



AFRF
AUSTIN FIREFIGHTERS
RETIREMENT FUND

**MINUTES
BOARD OF TRUSTEES MEETING
MONDAY JUNE 26, 2023, 9:00AM**

Board Members Present

Doug Fowler, Vice Chair
Belinda Weaver, Treasurer
John Bass, Trustee
Aaron Woolverton, Trustee

Staff and Consultants Present

Anumeha Kumar, Fund Executive Director
John Perryman, Fund CFO
Debbie Hammond, Fund Benefits Manager
Gina Gleason, Fund Board & Operations Specialist
Shira Herbert, Fund Accounting Specialist
Chuck Campbell, Jackson Walker
Alyca Garrison, Jackson Walker
Karissa McIntosh, Jackson Walker
Elizabeth Wiley, Cheiron
Heath Merlak, Cheiron
Aaron Lally, Meketa (virtual)
Joe Rice, CBIZ (virtual)
Lori Messer, Logic (virtual)

Community Members Present

Rene Vallejo
Eric Pederson
Virtual attendees not listed

Vice Chair Fowler called the meeting to order at 9:01am.

Public Comments:

No public comments.

I. Minutes of the Regular Meeting on May 26, 2023

Trustee Bass made a motion to approve the minutes of the regular meeting on May 26, 2023. Trustee Woolverton seconded the motion. The motion passed unanimously.

II. Service retirement benefits for three applicants and one alternate payee

Trustee Bass made a motion to approve the benefits for three applicants and one alternate payee. Trustee Woolverton seconded the motion. The motion passed unanimously.

III. Refund of accumulated contributions for one member

Anumeha Kumar explained that the refund of contributions paperwork alluded to a prior requirement for a notarized signature from one trustee, however there had been no recent evidence of that process being followed. Ms. Kumar proposed streamlining the process by seeking full board approval in conjunction with the retirement benefits, in lieu of obtaining a single notarized signature. Trustee Weaver motioned to approve the refund of contributions. Trustee Woolverton seconded the motion. The motion passed unanimously.

IV. Discuss and consider preliminary results of 2022 Actuarial Valuation, including the pension modeling tool

Elizabeth Wiley introduced herself and Heath Merlak as the consulting actuaries, stating their intention to provide preliminary information in advance of the final draft of the 2022 valuation results in order to clarify the methodologies and approaches being used. Ms. Wiley noted that the peer review process had not yet been completed, but the numbers were strong and appropriate in her professional opinion. Mr. Merlak informed the Board that the preliminary results reflected the two assumptions changes the Board had adopted in the previous meeting, which were the fully generational mortality table and the assumption that retirees will choose the most valuable DROP option. He also explained that Cheiron decided to use proration to handle the occurrence of decennial 27th pay period in 2022, to minimize volatility. He continued to list some relevant statistics, including an approximate 2% growth in the active membership, a slight decrease in average age and service among active members, and an average salary increase of about 1.5%. For active members that were in both valuations the payroll increase was about 4%, lower than the actuarially anticipated 5.9%. There was a 5.4% increase in inactive members, for a total of 979 members receiving payments, 331 of which have a DROP balance, a 6% increase over the previous year. The DROP balance itself increased by about 3.9%, consistent with the anticipated amount as a percentage of trust assets. Trustee Weaver asked at what point the DROP balance, as a percentage of trust assets, would raise concern from an actuarial perspective. Mr. Merlak explained that the concern wouldn't be a specific percentage, but rather a consideration of liquidity and the amount of risk and volatility the Fund is willing to take on in terms of asset returns. Ms. Wiley further explained the potential benefits and consequences of maintaining the current guaranteed DROP interest, concluding that there is no current concern so long as the Board maintains awareness. Trustee Bass engaged in further discussion with Cheiron regarding the history of overly optimistic return assumptions and the delicate balance between offering a great benefit to members and maintaining the long-term stability of the Fund. Vice Chair Fowler clarified for the membership that the Board was not contemplating making any changes to the DROP program at that time.

Heath Merlak proceeded to describe the market value assets, emphasizing that 2022 was a challenging year in the marketplace with the Fund starting the year at \$1.3 billion and ending the year at \$1.12 billion, with a total investment return of -11.6%. He clarified that their results may vary slightly from Meketa due to Cheiron's simplified process. Mr. Merlak stated that the expected return of 7.3% and the actual return of 6.3% on an actuarial value of assets basis resulted in a \$242.6 million asset loss, which will be smoothed over a 5-year period, with the 2022 valuation reflecting 20% of that loss. He described some additional changes that were made to the 2022 valuation in response to some past issues that had been uncovered by the new staff and actuaries. Ms. Wiley indicated that data correction questions were common during the first two years and would decrease significantly from the third year on. Mr. Merlak informed the Board that the funded ratio was 86.9% on a smoothed value basis and 80% on a market value basis, explaining that the smoothed value was a less volatile metric. He reported that the normal cost is \$32.4 million or 30.7% and explained that with total contributions at about 40.75%, roughly 10% of payroll was left to pay down unfunded accrued liability, which equated to an effective amortization period of 31.2 years, increased from the previous 17.5-year period. Trustee Weaver requested that Cheiron further explain the significance of normal cost for the sake of the membership. Ms. Wiley clarified that it is the percentage of payroll required to fund the current year's benefits, excluding any future COLAs. Trustee Bass emphasized that the funded ratio is only as useful as the assumptions behind it, and that without realistic and achievable assumptions, the funded ratio would be useless from an analytical standpoint. Ms. Wiley echoed the sentiment of moving the assumptions more in line with what is anticipated. She then explained that the amortization period is a very sensitive and volatile metric. Ms. Wiley and Ms. Kumar discussed the Actuarial Standards of Practice and the impact of the forthcoming ASOP 4 on future valuations. Vice Chair Fowler asked for Cheiron's opinion about other pension funds using a thirteenth paycheck when a COLA cannot be granted. Ms. Wiley voiced her support for the approach, noting the flexibility that a thirteenth check allows, with minimized risk to the Fund and no impact on future liabilities. Vice Chair Fowler requested to keep the topic on the radar for future consideration. Trustee Bass requested that Cheiron model some

achievement scenarios with varying volatility, which Ms. Wiley promised to include in the next presentation.

The Board, Cheiron, and the Fund's legal counsel engaged in a discussion regarding the payroll growth assumption used in the valuation, and whether it would be more appropriate to use a 2.5% or 3% assumption. They addressed the payroll growth assumption and the actuarially determined contribution (ADC) benchmark used in the 2021 valuation performed by the Fund's prior actuary, the legal component of the funding policy, as well as the potential future growth of the Austin Fire Department. The Board ultimately decided not to take action on the matter but emphasized the importance of conducting an experience study ahead of the 5-year requirement. Ms. Wiley indicated that regardless of what the Board ultimately decides, Cheiron would clearly indicate in the valuation report what assumptions and methodologies were used. No motion necessary.

- V. Discuss and consider vendor selection to perform Compensation Study for the Executive Director (ED) position

Anumeha Kumar reminded the Board that at the April meeting, they had directed staff to reach out to potential vendors to perform a compensation study for the Executive Director position. She informed them that she had also requested the vendors to include a survey of the entire staff in their proposals. She noted that it would be more cost-efficient and would provide her with the necessary information to create a merit-based compensation plan for her staff. Ms. Kumar introduced the two vendors who would be presenting proposals, Joe Rice from CBIZ and Lori Messer from Logic Compensation Group.

Mr. Rice and Ms. Messer both provided a high-level overview of their companies and explained the phases of their approach to the project. The trustees asked questions regarding sample size and the approach to identifying comparable peer systems, emphasizing the importance of differentiating Austin from broader Texas or other major metropolitan regions. They also asked questions regarding fee structure and potential out-of-pocket expenses. The Board favored Logic Compensation Group due to their focus on client relationships, their history and familiarity with the Fund and its Texas peer systems, their more customized approach to conducting the study, and their commitment to helping the Fund maintain its competitive edge within the job market moving into future years. Trustee Weaver made a motion to hire Logic Compensation Group to conduct the compensation study. Vice Chair Fowler seconded the motion. The motion passed unanimously.

Trustee Weaver requested to return to this item following the discussion of Item 6. She questioned whether any board members should be assigned to assist Logic with the survey, since it is also a review of the Executive Director. Vice Chair Fowler and Trustee Bass volunteered to form that subcommittee. Ms. Kumar noted that she would also keep the board apprised of the other staff positions.

- VI. Discuss and consider QDRO policy to allow member benefit adjustments following the death of an alternate payee

Anumeha Kumar reminded the Board about an issue that had been brought to their attention at the May meeting regarding a member's request for benefit adjustment following the death of his former spouse. She stated that the staff had found precedent for granting a QDRO popup and the issue had been resolved. However, she indicated that the Board would have the option to reflect current practice in the Fund Rules when they are opened for review in the future. No motion necessary.

- VII. Discuss and consider potential legislative change to amend the DROP distribution provision applicable to beneficiaries

Anumeha Kumar followed up on a concern that had been raised to Vice Chair Fowler regarding the number of DROP distributions permitted to beneficiaries. She stated that the current restriction to four distributions within 37 months following the death of a member was a statutory provision that would require legislative change as opposed to a simple Board motion. Ms. Kumar stated that she could work with Jackson Walker to determine the legal aspects involved with IRS regulations, as well as with Cheiron to determine any actuarial concerns. Vice Chair Fowler emphasized that the decision was currently outside of the Board's control, but that he would like to look at it as a potential item for legislature. He also stated interest in surveying the membership to guide Board direction and priority. No motion necessary.

- VIII. Update on Request for Proposals (RFP) for vendor selection to perform the Investment Practices and Performance Evaluation (IPPE)

Anumeha Kumar informed the Board about the project timeline for issuance of the RFP and awarding a contract, which she hoped to have completed by the end of August. She explained that the evaluation report was required by law and would be due to the Pension Review Board in June 2024. Ms. Kumar reminded the Board that the prior IPPE was performed by the in-house consultant, Meketa, but at the last meeting they decided to seek an independent consultant to make sure the Fund is managing its investment program as efficiently as possible. She further explained that if the consultant makes any recommendations, the Board would have the authority to decide whether to implement those changes. However, a new requirement from the 2021 legislative session would require the Board to disclose within the report any decision against implementation of the recommendations. No motion necessary.

- IX. Update on the wrap up of 88th Legislative Session

Anumeha Kumar described the presentation from Jackson Walker enclosed in the board packet, noting the high-level overview of pertinent pension related bills that were passed during the 88th legislative session as well as some additional federal and IRS related changes. Alyca Garrison indicated that the main bill that they had been watching was SB 1446, which did not pass. She added that the bill was the last on the lieutenant governor's list of items for special session, meaning that there was a possibility, though unlikely, that it could come up again. Ms. Garrison stated that Jackson Walker would continue to monitor the special session and would notify the Board if anything relevant was filed, and noted the issue would likely come up again in the next legislative session. No motion necessary.

- X. Executive Director Report, including the following (Discussion Only)

- a. General comments

No general comments.

- b. Consent agenda process

Anumeha Kumar introduced the concept of a consent agenda process, which would allow the trustees to make a single motion to adopt all housekeeping items, such as the minutes and the service retirement benefits. She clarified that a consent agenda would not prohibit the trustees from engaging in further discussion if they wanted to request any adjustments be made to those items. Vice Chair Fowler voiced his support, noting his experience with the efficiency of the process. Ms. Kumar stated that she would update the July agenda accordingly.

c. Update on RFI for Depository Bank

Anumeha Kumar reported that the RFI had been issued early last month but had only received one positive response. Consequently, Ms. Kumar extended the timeline for response and expanded the scope of banks considered, in hopes of securing a more concrete recommendation to bring to the Board at the next meeting.

d. Internal financial statements, transactions and Fund expense reports for month ending May 31, 2023

Anumeha Kumar explained that everything was in line with the budget and there was nothing out of the ordinary to report.

XI. Roadmap for future meetings

Anumeha Kumar stated that the roadmap had been updated to reflect the requests trustees made at the previous meeting, and she would add the actuarial valuation requests from today. Vice Chair Fowler requested that the Board develop and complete a monthly survey to evaluate each meeting's efficiency. He noted that the idea had stemmed from the fiduciary training he had attended at the NCPERS conference and praised the quality of education it provided.

XII. Call for future agenda items

No requests for future agenda items.

Hearing no objections, Vice Chair Fowler adjourned the meeting at 11:38am.

Board Members

Mayor Kirk Watson, Chair
Doug Fowler, Vice Chair
Belinda Weaver, Treasurer
John Bass, Trustee
Aaron Woolverton, Trustee