Written by **Bob Adelmann** on February 22, 2017

Dallas Pension Plan Solution: Everyone Shares the Pain

Following the pension plan board meeting on Monday, Presidents' Day, a decision was made to accept the rough outlines of a proposal by Texas House Pensions Committee Chairman Dan Flynn to keep the Dallas police and firefighters pension plan from going bankrupt. Said city council member Philip Kingston, "Flynn's [plan] is the best of the bad options."

Everyone involved will share the pain: some by having their benefits cut back, and some by having the contributions increased.

Under the Summary issued late Monday night:

> Normal retirement age would be boosted from age 55 to 58;
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> The "benefit multiplier" used to determine retirement benefits would be reduced;
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> Cost of Living Increases (COLAs) would be permanently eliminated;
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> Those with DROP (Deferred Retirement Option Plan) accounts will have their interest rates cut from six percent to whatever U.S. Government Treasuries are earning — around three percent currently;
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> Those retiring will have their DROP accounts turned into lifetime annuities, while others with DROP accounts won't be able to access them until they retire; and
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> Current employees will have their present contributions to the plan increased from 8.5 percent to 13.5 percent.

In addition, Dallas (meaning Dallas taxpayers) will increase its contribution to the plan by 14 percent, and, based on current investigations by the FBI, certain advisors to the plan may be charged with fraud and, if convicted, could go to jail.

The decision to install a "retention perk" back in 1993 now appears to be the domino that started pushing over all the others. Called the Deferred Retirement Option Plan, it was designed to keep police officers and firefighters from taking advantage of early retirement by allowing their retirement checks to be deposited into a tax-deferred savings account. The enticement was enhanced with promises that the funds there would earn nine percent a year.

The plan itself assumed its other investments would earn 8.5 percent a year, helping to keep the contribution of Dallas to the plan low. With the passage of time, it became clear that those assumptions were overly generous, and so the plan trustees, instead of asking for increased contributions from taxpayers or the plan beneficiaries, "reached for yield" by investing an increasing share of the fund's assets in risky but potentially highly profitable ventures. Those ventures turned into adventures: villas in Hawaii; a luxury resort in Napa County, California; timberland in Uruguay; farmland in Australia; and the Museum Tower, high-end luxury townhouses in downtown Dallas.

It was learned in 2013 that some $400 million invested in Napa and Hawaii wasn't properly valued, and in 2014 the board fired its longtime plan administrator.

The new advisor, CDK Realty Advisors, has been under investigation by the FBI for the past year and might, depending upon what is turned up, result in grand jury charges of malfeasance.

The plan's performance has been dismal, bordering on atrocious. Over the last five years, instead of earning its assumed 8.5 percent, the plan has suffered an average annual 1.5 percent loss.

At the moment the plan has liabilities approaching $10 billion while its assets are valued at a little over $2 billion, leaving a breathtaking shortfall that Moody's Investors says is more pension debt, relative to Dallas' balance sheet, than any other municipal pension plan in the country except Chicago's.

Flynn's plan won't take effect until September 1 and has to be approved first by state legislators before the end of the legislature's term in May. The last time Dallas faced this problem was with its municipal employees' pension plan back in 2005. At that time the city borrowed $535 million to shore it up. So Dallas pension plan managers have some considerable experience in making promises that they should know will never be kept. With the "Flynn" plan, the goal of making the police and firefighters' pension plan fully funded in 30 years will never be met. Best estimates are that even with these cuts, increases, and possible jail time for some of the plan's advisors, the Dallas Police and Fire Pension plan won't be fully solvent until 2070.

Dallas Mayor Mike Rawlings expressed the feelings of many: "I love to create win-win propositions. That's not this. This is a lose-lose-lose proposition."

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