

# CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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## REGULAR BOARD MEETING MINUTES

October 22, 2020

- ROLL:** Vanessa Heffron – Chair, John Carr, Melinda Manning, Kelly Flannery, Teresa Smith, Ryan Pope, Joey Hager, Renee Metzler, Marvin Wilson, Lee Thompson (arrived at 8:10 a.m.), and Sheila Simpson (left at 10:25 a.m.).
- GUEST:** Retired Member Clay Morris, 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 8:01 a.m. Due to the ongoing restrictions of COVID-19, the Quarterly Board Meeting took place remotely by video conference. The new Citizen's Trustee, Renee Metzler was introduced to and welcomed by the Board members. Todd Green of Cavanaugh Macdonald was also acknowledged as being present. Roll call was conducted.

### II. CONSENT CALENDAR

Marvin Wilson motioned to approve the Consent Calendar which consisted of the minutes from the July 23, 2020 Annual Board Meeting and the September 3, 2020 Special Board Meeting, Expense Reports, and Schedule of Retirements. Sheila Simpson seconded the motion. Vote was taken via roll call and the motion carried.

### III. BOARD GOVERNANCE

The Governance Calendar was reviewed and determined all assignments were on schedule. The Benefits Committee is working to finalize their review of the Benefits Committee Charter.

### IV. REPORTS

#### A. Annual Valuation – Todd Green (Cavanaugh Macdonald)

Todd Green presented the results of the Annual Actuarial Valuation of the City of Charlotte Firefighters' Retirement System. The purpose of the report is to provide a summary of the funded status of the System as of July 1, 2020 and to recommend rates of contribution. He discussed the estimated calculations for assets and liabilities. He explained the basic retirement funding equation: Contributions plus Investment Income equals Benefits Paid plus Expenses ( $C + I = B + E$ ).

- 1) The market value of assets decreased slightly from \$558.8M to \$558M while the actuarial value increased from \$566M to \$580.1M, compared to July 1, 2019.
- 2) The Market asset return of 3.12% was 4.13% less than the 7.25% expected rate of return. and The Actuarial asset return of 5.76% was 1.49% less than the 7.25% expected rate of return. Individual pay increased at an average of 7.64% versus the 5.48% expected rate and the total projected payroll increased 7.13% versus the 3% expected increase.
- 3) Certain assumptions since the previous valuation, including various economic and demographic assumptions, have been revised to reflect the results of the experience investigation for the five-year period ending June 30, 2019. The revised assumptions were adopted by the Board on May 28, 2020 including lowering the annual rate of inflation assumption from 3% to 2.50% and

increasing the current rate of wage inflation assumption from 0.75% to 1.25%. The Investment Rate of Return changed to 4.75%, resulting in a reduction from 7.50% to 7.25% net investment return assumption. Payroll Growth decreased from 3% to 2.50%. Other changes included the Withdrawal and Retirement Rates, Base Mortality, Mortality Projection, and the Unused Annual Leave assumption at retirement increased from 2/3 year to 1 year. The Amortization Method changed to a layered closed amortization approach.

- 4) Active membership increased from 1047 to 1067 while the retiree membership increased from 750 to 765 and the deferred vested increased from 15 to 16 Members. Total active membership's payroll increased from \$77 to \$82.5M and the total retiree benefits increased from \$37.7M to \$39.1M.
- 5) The actuarially determined employer contribution rate based upon the Board's adopted funding policy is 28.91% of payroll for the fiscal year ending June 30, 2022, up from 21.04% for the previous fiscal year. It is important to note that the employer statutory contribution rate is equal to 12.65% leaving a contribution shortfall of 16.26% of payroll.
- 6) The unfunded liability increased to \$178.5M caused by various assumption changes related to current economic and demographic shifts, primarily lowering the investment rate of return assumption, and changing the Mortality Table causing the biggest impact to the increase. The funding ratio changed from 82.7% to 76.5%.
- 7) The experience investigation performed as of June 30, 2019 resulted in the Board adopting a closed layered amortization method for the Unfunded Accrued Liability (UAL). This method provides that the current UAL will be amortized as a level percent of payroll over a closed 30-year period. Amortization of any future experience gains and losses will be over a closed 15-year period, changes to assumptions and methods over a new closed 30-year period, plan changes/benefit improvements over a closed 20-year period, and exceptional plan changes/benefit improvements over a closed 5-year period.
- 8) COLA and bonus were also discussed. The Act's provision related to providing a COLA or bonus to retirees requires consent from the System's actuary. The impact of adding COLA or bonus for the retirees would increase the System's unfunded liability. Therefore, the System's actuary did not recommend a post-retirement adjustment. Other options include requesting the sponsor of the plan to fund a post-retirement payment.

Mr. Green pointed out that future actuarial results may differ significantly from the current results presented in this year's report due to such factors as plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

John Carr motioned to accept the Annual Valuation report. Joey Hager seconded the motion. Vote was taken via roll call with all trustees and the motion carried.

## **B. Benefits Committee Report**

Melinda Manning provided an overview of the Benefits Committee Meetings since the July 23, 2020 Board Meeting. The Committee held three regular meetings and a special Benefits Meeting. Primary focus for these meetings were the Pension Review Project, the Act Amendments, and the Committee Charter.

- 1) The Board discussed and approved at the Board's Special Meeting held in September the suggested funding and amendment changes presented by the Committee. The changes include an incremental year over year 2% employer contribution for the next five years, military purchase cost for new hires to be aligned with other service purchase costs, some minor edits for clarity and legal references, and general housekeeping edits. Vanessa Heffron, Melinda Manning and Sandy Thiry are on the agenda to present to the City's Budget Committee on October 27, 2020.

- 2) The SECURE Act changes need further research before presenting to the Board for suggested amendment.
- 3) The Benefits Committee noted that they would continue their review of the recent analysis performed by CBIZ regarding options the City may have for controlling the cost of the plan. Discussions regarding the definition of compensation will continue as additional research is needed.
- 4) Staff worked with legal counsel for a comprehensive review of the Charter to present to the Committee for review including the reference of a funding policy. The Committee will review the changes and present to the Board at the January Board meeting.

John Carr motioned to approve the Benefits Committee Report and Marvin Wilson seconded. Vote was taken via roll call with all trustees and the motion carried.

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

John Carr provided an overview of the Investment Committee meetings since the July 23, 2020 Board Meeting. The Committee held three meetings - August 20, 2020 meeting with Callan for the 2Q 2020 Investment Review, September 17, 2020 meeting with Colchester and October 15, 2020 meeting with UBS Trumbull Property Fund and JPMorgan Strategic Property Fund. The Investment Managers gave updates regarding the Covid-19 impact on our investments, on the capital markets, and their organizations as well as natural disasters and any impact to properties held within the portfolios. Maintaining a focus on our long-term strategic investment plan is crucial.

- 1) Callan provided an Investment Review for 2Q 2020. During this period, positive investment returns added \$67.5M in market value while benefit payments and operating expenses deducted \$5.1M. As a result, the ending Total Fund market value was \$556.1M as of June 30, 2020.
- 2) The Total Fund returned 13.72%, gross of fees, over the course of the Second Quarter, which outperformed the Custom Index return of 12.78%, and ranked in the 17th percentile in the Callan Public Fund Sponsor Database. The 5-year return of 6.28% versus the Custom Index return of 6.45% placed the Fund in the 35th percentile. Since Callan's reporting inception period (32 years), the Total Fund returned 8.85% outperforming the Custom Index by 64 basis points on an annualized basis and ranked in the 9th percentile among all Public Funds in their database.
- 3) All Investment Managers' performance and organizations were reviewed with a primary focus on the Watch List managers.
  - a) Morgan Stanley Emerging Markets Equity has trended toward improvement over the past three quarters however they will remain on the Watch List for long-term performance concerns.
  - b) UBS Real Estate was placed on the watch list due to recent team changes and performance concerns. They have developed a plan to improve performance but will take time to implement. UBS will remain on watch.
  - c) Barrow Hanley was placed on watch in August 2020 due to a change in ownership per the Investment Policy Statement. Callan will help monitor the ownership transition. The change in ownership is not expected to impact the CFRS fund or contract with Barrow Hanley.
  - d) AJO, CFRS's large cap value manager, announced on October 14, 2020 that the firm will be closing on December 31, 2020. The Committee will review the best options for permanent replacement with Callan based on the asset studies.

**MOTION:** The Investment Committee motioned to terminate the AJO contract based on AJO's closure notice to the CFRS; liquidate the assets by October 30, 2020; and transfer the assets to the existing SSgA Russell 1000 Index. Melinda Manning seconded the motion. Vote was taken via roll call with all trustees and the motion carried.

Ryan Pope motioned to accept the Investment Committee's Report. Sheila Simpson seconded the motion. Roll call vote was taken and the motion carried.

#### **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) The activities included preparing the financial statement for FYE2020 and the estimated first quarter FY2021. Sandy reviewed the administrative budget for FY2020 which came in under budget overall and the first quarter of FY2021 was on track. Annual Valuation data extracts and review were conducted and forwarded to the actuary in a timely manner. The annual audit is currently underway. Office operations continue during COVID-19 with partial re-entry to the office; 2 to 3 days per week with staff on-site staggered during the week. Building is still locked down to public. Consultations and applications are conducted remotely via conference calls. Membership education is being coordinated with the City of Charlotte HR team to incorporate "mySuccess" learning modules. More to come on this as we work through the initiative. Station visits have been on hold due to COVID-19. Recruit classes 112 through 115 received comprehensive education regarding disability pension provisions with follow up meeting near their graduation dates to learn about the main pension plan provisions. Active Trustee Election update was provided. Public record requests have been in depth and vary from requestor. Requestors include financial publications, active members, and retirees. These requests are managed along with the day-to-day activities and deadlines. The System does not have a dedicated information office or staff to fulfill these requests.
- 2) Conference attendance was discussed. Most conferences have been cancelled with some moving to virtual concept. The NAPPA conference had not been cancelled yet nor has there been any announcement for virtual attendance. Sandy asked that the Board approve Lisa's attendance for this conference. Sandy also explained that Joey's accreditation for Trustee requires ongoing credit hours to maintain certification. Due to certain classes that may be offered between Board meetings, Sandy asked the Board to approve expenditure for Joey's classes not to exceed \$500 per class and managed within the approved budget.

Kelly Flannery motioned to approve the conference attendance for Lisa Flowers and Joey Hager. Ryan Pope seconded the motion. Vote was taken via roll call with all trustees and the motion carried.

Lee Thompson motioned to accept the Administrators Report. Melinda Manning seconded the motion. Vote was taken via roll call with all trustees and the motion carried.

5 Minute Recess

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

##### **A. Special Audit - Sheila Simpson**

Sheila Simpson stated she and other trustees received a series of opinions, comments, and accusations recently regarding vacation-in-lieu of holiday (VHOL) and the *Kurzel* lawsuit from a few retirees. Although these topics have been intertwined by these individuals, they are not the same. Sheila read aloud an August 30, 2020 email of concern from Marvin Wilson addressed to trustees and some Members alleging fraud. She stated that she and others took an oath to uphold the laws and provisions that govern the Act and added that she did not appreciate nor accept his accusation. She re-iterated that the *Kurzel* lawsuit, which was against the City not the CFRS, resulted in a settlement agreement that revised the City's vacation and sick payouts for *Kurzel* plaintiffs and other retirees the City determined fell within the three-year statute of limitations. It was suggested that an audit be conducted if the Board has any strong belief that any type of fraud has been committed by the Board or the Administrator. Sheila Simpson recommended that the Board have the CFRS Administrator provide an overview of how retirement benefits are calculated and to allow Trustees the opportunity to ask questions they may have

about the process. Accusations by Trustees without specific evidence or misappropriations should not be tolerated. Trustees discussed that it should be the responsibility of each Board member to conduct themselves in a professional manner when addressed by members or retirees regarding the System and that Trustees should support the Board's decisions while keeping personal feelings separate. Vanessa Heffron reminded the Board that the System receives clean audits each year and demonstrates strong internal controls. Developing a communication policy was also discussed. Ryan Pope and Joey Hager will continue the work they have done so far. Joey Hager will also follow up with NCPERS regarding communication in compliance with trustee fiduciary responsibilities. Sandy Thiry will coordinate educational training for Trustees regarding member information received from the City and how that information is used in calculating a member's benefit per the CFRS Act.

**B. Benefit Payment - Clay Morris**

Clay Morris addressed the Board regarding the vacation and holiday payout prior to retirement and the reasons for his concerns. He stated his understanding of the Volunteer Correction Program (VCP) completed by the Board through the IRS was about a mistake and it was obvious it was about the *Kurzel* lawsuit. Sandy Thiry and Lisa Flowers explained that the VCP, which was filed in January 2016, was a scrivener error when the Act was updated in 2000 and had no relation to the *Kurzel* case.

**C. Outside Legal Counsel, City Resolution of VHOL, Act- Section 8; 2016 VCP filing; Retiree Deaths - Marvin Wilson**

1. Marvin Wilson requested that the Board consider hiring outside Legal Counsel. The Act currently provides that the Board can hire outside legal counsel as deemed necessary. The Board requested that staff research firms that specialize in public pension systems.
2. Marvin Wilson raised concerns over how VHOL is scheduled. The Board discussed that VHOL is a City function based on the City's policies for managing work time. While VHOL time may be included in a member's vacation payout and/or unpaid vacation at retirement and thus plays a part in a member's retirement benefit calculation, the CFRS does not have control over how VHOL is administered and does not receive information from the City on the amount of VHOL that is included in a member's unused vacation payout or remaining unpaid vacation.
3. The Board discussed how Section 8 of the Act provides for how unpaid sick and vacation time is applied in the pension benefit. This will be included in the educational training mentioned above.
4. Marvin Wilson recognized the 15 retirees who passed away this year by reading their names aloud during the meeting.

**ADJOURNMENT**

Joey Hager motioned to adjourn at 11:13 a.m. Ryan Pope seconded the motion. The motion carried.

**Next Regular meeting is scheduled for Thursday, January 28, 2021.**

cc: Lisa Flowers, Assistant City Attorney