget_debacle.html. 

States Have Been Paring Public Pension Plan COLAs, Report Finds

At least 29 states have attempted to pare public pension costs by reducing, suspending or eliminating post-employment cost-of-living adjustments (COLAs) for new hires, current workers or current retirees since 2009, according to new research.

Several states have revised their COLA formulas multiple times during this period. Many of the COLA changes have taken place in states that had guaranteed a fixed percentage pension COLA, regardless of inflation.

The financial pressures of the Great Recession, combined with a relatively low-inflation environment, made reducing or eliminating these guaranteed rates or shifting to a different type of formula attractive to states such as Colorado, Hawaii, Florida, Kansas, Illinois, Minnesota, Montana, New Mexico, Ohio and South Dakota, according to the report, "Recent Reductions in Public Pension COLAs."

Some states – including Kentucky, Minnesota, Montana, New Jersey and Wyoming – tied their COLAs to pension plan funding levels, while others, such as Colorado, tied them to investment performance. Other types of cuts have involved skipping or delaying COLAs so they apply only after a worker has been retired for a certain period of time or reached a certain age. Some states, including Rhode Island and Louisiana, have developed complex COLA arrangements that combine several of these features.

Recent state cuts to pension COLAs have faced legal challenges, and courts have expressed a wide range of sometimes conflicting views on the constitutional issues involved. Reductions in COLAs have withstood constitutional challenges in Colorado, Minnesota, New Jersey, New Mexico, South Dakota and Washington state courts, as well as in the First and Fourth Circuits of the U.S. Courts of Appeals. Similar reductions have been struck down in Arizona and Illinois and, in part, in Oregon.

Most states protect pensions for their public employees under a contracts-based approach, and the limits of states' ability to change future benefits for current workers and retirees has formed the basis of several lawsuits.

Whether legislative COLA cuts pass constitutional muster can depend on how courts view COLAs in the first place: whether or not they are the same as, or different from, core retirement benefits that are entitled to state protection.

On the Web at: <http://ecom.ncsl.org/webimages/legisbriefs/October2015/2338.pdf>. 

**Topic: 2016 Continuing Education and Investment Research
Regular Board Meeting – January 14, 2016**

ATTENDING

- | | |
|--|----------------|
| 1. Conference: NEPC Public Funds Workshop
Dates: January 11-12, 2016
Location: Phoenix, AZ | SF, JS, KG, JP |
| 2. Conference: Opal: Public Funds Summit
Dates: January 13-15, 2016
Location: Scottsdale, AZ
Est. Cost: \$1,500 | KH |

Regular Board Meeting January 14, 2016

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|---|-------------------------------------|
| 3. Conference: Invesco Global Market Outlook
Dates: January 15, 2016
Location: Dallas, TX
Est. Cost: N/A | JS |
| 4. Conference: Society of Pension Professionals
Dates: January 19, 2016
Location: Dallas, TX
Est. Cost: \$250.00 Per Person Annually | JS, JB, CW |
| 5. Conference: NCPERS Legislative Conference
Dates: January 24-26, 2016
Location: Washington, DC
Est. Cost: \$1,500 | SF, CC, LK, JB, EW
BH, KG, JMond |

6. Conference: NAPO Pension & Benefits Seminar KH
Dates: January 24-26, 2016
Location: Las Vegas, NV
Est. Cost: \$1,300

Regular Board Meeting February 11, 2016

Regular Board Meeting March 10, 2016

7. Conference: IFEBP: Investments Institute *
Dates: March 14-16, 2016
Location: Las Vegas, NV
Est. Cost: \$2,660

8. Conference: Society of Pension Professionals JS, JB, GI, CW
Dates: March 15, 2016
Location: Dallas, TX
Est. Cost: \$250.00 Per Person Annually

9. Conference: Oaktree Conference *
Dates: March 16-17, 2016
Location: Beverly Hills, CA
Est. Cost: TBD

10. Conference: TEXPERS Annual Conference *
Dates: April 3-6, 2016
Location: Dallas, TX
Est. Cost: TBD

11. Conference: Merit Energy Annual Meeting *

Dates: April 12-13, 2016
Location: Dallas, TX
Est. Cost: TBD

Regular Board Meeting April 14, 2016

12. Conference: Society of Pension Professionals JS, JB, GI, CW

Dates: April 19, 2016
Location: Dallas, TX
Est. Cost: \$250.00 Per Person Annually

13. Conference: TEXPERS Secure Retirement for All *

Dates: April 21-22, 2016
Location: Washington, DC
Est. Cost: TBD

14. Conference: Wharton: Portfolio, Concepts, and Management *

Dates: May 2-5, 2016
Location: Pennsylvania, PA
Est. Cost: \$5,000

Regular Board Meeting May 12, 2016

15. Conference: NCPERS Trustee Educational Seminar (TEDS) *

Dates: May 14-15, 2016
Location: San Diego, CA
Est. Cost: TBD

16. Conference: NCPERS Annual Conference *

Dates: May 15-19, 2016
Location: San Diego, CA
Est. Cost: TBD

Regular Board Meeting June 9, 2016

17. Conference: Society of Pension Professionals JS, JB, GI, CW

Dates: June 21, 2016
Location: Dallas, TX
Est. Cost: \$250.00 Per Person Annually

Regular Board Meeting July 14, 2016

18. Conference: Society of Pension Professionals JS, JB, GI, CW

Dates: July 19, 2016
Location: Dallas, TX
Est. Cost: \$250.00 Per Person Annually

19. Conference: Wharton: International and Emerging Market Investing *

Dates: July 25-27, 2016
Location: San Francisco, CA
Est. Cost: \$6,000

Regular Board Meeting August 11, 2016

20. Conference: TEXPERS Summer Educational Forum *

Dates: August 14-16, 2016
Location: San Antonio, TX
Est. Cost: TBD

21. Conference: NCPERS Public Pension Funding Forum *

Dates: August 21-23, 2016
Location: New Haven, CT
Est. Cost: TBD

Regular Board Meeting September 8, 2016

22. Conference: Society of Pension Professionals JS, JB, GI, CW

Dates: September 20, 2016
Location: Dallas, TX
Est. Cost: \$250.00 Per Person Annually

Regular Board Meeting October 13, 2016

Board and Staff Workshop October 17-19, 2016

23. Conference: NCPERS Public Safety Conference *

Dates: October 23-26, 2016
Location: Las Vegas, NV
Est. Cost: TBD

Regular Board Meeting November 10, 2016

Regular Board Meeting December 8, 2016

24. Conference: Society of Pension Professionals JS, JB, GI, CW

Dates: December 20, 2016
Location: Dallas, TX
Est. Cost: \$250.00 Per Person Annually