

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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ANNUAL BOARD MEETING MINUTES

July 23, 2020

PRESENT: Vanessa Heffron – Chair, John Carr, Melinda Manning, Kelly Flannery (left @ 10:30 a.m.), Teresa Smith, Ryan Pope, Joey Hager, Lee Thompson, Sheila Simpson (left at 10:04 a.m.) and Marvin Wilson

OTHER: CFRS Staff Sandy Thiry, Tony Bass, Desiré Dixon, Sr. Assistant City Attorney Lisa Flowers

AGENDA

I. CALL TO ORDER by Vanessa Heffron at 8:00 a.m. Due to the NC Stay-At-Home order surrounding COVID-19, the Board meeting took place via teleconference. Roll call was taken with all trustees in attendance.

II. CONSENT CALENDAR

Kelly Flannery motioned to approve the Consent Calendar which consisted of the Board Meeting Minutes of May 28, 2020, Expense Reports, Schedule of Retirements, FY21 Meeting Calendar, and the Active Trustee Election Timetable. Joey Hager seconded the motion. Vote was taken via roll call with all trustees in attendance and the motion carried unanimously.

III. BOARD GOVERNANCE

A. Governance Calendar - Vanessa Heffron reviewed the Governance Calendar to ensure the Board is on schedule with tasks. Sandy Thiry reminded the Board that the Code of Ethics is provided to trustees and staff on annual basis and should also be reviewed periodically. The Code of Ethics will be emailed for all trustees and staff members to review, sign, and return to the office.

B. Elections of Officers – Vanessa Heffron reminded the Board that the election of officers occurs at the Annual Meeting and of the voting process. She then asked for a motion to open the floor for nominations for the office of Vice Chair. Ryan Pope motioned to open the floor for nominations of the Vice Chair. Marvin Wilson seconded the motion. Motion carried unanimously. Marvin Wilson nominated John Carr for Vice Chair. Sheila Simpson seconded the motion. Motion carried unanimously. Marvin Wilson motioned to close nominations of Vice Chair. Joey Hager seconded motion. Motion carried unanimously. Ryan Pope motioned to vote for John Carr as Vice Chair. Teresa Smith seconded. Motion carried unanimously. Joey Hager motioned to open nominations for Secretary. Ryan Pope seconded the motion. Motion carried unanimously. Joey Hager motioned to nominate Ryan Pope for Secretary. John Carr seconded the motion. Motion carried unanimously. Joey Hager motioned to close the nominations for Secretary. Teresa Smith seconded the motion. Motion carried unanimously. Marvin Wilson motioned to vote Ryan Pope for Secretary. John Carr seconded motion. Motion carried unanimously. Congratulations given to John Carr and Ryan Pope. Records reflect that all trustees were in attendance for all voting motions.

IV. REPORTS

A. Benefits Committee Report

Melinda Manning thanked the Benefits Committee members for their dedication over the past 2 years working through the various studies including the CBIZ Pension Review Project and funding projections analysis, overtime studies, comparison of LGERS benefits, contribution levels, and working with the Plan Sponsor to implement long-term funding goals.

Actuarial Determined Employer Contribution (ADEC)

- 1) Melinda Manning explained that the annual valuation process performed by the System's hired actuary determines the ADEC. Over the years the statutory 12.65% employer contribution rate was sufficient. Plans like CFRS which have a statutory rate are in a better funded position than other plans that can take funding holidays. However, at the current contribution rate, the ADEC continues to rise and the funded level continues to decline. Active membership plateaued beginning in 2010 creating a stagnant funding source. The number of retired members receiving benefits from the plan will soon exceed the number of active members contributing to the Plan. Enhancements by the City to employee benefits increases pension plan benefits. She reminded the Board that the funding efforts over the past two years have provided the System an additional \$1M lump-sum in Employer Contributions in FY2020 and an increase to the Employer Contribution rate to 14% beginning in FY2021, which was the first permanent increase in 30 years. Although these contributions are helpful, more needs to be done.
- 2) It has been recommended by the Actuary to update the amortization method, which the Board approved in January 2020 to be effective July 1, 2020, and for the Plan Sponsor to fund the ADEC. Concerns about the employer contribution rate were discussed including the current rate and an unrealistic view that the City would accept an unlimited contribution request. Providing the City with a 5-year plan can provide the City time to review options of what type of benefit and at what cost they want to provide to their employees. The Committee had discussed concepts of extending the averaging period, changing the definition of Compensation and the possibility the City could put new hires into the local government plan.

MOTION: The Benefits Committee presented the Board with a motion to amend the Act to increase the Employer Contribution rate to 14% effective 7/1/2020, 16% effective 7/1/2021, 18% effective 7/1/2022, 20% effective 7/1/2023, 22% effective 7/1/2024 and 24% effective 7/1/2025; and further not to exceed the ADEC in any given year but no less than 14%.

Concerns were raised about the City and the funding they are responsible for. Some trustee expressed a lack of trust in the City about promises made and not kept as well as the idea of the City wanting members to "give up" something when the City hasn't paid as much for the CFRS pension plan than they have for other City employee pension plans. The Committee and the Board will review the contribution rate annually and suggest that the proposed funding methodology be reviewed with the City in five years to see if the long-term funding goals have been met.

Sheila seconded the motion. Roll call was taken with six members voting affirmative and two members voting against. The motion carried by majority vote. All trustees were present during the vote except for Ryan Pope.

Lisa Flowers will write suggested Act language regarding the Board's recommendations to fund the System based on the approved motion.

Other Options and Act Amendment Suggestions

- 1) Melinda Manning presented an outline of the other areas identified by the Pension Review Project and aspects raised by the Plan Sponsor that the Committee has vetted.

Options	Benefit Committee Decision	Reason
Remain Status Quo	Not an option	Does not comply with fiduciary responsibility
Remain Status Quo & Bill Sponsor for Cost of Enhanced Benefits	Not an option	The ADEC includes all costs
Increase Employer Contribution	Yes, Amend the Act; 14% minimum eff 7/1/2020, with 2% incremental increase FY2022 to FY26, not to exceed the ADEC	Fiduciary Responsibility
Lower the Interest Rate applied to Return of Contributions	Yes, amend the Act	Outdated, tie to “current market conditions”
Change Cost Basis for Military Purchases	Yes, amend the Act	Provide consistency with all three types of prior service purchase costs
Restrictions (70 1/2 distribution rule)	Yes, amend the Act	IRS Mandate, SECURE Act
Increase Employee Contribution	Option not supported by Benefits Committee	The ADEC is the Sponsor’s responsibility
Change Definition of Compensation (Base Salary only)	Option not supported by Benefits Committee	Sponsor needs to determine what benefits to provide employees and at what cost
Limit/Cap Compensation for Final Average Salary	Option not supported by Benefits Committee	Sponsor needs to determine what benefits to provide employees and at what cost
Change Final Average Salary Period to 3 or 4 yrs vs 2yr	Option for City to Evaluate, Benefits Committee not opposed	Sponsor needs to determine what benefits to provide employees and at what cost

MOTION: The Benefits Committee motioned for the Board to approve recommendations for Act amendments regarding the Return of Contribution Interest Rate, Military Service Purchase Cost, IRS Mandate of 70½ Distribution Rule requirements under the SECURE Act, and further; provide the Plan Sponsor with the following options for their cost benefit analysis and decisions, which includes increasing employee contribution rate, changing the definition of Compensation (i.e.- Base Salary only), limit/cap Compensation used in Final Average Salary and changing final average period from 2 years to 3 or 4 years.

Discussion ensued regarding the recommendations including questions of the use of 100% salary cap compared to the 415 limitations, treating firefighters the same as other City employees, and overtime. It was clarified that this motion provides the Committee with direction on which options the Board is interested in, thereby needing new or revised language for Board’s subsequent approval.

John Carr seconded the motion. Roll call taken and motion carried unanimously with all trustees in attendance except for Sheila Simpson.

A Special Board Meeting was requested and granted to the Benefits Committee to present proposed amendment language for the Board’s approval to meet the Legislative timeline

The Benefits Committee Charter will be reviewed during the August Meeting to try and coordinate with the Investment Committee’s review.

MOTION: John Carr motioned to accept the Benefits Committee Report and Marvin Wilson seconded the motion. A roll call vote was taken, and the motion carried unanimously with all trustees in attendance except Sheila Simpson.

B. Investment Committee Report

Since the May 28, 2020 Board meeting, the Investment Committee met with Barrow Hanley (Domestic Fixed Income), State Street Global Advisors (Passive Domestic Fixed Income, Domestic Equity, and International Equity), AJO (Large Cap Value) and Winslow Capital Management (Large Cap Growth) to review performance. All firms have transitioned seamlessly to working from home during COVID-19. Barrow Hanley took advantage of opportunities created by the effects of the pandemic by selling off and buying high quality companies that they could not afford pre-pandemic. Winslow Capital reported strong performance in the Technology sector. The individual weightings of Amazon and Microsoft within the portfolio have drifted above the 8% maximum position weight allowed by the CFRS Investment Policy Statement unless Board approved otherwise. The increase was solely due to each stock's performance. The Committee determined that Winslow should not be penalized for CFRS limitations relative to their benchmark for these two companies for which they have a positive outlook. The Investment Policy Statement allows for exceptions to be given to any manager if short-term market conditions warrant.

MOTION: The Investment Committee has motioned to allow Winslow to temporarily exceed the maximum 8% position weighting for Amazon and Microsoft with monthly review and monitoring by the Investment Committee. Lee Thompson seconded the motion. Roll call was taken and the motion carried unanimously with all trustees present except for Sheila Simpson.

- 1) Watchlist - AJO (Large Cap Value) reported some performance improvement in 2Q 2020 and will remain on watch for continued monitoring. Morgan Stanley (Emerging Markets Equity) remains on the Watch List given the recent performance-related issues in 1Q 2020. UBS Realty also remains on watch due to recent team changes and performance concerns.
- 2) Cash Liquidation for Operating Expenses - The Committee approved a \$4M cash liquidation request to pay benefits and administrative expenses per the Board's annual budget approval. Based on the June 30, 2020 asset allocation report provided by Staff, the Committee determined that Winslow Capital Management would be the best source of funds for the \$4M withdrawal.
- 3) Charter Review - The Committee reviewed its Charter and discussed several changes which were incorporated.

MOTION: The Investment Committee has motioned for the Board to approve the Investment Committee Charter as edited by the Investment Committee including removing references to the Funding Policy since those responsibilities fall to the purview of the Benefits Committee, providing the IC authority to allow temporary exceptions based on the market, and general housekeeping.

Joey Hager seconded the motion. Roll call was taken and the motion carried unanimously with all trustees in attendance except Sheila Simpson.

MOTION: John Carr motioned to accept the Investment Committee's Report. Ryan Pope seconded the motion. Roll call vote was taken and the motion carried unanimously with all trustees in attendance except Sheila Simpson.

C. Administrator Report

Sandy Thiry provided the Board with the Administrator's report including updates as follows.

- 1) Sandy Thiry provided the Board with estimated year-end financial budget and statements for the FY20. Although still waiting for US Bank's report, a few outstanding invoices and other year-end postings, the expectation is to be under budget overall with a few line items slightly over their targeted budget. These line items include postage, actuarial services, and other professional services. Postage and other professional services are mainly due to implementation of new retiree communication process and calculator changes for the City's vacation policy, while the increased actuarial cost was a result of the Experience Study.
- 2) Staff is beginning the fiscal year-end activities which include preparing the annual valuation data files for active and retired members, reviewing FY20 accruals and reversing journal entries and preparing FYE20 investment holdings file for CFRS' and the City's financial reporting.
- 3) Due to COVID-19, the staff continues to work from home with no interruptions. At this point member education on-site visits are still on hold. Station visit requests are being documented and they will be schedule as some of the restrictions are lifted.
- 4) Public Record requests are processed as they are received and in conjunction with other deadlines.
- 5) Sandy Thiry has researched possibilities to improve the acoustics in the conference room. However, due to COVID-19, this has been put on hold.
- 6) New vendor, FRT (Financial Recovery Technologies), monitors and submits security litigation claims on behalf of the CFRS and they have recovered over \$5,900 this year.
- 7) Phone and website usage are regularly monitored for tracking and understanding of possible system improvements.

MOTION: Joey Hager motioned to accept the Administrator Report. Ryan Pope seconded the motion. The motion carried unanimously via roll call with all trustees in attendance except Sheila Simpson and Kelly Flannery.

FALLEN FIREFIGHTERS

Mr. Wilson acknowledged the retirees who recently passed away including Michael Bittikofer, Frank Pressley, Robert Ellison, and Richard "Gene" Black.

V. NEW BUSINESS

No new business was presented during this meeting.

Vanessa Heffron asked for the Trustees opinions on having the meetings via virtual calls or conference calls. The group agrees that the conference calls seems to work in the current situation of COVID-19.

ADJOURNMENT

Marvin Wilson motioned to adjourn at 10:59 a.m. John Carr seconded the motion. The motion carried unanimously via roll call with all trustees in attendance except Sheila Simpson and Kelly Flannery.

**Special Board meeting tentatively scheduled for Thursday, September 3, 2020.
Next Regular meeting is scheduled for Thursday, October 22, 2020.**

cc: Lisa Flowers, Assistant City Attorney