MINUTES
BOARD OF TRUSTEES MEETING
MONDAY MARCH 25, 2024, 9:00AM

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

Staff and Consultants Present
Anumeha Kumar, AFRF Executive Director
John Perryman, AFRF CFO
Debbie Hammond, AFRF Benefits Manager
Gina Gleason, AFRF Board & Operations Specialist
Shira Herbert, AFRF Accounting & QC Specialist
Amy Thibaudeau, AFRF Benefits Specialist
Alyca Garrison, Jackson Walker
Elizabeth Wiley, Cheiron
Health Merlak, Cheiron
Coralie Taylor, Cheiron (virtual)

Community Members Present
Rene Vallejo
Donald Lowe
Virtual attendees not listed

Vice Chair Bass called the meeting to order at 9:03am.

Public Comments:

No public comments.

I. Consent Agenda for the following:

a. Minutes of the regular meeting of February 23, 2024
b. Service retirement benefits for new retirees, beneficiaries, and alternate payees

Vice Chair Bass requested a moment of silence for the retired firefighter who had passed. Trustee Fowler motioned to approve both items on the consent agenda. Trustee Woolverton seconded the motion. The motion passed unanimously.

II. Update on 2024 Actuarial Experience Study, including discussion of economic and demographic assumptions

Anumeha Kumar introduced the Cheiron actuaries and informed the board that Cheiron would be making recommendations on both the economic assumptions they presented during the February meeting and on the demographic assumptions they would present during this meeting. She provided the board with the option to either consider and adopt the recommendations following their presentation or to wait until the April meeting to make their final decision. Elizabeth Wiley explained that Cheiron would make recommendations to establish an appropriate valuation model based on Fund experience and on future projections according to the Actuarial Standards of Practice, but the adoption of those assumptions would ultimately be a board decision. She reiterated that the assumptions do not determine the actual cost of the Fund. Heath Merlak shared

a chart which tracked the gain/loss trends of the Fund's unfunded liability over a 10-year period. He described the trends that Cheiron had identified in terms of liability changes and asset performance, including differences in how participants behaved in the plan, such as retiring earlier than anticipated which generated a loss for the Fund. Mr. Merlak described the sources of unfunded liability reduction, which included contributions that had paid down about $11 million and asset gains that had paid down about $80 million over the last ten years. He then described the sources of increase for the unfunded liability, which included assumption changes, such as a lowered discount rate, updated mortality tables, and benefit changes such as granting of COLAs. Ms. Wiley followed up to note that investment returns are the largest driver of risk in the plan.

Mr. Merlak addressed the two components of salary increase, which include wage inflation and merit (including promotional) increases. He further explained how salary increase and merit are calculated, both on an individual basis and as a whole, in consideration of past experience and future projections. Based on Cheiron's calculations, Mr. Merlak proposed adjusting the wage inflation from 3% to 2.5%. He noted that it is common for systems to tie wage inflation to price inflation, which Ms. Wiley later stated was also set at 2.5% and considered reasonable by Cheiron. Mr. Merlak explained that an aggregate payroll growth assumption of 2.5% is used differently for other calculations and comes into play when reviewing the Actuarially Determined Contribution. He recommended refining the merit scale based on recent experience while avoiding over-correction.

Ms. Wiley described A/E ratios, which are calculated by dividing actual experience by expected results and explained that the ratios should ideally be close to a value of one. She transitioned to the first demographic assumption of mortality and reviewed the update the board had made during the last valuation to the PubS-2010 public safety mortality table, having previously used the PubS(A)-2010, which assumed above-median pay. At that time, she continued, the board had also updated the mortality improvement to fully generational. Ms. Wiley explained that the Retirement Plans Experience Committee (RPEC) had not yet released an updated scale due to the unforeseeable future impact of COVID. Ms. Wiley recommended that the board revert back to the PubS(A)-2010 above-median tables due to the A/E ratio indicating fewer deaths than actuarially anticipated. She explained that the adjustment would add a bit more conservatism and would be more consistent with information about mortality across the country. For the improvement scale, she suggested that the board maintain fully generational improvement. Vice Chair Bass and Ms. Kumar both clarified that the mortality assumptions were being fine-tuned from Cheiron's prior recommendations, not reverting to the assumptions adopted under the previous actuary, which were not considered best practice.

Mr. Merlak explained that the current retirement rates assumption was based off years of service and first eligibility, and that the A/E ratio from Cheiron's study indicated more retirements were occurring than expected, and at an earlier age on average than anticipated. Through their analysis, Mr. Merlak explained that Cheiron determined age was a better indicator of retirement. He proposed the board change from a service-based table to an age-based table. In response to a question from Trustee Weaver, Mr. Merlak stated that public safety funds typically use age or a combination of both age and service but noted that using the combination would not add any additional accuracy for the Fund beyond age alone based on the recent experience. For termination rates, Mr. Merlak explained that the current assumption was based on service; he recommended maintaining the approach with minor refinements based on Cheiron's analysis. For disability rates, Mr. Merlak stated that the actual instance was less than the current assumption and recommended lowering the rates by one third, noting that the rate was already a very small percentage.

Mr. Merlak next addressed the DROP account balance payment assumption which currently assumes that all DROP payments were made at the valuation date, which Cheiron had determined was not occurring. He noted that 80% of members elect to take a DROP and most keep the money in the Fund, so more DROP funds come into the plan each year. Ms. Wiley added that the provision is hard-to-value, making it a challenging assumption that could incur greater potential risk due to the promised 5% interest paid to the balances. Mr. Merlak proposed using an 8-year payout assumption not to exceed age 70.5 for the existing DROP balances, while maintaining the current assumption that DROP payments were made at the time of retirement for new DROP balances. Vice Chair Bass reiterated Ms. Wiley's point about risk, explaining that it depends on a variable return against a fixed rate that is owed, and experience could vary greatly over different timeframes. Trustee Fowler asked questions regarding the impact of DROP liability on the unfunded liability or on the amortization period and whether the DROP program was a net positive or net negative for the Fund. Ms. Wiley replied that it would be difficult to determine due to the impact the benefit has on member behavior in terms of when they choose to retire, and how earlier retirements impact the Fund. Vice Chair Bass and Ms. Kumar followed up with additional clarifying questions. Trustee Fowler asked about recent trends with DROP programs in retirement systems, to which Ms. Wiley replied that they had generally been closing until the last five years when they began expanding again for recruitment and retention purposes, but with greater limitations due to identified risk. Trustee Weaver asked about the returns offered by the newer DROP programs, to which Ms. Wiley indicated that there was a large range, including some that offered no interest, some that were variable with the markets, and others that moved to lower rates for new tiers. Ms. Kumar asked questions regarding forward and retro DROP, to which Ms. Wiley stated that the Fund's current assumptions reflect no members electing forward DROP, and while members prefer retro DROPs, forward DROPs tend to incur less risk and are more common in systems that have gone through reform.

Trustee Fowler requested an explanation of Normal Cost for the membership, to which Ms. Wiley stated that it is an actuarial approach to determine the percentage of pay needed each year of a person's career to fund their retirement benefits. Mr. Merlak followed up to note that the current Normal Cost for the Fund is 30.7% with members contributing 18.7% of that amount. Vice Chair Bass added that if the total contribution rate is just enough to cover Normal Cost, the amount left to pay down the unfunded liability is minimal, and the amortization rate becomes sensitive. Ms. Wiley further explained the impact of interest on unfunded liability over time, noting that the Fund has made some progress in reducing the unfunded liability over the last ten years.

Heath Merlak addressed the DROP period assumption with a reminder that the board had adopted an assumption during the last valuation that members would elect the most valuable DROP period. He proposed that the board keep that assumption in place to build in conservatism and best capture previously granted COLAs. Regarding the beneficiary age assumption, Mr. Merlak stated that the current assumption was that beneficiaries for males were four years younger and beneficiaries for females were four years older than the member. Mr. Merlak recommended refining that assumption based on Cheiron's study to reflect beneficiaries being 3 years younger for male retirees and one year older for female retirees. Regarding the payment form assumption, Mr. Merlak explained that all payment forms offered by the Fund are adjusted on an actuarial equivalence basis, and therefore maintaining the assumption of valuing the normal payment form of the 75% joint and survivor annuity would be appropriate. Mr. Merlak stated that the current assumption for dependent children upon an active firefighter's death remained reasonable and suggested no revision.

As a final topic for consideration, Mr. Merlak suggested that the board may want to consider updating the actuarial equivalence assumptions used for Fund administration and then update the Fund Rules accordingly. He estimated that those assumptions had last been updated about 15 years ago and noted that most funds choose to make the update every 10-20 years due to the administrative complexity involved. Ms. Kumar suggested that the timing for updating those assumptions would align well with the software upgrade. Ms. Wiley added that those assumptions do not need to be updated as part of an Experience Study.

Ms. Wiley discussed economic assumptions and added that one key economic assumption for consideration is the expected return on the assets. She stated that the current assumption was 7.3% net of both investment and administrative fees. She stated that 7.3% remained reasonable but suggested that the model be adjusted to be net of investment fees only to allow a consistent basis for both funding and GASB financial reporting. Ms. Wiley proposed that 1.25% of the payroll be assumed to be needed to fund the administrative activities of the plan and be added to the Normal Cost. She noted that the assumption was easy to study and stated that she was confident with the recommendation based on both Fund history and the budgets of peer systems.

Mr. Merlak informed the board that the final steps of the Experience Study would be for Cheiron to review the actuarial cost methods and provide the cost implications of the proposed assumption changes. He stated that once those were formally approved, they would be used for the 2023 Valuation. In response to a question from Vice Chair Bass, the board confirmed that they were comfortable with making their decision. Trustee Fowler made a motion to adopt the recommended assumption changes from Cheiron. Trustee Woolverton seconded the motion. The motion passed unanimously.

III. Annual Review of the Code of Ethics Policy

Alyca Garrison stated that her presentation would be an annual review of the Code of Ethics Policy that required no action from the board. She noted that the last revision to the policy had occurred in May of the previous year. Ms. Garrison provided an educational overview of the basic principles and guidelines of trustee standards of conduct as driven by state law requirements and best practices. She defined fiduciary duties under traditional trust law and retirement plan law, which included acting with impartiality and fairness in the best interest of the Fund, investing assets of the Fund prudently, maintaining skills through education and training, protecting confidential and attorney-client privileged information, and overseeing the administration of the Fund. Ms. Garrison clarified that the day-to-day administration of the Fund is delegated to the Executive Director, pursuant to the Fund's Governance Policy. Ms. Garrison next explained the guidelines for trustee communication, including a no-contact period during vendor review that had been adopted by the board last year. She defined conflicts of interest under Chapter 176 and 171 of Texas Local Government Code and explained how conflicts of interest should be disclosed to and addressed by the board. Ms. Garrison explained the limitations and disclosure requirements related to gifts and benefits from vendors. She stated that trustees should not solicit or accept gifts and benefits from vendors except under certain carveouts, such as scheduled food or entertainment in connection with a conference, or items of minimal value, such as marketing materials. Ms. Garisson next addressed the travel policy, which the board had also updated during the prior year and explained the limitations of travel reimbursements offered to trustees for conference attendance. Ms. Garisson concluded her presentation with an explanation of the enforcement provision, including the self-regulating process for filing and handling complaints against trustees. Vice Chair Bass thanked Ms. Garrison for her presentation. No motion necessary.

IV. Discuss and consider adoption of proposed changes to the Personnel Policy, including consideration of any member comments

Anumeha Kumar informed the board that the proposed changes to the Personnel Policy had been posted to the Fund website in accordance with the Fund Rules, and that commentary had been received from one member and provided to the board in advance of the meeting. Ms. Kumar briefly addressed a concern that had been raised in the member comment regarding the Fund's public-facing name being reflected in the Personnel Policy. She explained that the legal TLFFRA legacy name contemplated in the governing statute had not changed, though the board had approved to conduct business as the Austin Firefighters Retirement Fund as part of the website overhaul and rebranding efforts that took place in 2023. Ms. Kumar clarified that no additional costs were associated with the rebranding effort; she reviewed the rationale behind the decision and then stated that the change to the Personnel Policy only reflected the change previously adopted by the board. Vice Chair Bass addressed another concern that had been raised in the member comment regarding the adopted pay range for the Executive Director position. Vice Chair Bass emphasized that the decision was not arbitrary and reiterated that the pay range had been adopted from the study conducted by Logic Compensation Group after a long process that honed in on the current Fund profile relative to local, state and national comparators, and better represented the current responsibilities of the Executive Director position. Trustee Weave voiced her agreement that the compensation study was necessary from a board perspective to reflect the new responsibilities of the Executive Director position; she motioned to adopt the Personnel Policy as amended. Trustee Fowler seconded the motion. The motion passed unanimously.

V. Discuss and consider 2024 compensation for Executive Director

The board entered closed session at 10:54am pursuant to Texas Government Code Section 551.074 to discuss personnel matters. The board resumed open session at 11:19am, with no action having been taken during the closed session. Trustee Fowler made a motion and stated, "Based upon the Logic Compensation Group survey of executive director positions for local, statewide, and national public pension systems, I move to authorize the Vice Chair to negotiate and adjust the salary of the Executive Director, retroactive to January 1, 2024, based upon the direction of the board, and to amend the budget, if necessary, to reflect such adjustment." Trustee Woolverton seconded the motion. The motion passed unanimously.

VI. Discussion regarding retired Fund staff health insurance benefits

Anumeha Kumar addressed the agenda item from a historical practice standpoint, noting that the Fund only had one retiree who elected to receive benefits through the City of Austin in accordance with the retirement benefits offered to all three retirement systems by the City. She clarified that the health insurance benefits offered to Fund staff retirees were the same as what the City offered to retired firefighters, based on their years of service, and that the Fund only paid the required employer portion for retired staff members. Ms. Kumar stated that the intention of the agenda item was to formalize the practice in writing from both a transparency and a checks and balances standpoint. Trustee Weaver noted that the reason this topic hadn't been previously addressed by the board was that the Fund did not have any staff retirees until recent years. She requested legal guidance on whether the modification was best suited for the Personnel Policy. Alyca Garrison suggested that a separate policy would be more appropriate since the Personnel Policy was intended to be an administrative policy for current employees. Ms. Kumar stated that the benefit could be formalized through a board resolution as she had seen other systems do. In response to a question from Vice Chair Bass, Ms. Garrison confirmed that the board only needed to provide

direction to staff to draft language and that no motion was necessary.

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

a. General comments

No general comments.

b. Update on Voluntary Funding Soundness Restoration Plan (FSRP)

Anumeha Kumar stated that the Working Group had been conducting research on different options with the Fund's actuary, Cheiron, and would hold another member informational session in April to update the Fund members, discuss goals, and answer any potential questions. She provided a reminder that the Fund was in the process of conducting an Actuarial Experience Study, which had put a hold on the consideration of potential benefit packages since the last informational session in December. Ms. Kumar indicated that staff would make an announcement and send out information regarding the virtual information session as soon as the date was finalized.

c. Pension Administration Software (PG IV) implementation update

Anumeha Kumar informed the board that the pension administration software project was on track, and that staff had completed the design phase for the first of three deliverables. She stated that the next step will be the development phase, in which staff will perform user testing in May and June of this year.

d. Update on Request for Information (RFI) for Depository Bank

Anumeha Kumar revisited the depository bank review that the board had conducted in July 2023 as part of the Fund's Governance Policy and vendor review schedule. She stated that the board decided to pause the RFI process at that time because no banks that had responded to the RFI were able to offer collateralized deposits beyond the threshold insured by the FDIC. Ms. Kumar informed the board that staff had followed up with at least one vendor, who informed the Fund that they had resumed offering collateralized deposits. Ms. Kumar recommended that the Fund solicit a response to the original RFI from that bank and from the Fund's current bank, so that the board could make an informed decision regarding continuation of service. Ms. Kumar reiterated that the bank under review was the local depository bank, not the Fund's custodian bank.

e. Internal financial statements, transactions, and Fund expense reports for month ending February 29, 2024

Anumeha Kumar stated that the financial budget was on track and that there were no significant changes to report. The trustees had no questions regarding the February financial statements.

VIII. Roadmap for future meetings

The trustees had no questions or requests regarding the roadmap.

IX. Call for future agenda items

No future agenda items were called for.

Hearing no objections, Vice Chair Bass adjourned the meeting at 11:29am.