

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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REGULAR BOARD MEETING MINUTES

July 26, 2018

PRESENT: Vanessa Heffron -Chair, Kevin Gordon (until 10:40am), Lydia Crutchfield, Scott Greer, Robert Campbell, John Carr, Marvin Wilson, Melinda Manning, Lee Thompson, Sheila Simpson and David Moore

OTHER: CFRS Staff Sandy Thiry, CFRS Counsel Dana Cuberson, Deputy City Manager Sabrina Joy-Hogg, Chief Reggie Johnson, and Callan LLC team – Jay Kloepfer, Elizabeth Hood, Todd Carabasi and Lisa Picklesimer (via phone), various active and retired Members

AGENDA

I. CALL TO ORDER by Vanessa Heffron at 8:09am.

II. CONSENT CALENDAR

A. Melinda Manning noted she was omitted as not being present at the May 14, 2018 Board's Special Meeting and should be corrected. Scott Greer motioned that the Consent Agenda be accepted with correction to the Special Meeting minutes. David Moore seconded the motion. Motion carried unanimously. Consent agenda consisted of April 26, 2018 Board Meeting minutes; May 14, 2018 Board Special Meeting minutes; Expense Reports; Schedule of Retirements; Board Meeting Calendar for the Fiscal Year (July 1, 2018-June 30, 2019) and Active Member Trustee Election Schedule.

III. BOARD GOVERNANCE

A. Review Roles & Responsibilities – Dana Cuberson, Assistant City Attorney Dana Cuberson reintroduced herself to the Board and provided Governance Overview Part I. CFRS is a public body and follows NCGS 143-318.9

- (1) Fiduciary Duty: Duty of loyalty, impartiality / care;
 - (i) Loyalty – trustee must not take part in self-dealing; favoring a group.
 - (ii) Impartiality – Interests include retirees and actives; younger and older members; long term & short-term members. However, a decision that may favor one group over another must be made carefully after weighing different interests; ensure motive of decision is not discriminatory.
 - (iii) Care – Reasonable, Prudent Person approach, more about the process than the outcome.
- (2) Roles as a Trustee.
 - (i) Make conflict of interest known.
 - (ii) Make sound Board decisions – making a silent vote is considered an affirmative vote.
- (3) Trustee Communications.
 - (i) Explained communications good to provide but keep in mind how presenting information – is there potential to misinterpret System benefits, rules, policies?
 - (ii) Confidential information – doesn't limit freedom of speech but concerns releasing certain info such as attorney-client privilege. Could open-up risks.
 - (iii) CFRS Attorney is legal advisor to Board – not to individual members of the Board.

B. Review of Code of Ethics and Certification by Trustees and Staff.

- (1) Sandy Thiry reminded Board that the Code of Ethics is provided to trustees and staff on annual basis but should be reviewed periodically. Staff has already reviewed and provided signed acknowledgements. Trustees to review and provide signed acknowledgement.

C. Election of Vice Chair & Secretary

- (1) Vanessa Heffron asked for a motion to open the floor for nominations for the offices of Vice Chair and Secretary as per the Act. Scott Greer motioned to open nominations of the Vice Chair. David Moore seconded motion. Motion carried unanimously. Scott Greer nominated John Carr. David Moore seconded motion. Motion carried unanimously. Lydia Crutchfield motioned to close nominations. Sheila Simpson seconded motion. Motion carried unanimously. Scott Greer motioned to vote for John Carr as Vice Chair. Melinda Manning seconded motion. Motion carried unanimously. Scott Greer motioned to open nominations for Board Secretary. David Moore seconded nomination. Motion carried unanimously. Kevin Gordon nominated David Moore. Lydia Crutchfield seconded motion. Motion carried unanimously. Kevin Gordon motioned to close the nominations for Board Secretary. John Carr seconded the motion. Motion carried unanimously. John Carr motioned to vote David Moore for Board Secretary. Sheila Simpson seconded motion. Motion carried unanimously. Congratulations given to John Carr and David Moore.

D. Review of Committee Assignments

- (1) Vanessa Heffron reviewed committee assignments and made no changes.

IV. REPORTS

A. Pension Review Project – Bill Karbon and Ed Bishop, CBIZ

- (1) Bill Karbon, Ed Bishop and the company CBIZ were introduced. Bill Karbon and Ed Bishop reviewed data collection and current actuarial results, scope of project and project process. Project process entailed replication of current valuation of July 1, 2017, forecasting investment returns 6% to 7.5% in increments, effect of overtime and other potential cost drivers.
- (2) Initial Observations – The current funding method of determining the Actuarial Determined Employer Contribution (ADEC) is not actuarial sound. Current Unfunded Actuarial Liability is approximately \$73 million. Only a small percentage of the current contribution rate is going towards paying down this liability. Some alternative funding policy examples were provided:
 - (i) Close amortization period
 - (ii) Each year expense the gain/loss pay down over a 15-year period
 - (iii) Changes to benefit formula
- (3) Goal is not to have future employees to pay down current costs - don't make unfunded liability a legacy issue. Many different approaches can be looked at on how to address the unfunded liability.
- (4) Provided example of closed amortization. The actuarial determined contribution is not enough to cover unfunded liability. Will drop from 86% to 61% funding level over next 40 years if stay on the current path.
- (5) Reviewed Assets
 - (i) Concern of plan's maturity level; asset allocation. 41% of liability belongs to inactive members. However, also recognized flat interest rates for past 10 years and need to earn assumed rate of return.
 - (ii) Having to liquidate assets to pay liabilities, greater strain when having to liquidate in a down market. Illustrated cash flows from 2017 to 2057 and how changing the Investment Rate of Return effects negative cash flows.
- (6) Reviewed contribution rate requirements if changing Investment Return Assumption in increments
 - (i) from 7.5% down to 6%.
 - (i) Dropping Rate of Return 25 basis points increases contribution rate by approximately 3%.

- (ii) Need 7.9% return rate to meet current contribution level.
- (7) Pension Spiking – Looked at impact of overtime
 - (i) Significant overtime in the last 2 years. Increased liability by \$1-2 million in benefit payments. In 2013 and prior, most likely overtime was not an issue; overtime was a positive to the plan.
 - (ii) Could cap overtime to a certain level, eliminate overtime in the definition of Compensation or stretch out average pay to a longer period instead of current provision of 2 years. If spread out average of pay, unused sick and vacation pay also spread out over long period of time.
- (8) Reviewed impact of vacation/sick leave to the cost of the plan.
 - (i) Adds approximately 20% to cost. Vacation/sick boosts Final Average Pay by approximately 15%.
 - (ii) Accrued sick leave to service adds 3-4% to costs.
 - (iii) Recent changes City made for vacation roll to sick time adds additional costs.
 - (iv) Explained how reducing overtime, vacation and sick leave could lower the rate to pay down unfunded liability.
- (9) Recommendations
 - (i) Adopt a funding method for the ADEC that is actuarially sound.
 - (ii) Revisit ability to purchase prior military service and prior government service. Military service is not actuarially derived. Government service is close but still leaves a small gap.
 - (iii) Adopt solution to mitigate pension spiking including sick leave and overtime.

B. BENEFITS COMMITTEE REPORT- Kevin Gordon, Chair

- (1) Kevin Gordon provided overview of BC meeting discussions for the past quarter and the Pension Offset Policy.
- (2) The Benefits Committee made a motion to amend the offset policy as applicable per Board's guidance. John Carr seconded the motion. Motion carried unanimously.
- (3) In Line of Duty Disability Pension – David Moore motioned for Benefits Committee to review and make recommendation modifying the Disability Regulations for an In Line of Duty Disability. Kevin Gordon seconded the motion. Motion carried unanimously.
- (4) Discussed In Line of Duty, injuries and what is considered gainful employment.
- (5) Vanessa Heffron assigned to Benefits Committee follow-up of Pension Review Project topics- Contribution rate; plan design changes (overtime, service purchase and benefit formula)

Break – 10:35 am

Return – 10:40 am (Kevin Gordon left)

C. INVESTMENT COMMITTEE REPORT- John Carr

- (1) John Carr provided overview of IC meeting discussions for the past quarter.
- (2) Reviewed Watch List.
 - (i) Committee made a motion to remove AJO from Watch List. Scott Greer seconded the motion. Motion passed unanimously.
 - (ii) Although midcap manager William Blair has had an uptick in their performance, Committee will keep on Watch List and continue to monitor progress.
- (3) Referred Board to review the Investment Performance Exhibit and pointed out CFRS' performance is in top quarter compared to Callan's peer universe.
- (4) Asset allocation remains in compliance with the Investment Policy.
- (5) Vanessa assigned Committee follow up of Funding Policy and Asset Allocation due to any recommendations by the Benefits Committee regarding the Pension Review Project.
- (6) John Carr explained the class action claim filing services provided by former custodian, State Street Bank, ended in June and CFRS Administrator researched options and vendors to take on these services. Based on Administrators research, the Committee made a motion to hire Financial

Recovery Technologies (FRT) to administer class action claim filings for the CFRS. Current monitoring firms do not provide filing services. Lee Thompson seconded motion. Motion carried unanimously.

D. ADMINISTRATOR'S REPORT- Sandy Thiry, Administrator

(1) Pension Administration System Update

- (i) New calculation system fully implemented. In process of testing the actuarial file extract. Employee Portal launched on May 21, 2018. Personal visit was made to each station by the administrator announcing the launch. Survey was sent. High-level results reflected that members like what they see and continued education about the benefit is necessary.
- (ii) Administrator made a motion for the Board to approve the down payment of \$25,000 for a project with CBIZ that will provide for an electronic transmission of retiree payroll information from the Pension Administration System in lieu of the manual entry into USBank's payment system. Remaining balance of project of approximately \$25,000 to be incorporated in FY20 budget. Most of down payment fee would be paid by the savings of staff wages over the next several months. Having all retiree payroll information in the Pension Administration System with an electronic transmission to USBank, provides the CFRS additional back up resources for payroll processing should a catastrophic event or limited staff situation occur which would prevent the staff from processing the retiree payroll. Motion carried unanimously.
- (iii) Financial Statements
 - (a) Provided Board with Financial Statements which are still draft form- waiting on Investment Manager Fees and Fund performance results for June.

(2) USBank update

- (i) A retiree portal being made available by spring 2019. USBank has had discussions with the Administrator that include CFRS being a possible pilot client for their portal. The Administrator is recommending view only access and to keep authority of any changes by CFRS office based on proper documentation.

(3) Conferences

- (i) Board and Administrator discussed the International Foundation of Employee Benefit Plans (IFEBP) is an agency where CFRS maintains a membership and they hold an annual conference. Multiple staff members have expressed interest in attending the annual conference however due to timing of projects and staffing, not sure if this year will be the appropriate time to participate in such education. Lydia Crutchfield motioned to approve one staff member for conference travel and attendance. John Carr seconded motion. Motion carried unanimously.

- (4) John Carr motioned to approve Administrator's report. Scott Greer seconded motion. Motion carried.

V. EXECUTIVE SESSION

- A. Scott Greer motioned to enter into closed session pursuant to North Carolina General Statute §143-318.11(a)(6) to Consider the Performance of Members of the System Staff; AND pursuant to North Carolina General Statute §143-318.11(a)(3) to consult with an attorney employed or retained by the public body in order to preserve the attorney-client privilege between the attorney and the public body, which privilege is here acknowledged. Discussion will pertain generally to a disability hearing appeal. David Moore seconded motion. Motion carried at 10:48am.

Returned to Open Session at 1:37 pm

ADJOURNMENT

Scott Greer motioned to adjourn at 1:37 PM. David Moore seconded motion. Motion carried unanimously.

Next Regular meeting is scheduled for Thursday, October 25, 2018.

cc: Dana Cuberson, Assistant City Attorney