

Employees' Retirement Fund of the City of Dallas



City of Dallas

**Recap of Presentations to
Ad Hoc Committee on Pensions
on Oct. 12th and Dec. 14, 2023**

January 16, 2024

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

Background/History



History	Established in 1944
Type Plan	Single employer defined benefit “Trust Plan” that provides retirement, disability and death benefits for the permanent civilian employees of the City of Dallas
Governance	Seven-member board consisting of three persons appointed by the City Council, three employees elected by the membership, and the City Auditor, ex officio
Design	City of Dallas does not participate in Social Security. Dallas ERF does not have a Deferred Retirement Option Program (“DROP”). Cost of Living Adjustments based on Consumer Price Index (CPI)
Board Consultants	Actuary: Gabriel Roeder Smith & Company
	Investment Consultant: Wilshire
	Legal Firms: BakerHostetler LLP Foster Garvey PC Locke Lord LLP





Governance - Dallas ERF Board Composition

The Board of the Employees' Retirement Fund of the City of Dallas is composed of seven Trustees consisting of:

- (A) three persons appointed by the City Council: Henry Talavera (Chair), Dr. John Peavy III (Vice Chair), and T. Dupree Scovell

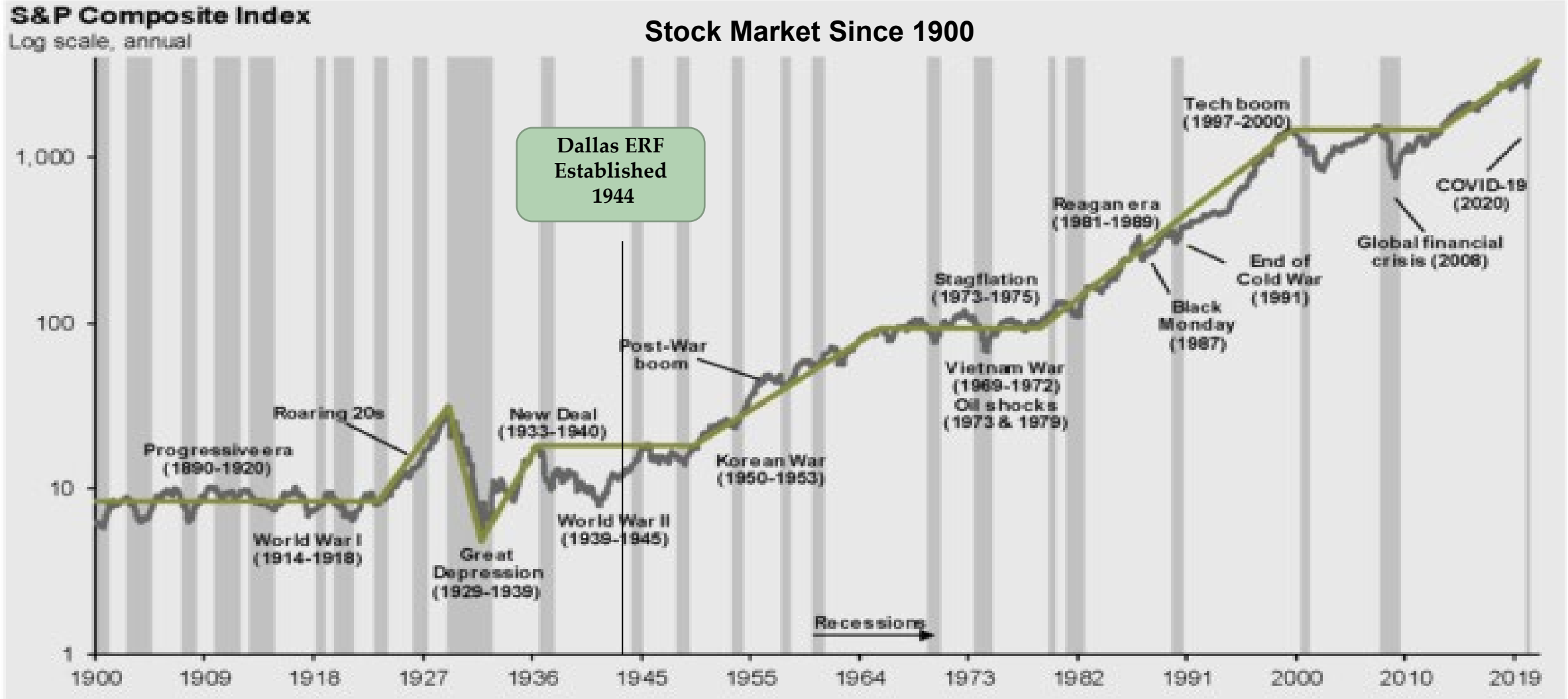
- (B) three employee members from different departments of the City who are elected by members of the retirement fund - Carla D. Brewer, Tina Richardson, Sunil King; and

- (C) the City Auditor (ex-officio) – Mark Swann.

ERF Trustees are charged with fiduciary responsibilities to act solely in the best interest of the Fund's membership.



Dallas ERF has a long-term horizon

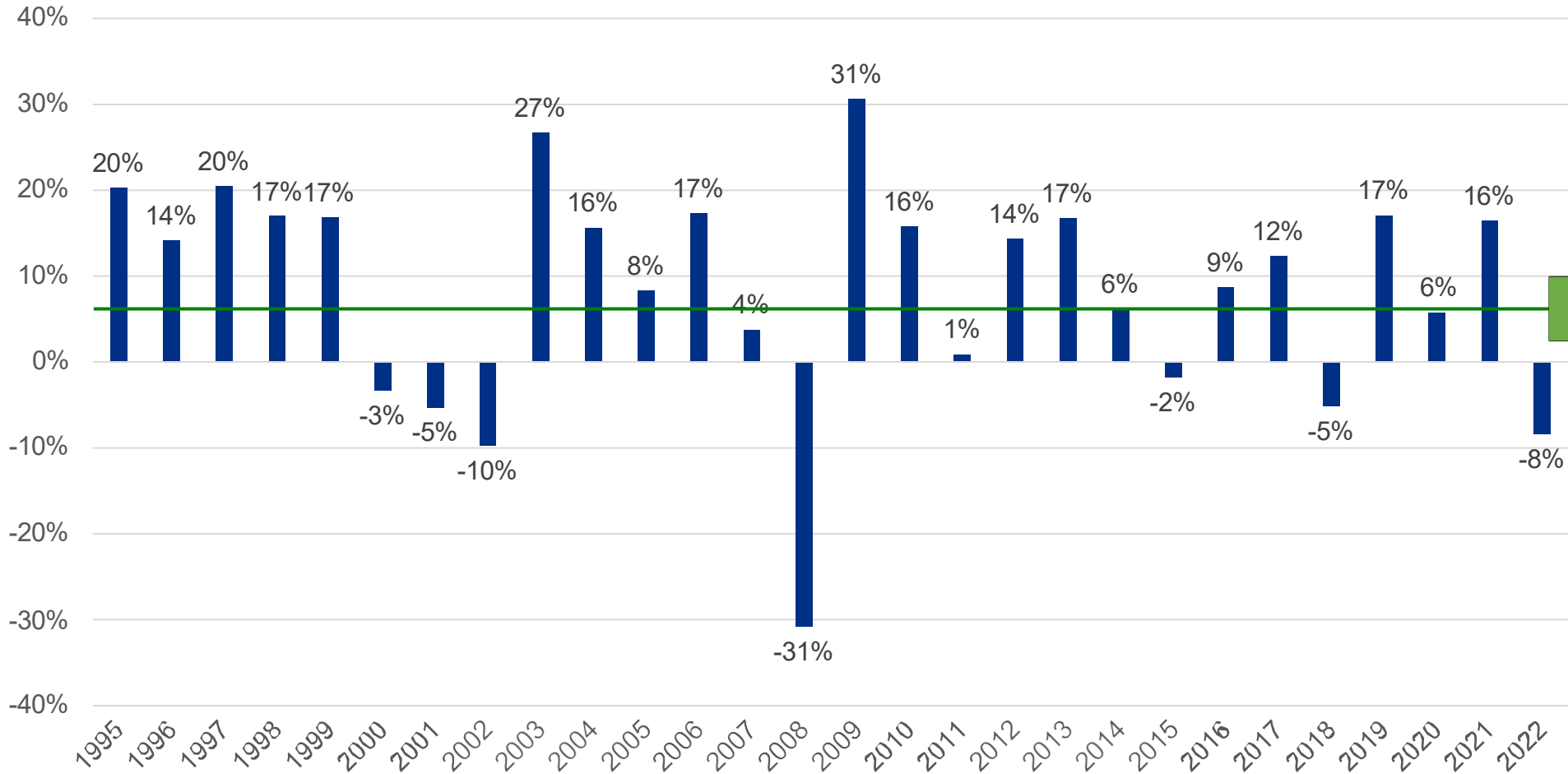


Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.

Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.

Guide to the Markets – U.S. Data are as of March 31, 2021.

Long-Term Dallas ERF Investment History



Dallas ERF Return
Dec 31, 2023= 10.2%



Dallas ERF Performance Results



- ❑ Conservative Global Investment Portfolio with 85% valued daily as of 12/31/2023
 - ❖ 1 year – 10.21%
 - ❖ 3 year – 5.45%
 - ❖ 5 year – 7.72%
 - ❖ Since inception (1/1/1985) – 8.70%

- ❑ Assets under Management as of 12/31/2023 – \$3.66 billion

- ❑ Actuarial Valuation conducted annually, most recently as of 12/31/2022

- ❑ Experience study conducted every five years, and the most recent study was conducted in 2020.

- ❑ An independent peer review audit of the ERF's actuary is conducted every five years.

- ❑ Funded ratio (actuarial assets divided by actuarial accrued liability) = 73.1% as of 2022



ERF Members Facts & Figures as of 12/31/2022



Average Annual Benefit
\$40,883

Annual Benefit Paid to Beneficiaries
\$317.5 Million

ERF Employee Member Headcount
7,464

ERF Retiree Headcount
7,766

Percent of ERF Active Members
who are Dallas Residents
44%

Percent of ERF Retirees
who are Dallas Residents
35%

Civilian Employee Turnover
17%

Uniform Employee Turnover
DPD = 1% | Fire = 2.4%

1,100 Active Employees eligible to retire
Leave payout = \$12M est.

Tier B Restricted Prior Service Participants
395

2022 Actuarial Valuation Summary



Prepared as of December 31, 2022, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods

Purposes:

- Measure the actuarial liabilities of the ERF
- Determine actuarial required contribution rate
- Provide other information for reporting for Annual Comprehensive Financial Report
- Explain changes in actuarial condition of the Fund

○ Results

The unfunded liability was \$1.41 billion

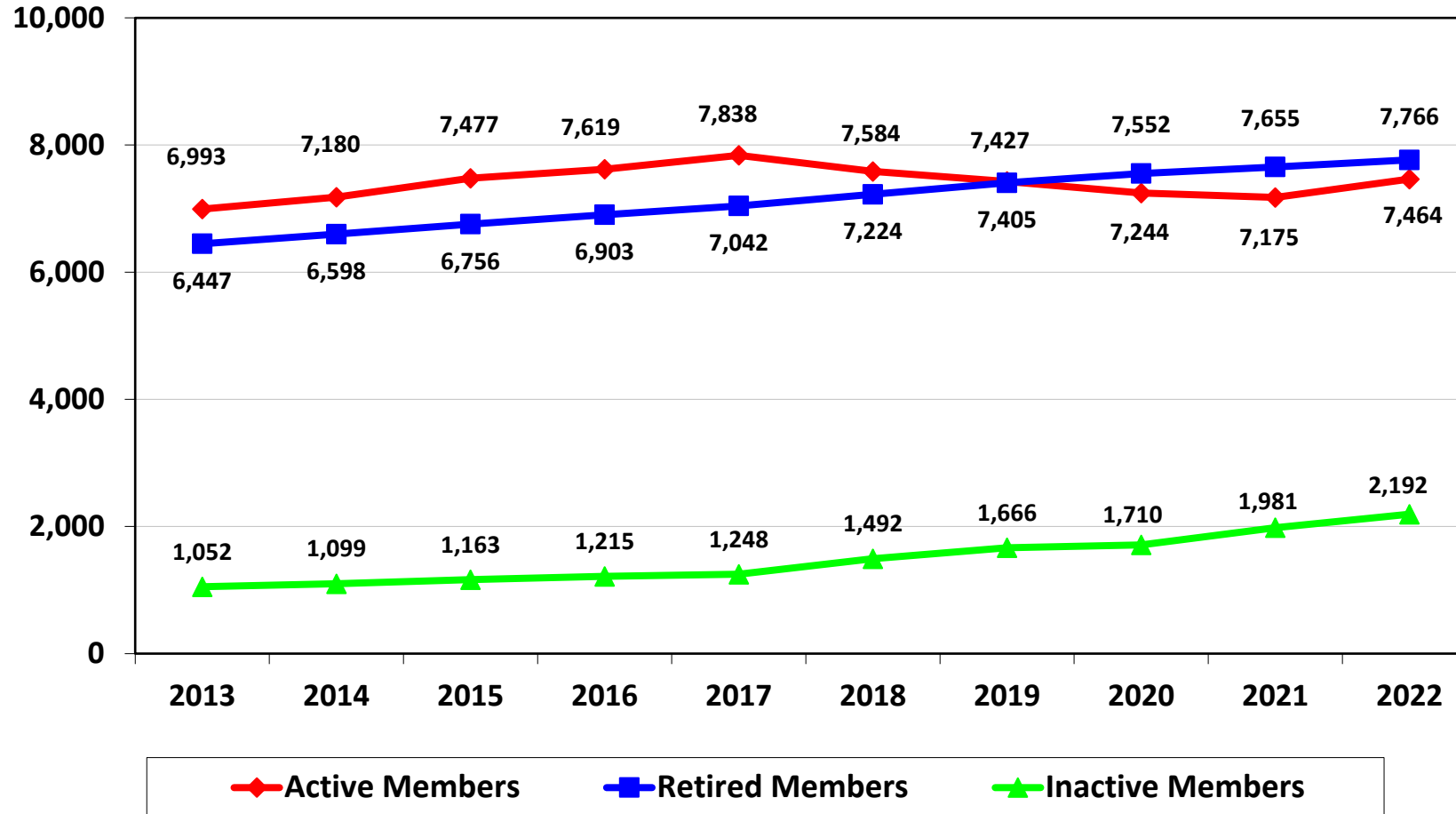
The actuarial value of assets was \$3.866 billion

The actuarial value of liabilities was \$5.276 billion

Funded ratio (actuarial assets divided by actuarial accrued liability) – 73.1% as of 2022



Active and Retired Members

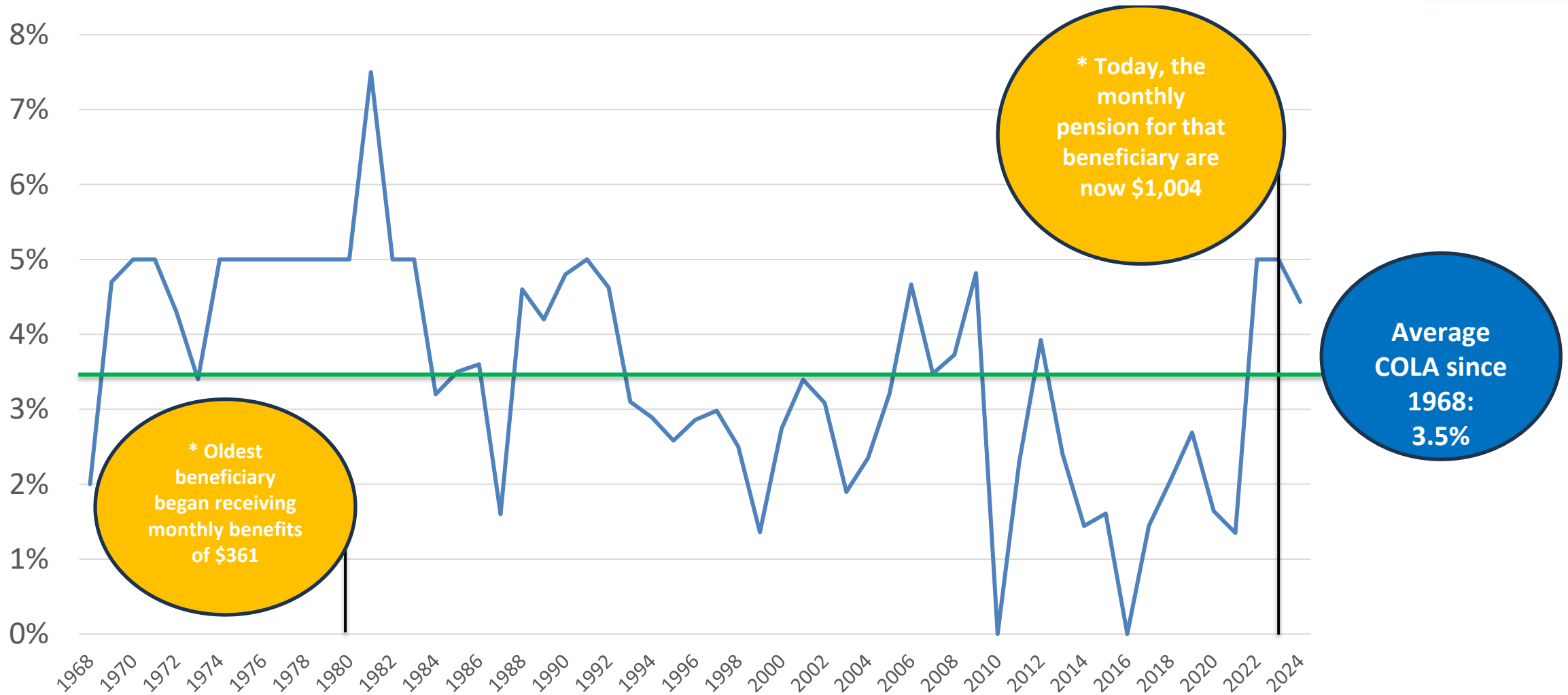


The average benefit paid to a member is **\$39,395**

Note: active membership increased 4.0% versus last year



Annual COLA Since 1968



Beneficiaries receive a simple, non-compounding COLA based on CPI to help offset the effects of inflation without social security.

Historical Changes to the Plan

2004 Study Committee



Issues and Recommendations

A Study Committee was formed to review the financial situation of the Dallas ERF
The Study Committee recognized a need to reduce the Unfunded Actuarial Accrued Liability (UAAL)

Various options were considered

The Study Committee recommended

- Issuing Pension Obligation Bonds (POBs) to fully fund the UAAL
- Maintaining the contribution rates at 63% from the City and 37% from employees
- Adding automatic contribution rate adjustments
- Applying the annual debt service payments on the POBs to the City's required contribution
- Capping the total contribution rate at 36%



Contribution Calculation



	<u>2022</u>	<u>2023</u>
1. Prior Adjusted Total Obligation Rate	36.00%	36.00%
2. Actuarially Required Contribution Rate	34.61%	35.50%
3. Debt Service		
a) Scheduled Debt Service Payment	\$ 38,843,241	\$ 40,142,080
b) Projected Payroll	\$453,934,344	\$488,516,155
c) Pension Obligation Bond Credit (a/b)	8.56%	8.22%
4. Current Total Obligation Rate (2+3c)	43.17%	43.72%
5. Current Adjusted Total Obligation Rate	36.00%	36.00%
6. Allocation of Contribution Rates for Fiscal Year Beginning October 1 st		
a) Employee (5 x .37)	13.32%	13.32%
b) City (5 x .63)	22.68%	22.68%
7. City Contribution to Fund (6.b. – 3.c)	14.12%	14.46%



Comparable Contribution Rates for Texas Cities



City/Retirement System	City Contribution to Retirement Plan	City Contribution to Social Security	Total City Contribution to Retirement
City of Dallas (ERF)	22.68%	0.00%	22.68%
City of Austin Muni	20.47%	6.20%	26.67%
City of Fort Worth	31.59%	0.00%	31.59%
City of Houston Muni	28.86%	6.20%	35.06%

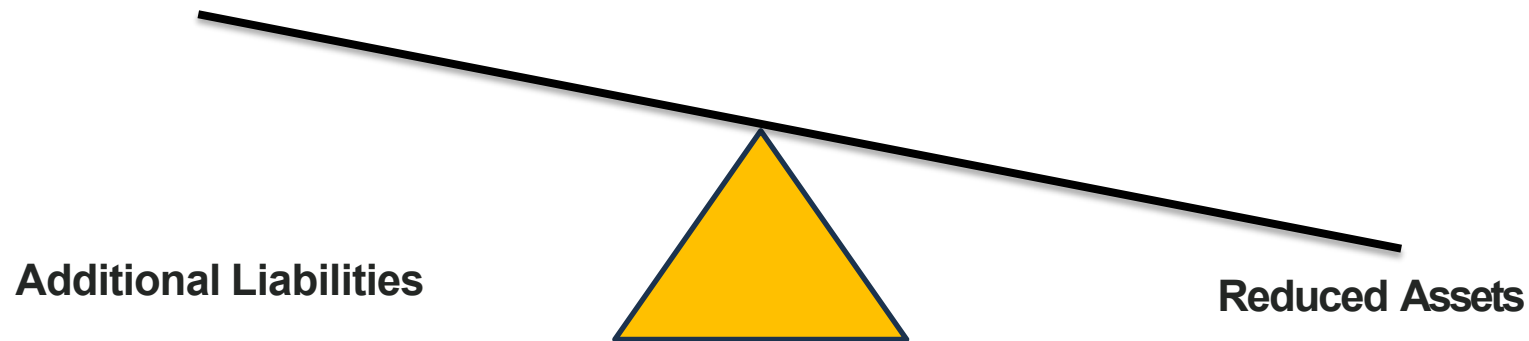


Factors that Impact Liabilities and Assets

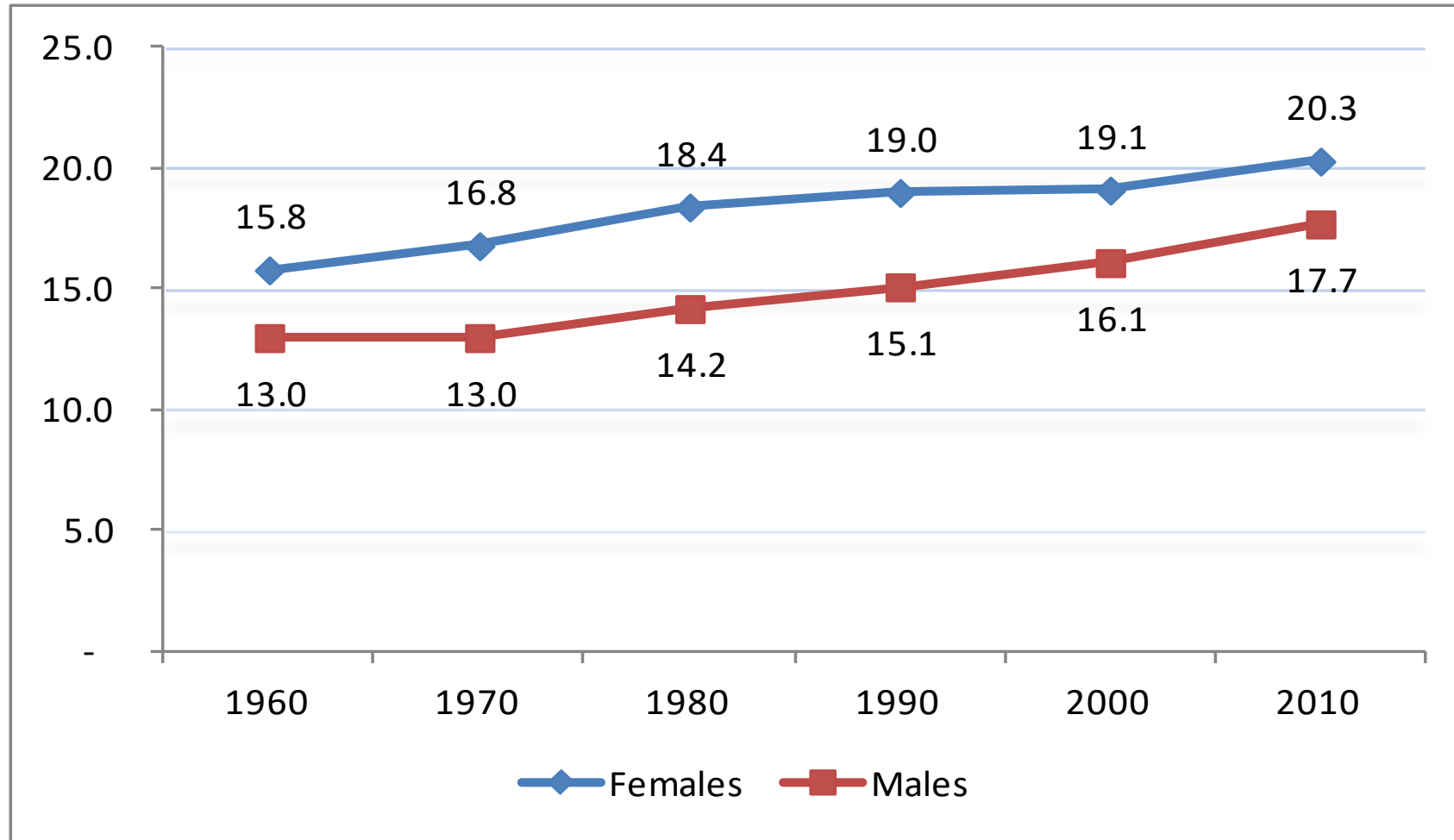


- Longer Life Expectancies
- Higher Inflation Rates
- Reduced Actuarial rate of return from 8.5% to 7.25% over time

- Reduced Actual Investment Return (lower stock market & interest rates)
- Lower payroll results in lower contributions to the Fund



The Workforce is living and working longer



Since 2010, life expectancies continue to increase. The latest published rates (2019) are 20.8 years for females and 18.2 years for males, both from age 65.



ERF Membership Statistics as of 12/31/2022



- Oldest employee born in 1939 (83 years old)
- Youngest employee born in 2004 (18 years old)
- Oldest service retiree born in 1922 (100 years old)
- Oldest beneficiary born in 1914 (108 years old)
- Disabled retiree has been in payment status for 57 years (age 90)
- 1,100+ employees are eligible to retire.
- 18 service retirements have been in payment status for more than 40 years (member or joint annuitant)



2015 Funding Soundness Restoration Plan (FSRPs)



Funding Soundness Restoration Plans (FSRPs) are developed by Texas public retirement systems and their sponsors to improve the funding status of pension plans.

The FSRP requirements were established by the Texas Legislature in 2015 and updated in 2021.

The background leading up to the plan is as follows:

- In 2015, Dallas ERF adopted more conservative assumptions, lowering the actuarial rate of return and adopting a new mortality table called *generational mortality* recommended by the Society of Actuaries.
- Mortality tables measures life expectancy tied to the member's birth date and retirement date.
- Future generations are expected to live longer, and the new generational mortality table significantly increases life expectancy assumptions for them, thus increasing future pension liabilities.



2015 FSRP (continued)



- In 2015, the ERF Trustee Board established the Pension Plan Study Group (PPSG). The PPSG established a scope of work that included the following:
 - Evaluated the life expectancy of future retirees at age 65 and beyond using actuarially based data;
 - Researched and studied plan designs that would reduce pension liability over time;
 - Conducted a statewide comparison of pension plans;
 - Recommended a series of benefit reduction plans for new hires; and

- Reported its findings and recommendations to the ERF Trustee Board and City Council.

- The PPSG met from October 2015 to March 2016, evaluated various scenarios and presented its recommendations which were to:
 - adjust benefits for new employees hired after December 31, 2016,
 - to address longevity and reduce normal costs by 36% and
 - reduce pension liabilities by \$2.15 billion over a 30-year period.



2016 Cost Impact of Studies



Dallas Employees' Retirement Fund Benefit Changes for New Hires

Preliminary Normal Cost Rate (NC%) as of 12/31/2015 20.36%

Study # and Description of Benefit Modification	Decrease in NC%	Percentage Decrease
1. Age 65 with 5 years of service Normal Retirement and	4.90%	24.1%
2. CPI COLA, with maximum of 3.00% (valued as 2.50% COLA)	0.62%	3.0%
3. Average Monthly Earnings period changed from 3 to 5 years	0.62%	3.0%
4. Normal Form of payment changed to life only annuity	1.00%	4.9%
5. Elimination of \$125 health supplement	0.70%	3.4%
6. Benefit multiplier changed from 2.75% to 2.50%	1.58%	7.8%
7. Combination of all prior Scenarios	7.91%	38.9%

\$2.15 billion in savings through 2055

ERF Provides Two Tiers of Benefits



TIER A BENEFITS

- PLAN ENTRY - Before December 31, 2016
- MULTIPLIER - 2.75%
- NORMAL RETIREMENT - Age 60
- SERVICE RETIREMENT - 30 Years of Service
- RULE OF 78 - Unreduced
- FINAL AVERAGE PAY - Best of 3 Years
or Last 36 Months
- HEALTH BENEFIT SUPPLEMENT - Max \$125
- MAXIMUM RETIREE COLA - 5%
- RESTRICTED PRIOR SERVICE CREDIT - No
unless Returning after Forfeiting Pension
- LIFE - Not Reduced
- JOINT & HALF BENEFIT - Not Reduced
- JOINT & FULL BENEFIT - Reduced

TIER B BENEFITS

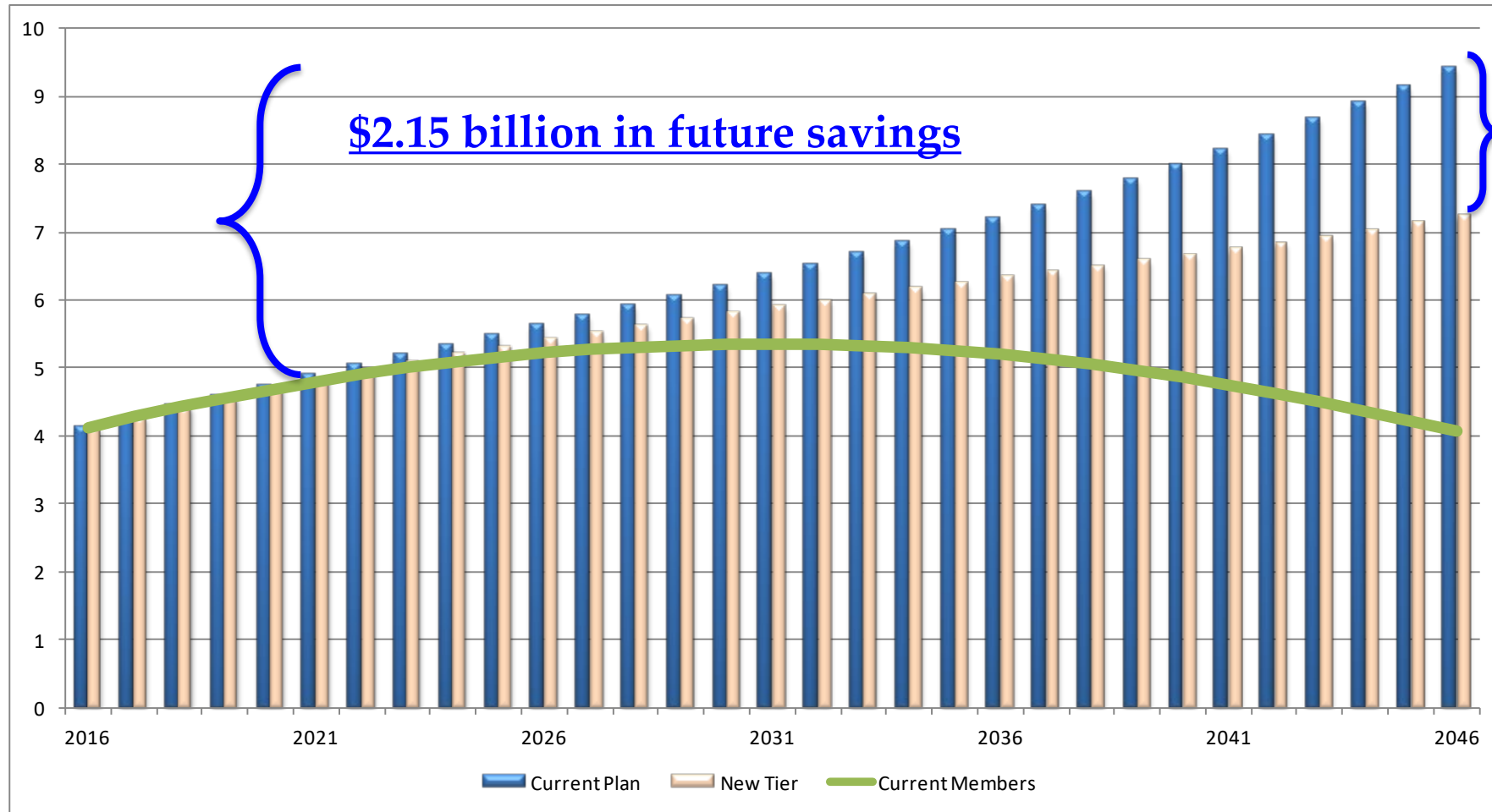
- PLAN ENTRY - After December 31, 2016
- MULTIPLIER - 2.50%
- NORMAL RETIREMENT - Age 65
with 5 Years Service
- SERVICE RETIREMENT - 40 Years of Service
- RULE OF 80 - Reduced Before Age 65
- FINAL AVERAGE PAY - Best of 5 Years
or Last 60 Months
- HEALTH BENEFIT SUPPLEMENT - None
- MAXIMUM RETIREE COLA - 3%
- RESTRICTED PRIOR SERVICE CREDIT - Yes
- LIFE - Not Reduced
- JOINT & HALF BENEFIT - Reduced
- JOINT & FULL BENEFIT - Reduced



Benefit Changes Estimated Liability Reductions



\$ in Billions



Dallas ERF Board, Dallas City Council and Dallas Voters worked together to amend 40A (Trust Plan)



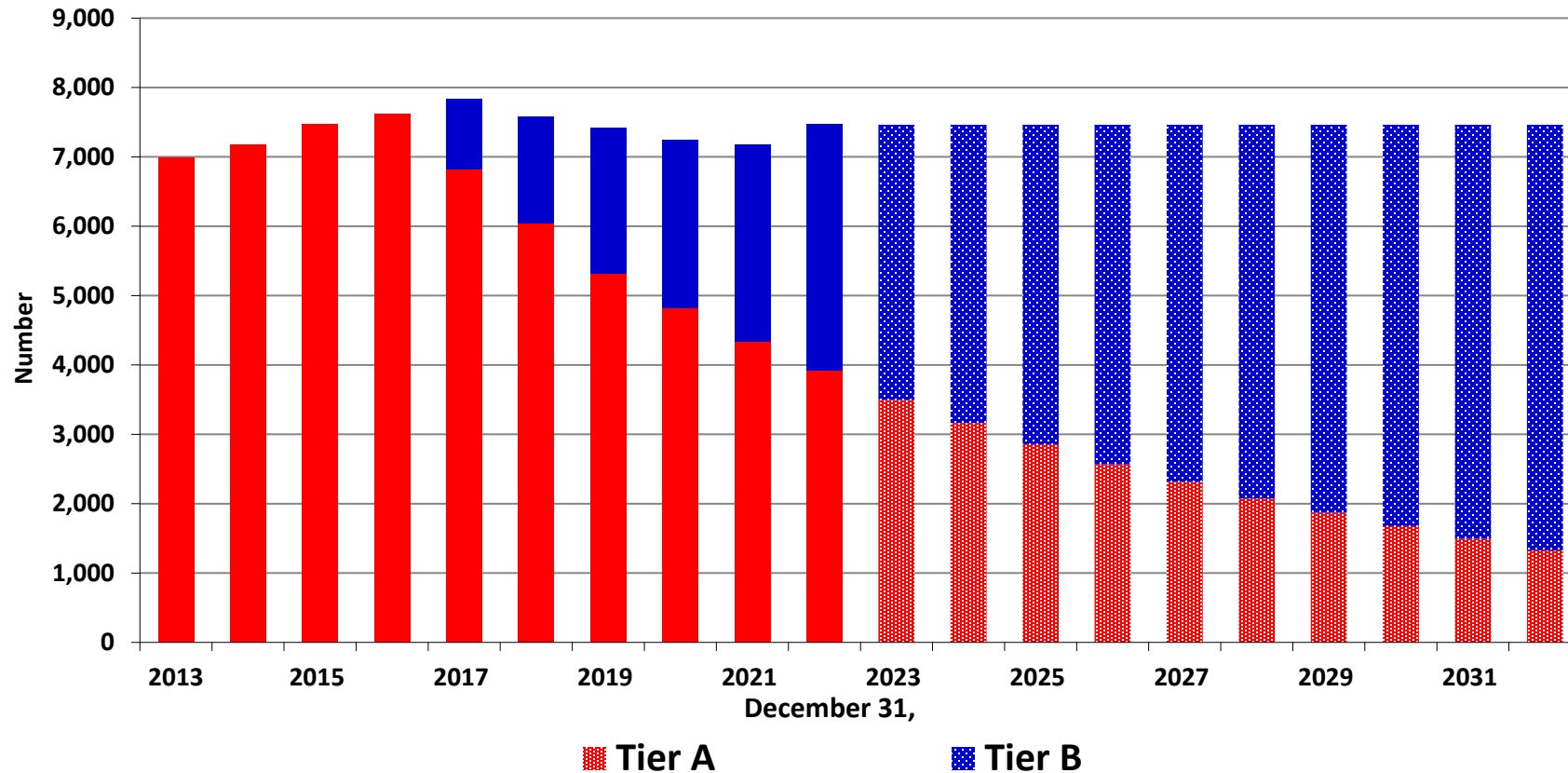
- Chapter 40A Trust Plan amendment process requires all interested parties to approve any changes not required by Federal law.
- The Dallas ERF Board, Dallas City Council, and the voters of the City of Dallas must approve the 40A Trust Plan amendments.
 - ❖ Dallas ERF Board unanimously approved Tier B in August 2016.
 - ❖ Dallas City Council approved changes Tier B in August 2016.
 - ❖ City of Dallas voters approved changes in November 2016 (**69% of voters approved**), respectfully.
- Chapter 40A Trust Plan amendments became effective after January 1, 2017.



Projected Active Membership



Projected Number of Tier A and Tier B Employees



Tier A = 52%
Tier B = 48%



Changes have reduced the growth of future liabilities



Dallas Employees' Retirement Fund

Valuation Date	Normal Cost %	Change
12/31/2016	20.75%	
12/31/2017	20.04%	-0.71%
12/31/2018	19.56%	-0.48%
12/31/2019 ¹	19.05%	-0.51%
12/31/2019 ²	20.50%	1.45%
12/31/2020	20.11%	-0.39%
12/31/2021	19.71%	-0.40%
12/31/2022	19.17%	-0.54%



- **Normal Cost** is the annual cost of future pension benefits and administrative expenses assigned, under an actuarial cost method, for subsequent years and a valuation date.

- In 2019, the ERF Board adopted a more conservative assumption by reducing its investment rate of returns from 7.75% to 7.25%.
- The Normal Cost percentages increased with the new 2019 assumptions; however, the future normal cost is forecasted to be 15% as the Tier B participation increases.

¹ Based on old assumptions

² Based on new assumptions



In 2023, PRB established guidelines around new FSRP requirements:



Section 802.2015(d) of the TX Government Code provides that the Dallas ERF must formulate a revised funding soundness restoration plan. The PRBs guidelines in response to the Government Code are:

- 1) the system's (ERF) actuarial valuation shows that the plan's expected funding period exceeds 30 years but is less than or equal to 40 years; and
- 2) the system(ERF) is:
 - (A) adhering to an existing funding soundness restoration plan that was formulated before September 1, 2025; or
 - (B) implementing a contribution rate structure that uses or will ultimately use an actuarially determined contribution structure and the system's actuarial valuation shows that the system is expected to achieve full funding.

Therefore, by adhering to a FSRP before 9/1/25, the ERF would be eligible for the exception that allows analysis to be based on a 30-to-40-year range, rather than the otherwise applicable 30-year amortization period rule.

Otherwise, the ERF will lose the benefit of the special exception, which means the funding period moves from 30 to 25 years.

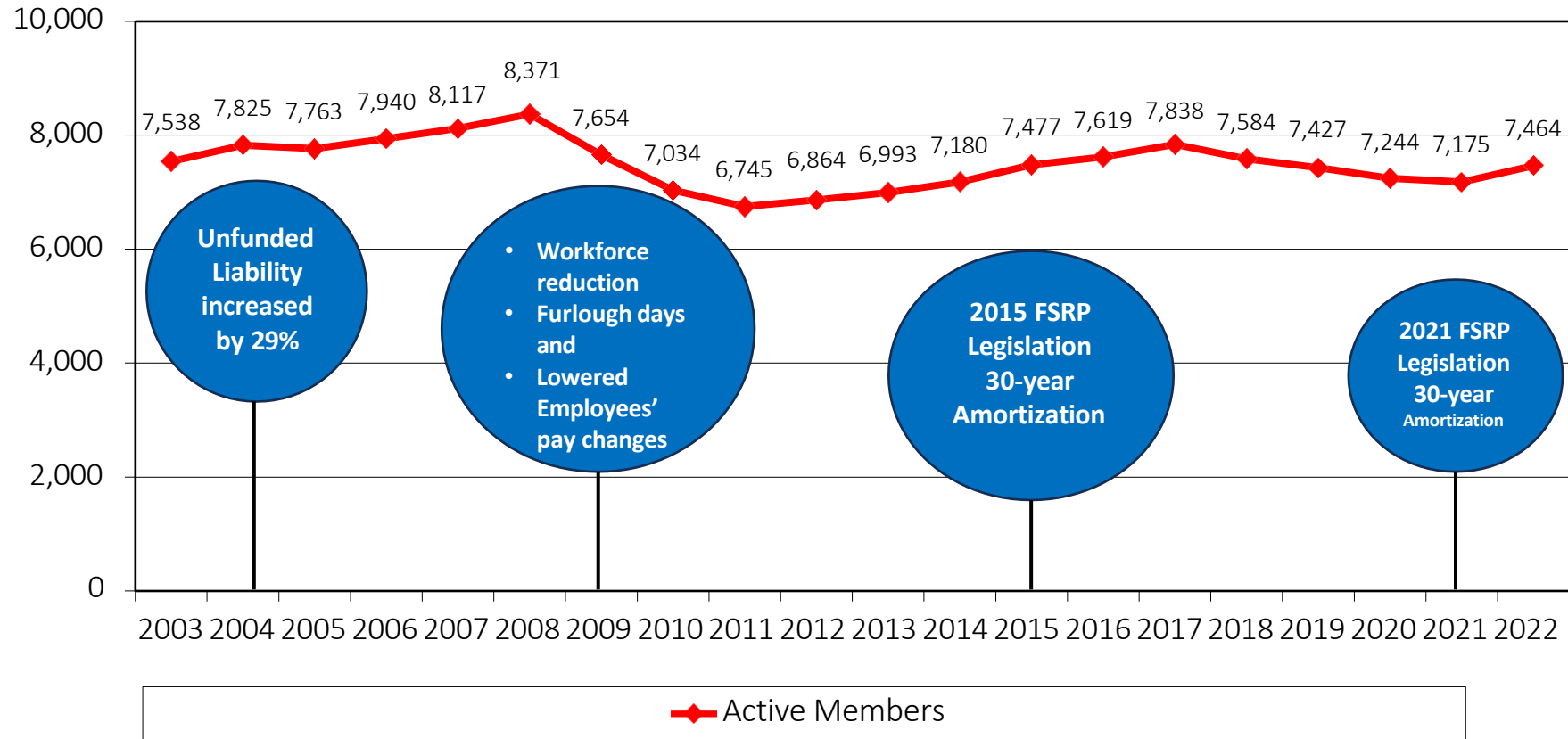




Considerations & Action Plan



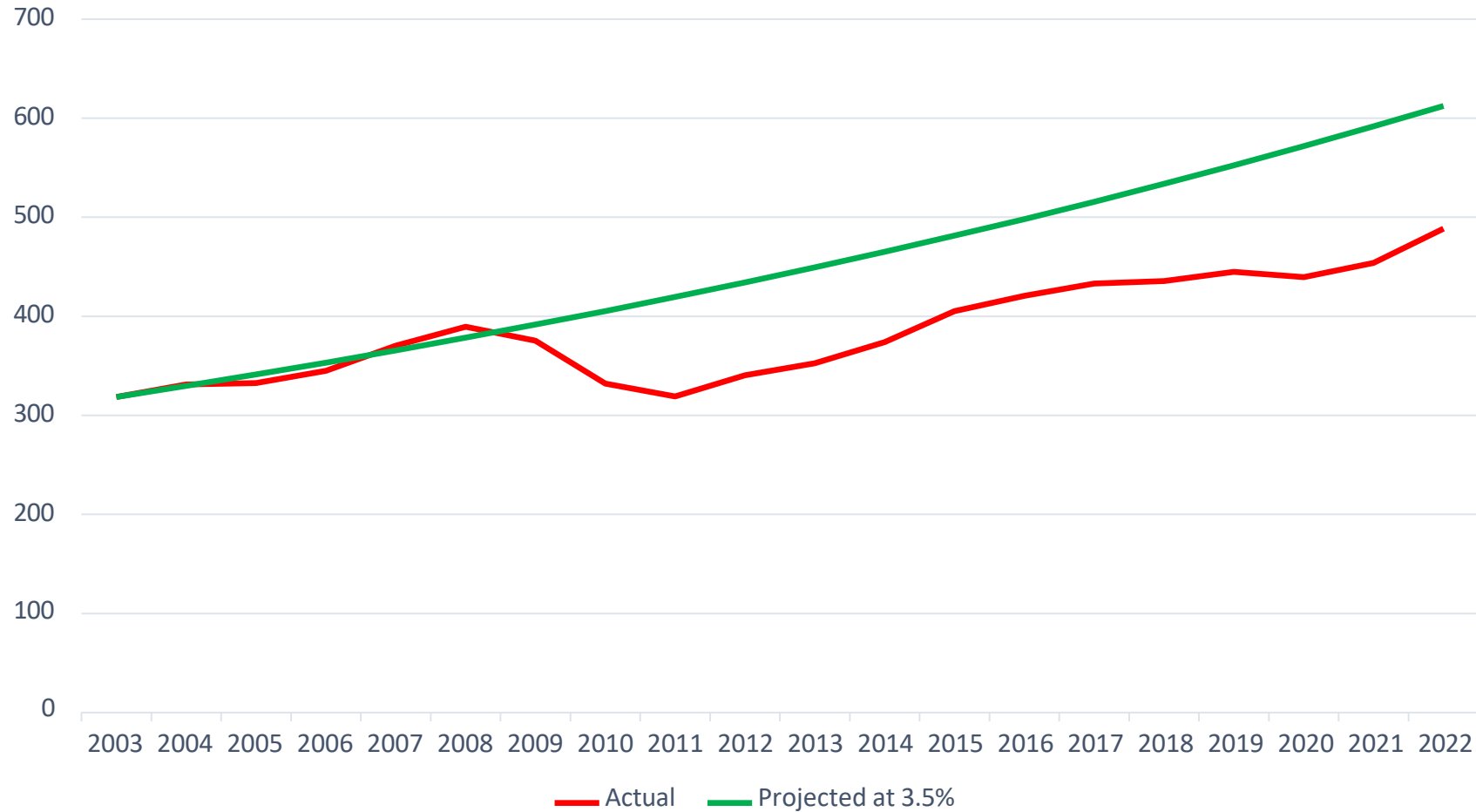
Impact of Decrease in Active Employees



Note: active membership increased 4.0% versus last year



Actual Versus Projected Payroll Growth



Total cumulative decrease in payroll from 2008 to 2022: \$1.3 billion



Funding Soundness Restoration Plan Requirements



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Therefore, by adhering to a FSRP before 9/1/25, the ERF would be eligible for the exception that allows analysis to be based on a 30-to-40-year range, rather than the otherwise applicable 30-year amortization period rule.

Risk / Alternative to Implementing by September 1, 2025

- Dallas ERF will lose the benefit of the special exception, which means the funding period moves from a 30 to a 25-year amortization schedule and increases the cost significantly.**



Considerations / Action Plan



- ❑ The consideration does not include a request for Bonds.
- ❑ Eliminate the maximum contribution cap of 36.00% of pay from Chapter 40-A Effective January 1, 2025, for the valuation period and replace it with the Actuarially Determined Contribution rate in the annual Valuation Report.
- ❑ Increase the employee contribution rate to a maximum of 14.00%
- ❑ Select the appropriate amortization schedule to meet budget expectations.
 - ❖ Any lump sum contribution from the City, at any point in time, will have a positive effect on the City's contribution rate as determined by the actuary.
- ❑ Amend draft changes to Chapter 40A by January 31, 2024. City Council votes in February 2024 to establish a May 2024 referendum for Dallas Citizens to consider.
- ❑ Contribution rates for the City of Dallas and ERF Members go into effect October 1, 2025.



Funding Soundness Restoration Plan Scenario



Milliman reviewed the following scenarios produced by GRS (ERF's retained actuary):

□ Current

- Deferred actuarial investment losses (2023 and prior) are recouped
- Assumed return of 7.25%
- POB debt service paid from contributions

□ Phase-In Scenario

- 36% cap is removed, and member contributions capped at 14% of pay
- Phase-in to higher City contribution at 2% more per year until reaching ultimate level % of pay.
- City contribution projected to fully fund the plan 30 years from 12/31/2024 (FSRP requirement).
- For example, the increase in contributions is projected to be
 - 2025: \$7 million for the City, and employee contributions will be \$3.5 million.
 - 2026: \$10.5 million for the City over 2025.

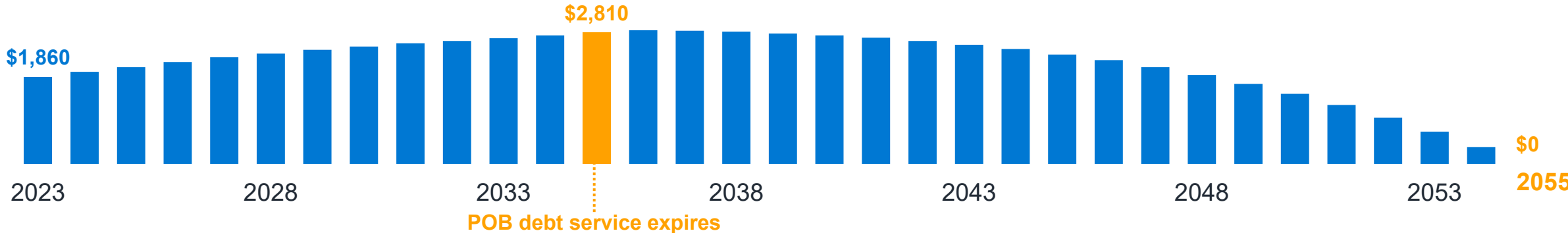
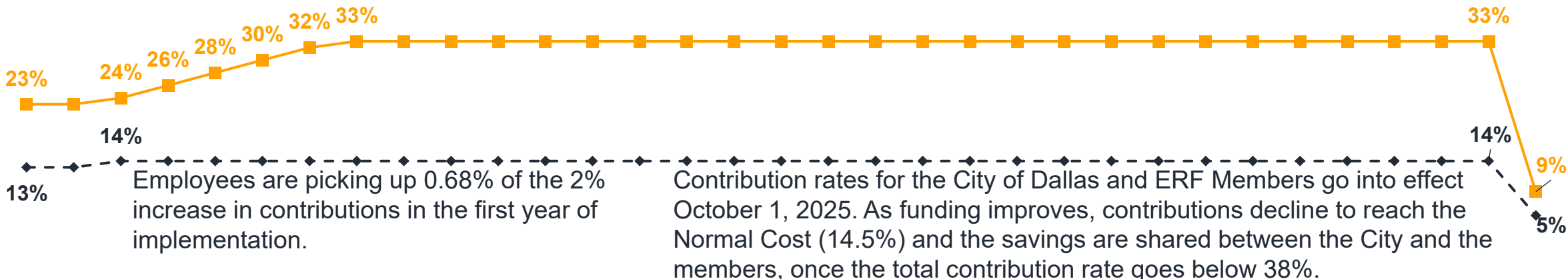


Phase- In Scenario



2% "phase-in" begins in 2025

■ Unfunded Liability ■ City Contribution Rate - ◆ - Employee Contribution Rate



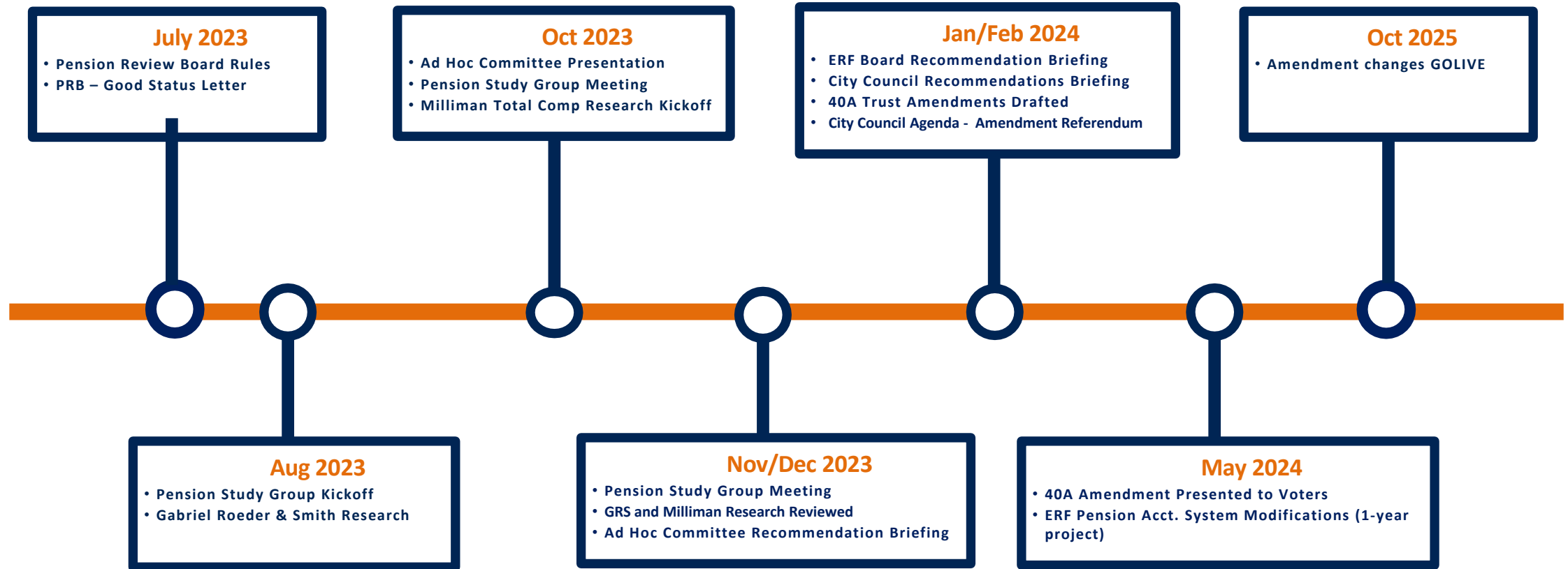
Comparable Contribution Rates for Texas Cities



City/Retirement System	City Contribution to Retirement Plan	City Contribution to Social Security	Total City Contribution to Retirement
City of Dallas ERF (current)	22.68%	0.00%	22.68%
City of Austin Muni	20.47%	6.20%	26.67%
City of Fort Worth	31.59%	0.00%	31.59%
City of Dallas ERF (recommended)	24% - 33%	0.00%	24% - 33%
City of Houston Muni	28.86%	6.20%	35.06%



Proposed 40A Amendment Timeline





City of Dallas

Appendix

Civilian Base Pay Compensation Study



- ❑ The City of Dallas' Human Resources Department originally contracted Milliman Inc. to conduct a citywide Total Compensation Study in 2014.

- ❑ In October 2023, Dallas ERF contracted with Milliman Inc. to conduct the following Scope of Work:
 - 1) Evaluate City of Dallas' Civilian Base Pay to the Market and update the City's Study from 2014
 - ❖ Market comparison: Dallas pay range midpoints versus market base 50th percentile
 - ❖ Market comparison: Dallas average base pay versus market base 25th, 50th and 75th percentiles
 - ❖ Civilian jobs evaluated using published survey sources
 - 2) Evaluate ERF Tier A – Total retirement plan value as a percent (%) of pay, private sector
 - 3) Evaluate ERF Tier B – Total retirement plan value as a percent (%) of pay, private sector
 - 4) Validate pension plan cost models presented by Gabriel Roeder and Smith.



72 City of Dallas Civilian Job Titles Studied

The following jobs were provided by the City of Dallas' Human Resources Departments data sources

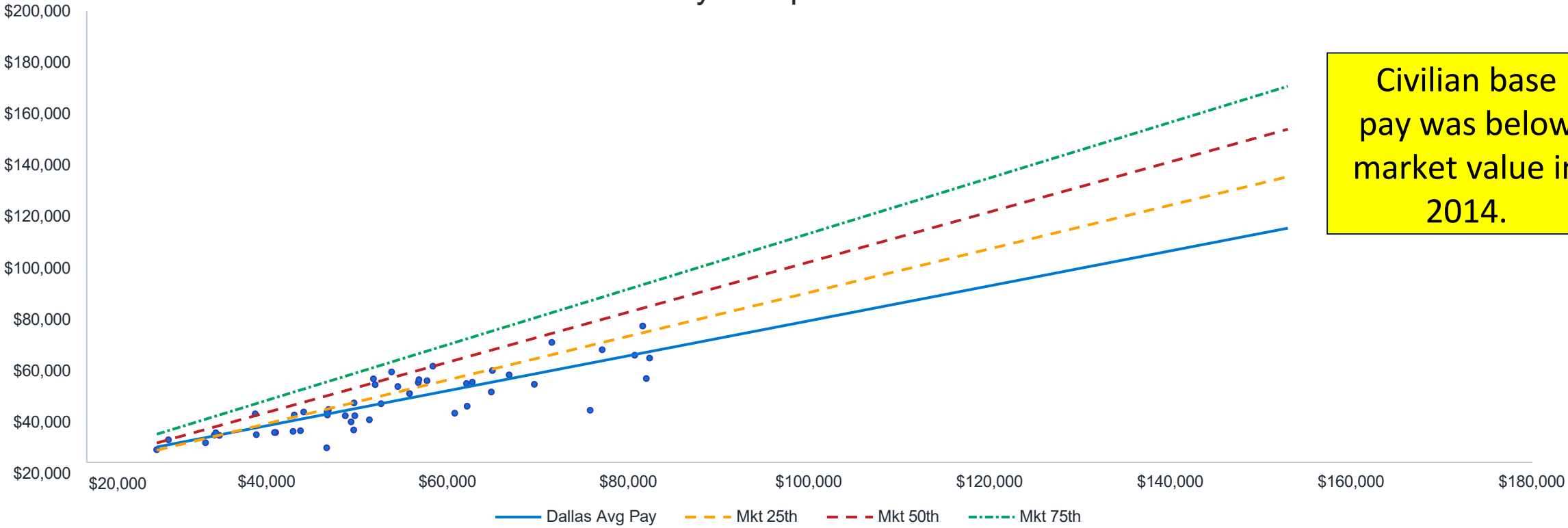
Animal Services Officer	Executive Assistant	Risk Analyst	Senior Risk Analyst
Assistant City Attorney I	Greens Superintendent	Safety Officer	Supervisor - Airport Maintenance
Assistant City Attorney IV	Heavy Equipment Operator	Senior Accountant	Supervisor - Animal Field Services
Bailiff	Human Resources Assistant	Senior Carpenter	Supervisor - Facilities
Chemist	HVAC Technician	Senior Community Service Worker	Supervisor - Heavy Equipment Operation
Chief Planner	Inspector II - Various	Senior Contract Compliance Administrator	Supervisor - Office
Community Service Worker	Inspector III - Building Inspection	Senior Design Technician	Supervisor - Park Maintenance
Contract Compliance Administrator	Irrigation Technician	Senior Electronic Technician	Supervisor - Warehouse
Court Specialist II	Laborer I	Senior Engineer	Supervisor WWTP Maintenance
Crew Leader - MISC	Laborer II	Senior HVAC Technician	Truck Driver II
Crime Technician	Legal Office Administrator	Senior Legal Secretary	Water Field Representative I
Custodian	Manager - Code Enforcement	Senior Maintenance Worker	Water Meter Reader
Customer Service Agent I	Manager - Environmental Quality	Senior Mechanic	Water Plant Operator
Customer Service Representative II	Manager - Facilities	Senior Payroll Specialist	Worker's Compensation Coordinator
Deputy City Marshal	Master Electrician	Senior Planner	
Electronic Technician	Mechanic II	Senior Plans Examiner	
Engineer Assistant I	Painter	Senior Plumber	
Engineer I	Plumber	Senior Real Estate Specialist	
Equipment Operator	Recreation Program Specialist		

2014 Market Study Results for City of Dallas Civilian Base Pay



2014 chart reproduced, Base salaries for civilian jobs average **17% below the 50th percentile** and **4% below the 25th percentile**.

Base Pay Comparisons -Civilian Jobs



Civilian base pay was below market value in 2014.



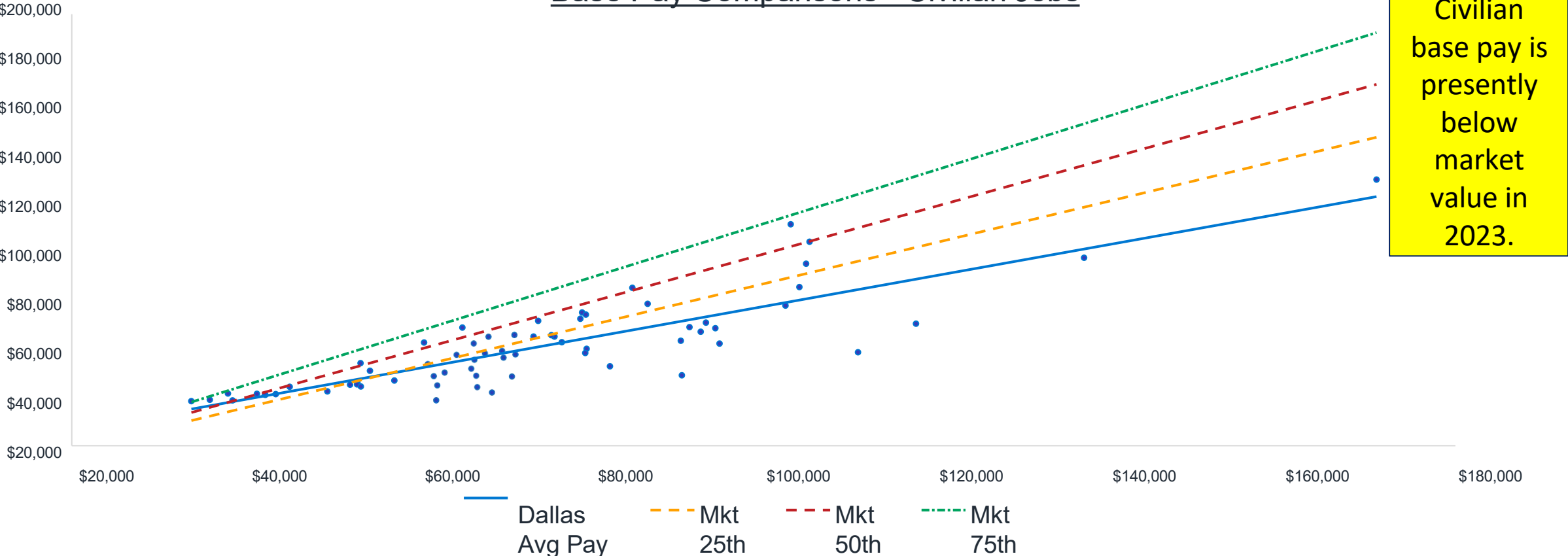
*Dallas Average Pay provided by the City of Dallas

2023 Market Study Results for City of Dallas Civilian Base Pay



- ❑ Base salaries for civilian jobs average 15% below the 50th percentile and 4% below the 25th percentile.
- ❑ Base salaries decline in competitiveness as pay increases.

Base Pay Comparisons - Civilian Jobs



Formula to Calculate Dallas ERF Benefits



Pension Formula

$$\begin{aligned} & 2.5\% \\ & \times \text{ multiplied by } \text{Service Credit (Full \& Partial Years)} \\ & \times \text{ multiplied by } \text{Average Monthly Pay} \\ \hline & = \text{Calculated Monthly Benefit} \end{aligned}$$



Retirees Benefit as a Percent of Earnings



Years of Service for Retirement Eligibility	Tier A % of Pay	Tier B % of Pay
20 years	55%	50%
25 years	68.75%	62.5%
30 years	82.5%	75%
36.36 years	100%	91%
40 years	100%	100%

Note:

1. Tier A members must be age 50 or greater to avoid an actuarial retirement benefit reduction.
2. Tier B members must be age 65, and 5 years of service or have RSPS credit to avoid an actuarial retirement benefit reduction.

2023 Federal Poverty Guidelines




MY BENEFIT ADVISOR

2023 Federal Poverty Guidelines Announced

Issued date: 01/24/23

The Department of Health & Human Services ("HHS") recently announced the 2023 Federal Poverty Level ("FPL") guidelines which, among other things, establish the FPL affordability safe harbor for purposes of the Affordable Care Act ("ACA") employer mandate.

For plan years beginning February 1, 2023 or later, the 2023 FPL safe harbor is \$110.80/month in the lower 48 states and DC, \$138.39/month for Alaska, and \$127.45/month for Hawaii.

As a reminder, a plan can use poverty guidelines in effect within 6 months before the first day of the plan year for purposes of using an affordability safe harbor. Because the 2023 FPL guidelines were announced after the start of the calendar year, plans with plan years beginning on January 1, 2023 use \$103.28/month for the lower 48 states and DC (\$129.12/month for Alaska and \$118.78/month for Hawaii), which is 9.12% of the applicable 2022 FPL. The increased threshold of \$110.80/month for the lower 48 states and DC based on the 2023 FPL applies to plan years beginning on or after February 1, 2023.

Background and FPL Safe Harbor

Large employers may be subject to the employer mandate penalty under the ACA if they do not offer affordable, minimum value coverage to all full-time employees, and at least one full-time employee receives a subsidy in the Marketplace.

A large employer's offer of coverage will be considered "affordable" under the FPL safe harbor if the employee's required monthly contribution for the lowest cost self-only coverage that provides minimum value does not exceed 9.5% (as indexed) of a monthly amount determined as the FPL for a single individual for the applicable calendar year, divided by 12.

2023 FPL Affordability Safe Harbor

For FPL affordability safe harbor purposes, the applicable FPL is the FPL for the state in which the employee is employed. The 2023 FPL is \$14,580 for a single individual in every state (and Washington D.C.) except Alaska or Hawaii. Thus, if the employee's required monthly contribution for the lowest cost self-only coverage that provides minimum value is \$110.80 (9.12% of \$14,580/12, rounded down) or less, the employer's offer of coverage meets the FPL affordability safe harbor for a plan year beginning February 1, 2023 or later in the lower 48 states and DC.

FPL Guidelines

The following are the 2023 HHS poverty guidelines:

2023 Poverty Guidelines for the 48 Contiguous States and DC		2023 Poverty Guidelines for Alaska		2023 Poverty Guidelines for Hawaii	
Persons in family/household	Poverty Guideline	Persons in family/household	Poverty Guideline	Persons in family/household	Poverty Guideline
1	\$14,580	1	\$18,210	1	\$16,770
2	\$19,720	2	\$24,640	2	\$22,680
3	\$24,860	3	\$31,070	3	\$28,590
4	\$30,000	4	\$37,500	4	\$34,500
5	\$35,140	5	\$43,930	5	\$40,410
6	\$40,280	6	\$50,360	6	\$46,320
7	\$45,420	7	\$56,790	7	\$52,230
8	\$50,560	8	\$63,220	8	\$58,140
For families/households with more than 8 persons, add \$5,140 for each additional person.		For families/households with more than 8 persons, add \$6,430 for each additional person.		For families/households with more than 8 persons, add \$5,910 for each additional person.	

For the new poverty guidelines, visit: <https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines>.

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2023 Federal Poverty Guidelines



Number of people in your household	2023 income numbers
1	\$14,580
2	\$19,720
3	\$24,860
4	\$30,000
5	\$35,140
6	\$40,280
Civilians' average retirement benefit as of December 31, 2022	\$40,883
7	\$45,420

Dallas ERF retirees monthly benefit ranks among U.S. Department of Health and Human Services' poverty levels.

Source: The Department of Health & Human Services ("HHS") recently announced the 2023 Federal Poverty Level ("FPL") guidelines which, among other things, establish the FPL affordability safe harbor for purposes of the Affordable Care Act ("ACA") employer mandate issued 01/24/2023.