



AFRF
AUSTIN FIREFIGHTERS
RETIREMENT FUND

**MINUTES
BOARD OF TRUSTEES MEETING
FRIDAY APRIL 26, 2024, 9:00AM**

Board Members Present

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

Staff and Consultants Present

Anumeha Kumar, AFRF Executive Director
John Perryman, AFRF CFO
Gina Gleason, AFRF Board & Operations Specialist
Shira Herbert, AFRF Accounting & QC Specialist
Amy Thibaudeau, AFRF Benefits Specialist
Alyca Garrison, Jackson Walker
Chuck Campbell, Jackson Walker
Elizabeth Wiley, Cheiron
Health Merlak, Cheiron
Craig Chaikin, Callan
Gwen Lohmann, Callan (virtual)

Community Members Present

Rene Vallejo
Virtual attendees not listed

Vice Chair Bass called the meeting to order at 9:00am.

Public Comments:

No public comments.

- I. Consent Agenda for the following:
 - a. Minutes of the regular meeting of March 25, 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 Weaver seconded the motion. The motion passed unanimously.

- II. Presentation from Callan on preliminary report for the Investment Practices and Performance Evaluation (IPPE)

Craig Chaikin introduced himself and Gwen Lohmann as the Callan investment consultants who were hired as a third-party to complete the Investment Practices and Performance Evaluation for the Fund under Government Code 802.109. He explained that the primary intent of conducting the IPPE was to review the policies and practices that govern the investment program of the Fund. Mr. Chaikin described the review process, which involved interviewing the trustees and looking at board governance documents and meeting materials, including quarterly investment performance reports, meeting minutes, other financial reports, actuarial valuations, and the most recent experience study. Mr. Chaikin next described the key topic areas within the review, as laid out by

the Pension Review Board (PRB), to address best practice for investment program governance, monitoring, and implementation. Anumeha Kumar reiterated that the Fund was required by state law to perform an IPPE once every three years, and that the board would have 30 days following Callan's preliminary report to provide a response to Callan regarding their recommendations, after which they would present a final report to the board in May and then submit it to the PRB. Mr. Chaikin prefaced his report with a note that most findings were in line with best practices and that Callan only had a few notes for consideration, with no immediate cause for concern. Regarding the Investment Policy Statement (IPS), Mr. Chaikin explained that some of the components in the Fund's Operating Procedures are typically included in the IPS. He noted that the bifurcation could be attributed to the Fund's lengthy process for making changes to the IPS, and that in conjunction, the two documents make for robust governing documents that provide a very clear course of action for the board. Mr. Chaikin's main recommendation was to combine the IPS and Operating Procedures into a singular document so that the asset allocation parameters and manager selection policies are contained within the IPS. Another reason he provided for having everything pertaining to the governance of the plan in a singular document was so that there would be no inconsistencies between the two documents if something were to be updated in one document and not the other. Mr. Chaikin noted that the Fund had very good transparency and recommended posting the Operating Procedures to Fund's website alongside the other governing documents that had already been made available to stakeholders. He also made a minor suggestion to add language within the IPS to acknowledge the Fund's adherence to PRB guidelines. Regarding asset allocation, Mr. Chaikin confirmed that the Fund had a high likelihood of achieving their current 7.3% assumed rate of return target over the long term, based on Callan's asset allocation model. He emphasized the importance of continuing to review the asset allocation annually in terms of the broad asset classes, and stated that the Fund's asset allocation process is consistent with best practice. Mr. Chaikin noted that the Fund does not account for the liabilities of the plan in much detail and recommended that the board consider conducting an Asset/Liability Study, which would take the asset allocation and liquidity needs into consideration along with the Fund's liabilities over time. He stated that Asset/Liability Studies become especially important as pension plans mature and their net cash flows become more negative, and additional aspects such as the DROP program play a crucial role in a liquidity profile beyond standard pension obligations. The trustees asked some follow-up questions regarding Mr. Chaikin's recommendations. In response, Mr. Chaikin noted that the Fund's overall asset allocation aligns with other pension programs, based on Callan's internal peer group as well as recent NASRA and NCPERS studies, and that the Fund's recent movement of assets into passive management to limit fees is consistent with the practice of many other pension programs. He also explained that there is no best practice regarding the length of an IPS document and suggested that some pieces of the two documents could be consolidated to limit the document's length if combined. Regarding investment fees, Mr. Chaikin stated that the Fund complies with the PRB's fee reporting requirement. He explained that investment fees are the overriding cost for every investment program and since higher fees require higher returns to achieve the desired outcome, lower fees do help with overall investment performance. He suggested that the Fund consider switching from fund of funds to direct investment for private equity in order to save fees, but acknowledged that doing so would come with additional operational complexities for the Fund. Mr. Chaikin noted that the Fund's overall fee allocation is in line with what Callan has seen across the industry. Trustee Fowler asked some follow-up questions regarding Callan's investment fee survey, to which Mr. Chaikin confirmed that while the Fund's fees are higher in some instances, they are still reasonable. He followed up with a recommendation for Meketa to provide more granular fee breakdowns in their quarterly reports, beyond the PRB fee-reporting format that they currently use. He noted that performance fees are important to monitor as they can be a significant driver of overall costs. Mr. Chaikin also pointed out that the language currently used for fee-reconciliation and payment procedures, which refers to singular

trustee involvement, is difficult to implement and could create potential conflict of interest. He suggested revising the language in the Operating Procedures to make it more consistent with actual industry practices. Regarding the governance process, Mr. Chaikin stated that the Fund has a very robust framework that contains many checks and balances and clearly outlines the responsibilities of the board. He highlighted the schedule for reviewing independent vendors, the ongoing educational training for trustees, and the consistent review and update of the IPS and Operating Procedures, which he noted as all being best practices for overall fund governance. Regarding COLAs, Mr. Chaikin stated that the Fund's practice of requiring a sign-off from the actuary is important in terms of maintaining the overall health of the plan. He stated that Callan had no recommendations for the plan's governance. Regarding investment manager search and selection, Mr. Chaikin noted that everything the Fund does is standard, including the delegation of responsibilities to Meketa. Mr. Chaikin concluded his report with a summary of Callan's main recommendations of combining the IPS and Operating Procedures into a single document and conducting an Asset/Liability Study, and reassured the board that the Fund's fees are not out of line and will continue to decrease with the implementation of the passive investment framework. Vice Chair Bass thanked Mr. Chaikin for his presentation and stated that the board would consider his recommendations. Trustee Weaver praised the Fund's strong investment program and voiced her appreciation for Callan's recommendations. She noted that she felt Governance was one of the Fund's strongest suits and was pleased with the lack of recommendations in that area. Trustee Fowler echoed the trustees' sentiments and stated that the report brought good news to the Fund. **No motion necessary.**

- III. Discuss and Consider final Actuarial Experience Study report, including discussion of actuarial cost methods and cost implications of any assumption changes

Elizabeth Wiley introduced herself and Heath Merlak as the Fund's actuaries. Ms. Wiley first addressed cost method, which determines how the anticipated benefits are to be paid out of the Fund and allocated over the careers of the members. She stated that the cost method currently used by the Fund is entry-age normal, which is the most common method used by public systems and is the method required for reporting under GASB. She recommended that no changes be made to the cost method. Next, Ms. Wiley addressed the asset valuation method. She stated that the goal in selecting the asset valuation method is to balance reducing the volatility that comes from the financial markets while ensuring the results aren't deviating too far from reality. She explained that using the market value of assets brings in too much volatility, so most public systems develop their key valuation results using smoothed or actuarial value of assets, and the Fund's current 5-year smoothing period tends to best achieve that balancing goal. Ms. Wiley noted that some systems add an additional corridor to restrict deviation, but Cheiron did not determine a corridor to be a necessary addition for the Fund. She recommended that no changes be made to the asset valuation method. Ms. Wiley lastly addressed the amortization method, starting with a reminder that the Fund uses a fixed or statutory contribution rather than an actuarially determined contribution (ADC). She explained that amortization method defines the approach and period to amortize the unfunded actuarial liability (UAL), and while it is not currently applicable to determining contributions due to the Fund's fixed rate, it is reflected in the development of ADC benchmarks. Ms. Wiley made no recommendations for changes to the amortization method but noted that the next valuation would have new ADC benchmark disclosure requirements pursuant to the Actuarial Standards of Practice (ASOP) No. 4.

Heath Merlak reviewed all the assumptions that the board had adopted for the 2023 Valuation during the March meeting. Vice Chair Bass asked a clarifying question regarding the DROP assumption change, to which Mr. Merlak and Ms. Wiley confirmed that it built in additional conservatism and expanded upon the reasoning for and impact of the change. Regarding the cost

impact of the assumption changes, Mr. Merlak explained that Cheiron had planned to use the finalized 2022 Valuation results, but since they were ahead of schedule in producing the 2023 Valuation, they thought it would be helpful to use those results on a preliminary basis. Ms. Wiley added that they were very confident and comfortable with using the preliminary results, with the caveat that the assets were still unaudited. Mr. Merlak explained that the actuarial liabilities came in slightly lower than anticipated and that the normal cost rate of 30.71% remained relatively static due to the Fund's one-tier structure with minimal demographic change. Mr. Merlak described the impact of each assumption change on the amortization period independently. He then explained that the cumulative effect decreased the funded ratio from 87.2% to 85.7% and increased the amortization period from 35.7 years to 44.2 years. Trustee Fowler followed up with a question regarding retirement age trends, to which the actuaries provided clarification that earlier retirement is more expensive for the Fund. Anumeha Kumar informed the board that no action was required, since all recommended changes had been adopted during the previous meeting and Cheiron had not recommended any additional changes. Vice Chair Bass thanked Cheiron for their presentation. Mr. Merlak confirmed that Cheiron would be back in June. No motion necessary.

IV. Discussion regarding retired Fund staff health insurance benefits

Anumeha Kumar followed up on a prior discussion with the board regarding health insurance benefits offered to retired Fund staff. She explained that historically the Fund had been following the same practice that is applicable to retired employees of the City of Austin, wherein the employer and retiree share the cost of the group health insurance coverage. Ms. Kumar further clarified that unlike staff of peer systems in Austin, staff of AFRF do not receive a monthly annuity payment from the Fund upon retirement, therefore the Fund has functioned as a pass-through in collecting and remitting the retiree insurance payments to the City of Austin. Ms. Kumar further explained that a formal procedure had never been documented from an administrative and business continuity standpoint, so staff had been working to finalize the documentation of those procedures. She stated that she would provide a copy to the board upon their request. Trustee Weaver asked a question to ascertain the definition of "retired" for Fund staff, to which Ms. Kumar and Vice Chair Bass clarified that any future discussion would be regarding eligibility for the benefit versus a hard definition of "retired," since staff does not participate in a retirement annuity program. Ms. Kumar stated that she would come back to the board if anything needed to be updated in the Personnel Policy. No motion necessary.

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

a. General comments

Anumeha Kumar revisited the work that the Fund staff had done with Jackson Walker to update all forms associated with member services and retirement. She stated that all forms were now digitally fillable and available on the Fund's website. Ms. Kumar explained that Jackson Walker had also reviewed the Fund's Benefits Guide from a legal standpoint to clarify the plan provisions and rewrite them in a comprehensive format. Ms. Kumar stated that the Benefits Guide is a key plan document, required by state law, and that the new version had been published on the Fund's website. She thanked Jackson Walker and her staff for the work they had put into updating the document.

- b. Update on Voluntary Funding Soundness Restoration Plan (FSRP), including Member Info Session

Anumeha Kumar informed the board that the Working Group had hosted another Member Informational Session on April 12, 2024, in which they shared the Working Group Goals and updated the membership on the status of the Voluntary FSRP. She explained that the Working Group was still considering all available options and were waiting for the Fund's actuary to complete the Experience Study prior to developing any benefit package options. She emphasized the critical role that the Experience Study would play in providing baseline information for potential plan changes. Ms. Kumar stated that the Working Group aimed to come back to the membership with benefit package options in late May or early June.

Vice Chair Bass encouraged the membership to always consider the source of the information they receive. He advised that reliable primary sources include board meetings, minutes, and member informational sessions, and warned members to be cautious with information from secondary sources. Ms. Kumar encouraged members to reach out to the pension office for clarification if they have received any inconsistent information. Trustee Weaver thanked the Working Group and Fund staff for the work they put into hosting the Member Informational Session and expressed her appreciation for the transparency the Fund has given to its members regarding the Voluntary FSRP process.

- c. Upcoming Retirement Seminar Update

Anumeha Kumar shared the upcoming dates for retirement seminars hosted by the Austin Fire Department, scheduled for May 15th in-person and May 16th online. She noted that AFRF would be in attendance and encouraged any active members considering retirement to attend.

Internal financial statements, transactions, and Fund expense reports for month ending March 31, 2024

Anumeha Kumar stated that there was nothing notable to report for March. The trustees had no questions regarding the financial reports.

- VI. Roadmap for future meetings

The trustees had no questions or requests regarding the roadmap. Trustee Weaver noted that the May meeting would be lengthy.

- VII. Call for future agenda items

No future agenda items were called for.

Hearing no objections, Vice Chair Bass adjourned the meeting at 11:32am.

Board Members

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