CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM
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REGULAR BOARD MEETING MINUTES

May 28, 2020

PRESENT: Vanessa Heffron – Chair, John Carr, Melinda Manning, Scott Greer, Kelly Flannery (left at 12:00 p.m.), Teresa Smith (left at 10:56 a.m. and rejoined at 11:27 a.m.), Ryan Pope, Joey Hager, Lee Thompson, Sheila Simpson (left at 12:00 p.m.) and Marvin Wilson

GUEST: Deputy Chief Jerry Winkles, Retired Member Clay Morris, Retired Member Brian Kurzel, and Active Member Jeff Clark

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

AGENDA

I. CALL TO ORDER by Vanessa Heffron at 8:05 a.m. Due to the NC Stay-At-Home order surrounding COVID-19, the Board meeting took place via teleconference. Sandy Thiry conducted a roll call on behalf of Vanessa Heffron. Four active and retired members were also acknowledged on the conference call. Vanessa Heffron and Lisa Flowers discussed remote meeting protocols with trustees and members.

II. CONSENT CALENDAR / BOARD GOVERNANCE

John Carr motioned to approve the Consent Calendar which consisted of the Board Meeting Minutes of January 23, 2020, Expense Reports, and Schedule of Retirements. Joey Hager seconded the motion. Vote was taken via roll call of all trustees in attendance and the motion carried unanimously.

III. FALLEN FIREFIGHTERS

Mr. Wilson acknowledged retirees who recently passed away including Kenneth Phillips, Norman McCoy, John Carriker, Jr., Elmer Christenbury, Benny Norwood, and William Lowe.

IV. BOARD GOVERNANCE

Vanessa Heffron reviewed the Governance Calendar to ensure the Board is on schedule with tasks. She reminded the Investment and Benefits Committees that review of their Charters are due and to place on their upcoming agendas.

V. REPORTS

A. Experience Study – Todd Green (Cavanaugh Macdonald)

The actuary role is to help estimate the cost of the plan using a series of assumptions and liability determined by the Board. Todd Green reviewed the basic funding equation: Contributions plus Investment Income equals Benefits Paid plus Expenses (C + I = B + E). The series of assumptions are reviewed through an Experience Study which is performed every five years. Using the demographic and economic experience over the previous five years, 2014-2019, the actuary can determine if previously adopted assumptions are still applicable or need adjusting. Todd explained the assumptions are long term estimates and uses a combination of various current reference points such as experience of recent retirees and economic conditions and forecasting those into the future. He further explained a more aggressive assumption is more likely to generate actuarial losses while a more conservative assumption will likely generate actuarial gains. There are Demographic and Economic Assumptions and within these the most powerful assumption is the Investment Rate of Return.

a) Demographic Assumptions – The Actuarial Standards of Practice (ASOP) No. 35 provides the actuaries guidance in selecting demographic assumptions for measuring obligations. Demographic assumptions include withdrawal rates, new retirements, mortality tables, use of sick leave, and marriage assumptions. Since withdrawal rates and the number of new retirements were greater than expected, the recommendation was to change these assumptions. Mortality tables were discussed. The Society of Actuaries published a table specific to safety workers. Todd explained the auditors would be reviewing mortality tables used in plans and would be difficult to support the use of a table other than one specific to safety workers. Unused sick leave was also discussed, and the study supported increasing the additional service at retirement from 2/3 year to a full year. Question was raised as to what the cost impact is the plan for the additional service. Todd Green would get back to the Board on this since he did not have that readily available.

Note: Todd Green followed up with staff and reported the added cost to the ADEC for the additional service due to unused sick time is .60% of payroll.

b) Economic Assumptions - Salary assumptions include price inflation, wage inflation and merit/promotion scale. The ASOP No. 27 provides the actuary guidance in determining price and wage inflation. A slight reduction in price inflation and increase to wage inflation netted no change overall. Payroll growth reflected salary increases higher than other plans but recommended staying at current assumption. The current rate of Investment Rate of Return is 7.5%. Todd explained since 2019, the trend has been to lower the rate of return. NASRA's Public Fund Survey reflected a median rate of 7.33%. LGERS rate of return was 7% as of their 2018 valuation and is in process of an experience study themselves. NCPERS survey published in Jan 2020 reflects downward movement to 7.24% from 7.34% from prior year. Cavanaugh takes into consideration CFRS' investment consultant's capital market projections, which are 10-year projections, as well as the Horizon Survey. The recommended rate of 6.75% is the middle of Callan's projections and Horizon's Survey. Question was asked as to what constitutes a well-funded plan. Todd answered having a plan in balance (C+I=B+E) and explained that the funded ratio works in conjunction with contribution levels. Currently contributions are not sufficient, therefore funding ratio declining. Question was raised as to how long assets will last if no changes to contributions and the rate of return was lowered to 6.75%.

Note: Todd Green followed up with staff regarding the above question and reported that using methodology prescribed by GASB, shortens the timeframe by four years and if the full ADEC is paid, the fund is not projected to run out of money.

c) Actuarial Methods – Currently, the Unfunded Actuarial Accrued Liability (UAAL) is amortized as a level percentage of payroll over an open period of 30 years. NCPERS Study reflects a period of 22.4 years is widely used with 67% utilizing a closed period. Todd reviewed an example of a layered amortization approach. The recommendation is to use a layered closed amortization approach.

John Carr made a motion to approve the Experience Study Report. Kelly Flannery seconded the motion. Motion carried unanimously by roll call vote with all trustees in attendance.

Break at 9:52 a.m. and restart at 10:00 a.m.

B. Experience Study Assumptions

1) John Carr discussed the significant impact the rate of return assumption would have on the plan. In depth discussions occurred within the Committee, with Callan, and other plan surveys such as NASRA and NCPERS, as Todd Green had mentioned, were taken into consideration as well as the long-term performance of the fund. The Committee also reviewed additional analysis by Cavanaugh for impact to the fund using 7.25%, 7% and 6.75% rate of return assumptions. It was evident that the rate of return should be lowered. However, the Committee felt it was prudent to take an incremental approach to lowering the rate of return. Therefore, the Committee has motioned that the rate of return be reduced to 7.25% and would be monitored annually.

Joey Hager seconded the motion. The motion carried unanimously via roll call with all trustees in attendance.

2) Melinda Manning noted that the Benefits Committee had been reviewing the Actuarial Methods including the amortization method and a corridor based on the Pension Review project recommendation done by CBIZ and confirmed with Cavanaugh earlier this year. The Board approved the Actuarial Methods at the January 23, 2020 Board meeting. The Committee has spent considerable amount of time reviewing the Demographic Assumptions and other Economic Assumptions such as Salary and Payroll Growth. Todd Green attended a Committee meeting and provided additional insight to the Experience Study and data used. Overtime is included in salary provided in the Experience Study and therefore the cost of it to benefits is taken into consideration as reflected in the ADEC (Actuarially Determined Employer Contribution).
3) The Benefits Committee has motioned to accept the Demographic Assumptions as presented by Cavanaugh Macdonald.

John Carr seconded the motion to approve the Demographic Assumptions recommended by the Benefits Committee per Cavanaugh Macdonald. The motion carried unanimously via roll call by all trustees in attendance.

4) Melinda reviewed the components for Salary Growth and Payroll with the Board. Although the components change slightly, the net result is the same. Melinda Manning motioned to accept the Salary and Payroll Growth Assumptions as recommended by Cavanaugh Macdonald.

Sheila Simpson seconded the motion. The motion carried unanimously via roll call with all trustees in attendance.

The Committee discussed the effective adoption date for the assumptions. John Carr motioned to accept all assumption changes effective with the June 30, 2020 valuation process. Melinda Manning seconded the motion. The motion carried unanimously via roll call with all trustees in attendance.

C. Investment Committee Report – John Carr

Due to the re-scheduling of the April 2020 Board meeting, the Investment Committee report includes a review of both the 4Q 2019 and 1Q 2020 fund performance.

1) Positive investment returns in 4Q 2019 added $30.4M in market value while benefit payments and operating expenses deducted $5.9M. As a result, the ending Total Fund market value was $579.1M as of December 31, 2019. The Total Fund returned 5.50%, gross of fees, over the course of the Fourth Quarter, which slightly underperformed the Custom Index return of 5.78%, but ranked in the top 34 percent in the Callan Public Fund Sponsor database. Since Callan's inception reporting period (31.5 years) the Total Fund returned 9.07%, outperforming the Custom Index.
2) In Q1 2020 capital markets faced unprecedented disruption as the COVID-19 crisis caused global economies to grind to a halt. Coupled with the oil dispute between Saudi Arabia and Russia, the Total Fund returned -13.91%, gross of fees, while the Custom Index returned

-13.50%. This return would have been much worse had CFRS not been well-diversified across the U.S. and international fixed income, and real estate asset classes. Negative investment returns subtracted $80.1M in market value while benefit payments and operating expenses deducted $5.3M. As a result, the ending Total Fund market value was $493.7M as of March 31, 2020.

3) Morgan Stanley Emerging Markets Equity remained on the Watch List given the recent performance-related issues in 1Q 2020. AJO continued to experience performance-related issues and remains on watch effective November 2019. UBS Realty was placed on watch in February 2020 due to recent team changes and performance concerns. The Committee also continues to monitor the size of the redemption queue for the UBS real estate fund.
4) The Investment Committee reviewed the investment consultant contract that is due to expire June 30, 2020. Based on quality and timeliness of service, the Committee recommended renewing the 3-year contract with Callan as the System's investment consultant. Callan's fees for the new contract period have a nominal increase comparatively experienced in the last contract period.

Joey Hager seconded the motion. The motion carried unanimously via roll call with eight affirmative votes. John Carr abstained, and Teresa Smith was not in attendance for this vote.

Marvin Wilson motioned to accept the Investment Committee's Report. Sheila Simpson seconded the motion. The motion carried unanimously via roll call with nine affirmative votes. Teresa Smith was not in attendance.

D. Benefits Committee Report – Melinda Manning

Melinda Manning provided the Board with updates on the Pension Review Project, Experience Study and the Act Amendments.

1) Melinda Manning reminded the Board that the Actuarial Method assumptions were previously approved by the Board in January and the Committee has continued to make progress working through the Pension Review Project while working collaboratively with the City on a funding initiative. She noted that the City approved the Employer Contribution to 14% effective with FY2021.
2) The changes to the Act Amendment have been continuously discussed to include updates, housekeeping edits (capitalization/punctuation), IRS requirements, and ADEC funding.
3) The committee has reviewed the cost drivers that CBIZ pointed out in the Pension Review Project. The three biggest drivers impacting the cost of the plan from a benefits perspective noted by CBIZ are compensation, vacation/sick payout within the 2-year averaging period and cost of military purchases.
4) Goals for the Benefits Committee include collaborating with the City on a funding strategy to raise the ADEC and the Act Amendments to bring to the Board for review at the July Board meeting.

John Carr motioned to accept the Benefits Committee's report. Joey Hager seconded the motion.
Active Member Jeff Clark questioned the Board regarding voting on Act Amendment changes. He proceeded to state that he had concerns he wanted the Board to hear. Vanessa Heffron provided him the opportunity to bring his concerns to the Benefits Committee and confirmed that no votes were being taken today regarding any Act amendments, just a vote to approve the Committee's report. The motion carried unanimously via roll call with nine affirmative votes. Teresa Smith abstained from voting since she rejoined the meeting during the report.

D. Administrator Report – Sandy Thiry

Sandy Thiry provided the Board with the Administrator's report of the Staff and System's past quarter's activity.

1) Sandy Thiry provided the Board with a proposed budget and narrative for FY2021. Sandy explained revenue for the System is based on employee and employer contributions, military and government purchases, interest and dividends. The fund balance is projected using the Board's adopted assumed rate of return. The fund balance is used to project certain costs such as investment manager fees. Expenditures were reviewed and budgeted items were either removed or adjusted downward in light of COVID-19 impact to the fund and System's needs as a result of modifying work habits. The budget is continually monitored and if any adjustment may be necessary due to unprecedented times, the Board will be addressed at that time. Question was raised as to the percentage the administrative costs are to the plan. Sandy Thiry explained the CAFR has this noted and stated that the administrative costs were .11% for 2019, reduced from .14% from prior year.

Sheila Simpson motioned to approve the proposed FY2021 budget as presented. Teresa Smith seconded the motion. The motion carried unanimously via roll call with all trustees in attendance.

2) Conferences – Sandy Thiry explained NAPPA and NASRA conferences are scheduled but due to COVID-19 restrictions, some are being cancelled or changed to virtual conferences. Lisa Flowers typically attends the NAPPA. Sandy Thiry expressed interest in the NASRA conference which may be a virtual conference.

Marvin Wilson motioned to approve the conference attendance for Lisa Flowers and Sandy Thiry. Joey Hager seconded the motion. The motion carried with eight affirmative votes via roll call. Sheila Simpson and Kelly Flannery left the meeting at 12:00pm and were not available for the vote.

3) Due to time restraint, trustees were directed to review the Administrator's report individually and address concerns or questions with the Board.

Ryan Pope motioned to accept the Administrators Report. Lee Thompson seconded the motion. The motion carried with eight affirmative votes via roll call. Sheila Simpson and Kelly Flannery left the meeting and were not available for the vote.

V. NEW BUSINESS

Clay Morris addressed the Board with his concern regarding a believed shortage of benefits from the Retirement System. His concern stemmed from *Kurzel et al vs City of Charlotte* lawsuit and subsequent settlement between the two parties. Lisa Flowers discussed the legal requirements and the trustee's responsibilities to follow the plan. Lisa explained that a settlement agreement between two parties is not an admission of guilt or wrongdoing. The CFRS was not a party to the lawsuit and only obligation was to correct benefits based on a change in certain retiree records which affected their benefit calculation. To date the Retirement System has not received any change in records regarding his employment or earnings that would warrant a review of his benefit. Any questions he or any employee has regarding his employment, service, or earnings must be directed to the City since they are the employer.

ADJOURNMENT

Marvin Wilson motioned to adjourn at 12:35 p.m. Melinda Manning seconded the motion. The motion carried with eight affirmative votes via roll call. Sheila Simpson and Kelly Flannery left the meeting and were not available for the vote.

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

cc: Lisa Flowers, Assistant City Attorney