

# CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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## REGULAR BOARD MEETING MINUTES

October 28, 2021

- ROLL:** Vanessa Heffron – Chair, John Carr, Melinda Manning, Teresa Smith, Ryan Pope, Joey Hager, Marvin Wilson, Lee Thompson, Sheila Simpson, Renee Metzler (left at 12 p.m.)
- GUEST:** Todd Green, Jennifer Johnson – Cavanaugh Macdonald
- OTHER:** CFRS Staff Sandy Thiry, Tony Bass, Ty Phelps, Sr. Assistant City Attorney Lisa Flowers

### AGENDA

- I. CALL TO ORDER** by Vanessa Heffron at 8:00 a.m. Due to the ongoing restrictions of COVID-19, the Quarterly Board Meeting took place remotely by video conference with some trustees in attendance at the office. Roll call was conducted.
- II. CONSENT CALENDAR**  
MOTION: Joey Hager motioned to approve the Consent Calendar which consisted of the minutes from the July 22, 2021 Annual Board Meeting, Expense Reports, and Schedule of Retirements. Ryan Pope seconded the motion. Motion carried via roll call vote.
- III. BOARD GOVERNANCE**  
Vanessa Heffron announced that an update was received this week regarding the Bill submitted to the N.C. General Assembly by the City for the Act amendments. The Bill did not pass at the General Assembly. An attempt by the City to submit just the funding language also failed. The City remains committed to the funding objective to increase their contributions by the incremental 2% up to 24% by FY2026. Due to the timing of this update and the Board meeting, further discussion of this has been deferred to the January Board meeting.
- IV. ANNUAL VALUATION REPORT – Todd Green, Jennifer Johnson (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, 2021, which also includes how member demographics, investments, and assumptions fared over the past year. He explained the basic retirement funding equation: Contributions plus Investment Income equals Benefits Paid plus Expenses ( $C + I = B + E$ ).
- 1) The Market asset return of 24.48% was 17.23% more than the 7.25% expected rate of return. The Actuarial asset return of 9.90% was 2.65% more than the 7.25% expected rate of return. Individual pay increased at an average of 8.16% versus the 5.5% expected rate and the total projected payroll increased 7.83% versus the 2.5% expected increase.
  - 2) Active membership increased from 1067 to 1103 while the retiree membership increased from 765 to 780 and the deferred vested decreased from 16 to 14 Members. Total active membership's payroll increased from \$82.5M to \$89M and the total retiree benefits increased from \$39.1M to \$40.8M.
  - 3) The actuarially determined employer contribution rate (ADEC) based upon the Board's adopted funding policy is 28.91% of payroll for the fiscal year ending June 30, 2023, the same for the

previous fiscal year. It is important to note that the employer contribution rate is 18% for FY2023, leaving a contribution shortfall of 10.91% of payroll.

- 4) The unfunded liability increased from \$178.5M to \$186.2M. This change was \$2M less than expected due to asset gains slightly exceeding liability losses due largely to salary increases. The funding ratio increased from 76.5% to 76.9%.
- 5) The July 1, 2021 report includes the amortization schedule consisting of the 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. These results were reviewed.
- 6) Cost-of-Living (COLA) and bonus were also discussed. The Act's provision related to providing a COLA or bonus to retirees requires the System be actuarially sound. Todd explained that the System's current funding level does not support additional debt and if any post-retirement benefit is provided, that it must be funded for in addition to the current funding provided by the City. Todd reviewed the fiscal note required by the Act as well as an analysis that was requested which would show the cost impact to the System using various post-retirement adjustments. The System's actuary did not recommend a post-retirement adjustment paid from plan assets and current funding provisions. Other options may include requesting the sponsor of the plan to fund a post-retirement payment.

Todd 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; 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.

(Break for 5 minutes 10:10am)

## **V. BOARD GOVERNANCE (continued) –**

Fiduciary and Ethics education are important fundamentals of being a trustee. The Board has recognized this and provides opportunities for trustees to meet their obligation through certain conferences and legal counsel's education sessions. Lisa Flowers provided a session which included both fiduciary and ethics training. Lisa reviewed the basic role of a trustee which included acting in a prudent manner solely in the interest of the participants and beneficiaries. Trustees must maintain independence and set aside any interest of the party responsible for appointment or election. Not only is the Act the governing law, but the Board must follow adopted policies, and state and federal laws. Areas of Fiduciary responsibilities were also reviewed which consisted of fund management, communications and education, investment related activities, and selection of consultants and vendors. Lisa explained best practices and risks associated within these areas. Lastly, she reviewed the decision-making process and that the process can be more important than the decision itself.

Lisa Flowers suggested the Board may want to consider outside counsel review current policies since there are attorneys that specialize in this area. Discussion ensued which included policies should be reviewed every three to five years. CFRS already retains a few outside counsel firms for security litigations and one of them has dedicated attorneys for this type of work.

**MOTION:** Joey Hager motioned to perform an RFP for outside legal counsel to review CFRS policies. Lee Thompson seconded the motion. Motion carried via roll call vote.

Vanessa Heffron opened the floor for discussion based on the education Lisa Flowers provided. Marvin Wilson raised a question regarding a decision the Board made several years ago. Lisa Flowers explained that the Board can always look at past decisions if the Board wishes, but the best practice is to question

Board decisions at the meeting the decision is being made, not years later and not through emails. Business must be done during meetings as provided for in the Public Meeting laws. Lisa noted, past decisions are based on the facts and circumstances presented at the time of the decision.

Trustees raised their concern, frustration, and intolerance over the various events that have occurred, specifically via email where character assassination, fraudulent accusations, threats to vendors and misleading communications to members/retirees have occurred. Discussion ensued with trustees agreeing that respect and the treatment of others should be as each would like to be treated. Additionally, it is good and productive to have differences of opinions, but trustees should conduct themselves in a professional manner. As a trustee, once the Board has decided on a matter, even if the trustee did not support the decision, the trustee has a fiduciary responsibility to support and respect that decision as a member of the Board.

## **VI. REPORTS**

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

John Carr provided an overview of the Investment Committee meetings since the July 22, 2021 Board Meeting. The Committee held three meetings - August 26, 2021 meeting with Callan for the 2Q 2021 Investment Review, September 16, 2021 meeting with Colchester and October 21, 2021 meeting with UBS Trumbull Property Fund and JPMorgan Strategic Property Fund. The Investment Managers gave updates regarding each portfolio's activities over the past year.

- 1) Callan provided an Investment Review for 2Q 2021. During this period, positive investment returns added \$34.3M in market value while a draw to help pay benefit payments and operating expenses deducted \$5.4M. As a result, the ending Total Fund market value was \$677.2M as of June 30, 2021.
- 2) The Total Fund returned 5.3%, gross of fees, over the course of the Second Quarter, which outperformed the Custom Index return of 5.28%. The Fund has exceeded both the Composite Benchmark and the actuarial assumed rate of return over the trailing 5, 10, 15, 20, 30, and Inception-to-date periods. Since Callan's reporting inception period (33years), the Total Fund returned 9.32% and ranked in the 10<sup>th</sup> percentile among all Public Funds in Callan's database.
- 3) All Investment Managers' performance and organizations were reviewed with a primary focus on the Watch List managers. No changes were recommended or made to the current watch list.
- 4) Callan performed an annual comprehensive fee review. The Total Fund's fee is approximately 34 basis points. Callan noted that all manager fees are within or below CFRS' peers.
- 5) John explained that all asset classes were within their targeted ranges. Dividends and interest in the two Real Estate funds have been distributed to naturally maintain target range. However, due to market performance over the past few years, the Real Estate funds have drifted to the lower end of the acceptable target range.

**MOTION:** The Investment Committee motioned to reinvest dividends and interest in the Real Estate funds which over time, will naturally rebalance the portfolios keeping them within the targeted allocation range. Joey Hager seconded the motion. The motion carried via roll call vote.

- 6) The Investment Policy is routinely reviewed and updated as necessary. John reviewed the proposed edits which included general housekeeping edits such as an update to Barclays Aggregate Bond Index name, allowing a temporary holding maximum greater than 8% due to market fluctuations and restriction of Special Purpose Acquisition Companies (SPACs).

**MOTION:** To approve the amended Investment Policy Statement as presented. Joey Hager seconded the motion. The motion carried via roll call vote.

Joey Hager motioned to accept the Investment Committee's Report. Lee Thompson seconded the motion. Motion carried via roll call vote.

## **B. Benefits Committee Report**

Melinda Manning commended the Benefits Committee for their hard work done this year. The Committee held three regular meetings this quarter with focus on the Funding Policy, the Communications Policy, and the Annual Valuation education module.

- 1) The Funding Policy was drafted and reviewed by both Committees. Some but not all suggestions from the Investment Committee were taken into consideration, specifically where to submit original requests to under the Funding Adoption Process section. The Benefits Committee felt strongly to leave it in place and if the process changes in the future, the Policy could be amended since it will be periodically reviewed.

MOTION: The Benefits Committee motioned for the Board to adopt the Funding Policy as presented. Discussion ensued regarding the Funding Adoption Process and the requested omission of where to send original requests to. Sheila Simpson motioned to revise the original motion to approve the Funding Policy with the edit to remove the sentence indicating where to send original requests. Joey Hager seconded the motion. The motion carried by roll call vote.

- 2) Melinda Manning stated that review of noteworthy news of other governmental plans, and federal and state legislation was brought up at Callan College this week as a best practice that should be followed by fiduciaries and explained that the Benefits Committee has already been doing this.
- 3) The next Benefits Committee has been rescheduled to November 4, 2021 due to November 11, 2021 being a holiday.

John Carr motioned to approve the Benefits Committee Report and Joey Hager seconded. Motion carried via roll call vote.

## **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 FYE2021 and the estimated first quarter FY2022 financials. No areas of concern within the FYE2021 budget or the first quarter FY2022 budget. The annual audit is currently underway with December 31<sup>st</sup> due date for the annual financial report. Office operations continue during COVID-19 with staff staggering 3 days in office and two work from home days. Building is open to public, and masks are worn in building and CFRS office. Consultations and applications are conducted in person.
- 2) USBank will be sending the TEFRA (Tax Equity and Fiscal Responsibility Act) notice in November. The IRS is updating the W4P tax form but may not have it issued in time for the TEFRA notice. Any W4P tax form pre 2022 version will require a computational bridge. Staff is working with USBank to understand this process. The new tax forms may cause confusion to the retirees.
- 3) Charlotte National Building (CNB) condo association's Board rejected CFRS Board's counter proposed language regarding special assessments and approved the CNB Board's original proposed language. The CNB Board then also passed a special assessment for a total of \$27,800 to be equitably shared among the owners. CFRS has not received this invoice yet to know our portion. The CNB Board has also initiated a reserve analysis to determine any actions the CNB Board may need to take for the proper funding of the Reserve Account.
- 4) Disability hearings are on the horizon with one subsequent hearing and one initial application hearing. The subsequent hearing is due in January. However, due to the timing of the retiree's

personal physician appointment, obtaining medical records, and Medical Board's availability, the hearing most likely will not be conducted by the end of the three years as required by the Disability Regulations. Therefore, Staff has asked the Board if they will approve the hearing to be scheduled as soon as administratively possible.

MOTION: Joey Hager motioned to allow the retiree's subsequent hearing that would be due in January to be held as soon as administratively possible. Ryan Pope seconded the motion. The motion carried via roll call vote.

- 5) Conference attendance was discussed. Callan has moved their conference typically held in January to April 25-27, 2022, which will be the week of the Board's quarterly meeting. This conference vote will be deferred to January's meeting. The NAPPA winter conference that is normally approved at this meeting for Lisa's attendance has been cancelled.

John Carr motioned to approve the Administrator's Report. Lee Thompson seconded the motion. The motion carried by majority roll call vote with one abstained.

## **VII. NEW BUSINESS**

### **A. COLA/Bonus**

Vanessa mentioned the numerous emails from the membership regarding a COLA or bonus. She also reminded the Board of the information they heard earlier from the actuary and legal counsel for duty to all members and funding status. Historical events regarding post-retirement adjustments were explained which included 1.75% merits removed from the plan in 1988 based on membership feedback and over-funded status. The benefit multiplier was increased twice for the actives and retirees received handsome COLAs to match the active member increases. The plan provided ad-hoc COLAs from time to time when the fund was over 100% funded status. Bonuses were added later and were paid based on the Act requirement of having the actuary's opinion of actuarial soundness. Data was also presented that reflected a comparison of benefits of a CFRS retiree to that of a peer in LGERS and Social Security. Lisa Flowers also reviewed the COLA and Bonus language from the Act. Discussion ensued resulting in a range of opinions and differing concerns being expressed. Upon clarification, it was determined that the current funding could not be used to pay a post-retirement benefit and that if any post-retirement benefit is paid, it would need to be funded.

MOTION: Joey Hager motioned to ask the City to fund a post-retirement adjustment for the retirees to be paid in FY2023 budget. Motion carried by majority roll call vote with one no vote. (Renee Metzler left the meeting at 12 p.m. and was not available for the vote.)

MOTION: Joey Hager motioned to accept the Annual Valuation report. Ryan Pope seconded the motion. Motion carried via roll call vote.

Staff was instructed to schedule a Special Meeting of the Board to further the discussion of a post-retirement adjustment.

## **ADJOURNMENT**

Ryan Pope motioned to adjourn at 12:35 p.m. John Carr seconded the motion. The motion carried via roll call vote.

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