Charlotte Firefighters' Retirement System Funding Policy

Adopted Month Day, 2021

The Charlotte Firefighters' Retirement System (the "System") was established pursuant to the provisions of Chapter 926 of the 1947 Sessions Laws (the "Act" or "Plan"), as amended from time to time, to provide retirement, disability, and survivor benefits for the uniformed employees of the Charlotte Fire Department (aka "Members") as defined in the Act.

The purpose of this Funding Policy is to state the overall funding objectives of the System, the benchmarks that will be used to measure progress in achieving those objectives, and the methods and assumptions that will be employed to develop the benchmarks. The System's Board of Trustees (the "Board") emphasizes transparency and prudent management. Annual Actuarial Valuation reports, which detail the Plan's most recent funded position, may be found on the CFRS' website (charlottefireretire.com).

While the Board has the fiduciary responsibility to monitor the funding progress and recommend contribution rates or benefit changes, the City of Charlotte (the "City" aka the "Employer") is the sole plan sponsor and is responsible for funding the System.

This Policy represents the Board's current funding philosophy regarding the System. In addition, although the Board shall utilize this Policy Statement in making decisions concerning the System, it shall not necessarily be bound solely by its contents and the Policy Statement may be amended from time to time.

I. Funding Objectives

The objective in requiring employer and member contributions to the System is to accumulate sufficient assets during a member's employment to fully finance the benefits the member is expected to receive throughout retirement. In meeting this objective, the System will strive to meet the following funding objectives:

- To develop a pattern of contribution rates expressed as a percentage of employer payroll and measured by Annual Actuarial Valuations prepared in accordance with applicable Government Accounting Standards and the principles of practice prescribed by the Actuarial Standards Board. If the statutory employer and member contribution rates are not sufficient to fund the System given reasonable expectations about future experience, the Board may consider recommending changes to the statutory contribution rates and/or benefit provisions.
- To fund as prudently as possible:
    - to achieve a funded ratio (ratio of actuarial value of assets to actuarial accrued liabilities) that reflects a trend toward a strong actuarial position. The long-term goal is to obtain the Actuarially Determined Employer Contribution (ADEC) level of funding. (The ADEC is the percentage of payroll required to be contributed by an employer to a governmental pension plan to ensure the payment of benefits promised.)
    - to maintain adequate asset levels to pay all benefit obligations when due and maintain sufficient liquidity and adequate diversification to balance short-term and long-term needs and objectives.
    - to promote intergenerational equity for taxpayers with respect to contributions required for the benefits provided by the System.

II. Funding Design

The System's method of funding is stated in the Act Title V, Method of Financing, Sections 24, 25 and 26. In summary, the City and each member contribute each week an amount equal to the member's eligible compensation multiplied by a contribution rate.

The member's contribution level is perceived as a responsible level of contribution and is comparable to other plans that do not contribute to Social Security. Similar to the City's contribution level, the member's contribution level may also be considered. The City's and the members' contribution level are not required to be set to the same percentage.

The City may make other contributions by or on behalf of any member pursuant to the provisions of the Act. In addition, the City may, within its discretion, and upon recommendation by the Board, appropriate funds necessary to provide a cost-of-living increase or bonus to the retirees.

While the Board has the fiduciary responsibility to recommend contribution rates or changes to benefit provisions, approval from the City and the North Carolina General Assembly are required to amend the Act. The City, as plan sponsor and contribution agent, will always have competing needs and obligations constraining its budget. Notwithstanding these demands and potential conflicts, the funding program's effectiveness is contingent on the City's commitment to make the recommended contributions when due.

III. Measures of Funding Progress

Section 44 of the Act states that an Annual Actuarial Valuation shall be performed by the actuary as of the 1st of July and presented to the Board no later than the second regular quarterly meeting following the Annual Meeting each year.

To track progress in achieving the System's funding objectives, the following benchmarks will be reviewed annually as of the actuarial valuation date (with due recognition that a single year's results may not be indicative of long-term trends):

- **Funded ratio –** defined as the actuarial value of assets divided by the actuarial accrued liability.
- **Total Unfunded Actuarial Accrued Liability (UAAL)** – defined as the sum of the Transitional UAAL and any New Incremental UAALs.
  - **Transitional UAAL**- The UAAL established as of the 7/1/2020 valuation date.
  - **New Incremental UAAL**- Each subsequent valuation will produce a New Incremental UAAL amount, if applicable, consisting of (a) Assumption and Method changes, (b) Benefit/Plan changes, (c) Annual Loss/Gain experience, and (d) Exceptional Benefit Increases that have occurred since the previous valuations. (Exceptional Benefit increases are benefit increases that are not related to any changes in the Act such as higher pay used in determining Final Average Salary than the actuarial assumptions provide, or a higher benefit than originally projected due to circumstances not related to benefit plan changes.)
- **Total UAAL Amortization Amounts –** defined as the sum of amortized Transitional UAAL and New Incremental UAALs over the following periods:
  - The Transitional UAAL will be amortized over a closed 30-year period beginning on 7/1/2020.
  - Each New Incremental UAAL shall be amortized over a closed period as shown below beginning with the year it is incurred:

    (a) Assumption and Method changes – 30 years

(b) All Benefit/Plan changes – 20 years
(c) Annual Loss/Gain experience – 15 years
(d) Exceptional Benefit Increases – 5 years

- **Actuarially Determined Employer Contribution (ADEC) Rate**
  - The ADEC is the percentage of payroll equivalent to the Employer Normal Cost of the Plan plus the Total UAAL amortization amounts.
  - Effective 7/1/2020, the City has agreed to make contributions according to the following schedule in order to align with the long-term goal of obtaining the ADEC level of funding. If any subsequent annual actuarial valuation indicates an ADEC less than shown below, the City will fund at that level except that, at no time shall contributions be less than 14% of payroll.

FY 2022	16%
FY 2023	18%
FY 2024	20%
FY 2025	22%
FY 2026	24%

  - The valuation methodology, including the amortization of the UAAL, would be expected to maintain reasonably stable contribution rates.

IV. Methods and Assumptions

The annual actuarial valuations providing the measures to assess funding progress will utilize the actuarial methods and assumptions last adopted by the Board after thorough review of the recommendations of the System's actuary. Annual Actuarial Valuation reports may be found on the CFRS' website (charlottefireretire.com).

The Board may also refer to additional resources during its review and assumption setting process. The System is an enrolled member of various governmental pension system associations such as GFOA, NASRA, and NCPERS, so the Board may take into consideration published surveys, white papers, and illustrated best practices from those associations.

The following are the primary methods and assumptions:

- Economic Assumptions:
  - Price inflation, wage inflation, and merit/promotion scale;
  - The long-term annual investment rate of return, which shall be determined based on input from the System's actuary, the System's investment consultant, and the System's Investment Committee; and
  - Payroll Growth.
- Demographic Assumptions:
  - Withdrawals, retirements, and disabilities;

    - Mortality rates and tables;
    - Unused sick and vacation leave; and
    - Marital status.
- Other Actuarial Assumptions & Methods:
    - Entry Age Normal (EAN) actuarial cost method;
    - Asset Smoothing –The actuarial value of assets (AVA) will be determined by recognizing the annual differences between actual and expected market value of assets over a five-year period. In each valuation subsequent to 7/1/2020, the AVA shall remain within a 20% corridor of the current market value (not more than 120% or less than 80% of Market Value); and
    - Administrative Expenses.

V. Periodic Funding Review

To ensure the funding objectives are met, periodic monitoring is performed to assess the funding status and to make any adjustments warranted.

- The economic and demographic actuarial assumptions used to perform annual valuations and to determine the adequacy of employer and member contribution rates will be those last adopted by the Board based upon the advice and recommendation of the System's actuary.
- The actuary shall conduct a review of the System's experience at least every five years and utilize the results of the review to form the basis for those recommendations. Any changes to the recommended assumptions and methods that are approved by the Board will be reflected in this Policy.

The projected measures of funding progress and the recent historical trend provided in the annual actuarial valuation and periodic experience study will provide important information for the Board's assessment of the System's funding progress. Additionally, other external resources published by pension associations may be used.

If the funding objectives have not produced results as anticipated over time, or risks (whether anticipated or unanticipated) have emerged that may make it difficult to achieve the objectives, adjustments may be considered to achieve the goals of benefit security, intergenerational equity, and stability of contributions. Additionally, collaboration with the City may be necessary.

Any post-retirement adjustments, such as a Cost-of-Living Adjustment or Bonus, are payable in accordance with the Act, Sections 23 and 25 and should be considered prior to or coincident with any type of benefit enhancement for the active members. A fiscal note prepared by the actuary demonstrating that the System could support such payment in an actuarially sound manner is necessary for the Board's and City's approval. The fiscal note shall evaluate the effect that granting such post-retirement benefit will have on the amortization period, the level of unfunded accrued liabilities, and the annual required contributions.

VI. Funding Adoption Process

As previously stated, approval of the City and the North Carolina General Assembly (NCGA) are required to amend the Act.

- Any recommendation by the Board to change the Act pertaining to the employer and/or member contribution rate or benefits must be approved by the City. Original requests should be directed to the City Manager for inclusion in the City's review process.
- Upon approval by the City, the System's staff and legal counsel work closely with the City to begin the legislative process and ensure inclusion in the City's legislative package to the NCGA. Analysis by the System's actuary that states the financial impact of contribution or benefit changes must be included with the amendment.
- The Bill (Act amendment) will follow North Carolina's legislative process. The NCGA holds short and long sessions. Typically changes of this nature are presented during a long session. The NCGA may approve, change, or deny requests.