PROPOSED PENSION REFORMS

AUSTIN FIREFIGHTERS RETIREMENT FUND

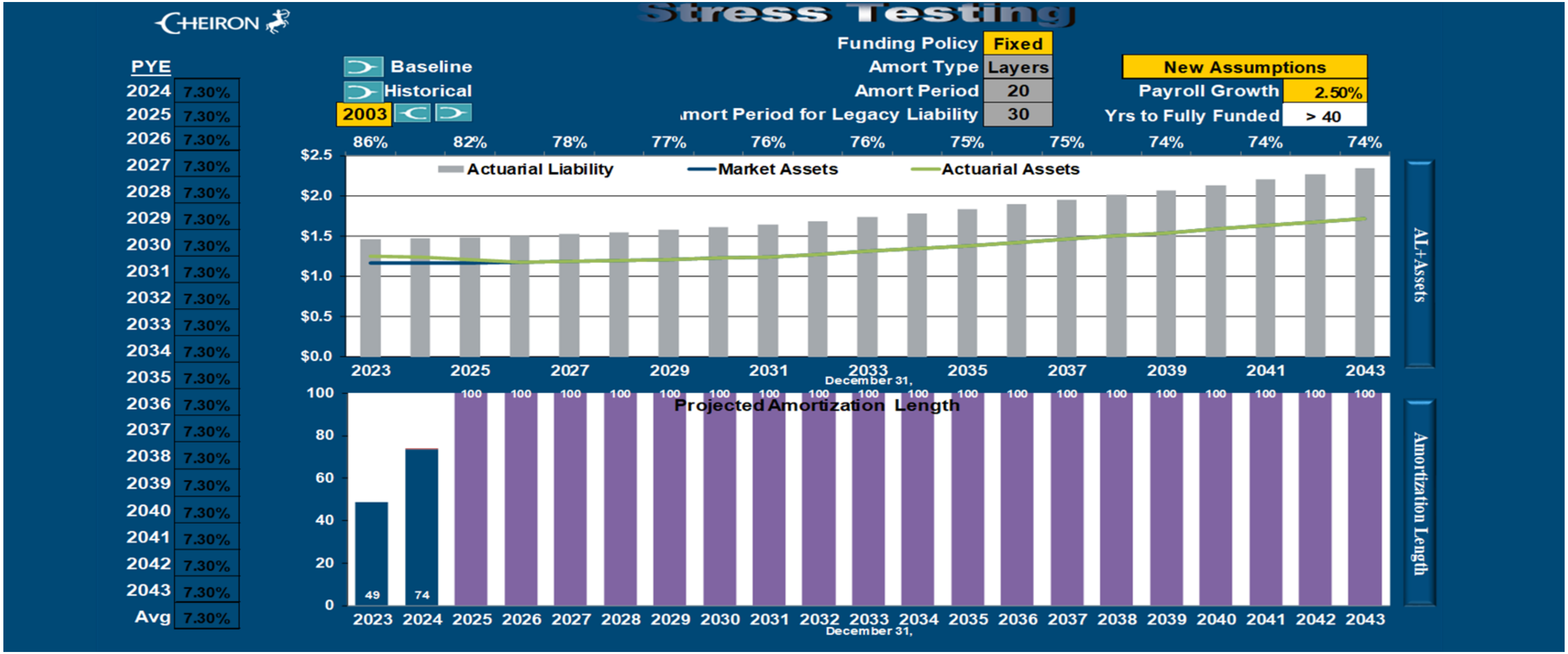
SEPTEMBER 2024

DRAFT

FUND STATISTICS

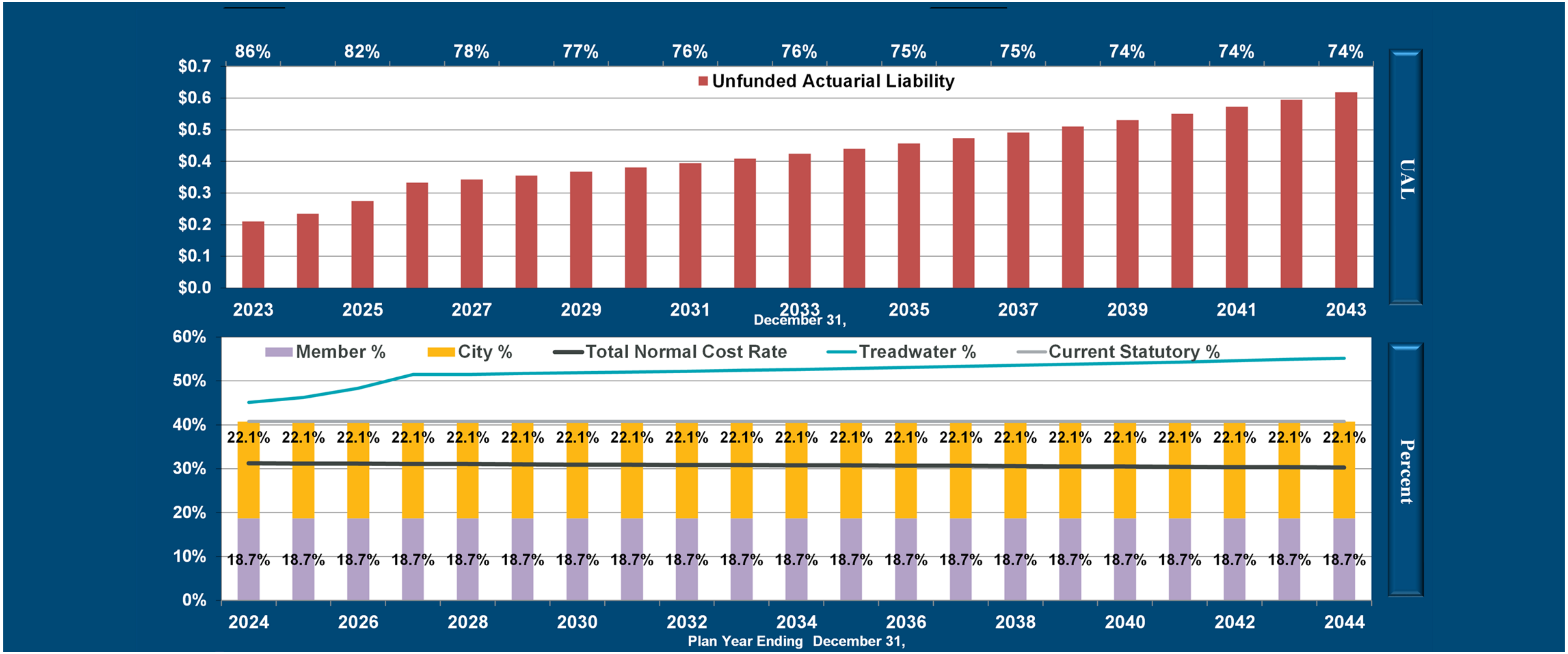
As of 2023 Actuarial Valuation

Actuarial Accrued Liabilities
$1.65 Billion
Market Value of Assets
$1.16 Billion
Funded Ratio
85.6%
Amortization Period
48.6 years
GASB Depletion Date
2062
Investment Return Assumption
7.30%
Actual Investment Return (2023)
8.4%
Membership
2241 Members (1246 active, 995 annuitants)



VALUATION RECAP & STRESS TEST

Cheiron data, 12/31/2023



ACTUARIAL PROJECTION

December 31, 2023 - Assumes assets return 7.3% each year

PROCESS AND CURRENT STATUS

- Fund Board established a Working Group to look at potential pension reform
- Working Group established goals for the reforms
- Began communications with the City of Austin and the membership, including its Retirement Plan Committee
- Developed these proposed benefit reforms considering such communications and working with the Fund actuary and attorney
- These proposals are in *draft form only and are simply an update*
  - Have NOT been formally adopted by the Board
  - Have NOT been agreed to by the City of Austin

PRINCIPLES OF BENEFIT REFORMS

- To ensure the Fund has sufficient assets in the long-term to preserve the ability to pay promised benefits.
- To ensure the Fund delivers an adequate level of benefits to our members
- To address the funding structure to better match Fund liabilities
- To provide a more predictable COLA that can be adequately pre-funded
- To provide members financial flexibility to structure their retirement income
  - Allow members to choose the DROP vs guaranteed COLA
- To incorporate transition measures in order to prevent adverse effects relating to proposed changes
  - Accelerated DROP withdrawals or "rush to retirement"
- To take action now to save costs

CURRENT RETIREES

- Modify the existing COLA Structure
  - **Current**: Annual, 100% CPI COLA subject to financial stability test
  - **Proposed**: Guaranteed, deferred 1% COLA
- Retain ability to participate in both DROP and COLA, but not at the same time
- Keep the current level of DROP interest rate, except for periods of negative return

CURRENT RETIREES

Modified COLA Structure

- **Members <u>without</u> DROP Accounts at 1/1/2026:**
  - Members will be eligible for 1% Automatic COLA starting the January 1st after the later of *<u>age 62 or 5 years after retirement.</u>*

- **Members <u>with</u> DROP Accounts at 1/1/2026:**
  - Members will be eligible for a 1% Automatic COLA starting January 1 following one year after the DROP balance has been completely withdrawn, but no earlier than *<u>age 67 or 5 years after retirement</u>*.
    - **Note**: Members may choose to keep the balance of DROP Accounts in the Fund past age 67. The 1% Auto COLA would start January 1 following one year after DROP balance is completely withdrawn.

CURRENT RETIREES

DROP Interest Rates

- Fund market return exceeds 0.0% for the calendar year:
  5.0% (same as now)

- Fund market return at or less than 0.0% for the calendar year:
  2.5%

- May choose to keep the balance of DROP Accounts in the Fund until April 1st of the year after the year in which the member attains age 70 ½ (same as now).

  - The 1% Auto COLA would start 1 year after DROP balance is completely withdrawn.

CURRENT ACTIVES

- Modify the existing COLA Structure
  - **Current**: Annual, 100% CPI COLA subject to financial stability test
  - **Proposed**: Guaranteed, deferred 1% COLA at later of age 62 or 5 years
- Members must choose to participate in DROP or receive a COLA
  - Members do not have opportunity for both at the same time
  - Exception for Grandfathered Actives who are currently eligible for normal retirement
- Keep the current level of DROP interest rate, except for periods of negative return (same as retirees)

CURRENT ACTIVES

Modifications to COLA Structure

- **Non-DROP Retirees**: 1% Auto COLA at the later of age 62 or 5 years after retirement.
- **DROP Retirees**: no eligibility for the 1% Auto COLA <u>except for</u> certain members who are grandfathered.

CURRENT ACTIVES

DROP Interest Rates

(Same as Retirees)

- **Pre-retirement**: DROP accumulation period interest rate is 5.0%
- **Post-retirement:**
  - Fund market return exceeds 0.0% for the calendar year: **5.0%** (same as now)
  - Fund market return at or less than 0.0% for the calendar year: **2.5%**
- Current Actives who retire with a DROP balance choose to be DROP participants---no COLA available <u>except for</u> certain members who are grandfathered.

GRANDFATHERED ACTIVE MEMBERS

- Active members who are eligible for normal retirement on or before 1/1/2026 are "grandfathered"

- COLA eligibility for grandfathered members who retire with DROP Accounts at or after 1/1/2026:
  - Members would have to choose after retirement and before age 62 to either:
    - Continue participating in DROP, earning interest on their DROP account beyond age 62, or
    - Participate in the 1% automatic COLA that would start the later of age 67 or 5 years after retirement

  - If choose to continue with the DROP, no eligibility for the 1% Auto COLA.
    - DROP Interest is the same as Retirees (5% or 2.5% if negative calendar year return)
    - May choose to keep the balance of DROP Accounts in the Fund until April 1 of the year after the year in which the member attains age 70 ½ (same as now)

  - If choose to participate in the COLA, members would have to take a full DROP distribution by age 62.
    - If a member withdraws their entire DROP before age 62, the 1% Auto COLA would start at the later of age 67 or 5 years after retirement

NEW HIRES

*Hired after 1/1/2026

- Multiplier lowered from 3.3% to 3.0%
- Retro-DROP feature removed (Forward DROP only)
- DROP interest rate *reduced* to 4% or 2% if negative calendar year return
- Contribution Rate *reduced* from 18.7% to 17.0%
- Normal form of retirement benefit changed to Single Life Annuity (changed from Joint and 75% Survivor annuity)
- No interest credited on returned contributions for non-vested members
- DROP or deferred COLA chosen at retirement, but not both

NEW HIRES

Modified COLA Structure

- **Non-DROP Retirees**: 1% Auto COLA at the later of age 62 or 5 years after retirement.
- **DROP Retirees**: no eligibility for the 1% Auto COLA

NEW HIRES

DROP Interest Rates

- **Pre-retirement**
  - DROP accumulation period interest rate is 4.0%
- **Post-retirement:**
  - Fund market return exceeds 0.0% for the calendar year: **4.0%**
  - Fund market return at or less than 0.0% for the calendar year: **2.0%**
- Those new hires who retire with a DROP balance choose to be DROP participants - no COLA available.

NEW HIRES

Plan Features	Current	Proposed Legislative Changes
Multiplier	3.30%	**3.00%**
Avg. Salary Length	36 months	No change
Normal Retirement Eligibility	Age 50 with 10 years of service or 25 years of service at any age	No change
Early Retirement (ER) Eligibility	Age 45 with 10 years of service or 20 years of service at any age	**No early retirement offered**
Retro-DROP	Up to 7 years, DROP account includes benefits and member contributions accumulated with 5%	**No Retro-DROP offered**
Forward DROP	Up to 7 years, DROP account includes benefits and member contributions accumulated with 5%	**Same as current except DROP account balances accrue interest at 4% during accumulation, upon retirement the DROP balances accrue interest at 4% if the Fund earns over 0% and 2% if the Fund earns at or below 0%**
Member contribution rate (New Hire)	18.7%	**17.0%**
Payment Form	Joint and 75% Survivor	**Single Life Annuity**
Non-vested terminations	Receive contributions with 5% interest credited	**Receive contributions with 0% credited interest**
COLA	COLA based on CPI-U paid from NR eligibility, subject to fiscal sustainability	**At retirement, must choose either:** **1. DROP (No COLA)** **2. NR with 1% Deferred COLA (No DROP)**

FUNDING STRUCTURE

Funding Goals

- Move away from the fixed contribution rate model
- Base funding on Actuarially Determined Contribution (ADC)
- Provide safeguards to both the Fund and City on contribution increases or decreases

ADC with Corridor

- Similar to previous funding reforms in other Texas municipalities
- Projected City Contribution rate for the next 30 years is initially established as the target
    - This target becomes the "Corridor Midpoint"
- The annual contribution rate for the City will fall within a range (or corridor) around the Corridor Midpoint

FUNDING STRUCTURE

Funding Process

- Similar to other Austin retirement systems
- Corridor midpoint will be established initially
- Transition period of three years
- Fund will determine the annual ADC, and City will have the opportunity to review with its own actuary and comment
- Fund will determine actuarial assumptions in connection with experience study, and City will have opportunity to review with its own actuary and comment

FUNDING STRUCTURE

Important Differences from Other Austin Plans

- Corridor based on a percentage of the ADC or a wider flat percentage
- No effect to contributions or benefits once corridor is breached
    - No increased member contributions if high end of corridor is breached---Member contribution rate is already one of highest in Texas
    - As a result, no feature added for contribution relief or benefit increases if low end of corridor breached

APPENDIX

WORKING GROUP GOALS

VOLUNTARY FUNDING SOUNDNESS RESTORATION PLAN (FSRP)

Benefit Security

Ensuring the Fund has sufficient assets to preserve the ability to pay promised benefits; thereby providing our members with a clear path to achieving retirement security. Our members do not participate in Social Security and AFRF benefits are the only source of retirement income that they have.

Benefit Adequacy

Ensuring the Fund delivers an adequate level of benefits to our members, so they have a decent standard of living in retirement.

Cost Of Living Adjustment (COLA)

Striving to provide COLAs to provide purchasing power protection to retirees to ensure continued benefit adequacy while acknowledging the potential need for adjustments under exceptional circumstances. The Fund has had a well-developed and articulated COLA policy to self-regulate.

Equitable Contribution and Benefit Arrangement across the three Austin Systems

In considering pension reform, recognizing that:

- AFRF has a history of managing the funding health of the plan extremely responsibly. The Fund should be recognized for its good stewardship and not be penalized. In fact, the Fund has a long history of the Board and its active and retired members jointly cooperating to take appropriate action when needed, including increasing member contributions significantly, foregoing COLAs for over a decade, and adopting a responsible COLA policy that has resulted in the discontinuance of COLAs at current funding levels.

- Unlike the members of the other two systems, AFRF members do not participate in Social Security, and any reforms should consider this key difference.

Actuarially Determined Pension Funding Commitment

Ensuring that all benefits for current and future members are consistently and adequately funded through an actuarial determination of required City contributions. Any actuarially determined funding for City contributions should include appropriate determination of the portion of the liability that represents the "legacy liability."

Fund Sustainability

Continue the almost 50-year history of active and retired members and the plan sponsor sharing in the burden of ensuring Fund sustainability.

Board Composition

Continued recognition of the stewardship and commitment to the Fund by the membership through maintaining a **member-majority board** while recognizing the need for significant City representation by allowing the mayoral position to be filled by either the mayor or a mayoral designee.