

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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REGULAR BOARD MEETING MINUTES

October 24, 2019

PRESENT: Vanessa Heffron -Chair, John Carr (left at 11:03), Scott Greer, Marvin Wilson (left at 11:50), Melinda Manning, Kelly Flannery (left at 10:40), Ryan Pope, Joey Hager and Lee Thompson (arrived at 8:14)

ABSENT: Sheila Simpson

OTHER: CFRS Staff Sandy Thiry, Desire Dixon, Sr. Assistant City Attorney Lisa Flowers and Todd Green (Cavanaugh Macdonald)

AGENDA

I. CALL TO ORDER by Vanessa Heffron at 8:06 am.

II. CONSENT CALENDAR

- A. Marvin Wilson motioned to approve the Consent Calendar consisting of Board Meeting Minutes for April and July 2019, Expense Reports and Schedule of Retirements. Scott Greer seconded the motion. The motion carried unanimously.

III. BOARD GOVERNANCE

A. Review of Governance Calendar

The Board reviewed the Governance Calendar noting that the fiduciary training would be held in January when there would be more time to devote to this topic. The Asset Liability Study was last done by Callan in 2013 and will be postponed to the near future while the committees work through the Pension Review Project discussions.

IV. REPORTS

A. Cavanaugh Macdonald – Todd Green

(1) Mr. Green reviewed the Annual Valuation Results.

- a) The actuary role is to help estimate benefit payments using a series of assumptions and liability determined by the Board. He reviewed the basic funding equation: Contributions plus Investment Income equals Benefits Paid plus Expenses ($C + I = B + E$). Mr. Green also noted that 60% of benefits paid come from the investments.
- b) Asset returns were 4.21% vs the 7.5% expected rate of return while the actuarial asset return was 6.15% vs 7.5% expected return. The difference in these returns are due to smoothing gains and losses over 5 years to reduce the impact of market volatility on actuarial results.
- c) Individual pay increases averaged 12.12% vs the expected 5.40%. The total projected payroll increased 7.33% vs. 3.00% expected. Overtime is included in "salary". The Board discussed the difference between the amount of increase due to actual merit increases vs. overtime. Melinda Manning motioned to have Cavanaugh Macdonald review overtime data, provided by staff, to determine the costs attributable to merit increases vs. overtime. Scott Greer seconded the motion. The motion carried unanimously.

Follow Up from request with Cavanaugh Macdonald indicated the employer required contribution rates would have been approximately 1% less on average if overtime pay was excluded.

- d) Mr. Green discussed policy changes that occurred since the last valuation which included the *Kurzel et. al vs City of Charlotte* lawsuit and the City's new accrual policy for unused vacation and sick time. These changes resulted in additional costs, increasing the unfunded liability by \$8.1M. This additional cost is separate from the impact of salary increases.
 - e) Active membership decreased from 1058 to 1047 while the retiree membership increased from 697 to 750 and the deferred vested decreased from 16 to 15. Average salary and average benefits increased from last year. Total active membership's payroll increased from \$71.8M to \$77M. Total retiree benefits increased from \$33.6M to \$37.7M. The average age of active members and their average service is less than last year, indicating a younger work force.
 - f) The market value of assets increased slightly from \$551.9M to \$558.9M while the actuarial value increased from \$548.7M to \$566M.
 - g) Smoothing Method is utilized to account for gains or losses over a 5-year period to lessen the volatility of market performance to the funding status. The normal cost for funding the System is 24.06%. Member's contribution rate of 12.65% results in the employer's cost at 11.41%. The employer's fixed contribution rate of 12.65% less the employer's normal cost of 11.41% leaves a difference of 1.24% to pay off the unfunded liability. Unfunded liability increased by \$40.5M in FY 2019 which reduced the funding ratio to 82.7% from 87.6%. Although the funding ratio dropped, in comparison to other plans the same size, the funded status is relatively good. Mr. Green noted that the contribution level is not adequate to sustain long term funding goals.
 - h) The Act's provision related to providing a bonus or COLA to retirees requires recommendation from the actuary. Mr. Green expressed that adding bonus or COLA would increase the System's unfunded liability and therefore did not recommend providing a bonus or COLA to retirees.
 - i) Mr. Green also provided an analysis for the Board's review based on alternative funding and amortization proposal as requested by the System.
- (2) The Board discussed the funding target and what funding target would be appropriate. It was noted that historically, the Board's goal has been 100%. The actual funding levels may be above or below the funding goal of 100% due to market fluctuations.

Scott Greer made a motion to approve the Annual Valuation Report using the Board's previously approved funding and amortization policy, not the alternative proposal. Ryan Pope seconded the motion. Motion carried unanimously.

B. Investment Committee Report – John Carr

- (1) John Carr provided updates of the Committee's activities since the Board last met in July. Callan's 2nd quarter review reflected an increase in the Fund's market value of \$11M for a total of \$558M. Although the second quarter's performance placed the Fund in the 63rd percentile in the Callan Public Fund Sponsor Database, the 5-year return placed it in the 25th percentile. Since inception date, the Fund's rate of return was 9.02%, well over the 7.5% expected rate of return.
 - a) International fixed income and real estate managers were reviewed this past quarter. Both real estate managers suffered in market performance due to variances in appraisal amount vs market value with retail properties. Both managers are working through solutions to take advantage of sectors that are producing gains and repurposing retail holdings. Overall, the current real estate managers are performing as expected.
 - b) Sandy Thiry introduced improvements to streamline the annual financial reporting requirements which were well received by the Committee. Staff will work with the Committee over the next year with this endeavor.
 - c) Morgan Stanley Emerging Markets Equity Fund, who was placed on the watch list in August 2018 remains on watch. William Blair who has been on the watch list since 2017 remains on watch through the negotiation period of the new manager's contract.

- d) The cash withdrawal of \$4.25M for operating expenses was approved by the Committee with \$2M from Winslow Capital Management and \$2.25M from William Blair.
- e) The Investment Policy Statement is reviewed annually with Callan's assistance. Recommended updates to the policy included benchmark updates and redefining "long-term" periods. The Total Fund Asset Mix Guidelines long-term basis changed from 5 years to ten years and the manager's long-term performance measurement changed from five years to five to seven years. Other changes mainly consist of benchmark updates. The Committee recommends the Board approve changes to the Policy as provided. Joey Hager seconded the motion. The motion carried unanimously.

Ryan Pope motioned to accept the Committee's report. Melinda Manning seconded the motion. The motion carried unanimously.

C. Benefits Committee Report – Melinda Manning

- (1) The Benefits Committee has spent the past quarter discussing the various concerns from the Pension Review Project which includes the amortization and funding methodology, exceptional benefits (spiking or any benefits that are higher than expected), military purchases, and retiree bonuses and COLAs.
 - a) Melinda outlined a new amortization schedule which would provide a method to paydown the current unfunded liability over a fixed period and various amortization schedules representing different impacts to funding such as gain/losses, benefit changes, and exceptional benefits. This type of schedule will provide planning tools to assist in meeting funding goals as well as addressing intergenerational equity.
 - b) The Committee has discussed interest rates and mortality tables. Final Average Salary including overtime in the last 2 years of employment, unused sick and vacation time and extended service have been identified as contributors to exceptional benefits. These components increase the cost of the plan. Additional information has been requested from the actuaries and will be discussed at future committee meetings.
 - c) The Committee continues to review various options and associated risks for benefit changes with the assistance of internal and ERISA legal counsel. Options for changes could be limited. Sample funding policies have been provided to the Committee for review. Melinda reminded the Board of the special request made to the City earlier this year which resulted in the City contributing an additional \$1M.
 - d) Military purchase and military leave without pay discussions and research are ongoing between staff, legal counsel and the City HR.
 - e) The Committee continues to review options for COLA's and bonuses to retirees.

John Carr motioned to approve the Committee's report. Joey Hager seconded the motion. The motion carried unanimously.

D. Administrator Report – Sandy Thiry

- (1) Sandy Thiry reported on the City's new time keeping policy for exempt employees. The CFRS is not required to follow the City's policy and are set up in payroll separately. She recommended that CFRS continue to follow the City's policy. The Board discussed the pros and cons of the City's new policy, specifically the ability of recording comp time. Comp time tracked can assist the Board in determining if additional resources are necessary. Ryan Pope motioned to have staff continue to report all hours in People Soft. Joey Hager seconded the motion. Motion carried unanimously.
- (2) The search for a new citizen trustee is in process.
- (3) The Retiree election ended on October 23, 2019. Results will be revealed and communicated on October 25, 2019. There were minimal complaints about the new outsourced election process. Seven retirees reached out to the vendor for assistance. Marvin Wilson, the elected retiree trustee indicated that the process was seamless and easy but did state that several retirees told him they did not receive ballots. Those retirees he identified were some of the same retirees reported by

Intelliscan as having contacted for replacement ballots. Everyone who contacted Intelliscan were able to vote with a replacement ballot.

- (4) Due to the expectation of privacy and to eliminate any security issues with personal emails, going forward CFRS will not send group emails to the retirees. Sandy presented a plan to improve communication with retirees using the CFRS website and it is expected to start immediately. Vanessa Heffron reminded the trustees that issues brought to their attention should be addressed properly and respectfully with the Board.
- (5) Due to the meeting's time restraint, trustees were directed to review the remaining items in the Administrator's report.
- (6) Conferences - Joey Hager, Ryan Pope, Vanessa Heffron, Sandy Thiry, Tyralyn Phelps, Melinda Manning and 4 other possible trustees are interested in attending the Callan conference in January. The Callan conference is free to its clients and the only cost for the System would be travel, hotel and minimal meals. Lisa Flowers to attend the NAPPA conference in February. Joey Hager motioned to approve the attendance for the noted conferences. Lee Thompson seconded. The motion carried unanimously.
- (7) Vanessa noted this would be Scott Greer's last quarterly Board meeting as an ex-officio due to his upcoming retirement from the City on December 31, 2019. Vanessa and the Board thanked Scott for his dedication and service to the System.

Ryan Pope motioned to accept the Administrators Report. Joey Hager seconded the motion. The motion carried unanimously.

E. Survey Reviews / Education and Information – Ryan Pope

- (1) As a result of discussions within the Benefits Committee meetings regarding communications, Ryan Pope conducted 3 surveys which included Communications in general, a battalion visit by staff and officer training held at the Training Academy. The purpose of the surveys was to get feedback from the firefighters to provide the Board with an understanding of what communications work best with firefighters and if the communication being provided is helpful.
 - a) Communications survey – Of the 1,172 that received this survey 228 completed the survey for an approximate response total of 20%. Most preferred email method of communication. The frequency of communication was led by monthly followed by quarterly.
 - b) Battalion Visit Survey – Staff visited a battalion and held a face to face education session. The survey participation rate was 12%. All respondents would recommend the face to face visit, ranked it excellent, and reported that they all got to hear the same message and could put faces with names. All respondents rated staff from very to extremely friendly and helpful.
 - c) Officer Training Survey – Disability pension benefits and Worker's Compensation training was provided to CFD officers as a result of discussions within the Benefits Committee and the need from Members to understand these benefits. The training was held for 6 days between June 21, 2019 to July 15, 2019. Of the 311 that attended the training, 74 completed the survey for an approximate participation rate of 24%. Of those that responded, 90% felt the information was helpful, 85% felt the information was delivered clearly enough to pass the information along; 86% liked the training setting and 94% would recommend this type of education setting/format for other pension training topics.
 - d) The Board discussed the survey results and found that they were enlightening and determined that various communication methods could be used to help further educate members, such as creating a video or video series and making them available to members.

V. NEW BUSINESS

- (1) Travel Policy - Marvin Wilson questioned if two annual training classes were necessary and recommended that travel costs be reduced by limiting training to one event. The travel policy does not specifically address the number of conferences each trustee may attend annually. However, the Board has taken a reasonable and prudent approach to attending conferences and

have identified conferences that provide the best learning opportunities for the trustees. The Board discussed the value of training and how they improve the trustees' ability to represent the System. Training is a part of a trustee's fiduciary responsibilities and certifications are becoming standard practice in the industry. All conferences are approved by the Board in advance and the final travel related expenses are reviewed at each meeting. The Board Chair stated it is helpful to have these discussions and that if any trustee has issues with training classes, traveling or the expenses, it should be addressed with the Board during the meetings and all trustees should be included in the conversation.

ADJOURNMENT

Scott Greer motioned to adjourn at 12:26 PM. Joey Hager seconded the motion. Motion carried unanimously.

Next Regular meeting is scheduled for Thursday, January 23, 2020.

cc: Lisa Flowers, Assistant City Attorney

