

# CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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## REGULAR BOARD MEETING MINUTES

January 23, 2020

**PRESENT:** Vanessa Heffron – Chair, John Carr (left at 11:06 a.m.), Marvin Wilson, Melinda Manning, Kelly Flannery (left at 10:40 a.m.), Teresa Smith, Ryan Pope, Joey Hager, Lee Thompson (arrived at 8:12 a.m.) and Sheila Simpson (arrived at 8:30 a.m.)

**ABSENT:** Scott Greer

**GUEST:** Dan Gougherty (Cherry Bekaert), Ryan Bergman (arrived at 8:15 a.m.), Active Members Jeff Clark and Megan Akstin

**OTHER:** CFRS Staff Sandy Thiry, Tony Bass, Desire Dixon, Sr. Assistant City Attorney Lisa Flowers, Anthony Fox (Parker Poe) and Todd Green (Cavanaugh Macdonald)

## AGENDA

**I. CALL TO ORDER** by Vanessa Heffron at 8:06 a.m. The Board welcomed Interim Treasurer, Teresa Smith, Scott Greer as Citizen's Trustee, and re-elected Members - Ryan Pope and Marvin Wilson.

## II. CONSENT CALENDAR

A. Marvin Wilson motioned to approve the Consent Calendar consisting of the Board Meeting Minutes of October 2019, the Disability Hearing Minutes of December 2019, Expense Reports and Schedule of Retirements. Joey Hager seconded the motion. The motion carried unanimously.

## III. BOARD GOVERNANCE

### A. Fiduciary Training – Lisa Flowers

- (1) Lisa reviewed Fiduciary Relationships which include Common Laws, Laws of Trust, Statutes - Federal / ERISA, Retirement Plan and State.
- (2) Characteristics of Fiduciary Responsibility were described as undivided loyalty, avoiding conflicts of interest, protecting, and preserving Plan Assets, and acting responsibly as a prudent person would.
- (3) Fiduciary Duties include being loyal and impartial, caring but to follow the plan rules. A fiduciary must not harm the interest of CFRS Members or beneficiaries by self-dealing, acting in the interest of a third party, or favoring one group of members or beneficiaries over another.
- (4) Areas of fiduciary responsibilities consist of fund management & administration, communications and education, investment related activities and consultants/advisors. It is important for trustees to remind themselves that they represent all Members of the System. When speaking to others, the trustees need to be mindful of informing audience who they represent and not misrepresent the System, benefits, rules, or policies.
- (5) Best practices include making sound decisions. Education utilizing seminars, webinars, periodicals, and consultants are also encouraged as a best practice among pension administration systems. It is important to document how decisions are made more so than the decision itself.

## **B. Training on CFRS Disability Hearings – Anthony Fox**

- (1) Anthony provided the Board with an understanding of the roles and responsibilities of a Disability Hearing.
- (2) Nature of Hearing is a Quasi-Judicial Process. The Board is the jury. The Administrator presents the evidence and the Member must prove their case (application for such benefit). A trustee must recuse him or herself if conflict of interest. The Chair could recuse a trustee as well.
- (3) Rules that Govern Board's Action were reviewed which include provisions of The Act and Disability Regulations.
- (4) Disability Hearing Process is mainly conducted in closed session. Closed session discussions as allowed by state statute are meant to be private and not discussed to protect the topic and / or person of matter.
- (5) The Board's Powers and Appeal process to Superior Court were reviewed. The Board has the Power to uphold the provisions of the Act and policies (Disability Regulations). Any appeal by a Member is done through the Superior Court and must be done within the time frame specified in the Act.

Break at 10:05 a.m. and restart at 10:15 a.m.

## **IV. REPORTS**

### **A. Audit Report – Dan Gougherty**

- (1) Dan Gougherty reviewed the audit results.
  - a) Dan reviewed the roles of the auditor, audit areas and financial results. Dan was pleased to announce they issued a clean opinion, the highest opinion anyone can receive.
  - b) There were -
    - a. no findings of internal control issues,
    - b. no adjusting, and
    - c. no past adjustment journal entries required.
  - c) Internal controls review includes identifying significant transaction cycles, obtaining understanding and walk through of key controls; reviewing general journal entries by obtaining a "data dump" of all entries, mine for unusual transactions and anything that looks peculiar; and finally understanding the organization's Information Technology by utilizing an IT questionnaire, reviewing firewalls in place with complex passwords, and general computer controls are followed.
  - d) Significant Audit Areas include investments, contributions, benefit payments and participant data.
  - e) Financial Results Reviewed. The Fund balance increased from \$552M in 2018 to \$559M in 2019. Additions to the plan's net position was \$43M compared to \$66M in 2018. Deductions to the plan's net position increased to almost \$37M in 2019 from \$34M in 2018.
  - f) Results Summarized included the clean opinion, no correcting journal entries necessary, good internal controls with no findings. Dan also noted that he and his team received full cooperation with management.

### **B. Investment Committee Report – John Carr**

- (1) John Carr discussed the Committee's updates and activities during the past quarter. Callan's 2019 3<sup>rd</sup> Quarter results reflected returns added \$1.6M in market value while benefit payments and expenses deducted \$4.75M. The fund outperformed the custom index by 65 basis points and ranked in the 89<sup>th</sup> percentile in the Callan Public Fund Sponsor Database. The rate of return since inception was 8.96%. The Total Fund value as of September 30, 2019 was \$554.6M.
- (2) The transition from William Blair to the new mid-cap growth manager, MFS, was completed in mid-November 2019.

- (3) The Investment Committee reviewed the current managers on watch, including Morgan Stanley Emerging Markets Equity Fund since August 2018 and AJO since November 2019. These managers will continue to be reviewed with Callan during the February Committee meeting.
- (4) The System has diversified investments across Equity, Fixed Income, and Real Estate asset classes. Disciplined asset allocation and diversification comes into play when markets are up or down for certain classes. The System is not chasing returns for the short-term results but invested rather for long-term results. Prudence is required for fiduciary responsibility.
- (5) The Committee received the draft Experience Study and will begin their review at the February meeting.

Joey Hager motioned to accept the Investment Committee's Report. Melinda Manning seconded and the motion carried unanimously.

### **C. Benefits Committee Report – Melinda Manning**

- (1) Melinda presented the Board with a background reminder of the Pension Review Project, the 2019 actuarial results, and reviewed some of the employee benefits that increase pension benefits such as overtime, sick and vacation leave, and other benefits. It was determined in the Review Project that the contribution level is not actuarially sound for long-term sustainability of the System. She explained the Actuarially Determined Employer Contribution (ADEC) and how the Act's statutory requirement of the Employers contribution conflict. While the goal is to fund the System at 100%, not many public funds reach that level of funding status. Fiduciary responsibility is to address resources to help analyze the health of the system and recommend options to the City, the plan sponsor.
  - a) The Benefits Committee had requested CBIZ review the amortization proposal as if it was adopted and applied to valuations over the past 5 years to understand if the proposal had any issues and how the results would vary from current amortization methodology.
  - b) The society of actuaries published a new mortality table specific to the Public Safety sector. There's not enough information yet to know the adoption rates. However, auditors could eventually pressure plans to use the table. LGERS uses RP2014 and CFRS currently uses RP2000.
- (2) Motions:
  - a) Motion A: The Committee recommends establishing the current Unfunded Actuarial Accrued Liability (UAAL) as the Transitional UAAL and each new subsequent valuation produce a new Tiered Incremental UAAL with various amortization periods as such:
    - i. Assumption and Method Changes – 30 years
    - ii. All Benefit/Plan Changes – 20 years
    - iii. Annual Loss/Gain Experience - 15 years
    - iv. Exceptional Benefit Increases – 5 years

Ryan Pope motioned to approve the Motion as presented with the removal of the word "Tiered". Joey Hager seconded the motion. The motion carried unanimously.

- b) Motion B: The Committee recommends in addition to the current 5-year smoothing of gains/losses method within the valuation process, include an asset corridor range of 20% (the AVA cannot be more the 120% or less than 80% of the Market Value)

Ryan Pope seconded the motion. The Motion carried unanimously.

- c) Motion C: The Committee recommends the Board request the City of Charlotte to pay, beginning with the first payroll period in FY2021, the statutory 12.65% Employer Contribution plus the difference between this amount and the ADEC as determined with the 7/1/2019 Annual Valuation. Ryan Bergman addressed the Board with Vanessa Heffron's approval. He reminded the Board of last year's request and approach to work collaboratively with the City to achieve funding goals. Ryan Bergman stated that the City Manager

understands the need to increase their contribution. Discussion ensued about the motion and a phased approach to increase the funding level. Kelly motioned to modify the motion to state the Board request that the City of Charlotte pay, beginning with the first payroll period in FY2021, the statutory 12.65% Employer Contribution plus 1.35% of Employer Contribution through weekly payroll contributions as a first step to achieve the ADEC goal; and further, request the City commit to collaborative discussions to present a proposal to the Board by the Board's July 2020 meeting regarding changes to the Act for Employer Contributions to meet the ADEC and the 2021 legislative agenda.

Lee Thompson seconded the motion. The motion carried unanimously.

Joey Hager motioned to approve the Benefits Committee's report. Lee Thompson seconded the motion. The motion carried unanimously.

#### **D. Administrator Report – Sandy Thiry**

Sandy Thiry provided the Board with updates about the retirement system and the daily operation.

- (1) Staff has been working with the website developer regarding the new communication platform which is currently being tested and will be available to the retirees in early February. Desire Dixon provided an overview of what the retirees and trustees will receive for articles and announcements.
- (2) Active Member Elections were completed with the new vendor. Staff to utilize PIO office to help communicate election information for next election.
- (3) Financials were provided to the Board. There were no areas of concern at this time.
- (4) Conference travel for the quarter was announced for T. Rowe Price, NCPERS, and GFOA. John Carr expressed interest in T. Rowe Price Investment Forum; Joey Hager expressed interest in NCPERS Fiduciary Program modules 3 and 4 as well as the annual conference; Marvin Wilson expressed interest in NCPERS annual conference; and GFOA interest consisted of Teresa Smith, Kelly Flannery, Scott Greer, Tony Bass, Sandy Thiry and one City finance person, Betty Mattos, whose position the Board has approved in the past to attend since the City prepares the System's CAFR footnotes. Ryan Pope motioned to approve conference travel for those interested. Melinda Manning seconded the motion. The motion carried unanimously.
- (5) Charlotte National Building has been approached to lease out the roof top for the Republican National Convention. Some office suites may be of interest to be leased. Staff will research leasing rates and any costs that may be associated with temporarily modifying unused office space to accommodate separate entry and usage from the rest of the office space.
- (6) Financial Recovery Technologies, the firm hired to administer filing of security litigations, is now included in the metrics section of the Administrator's report. Claims they have filed on CFRS' behalf are being tracked.
- (7) Due to the meeting's time restraint, trustees were directed to review the Administrator's report individually and address concerns or questions with the Board members.

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

Closed Session started at 12:46 p.m. by motion from Melinda Manning to enter closed session pursuant to North Carolina General Statute SS143-318.11(a)(6) to Consider the Performance of Members of the System Staff. Joey Hager seconded the motion. The motion carried unanimously.

Returned to Open Session at 1:28 p.m. Vanessa Heffron left at 1:30pm and offered for remaining trustees to stay in working session to view survey results. Sheila Simpson, Joey Hager, Teresa Smith, Lee Thompson, Ryan Pope, Melinda Manning, and Marvin Wilson remained in a working session beginning at 1:30pm.

#### **E. Survey (Election Survey) – Ryan Pope**

- (1) Ryan conducted an Election survey to help the Board understand the effects of using a third-party vendor which produced the following results.
- a) 13% of the active population responded to the survey.
  - b) Third party vendor preference – 63% preferred the new on-line voting process while 36% preferred to use the paper ballot system administered in-house.
  - c) Participants thought the voting instructions were easy.
  - d) Some members reported they did not know the election was taking place and some members stated they did not receive a ballot.

Working Session concluded at 2:30pm.

#### **V. NEW BUSINESS**

- (1) No new business

#### **ADJOURNMENT**

**Next Regular meeting is scheduled for Thursday, April 23, 2020.**

cc: Lisa Flowers, Assistant City Attorney