



December 15, 2023

Dear Members,

In September 2023, AFRF received a Funding Soundness Restoration Plan (FSRP) “At Risk” notification from the Texas Pension Review Board (PRB). In response to the FSRP notification, the AFRF Board created the “Pension Funding Working Group” comprised of two trustees, Chief Doug Fowler and John Bass. The Board directed the Working Group to collaborate with the Fund staff and actuary to assess the current financial health of the plan, project any future funding concerns, and to keep the membership apprised of the situation.

We would like to formally invite you to join us for our second Working Group informational session to provide you with an update on the current financial health of the Fund. At this meeting, we will be happy to answer any of your questions or concerns and receive any input or feedback you would like to share with us.

This session will be held virtually over Zoom on **Tuesday, December 19th**, from **10am-12pm**. You can access the meeting on [Zoom.us/join](https://zoom.us/join) using meeting ID: **912 0484 2197** and passcode: **825156**. There is also a direct link to the meeting available on the AFRF event calendar at [AFRFund.org](https://AFRFund.org).

**Please review the following Q&A that provides context for the info session discussion next week.**

Thank you and we hope to see you there.

*Anumeha Kumar*

**Executive Director, AFRF**

## FSRP Questions & Answers

### Where are we at?

#### There is no crisis

As of the 2022 Actuarial Valuation, the Fund's amortization period, which is the amount of time required to pay off any unfunded liability (like paying off a credit card debt), increased from 17.7 years to **35.6 years**. However, our funded ratio, which is the amount of assets on hand to pay off the liability, is still strong at **86.9%**. Therefore, the Fund is **NOT in a crisis**. We are, and will continue to be, on a stable financial footing for the near future. However, our actuaries are projecting that some changes should be considered and implemented to help maintain the long-term financial health of our plan.

### How did we get here?

#### Poor market returns and correction of inaccurate actuarial assumptions

The increase in the amortization period was primarily due to two factors. First, struggling financial markets led to a poor investment return of -10.8% for the Fund in 2022, which caused the plan's asset value to drop from \$1.3 billion to \$1.1 billion. Second, the Fund's new actuary, Cheiron, recommended updating and tightening some of our actuarial methods and assumptions to reflect plan costs more accurately and to better situate the Fund for long-term funding stability. The Board approved those changes. The actuaries are currently performing an actuarial experience study to ensure that the Board has a solid starting point for understanding and evaluating plan costs moving forward.

### What does it mean?

#### Funding Soundness Restoration Plan (FSRP) "At Risk" Status

The Funding Soundness Restoration Plan is a requirement under state law that is monitored by the Texas Pension Review Board (PRB), the State's oversight entity that helps to ensure the financial soundness of all public pension systems in Texas.

A retirement system triggers the FSRP requirement if they receive three consecutive actuarial valuations with amortization periods exceeding 30 years. If a retirement system becomes subject to the FSRP requirement, they are required under the law to work with their plan sponsor to develop and jointly adopt a corrective action plan to address the long-term funding health of their system.

We have NOT triggered the requirement yet. So far, AFRF has received only one such valuation with an amortization period of 35.6 years. However, the PRB has placed AFRF along with four other retirement systems on their watchlist for being "at-risk." The AFRF Board has the option to take no action until the requirement is triggered, which is projected to happen in 2025, or to consider a proactive voluntary FSRP (V-FSRP). If the AFRF Board develops a V-FSRP, the PRB would look at it favorably and the state law would allow some concessions for the Fund down the road, if needed.

### **Why is the City involved?**

The City of Austin is a key stakeholder as contemplated in state law and by the PRB

The September FSRP “At-Risk” notice from the Pension Review Board informed the AFRF Board that if the amortization period remains above 30 years for two more consecutive valuation cycles, the Fund along with its plan sponsor, the City of Austin, would have to jointly develop a corrective action plan (the FSRP) to lower the amortization period below 30 years.

### **What has the AFRF Board done so far?**

Pension Funding Working Group – Voluntary FSRP (V-FSRP)

As previously stated, the Fund has not triggered the FSRP requirement yet. The Board could refrain from taking any action for another two years. However, waiting to trigger the FSRP requirement would significantly increase the cost to fix the plan for all stakeholders. The AFRF Board has taken a stance of proactivity and formed a Pension Funding Working Group to explore options for a shared solution that would include a city contribution increase (the V-FSRP). The Working Group held its first in-person member info session on November 18 at the Union Hall. The next virtual member info session is scheduled for December 19 through Zoom.

### **What are the next steps?**

Strategize a solution to develop a long-term plan to maintain sound financial health of the Fund

Over the course of next year, the AFRF board will engage in careful consideration of different aspects of the retirement system, while honoring the core mandate of the Fund, which is to provide benefit security to our current and future members. The Working Group will lay out the groundwork, including engaging the membership in open communication, surveying the membership, and considering constructive solutions. The Board will target 2025 to implement an agreeable shared solution.