RETIREMENT COMMISSION MINUTES

The Retirement Commission met on Wednesday, September 22, 2021. The following members were present: Chris Cullinan, Jason Vandever, Scott Hendrix, Chip Boyles, Heather Hill, Joe Hatter, Al Elias, Markell Henderson, Ben Cullop. Absent: David Hughes. Others present: Brian Wheeler, Sara Butler, Lisa Burch, Krisy Hammill, Greg McNeillie.

Call to Order
Jason Vandever called the meeting to order at 8:32 AM.

Approval of Minutes
The minutes from the June 2021 meeting were approved unanimously.

Annual Financial Review
Greg McNeillie from Dahab reviewed the previous fiscal year investment returns for the Charlottesville Retirement System portfolio. He also updated the Commission on the progress towards reducing energy investments per the ESG investment policy.

Administrative Update
Lisa Burch updated the Commission on the status of the approved changes to appointed member terms. She also notified the Commission that meetings will continue to be virtual until City Hall is completely opened. She requested feedback regarding the November and December meetings. It was agreed to revisit the scheduling of those meetings at the October 27, 2021 meeting.

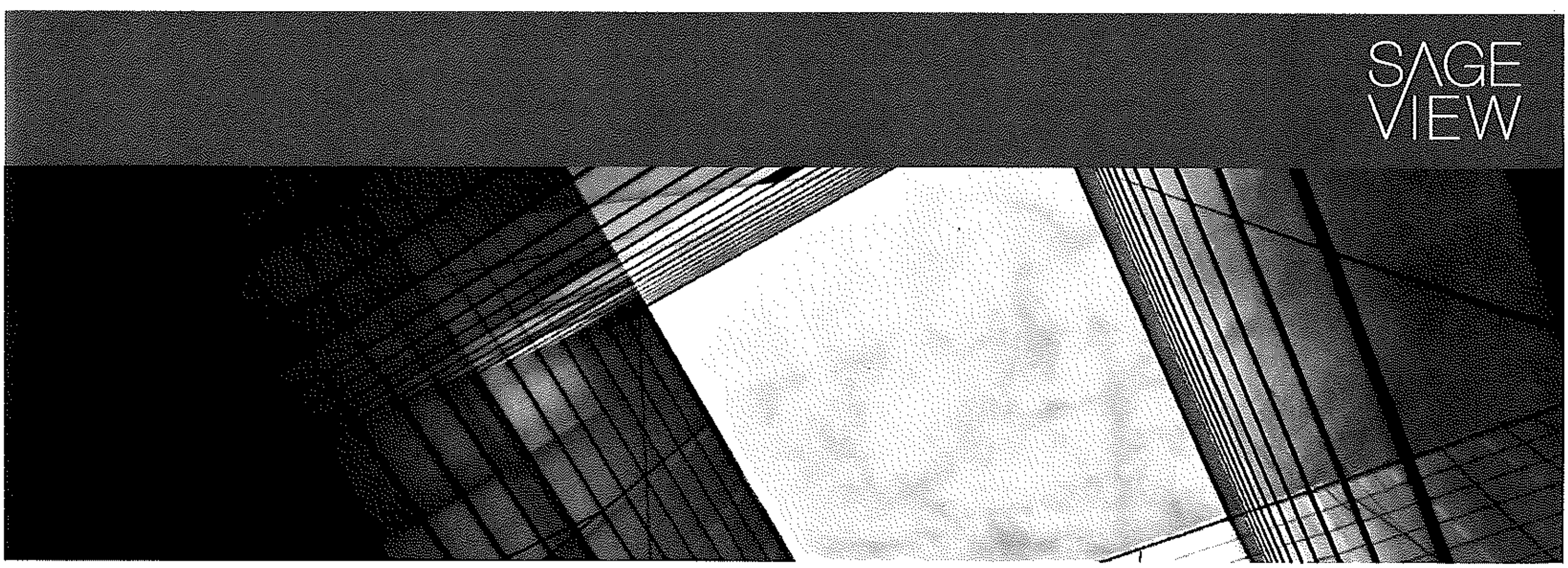
Adjournment
The meeting adjourned at 9:45 AM.

City of Charlottesville

Retirement and Postretirement Benefits Plans

July 1, 2021 Valuation Results

October 27, 2021



Contents

	Page
• Retirement Plan	
• Commentary	4
• Current Results and Historical Information	6
• 10 Year Projections	13
• Postretirement Benefits Plan	
• Commentary	17
• Current Results and Historical Information	19
• 10 Year Projections	24

1

Retirement Plan

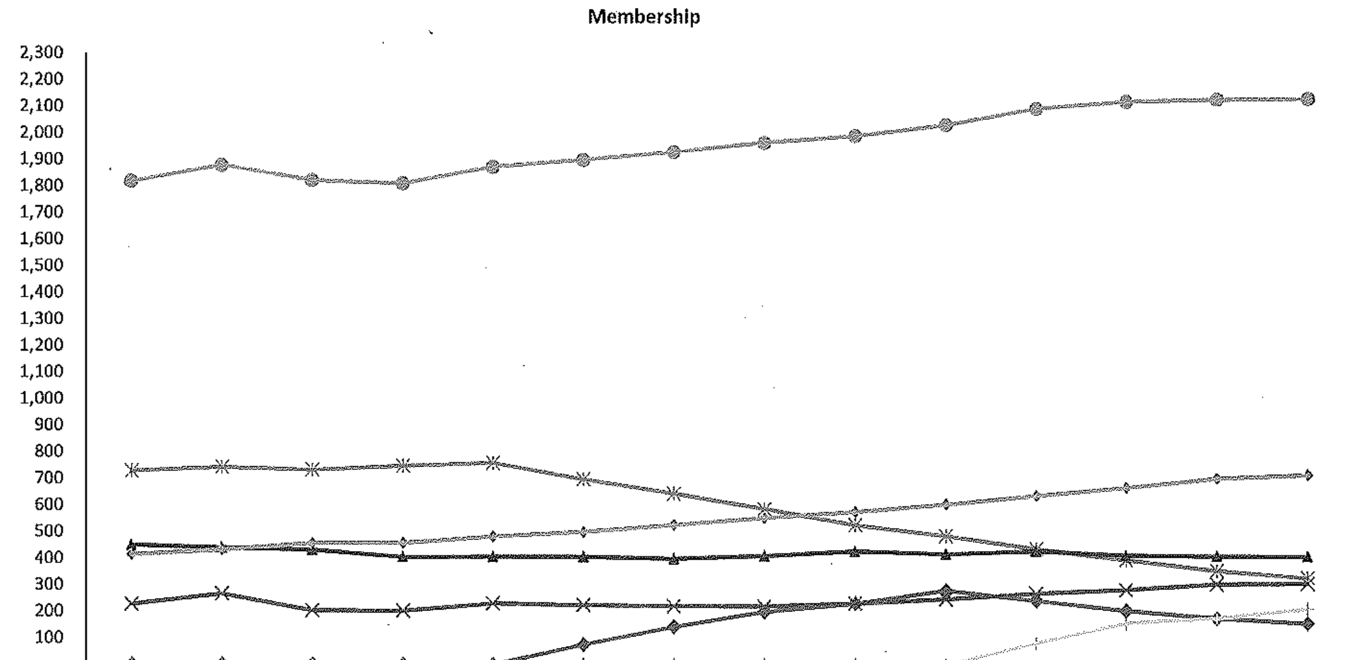
Commentary

- Investment performance
  - Return on Fiduciary Net Position was 28.70% (for financial reporting)
  - Return on Actuarial Asset Value was 13.30% (4-year smoothing for contribution rates)
  - Assumed return is 7.50%
- Net Pension Liability (for GASB reporting)
  - Decreased from $91.2M to $63.5M primarily due to investment performance
  - The funded status improved from 56.8% to 70.5%
- Actuarially Determined Contribution (ADC)
  - Decreases from 26.36% (fiscal 2022) to 24.85% (fiscal 2023)

Commentary

- Actuarial assumptions and methods
  - An experience study was completed for the 5-year period ended June 30, 2019 resulting in changes to several assumptions used to complete the June 30, 2020 valuation
  - In order to determine contribution rates, the unfunded liability as of June 30, 2020 is being amortized over a period of 15 years; this is consistent with the remaining amortization period prior to the completion of the experience study
  - Future actuarial gains (losses) are also amortized over a period of 15 years
- Plan provisions
  - There have been no changes since the last valuation
  - Increased employee contributions are not being used to offset future employer contributions
  - A COLA of 1% was granted effective July 1, 2021; this is consistent with our assumption

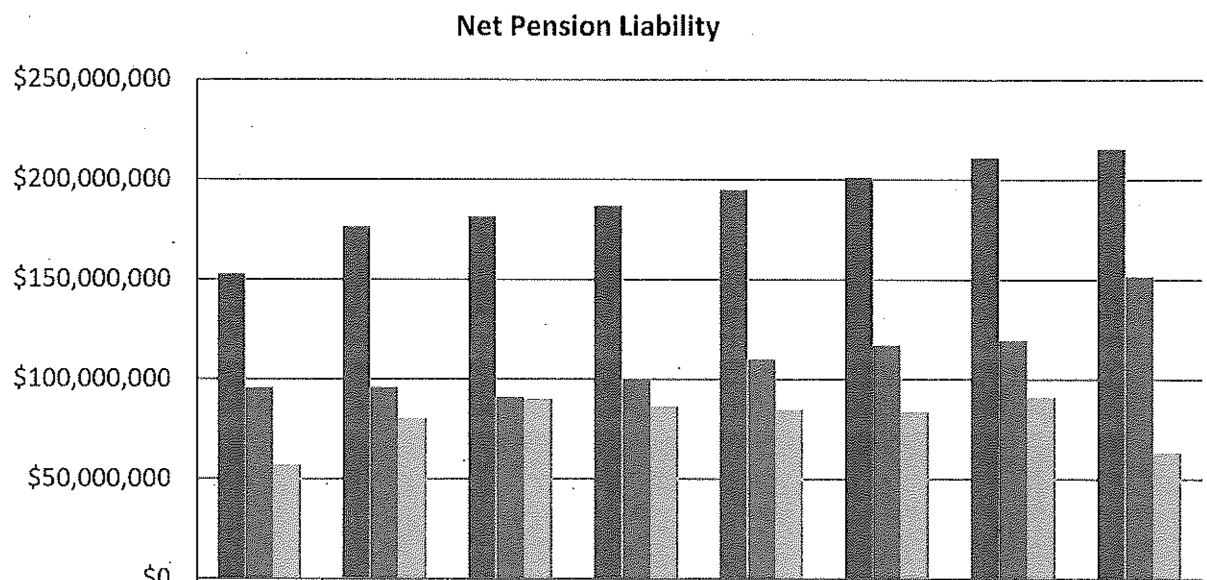
Current Results and Historical Information



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Active Plan 1	728	742	732	747	758	697	644	586	526	485	437	396	356	329
Active Plan 2	-	-	-	-	-	75	142	199	231	280	242	205	177	158
Active Plan 3	-	-	-	-	-	-	-	-	-	-	82	158	178	212
DC Plan	227	266	203	202	229	224	220	219	231	247	269	283	305	308
Vested Terms	449	440	431	404	405	405	398	409	427	417	428	412	411	410
Retired	414	431	456	457	481	499	526	552	576	604	637	668	704	717
Total	1,818	1,879	1,822	1,810	1,873	1,900	1,930	1,965	1,991	2,033	2,095	2,122	2,131	2,134

- The number of retirees has increased 73% since 2008; there are currently .97 active members for each retiree (down from 1.76 in 2008)
- DC plan membership has trended slightly upward the last few years; 33 of the DC plan members also have a vested benefit in the DB plan

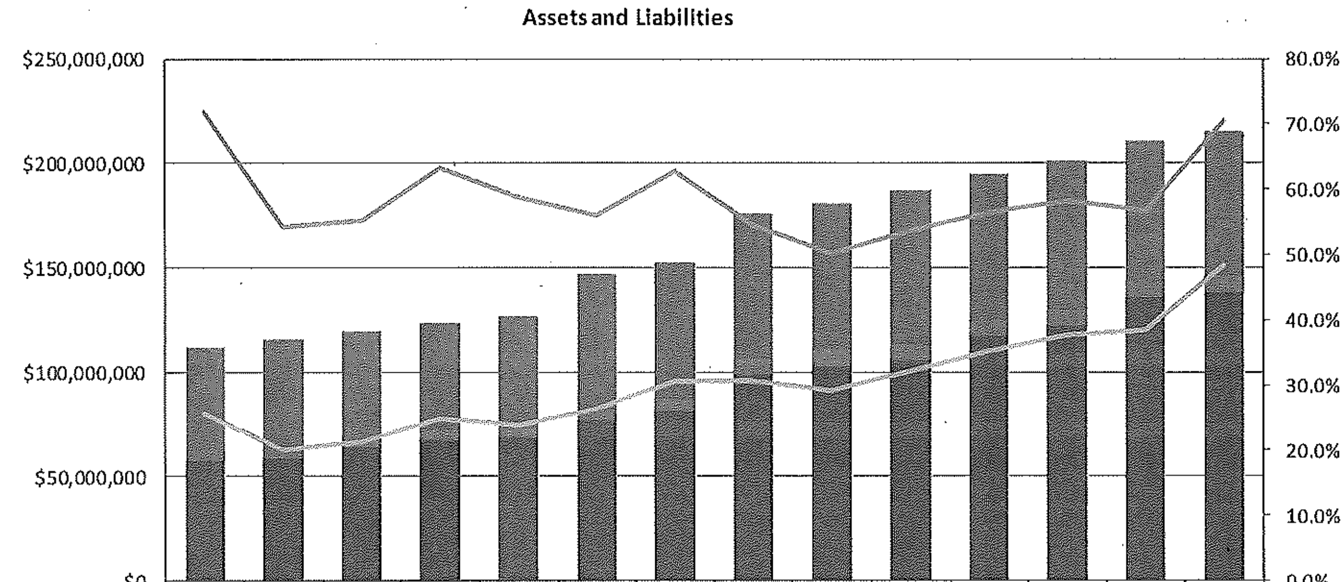
Current Results and Historical Information



	2014	2015	2016	2017	2018	2019	2020	2021
Total Pension Liability	152,845,015	176,497,294	181,372,831	186,981,459	195,103,526	201,427,626	211,072,055	215,294,510
Fiduciary Net Position	95,898,134	96,099,075	91,212,734	100,400,439	110,307,442	117,476,409	119,920,421	151,825,839
Net Pension Liability	56,946,881	80,398,219	90,160,097	86,581,020	84,796,084	83,951,217	91,151,634	63,468,671

- The Net Pension Liability (NPL) decreased in 2021 primarily due to investment performance
- A +/- 1% change in the discount rate would result in a significant change in the NPL (-/+ approximately $22M)
- The NPL is reported on the City's balance sheet in accordance with GASB 68

Current Results and Historical Information

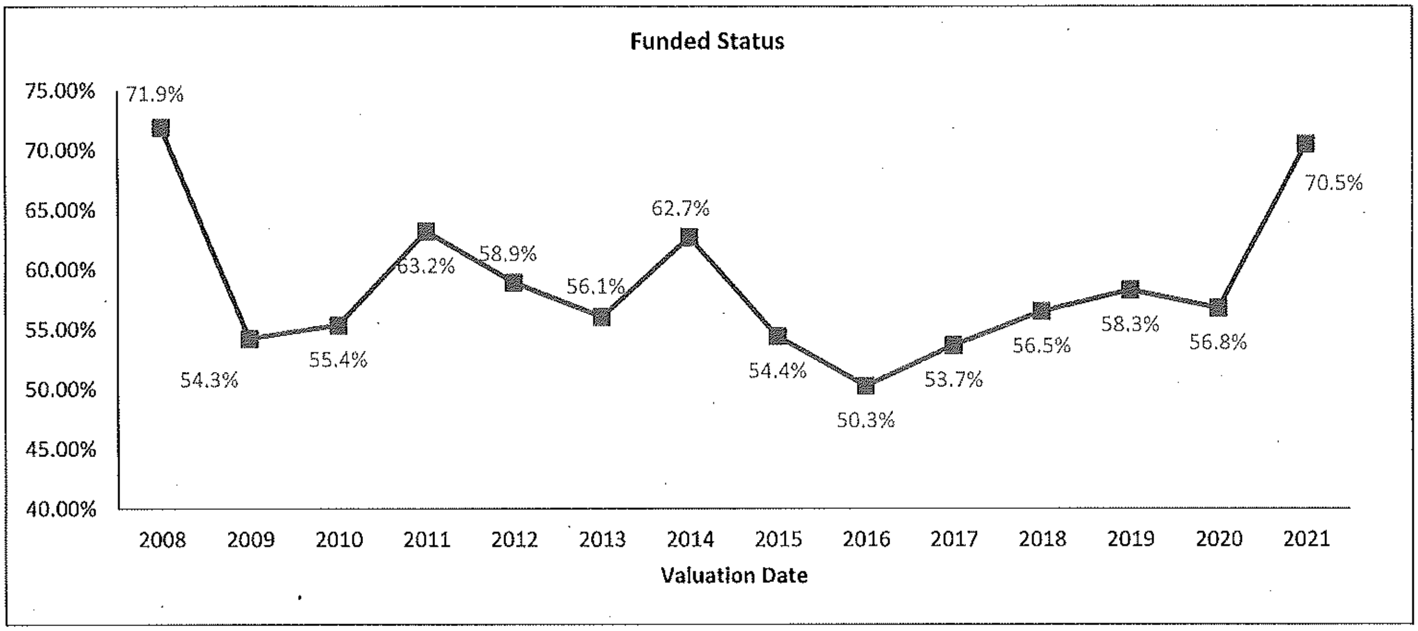


	2008	2009	2010	2011	2012	2013	2014
Pension Liability - Active	49,707,725	51,974,295	50,877,242	50,550,840	53,668,653	65,233,094	65,442,708
Pension Liability - Term Vested	4,700,830	4,696,273	5,168,289	5,366,642	5,141,264	5,738,112	5,905,585
Pension Liability - Retired	57,516,062	58,862,234	64,047,604	67,445,239	68,419,135	76,451,534	81,496,722
Fiduciary Net Position	80,494,886	62,705,375	66,568,620	78,008,795	74,987,847	82,659,123	95,898,134
Funded Status	71.9%	54.3%	55.4%	63.2%	58.9%	56.1%	62.7%

	2015	2016	2017	2018	2019	2020	2021
Pension Liability - Active	69,958,205	70,224,566	73,398,897	69,829,411	71,674,285	66,992,615	68,592,268
Pension Liability - Term Vested	7,721,024	8,623,608	7,562,970	8,084,730	7,887,418	8,582,624	8,726,227
Pension Liability - Retired	98,818,065	102,524,657	106,019,592	117,189,385	121,865,923	135,496,816	137,976,015
Fiduciary Net Position	96,099,075	91,212,734	100,400,439	110,307,442	117,476,409	119,920,421	151,825,839
Funded Status	54.4%	50.3%	53.7%	56.5%	58.3%	56.8%	70.5%

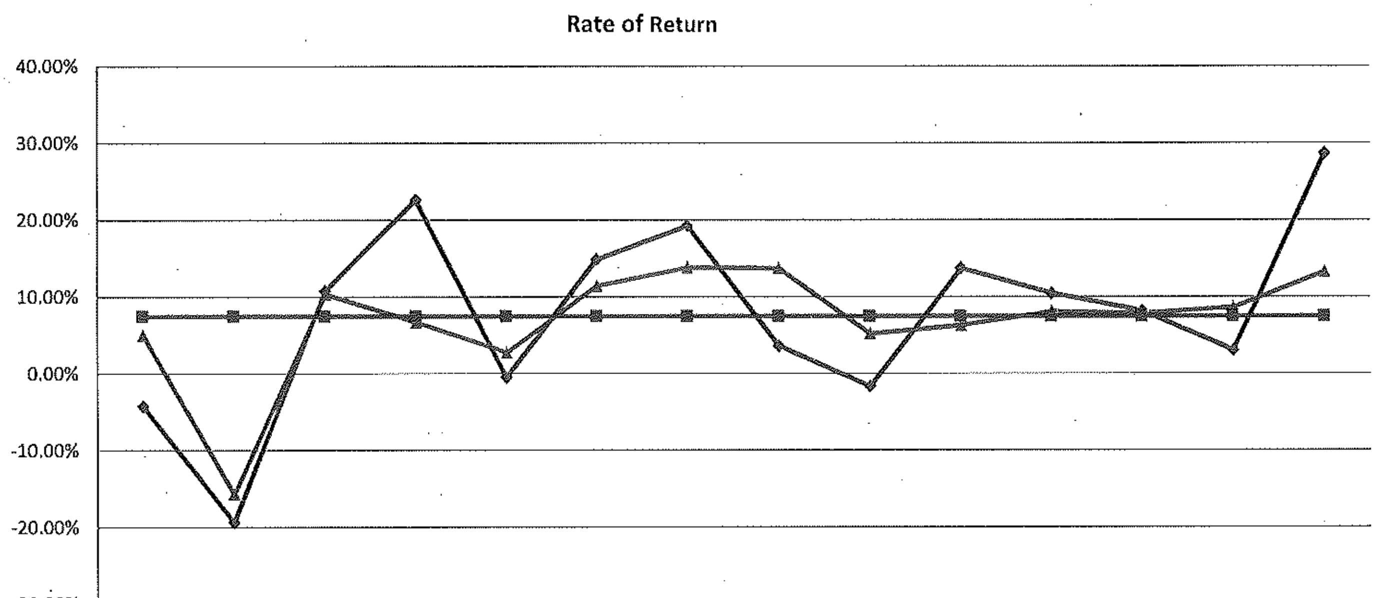
- The Funded status is the highest it has been since 2008
- The Total Pension Liability has steadily increased as benefits accrue
- Assets have increased significantly since 2016 (66%)
- In 2021, Retired and Terminated Participants account for 68% of the Total Pension Liability (56% in 2008)

Current Results and Historical Information



- The funded status dropped significantly in 2009 due to investment performance which was the primary reason it increased in 2011 and 2014.
- The funded status declined in 2015 due to less than favorable investment performance and changes in actuarial assumptions
- The funded status declined in 2016 primarily due to investment performance
- The funded status improved in 2017, 2018 and 2019 primarily due to investment performance but also due to additional employer contributions made in 2018 and 2019
- The funded status declined in 2020 primarily due to investment performance and changes in actuarial assumptions
- The funded status improved significantly in 2021 due to investment performance

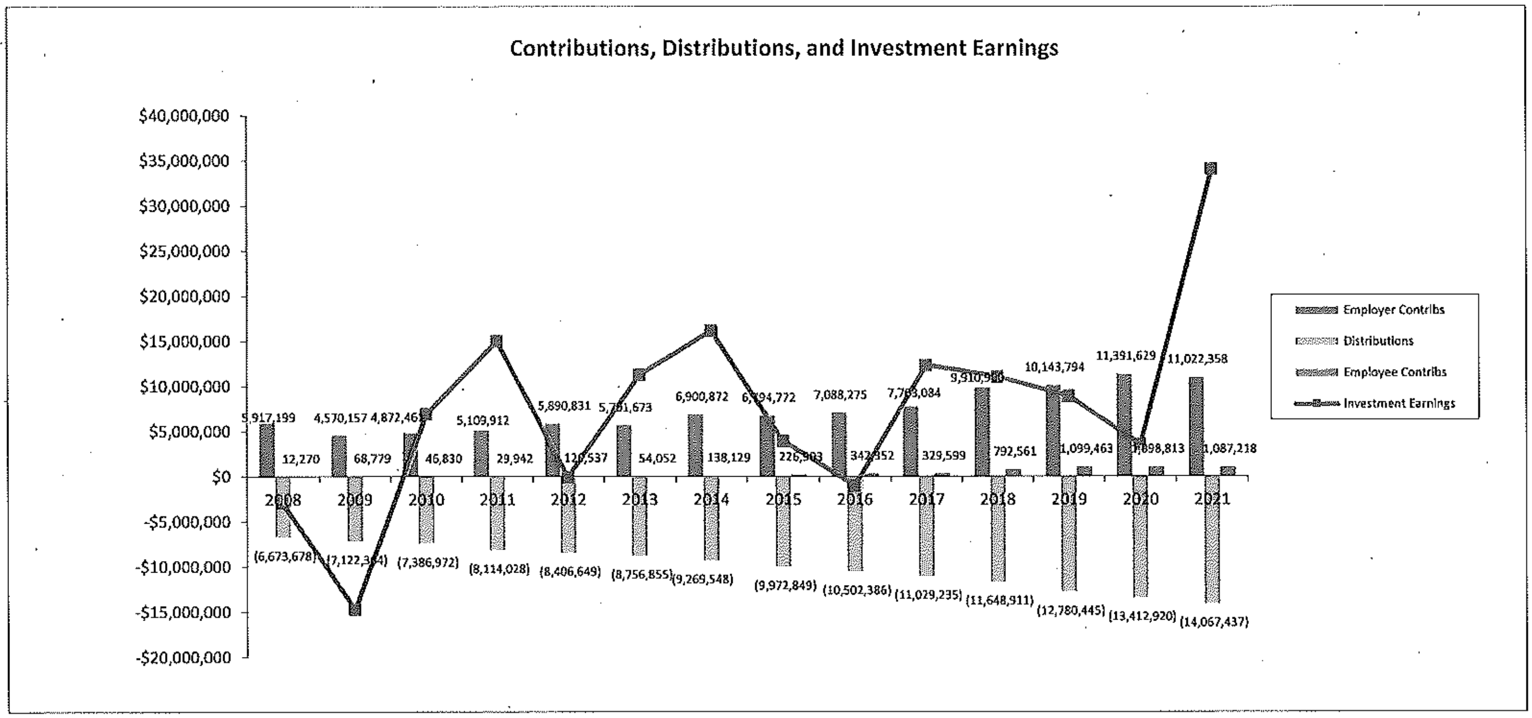
Current Results and Historical Information



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
MV Return	-4.22%	-19.31%	10.80%	22.64%	-0.46%	14.90%	19.29%	3.63%	-1.64%	13.71%	10.49%	8.18%	3.08%	28.70%
AAV Return	5.05%	-15.67%	10.37%	6.73%	2.77%	11.44%	13.85%	13.75%	5.22%	6.29%	8.07%	7.86%	8.64%	13.30%
Assumed	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%

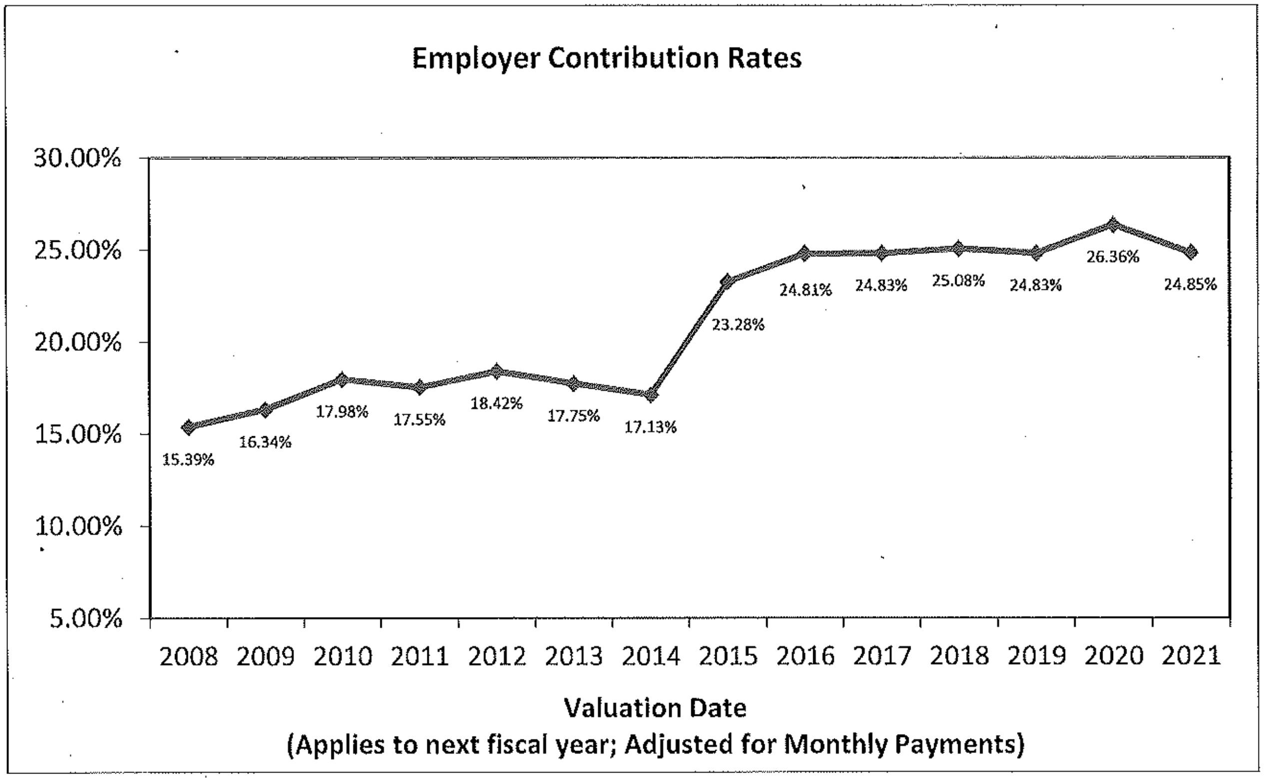
- The volatility of actual returns versus the assumed 7.5% provides justification for maintaining an actuarial asset smoothing method to determine contribution rates although market value must be used for financial reporting.
- The 5-year average returns as of June 30, 2021 were as follows:
    - Market Value: 12.83%
    - Actuarial Asset Value: 8.83%

Current Results and Historical Information



- Employee contributions have leveled off now that employee contribution rates have been fully phased in
- Employer contributions have always equaled or exceeded the ADC

Current Results and Historical Information

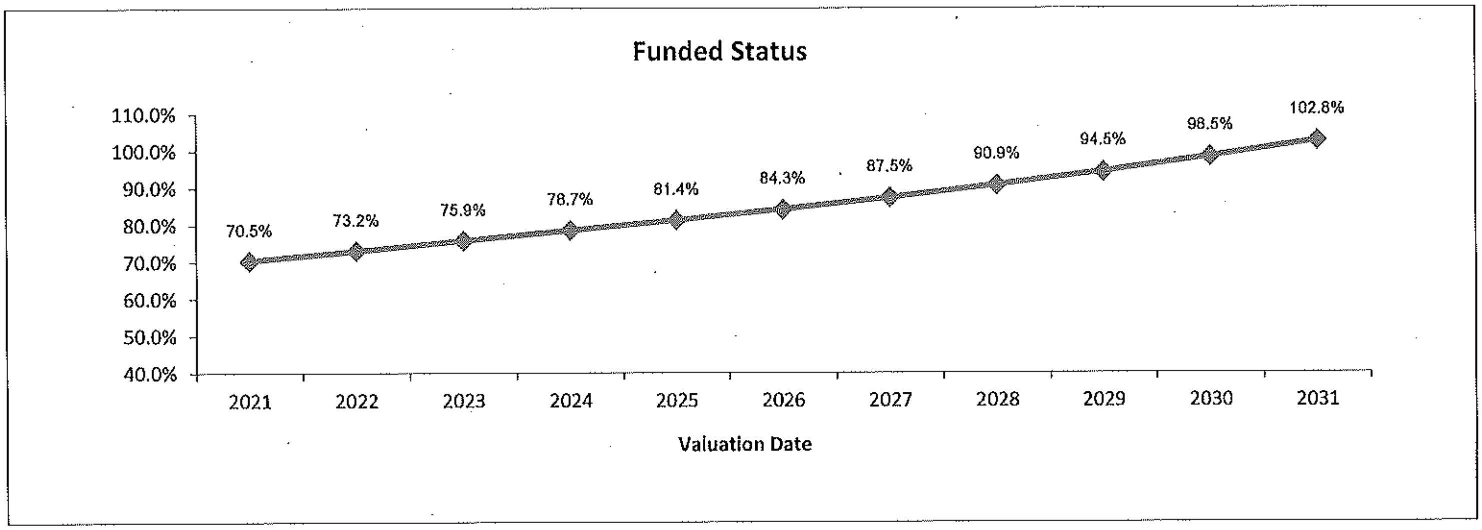


- Contribution rates have decreased this year primarily due to investment performance even though the gain is being spread over 4 years
- The unfunded liability is amortized as a level percent of pay with the assumption that covered payroll will increase 3% per year. If covered payroll remains level or declines, the rate will increase even though the dollar amount may not. Covered payroll increased .77% from 2020 to 2021
- Much of the increase in 2015 was due to the addition of the 1% future COLA assumption

10 Year Projections

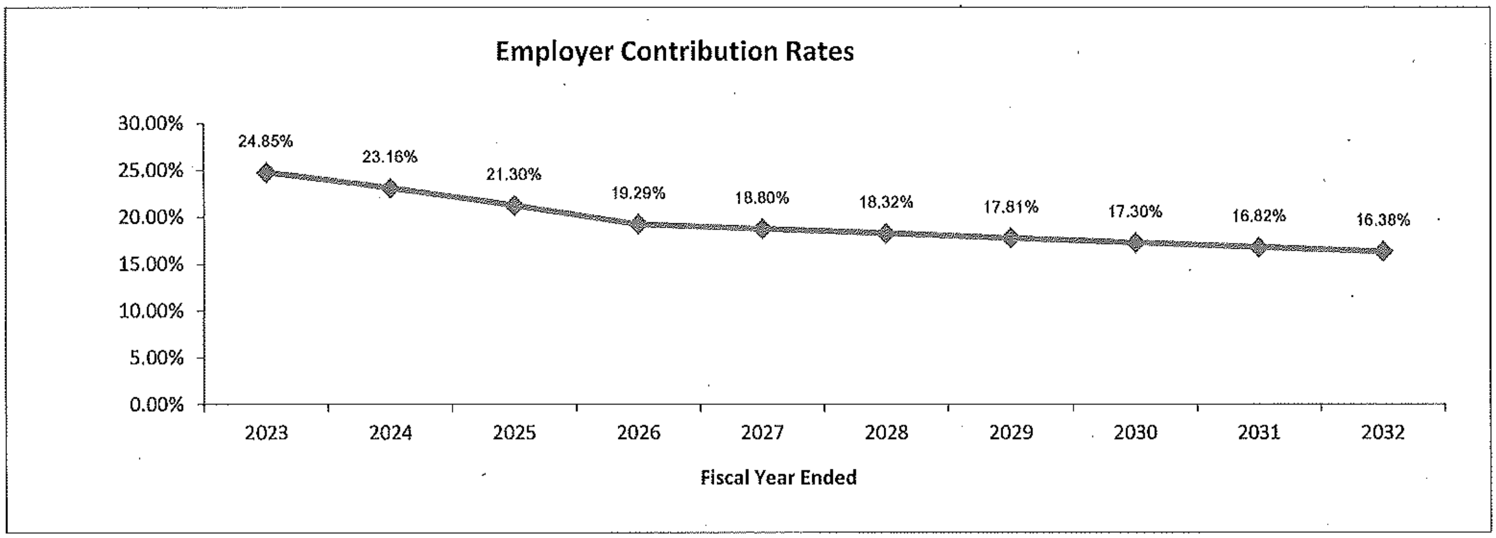
- Assume no changes in plan provisions or contribution strategies
- Active population assumed to remain at current levels
- Assets assumed to return 7.5% each year in the future
- Covered Payroll increases 3% per year
- All other actuarial assumptions assumed to be realized
- It is assumed that the City will continue to fully fund the Actuarially Determined Contribution (ADC) each year

10 Year Projections



The funded status is projected to increase to 80% by 2025 and 100% by 2031 assuming an annual return on assets of 7.5% and full funding of the ADC.

10 Year Projections



Contribution rates are expected to decline significantly as the funded status improves, if all assumptions are realized.

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Postretirement Benefits Plan

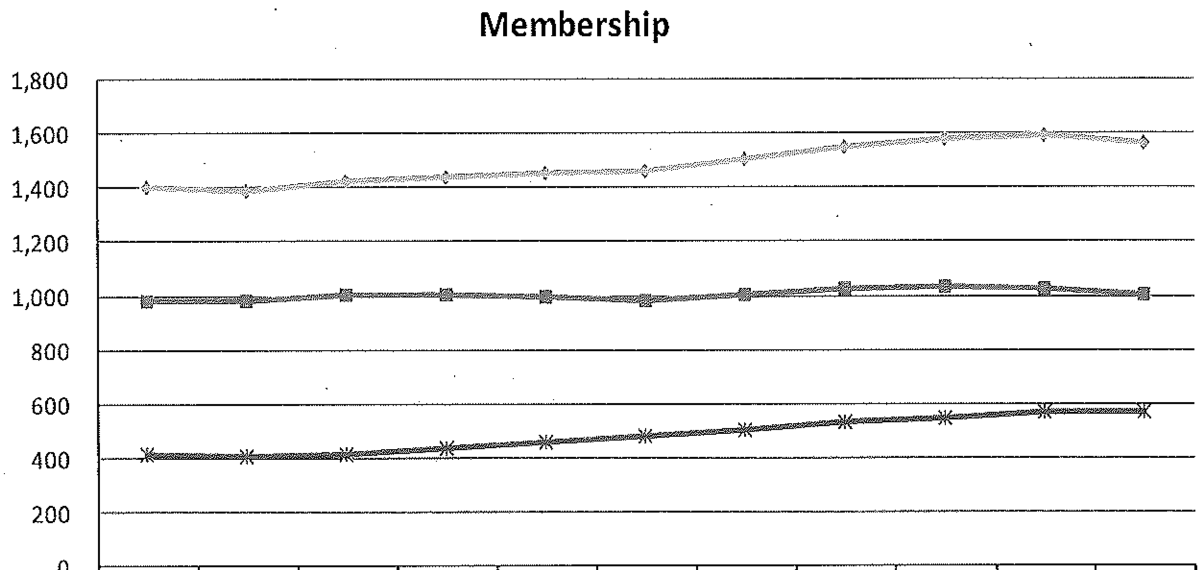
Commentary

- Actuarial assumptions and methods
  - For the 7/2021 valuation, the mortality improvement scale was updated from the MP-2019 table to the MP-2020 table
  - The trend assumption was reset from the last year
- Claims Experience
  - For the second year in a row, the claims experience was very good which resulted in a slight reduction in premiums from the prior year
  - This better-than-expected claims experience help to produce an actuarial gain for the year of approximately $6.0 million (7.67% reduction)
- Plan provisions
  - No changes since the last valuation

Commentary

- Investment performance
  - Assumed return on assets of 7.50%
  - Estimated return was 28.70%
  - This much better than expected return resulted in a $9.9 million gain for the year
- Funded status
  - Increased from 62.8% to 82.1% primarily due to the strong investment return
- Annual Required Contribution
  - Continued decline from 9.40% (fiscal 2021) to 7.68% (fiscal 2022) to 4.66% (fiscal 2023)
  - There was a supplemental contribution from the City during the fiscal year ending June 30, 2021 of $246K

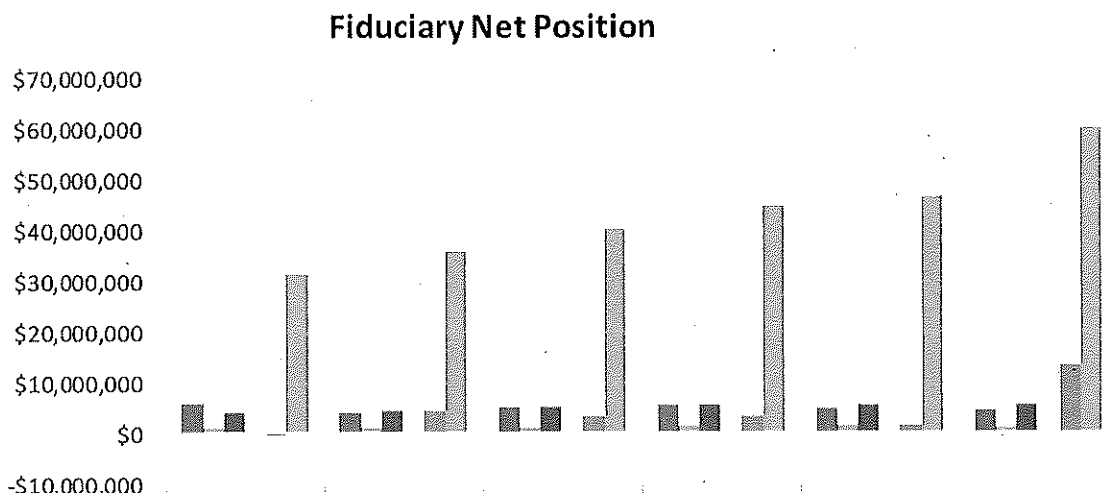
Current Results and Historical Information



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Active	985	979	1,007	1,006	998	981	1,003	1,023	1,033	1,028	1,001
Retired	414	408	415	433	458	478	502	528	546	568	567
Total	1,399	1,387	1,422	1,439	1,456	1,459	1,505	1,551	1,579	1,596	1,568

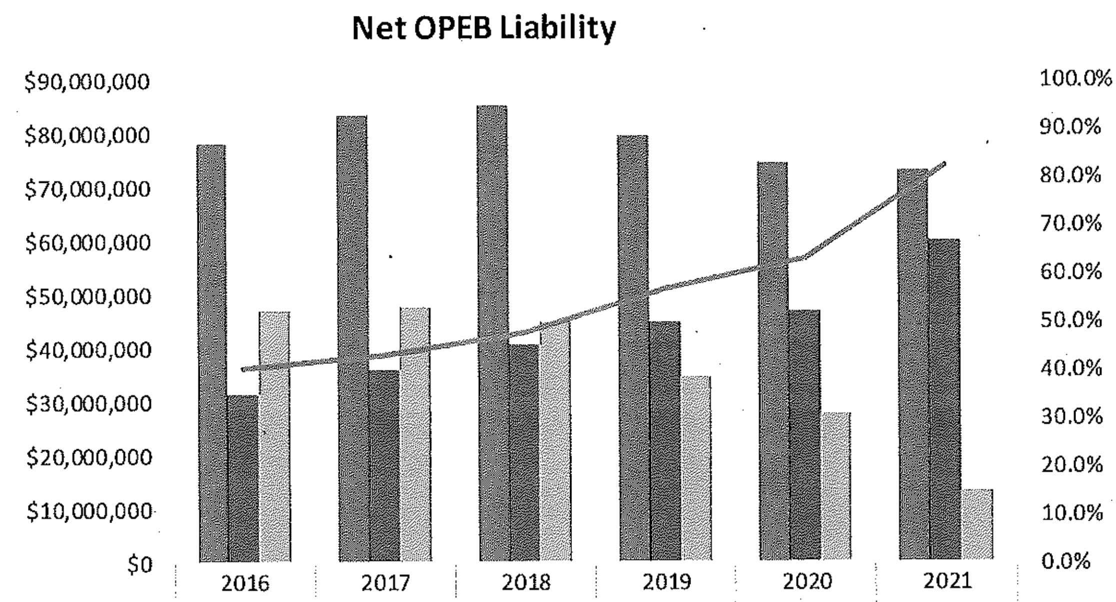
Of the 1,001 actives at 7/1/2021, there are 193 (211 last year) grandfathered, 221 (244 last year) non-grandfathered Plan 1 participants and 587 (573 last year) Plan 2 participants.

Current Results and Historical Information



	2016	2017	2018	2019	2020	2021
Employer Contributions	5,879,447	3,928,227	5,217,817	5,488,448	4,627,541	4,333,409
Employee Contributions	978,365	1,068,293	1,192,134	1,337,648	1,329,336	1,232,985
Premium Payments	3,928,310	4,549,930	5,029,754	5,599,475	5,423,938	5,528,074
Expenses	86,008	266,340	81,901	90,151	100,184	102,093
Net Investment Income	(495,354)	4,508,065	3,274,320	3,353,091	1,456,029	13,429,422
Fiduciary Net Position	31,179,890	35,868,205	40,440,821	44,930,382	46,819,166	60,184,815

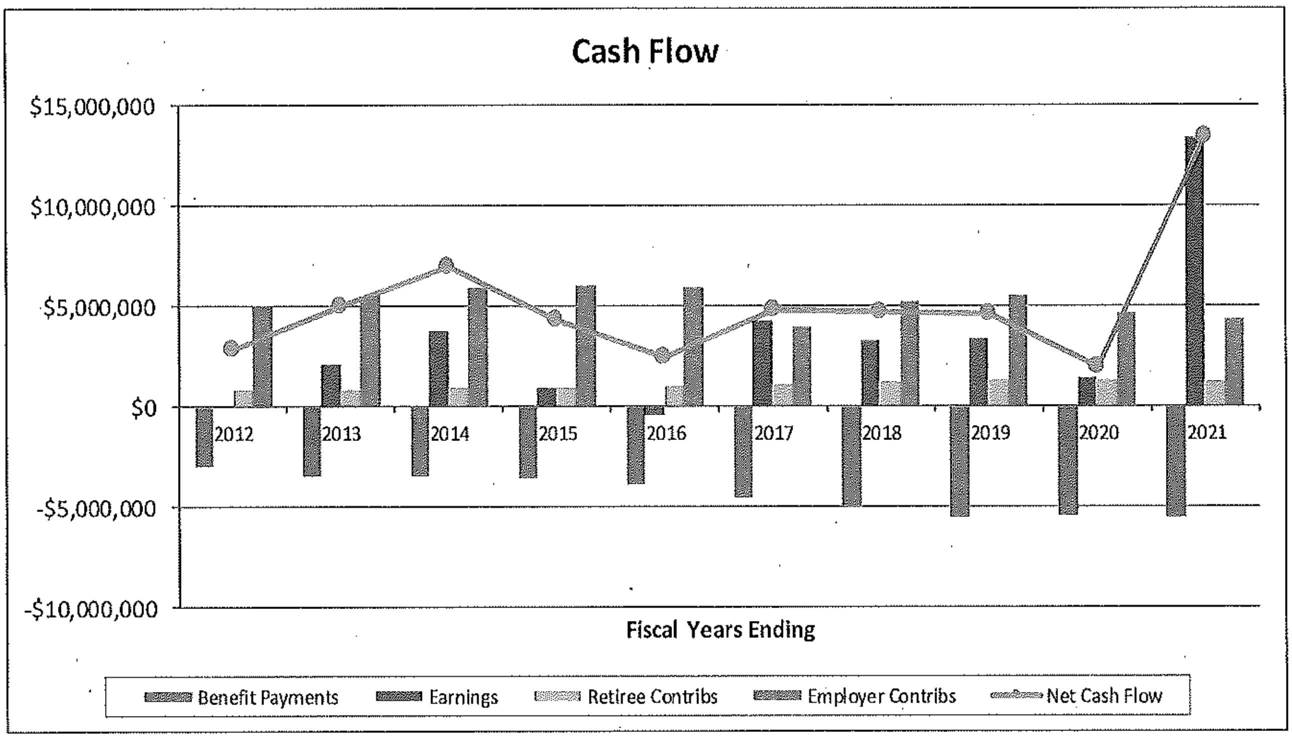
Current Results and Historical Information



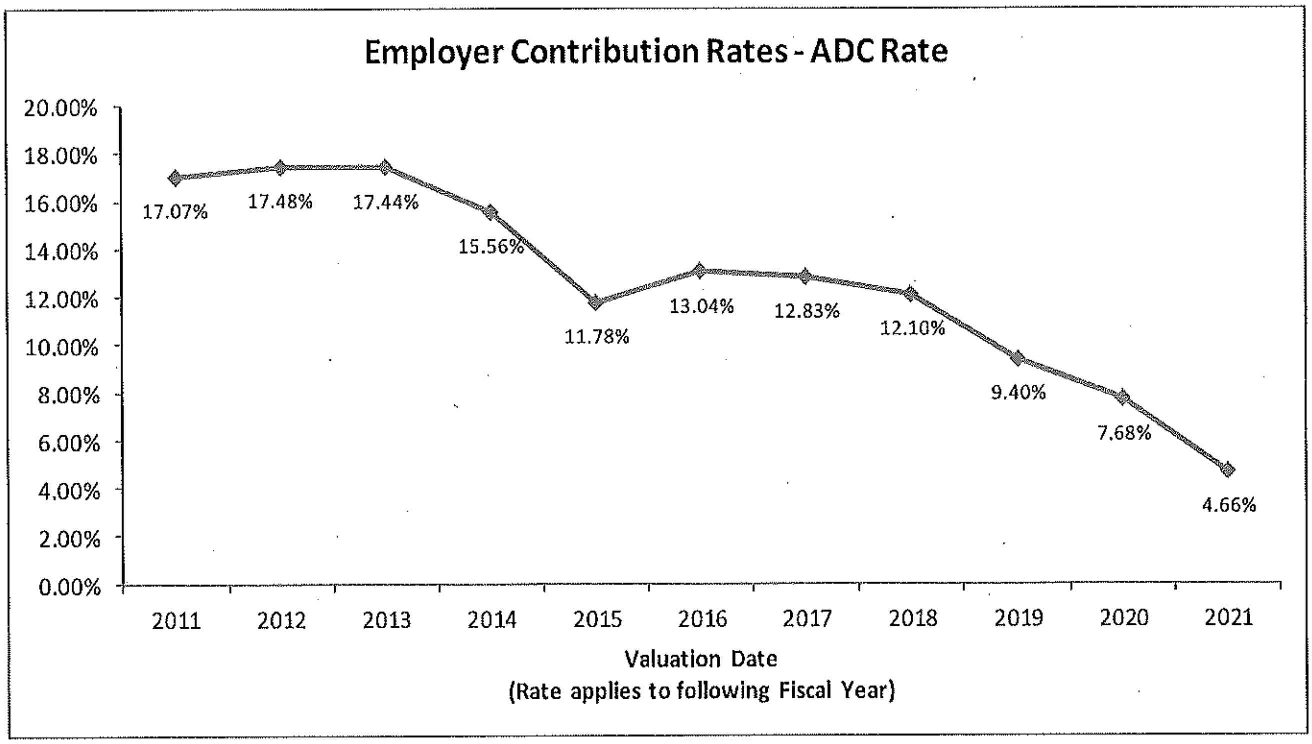
	2016	2017	2018	2019	2020	2021
Total OPEB Liability	78,209,862	83,493,234	85,380,320	79,509,679	74,541,217	73,274,159
Fiduciary Net Position	31,179,890	35,868,205	40,440,821	44,930,382	46,819,166	60,184,815
Net OPEB Liability	47,029,972	47,625,029	44,939,499	34,579,297	27,722,051	13,089,344
Funded %	39.9%	43.0%	47.4%	56.5%	62.8%	82.1%

GASB 75 was effective beginning in 2017; GASB 45 reporting in prior years

Current Results and Historical Information



Net cash flow has been positive each year.

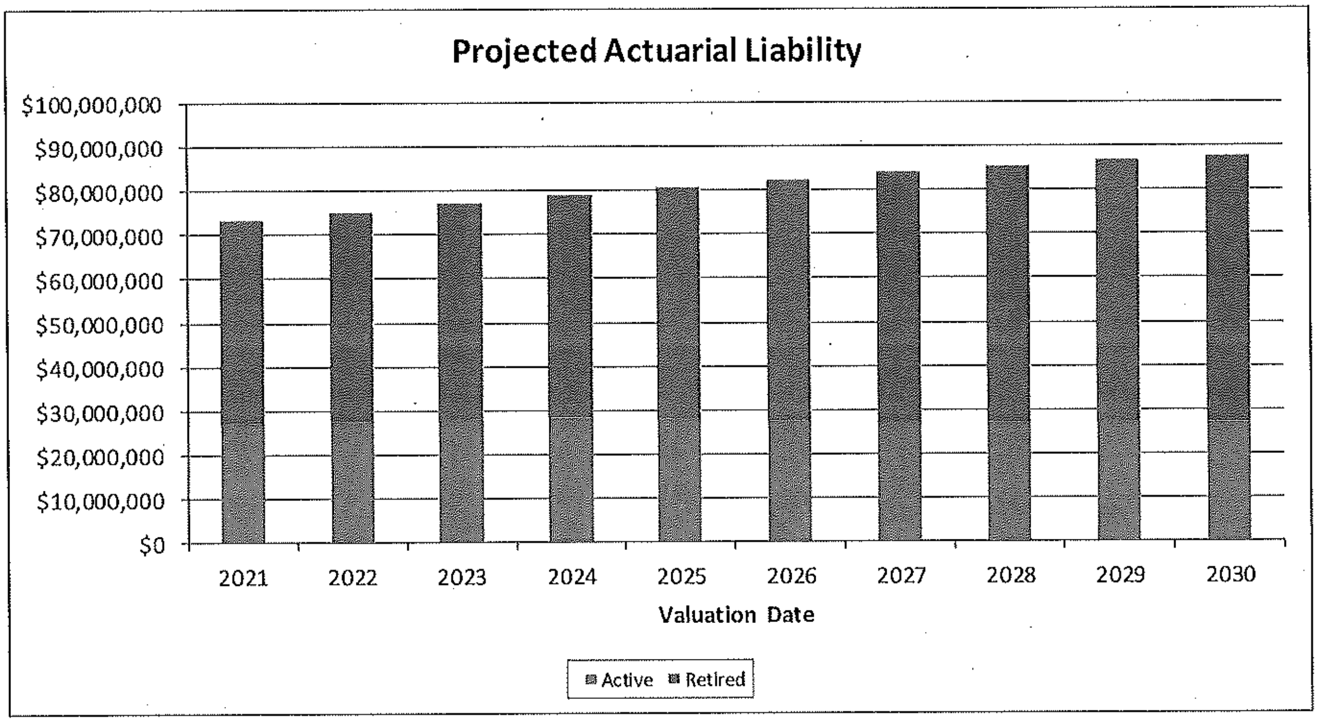


- The decrease in the 2021 was due to the better-than-expected asset return.

10 Year Projections

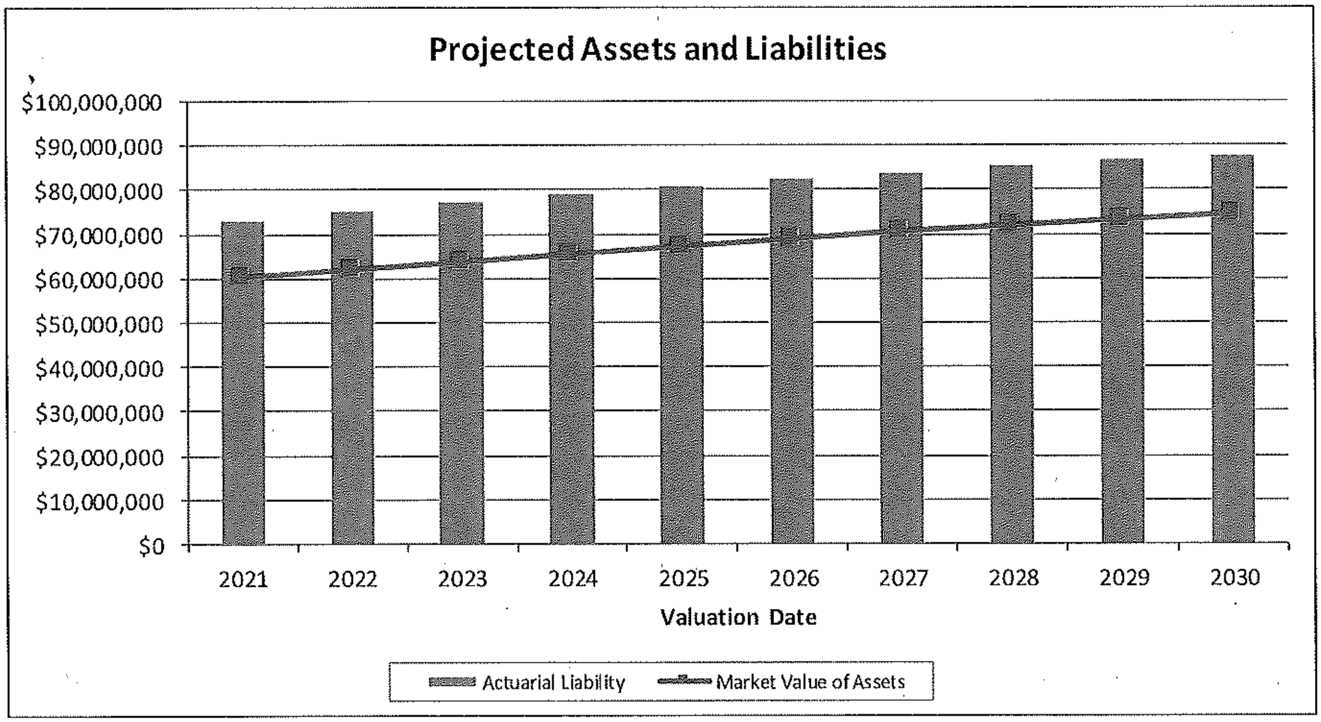
- Assume no changes in contribution strategies for the plan
  - City assumed to contribute the ADC each year
- Active population assumed to remain at current levels
- Assets assumed to return 7.5% each year in the future
- Medical trend assumed to be 7.5% year 1, decreasing to 4.5% after 6 years
- Dental trend assumed to be 4% per year
- Covered payroll for amortization payment increases 3% per year
- All other actuarial assumptions assumed to be realized

10 Year Projections

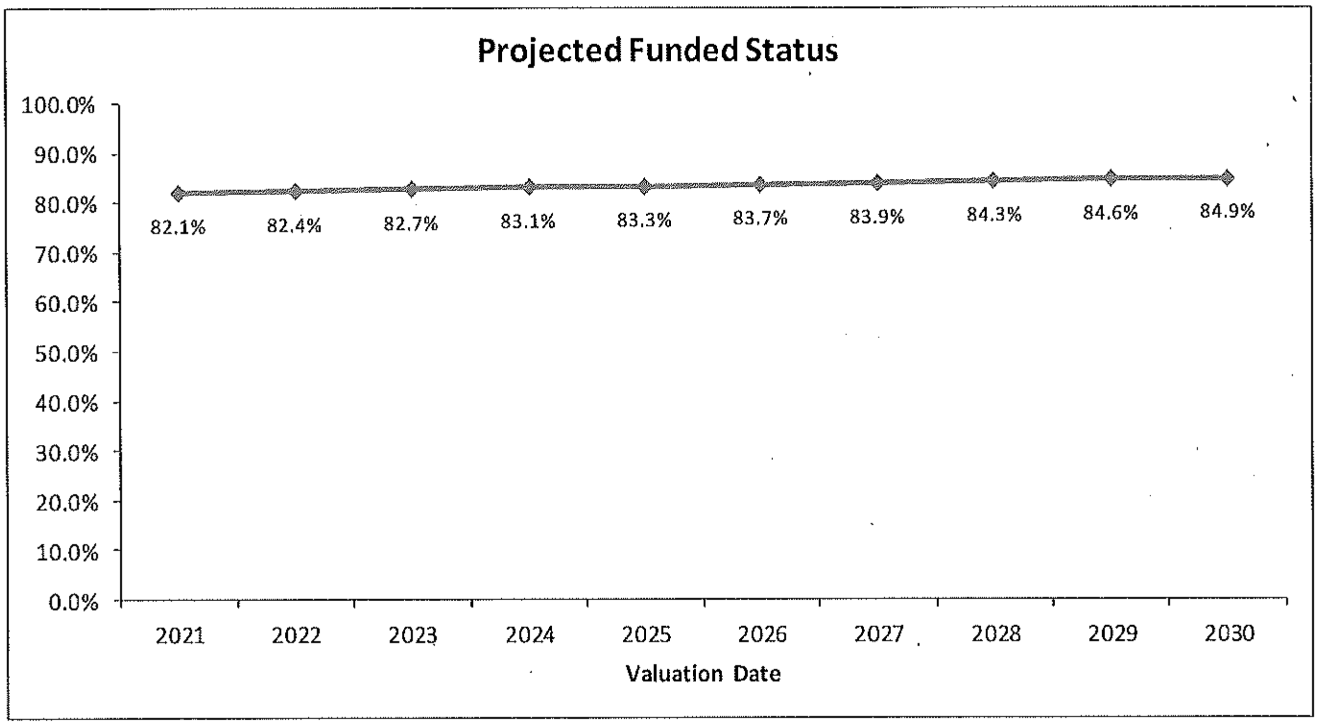


The liability split between active employees and retirees is expected to change from 37%/63% to approximately 31%/69% over the 10-year period.

10 Year Projections

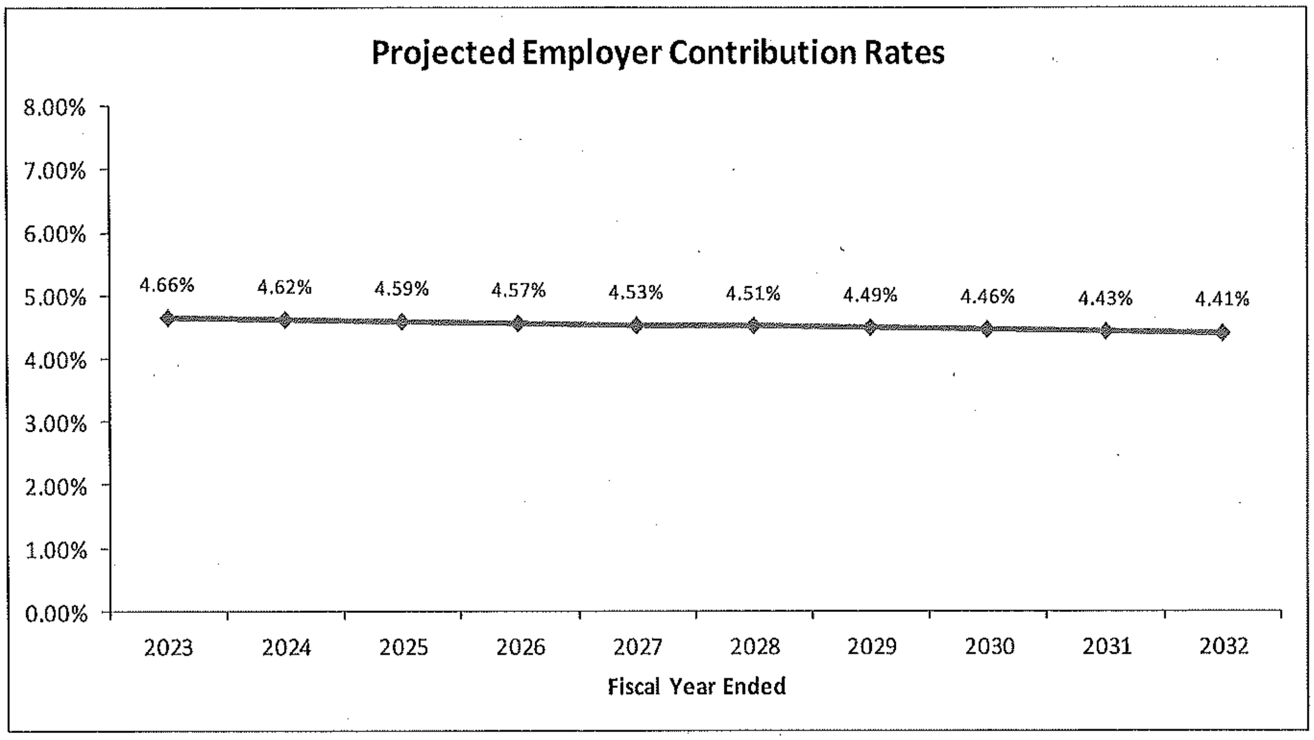


10 Year Projections



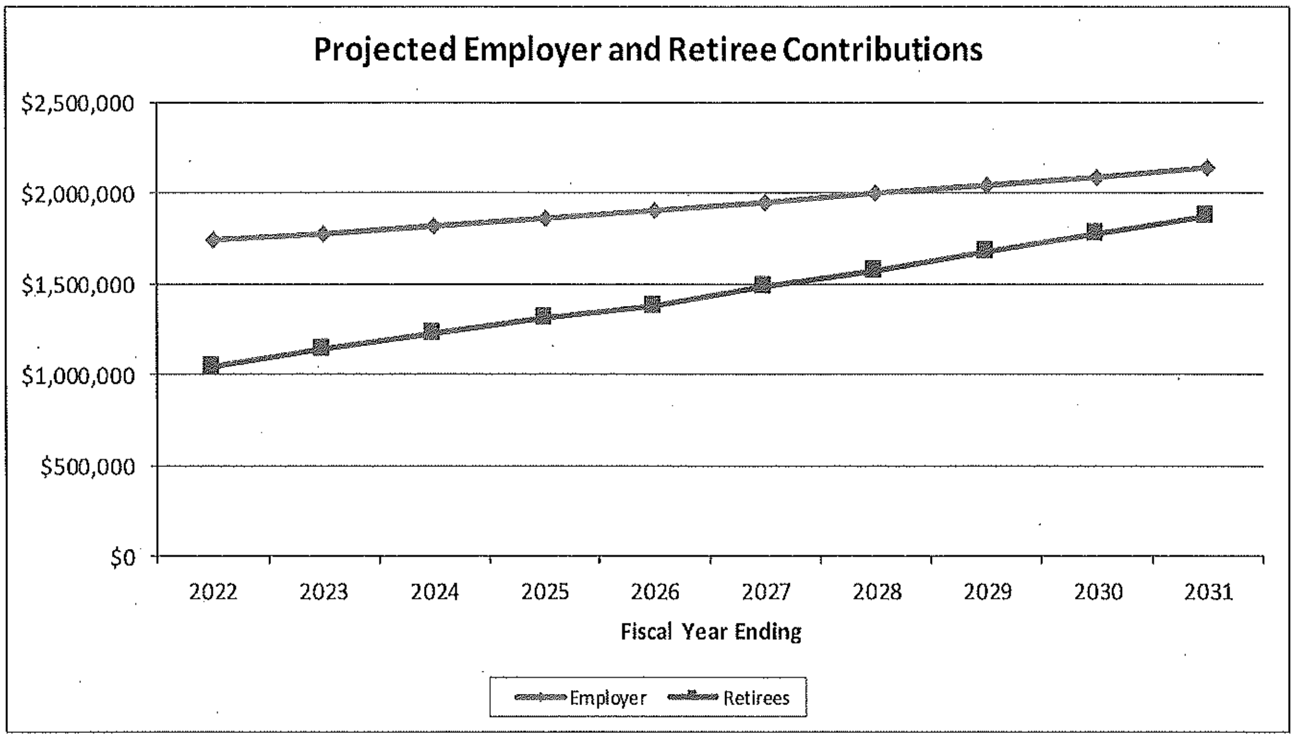
Funded status is projected to increase, assuming the ADC is fully funded each year.

10 Year Projections



The ADC is projected to decline slightly over the period as the funded status increases.

10 Year Projections



City contributions (ADC) are projected to increase as projected covered payroll increases; retiree contributions will increase faster as the number of retirees increase.