

A Review of the Corpus Christi Firefighters' Retirement System (CCFFRS)

For the
City of Corpus Christi City Council Meeting
April 30, 2019

Presented by

★ Matt Wood, Board Chairman

711 N. Carancahua, Suite 724
Corpus Christi, TX 78401-0544
361-882-1486
ccfirepension.com

CCFFRS History

- Corpus Christi Firefighters' Retirement System (CCFFRS) was established 1942 under the Texas Local Fire Fighters Retirement Act.
- The Texas Local Fire Fighters Retirement Act (TLFFRA) applies to each municipality in the state that has a regularly organized fire department.
- 42 fire fighter retirement systems are governed by TLFFRA.
- Participating fire departments vary in size from 25 to over 400 active fire fighters and from 10 to over 300 retirees.

CCFFRS History - Continued

- TLFFRA mandates that the Board of Trustees for the CCFFRS meet once a month.
- CCFFRS meets on the 3rd Thursday of each month.
- TLFFRA establishes the retirement system to be governed by a 7 member Board consisting of the Mayor or the Mayor's appointee, the Finance Director or his/her appointee, 3 members of the retirement system elected by the participating members and 2 persons who are citizens, who are not officers or employees of the municipality.

CCFFRS Board Members

<u>Current Board Members</u>	<u>Employer</u>	<u>Board Title</u>	<u>Beg Term</u>	<u>End Term</u>
Darron Bergstrom	Bergstrom Financial	Citizen	Mar-14	Mar-20
Michael Gilley	City of Corpus Christi- Fire Fighter	Elected Member	Dec-18	Dec-21
Javier Jasso	City of Corpus Christi- Fire Fighter	Elected Member	Dec-16	Dec-19
Laurelyn Pohlmeier	Edward Jones Investments	Citizen	Nov-16	Mar-21
Constance Sanchez	City of Corpus Christi	Finance Director	Aug-03	N/A
Penn Thomas	Penn Thomas CPA	Mayor Appt.	Dec-09	N/A
Matthew Wood	City of Corpus Christi- Fire Fighter	Elected Member	Dec-17	Dec-20
<u>Past Board Members</u>				
Jon Hepner	Stifel, Nicolaus & Company	Citizen	Mar-13	Mar-15
Dennis Daugherty	Wachovia Securities	Citizen	Oct-06	Mar-12
Buck Sosa	Retired Fire Fighter	Mayor Appt.	Jun-05	N/A
George Newgarden	PaineWebber	Citizen	Mar-04	Mar-06
Alan Wilson	Frost Bank	Mayor Appt.	Dec-04	N/A
Jorge Cruz-Aedo	City of Corpus Christi	Finance Director	Jan-01	Jan-02
Sid Ridlehuber	Charter Bank	Citizen	Mar-99	Mar-01
Dorothea Montoya	City of Corpus Christi	Finance Director	Jun-99	Jan-00
Lois Meith	City of Corpus Christi-Retiree	Citizen	Mar-96	Mar-98

Membership/Retirement Eligibility

- CCFFRS has approximately 400 contributing active fire fighters and 300 retirees and beneficiaries.
- A participant is 50% vested at 10 years and 100% vested at 20 years.
- A participant can retire at age 54 with at least 20 years of service.

Benefits-Actives

- The average age of CCFFRS active fire fighter is 41.4.
- The average years of service is 14.6.
- The average age at hire is 26.8.
- The average expected retirement age is 58.1 years.
- The expected retirement benefit by CCFFRS members is based on their years of service, their final five-year average salary, and the benefit formula.

Peer TLFFRA Systems

<u>Peer Cities and their Plans</u>									
Plan (System)	Actuarial Assumed Invst Rate of Return	Active Members	Total Annuitants	EE Cont (% of Pay)	Actual ER Cont (% of Pay)	Eligibility Requirements	Final Average Salary	COLA	SS
Amarillo (Pop. 199,582) - Tier 1 Hired before 1/1/2018	7.50%	271	215	13.00%	18.99%	50/20	Highest 36 months	None	No
Amarillo (Pop. 199,582) - Tier 2 Hired on/after 1/1/2018						50/20	Highest 60 months	None	No
Beaumont (Pop. 118,299)	8.00%	232	217	15.50%	15.50%	50/20	Highest 60 months	Ad hoc, as determined by actuary based on financial condition of the fund.	No
Corpus Christi (Pop. 325,733)	7.75%	428	326	13.10%	20.78%	54/20	Highest consecutive 130 biweekly pay periods	Ad hoc based on financial condition of the retirement system shown in actuarial valuation.	No
Irving (Pop. 238,289)	7.50%	360	180	12.00%	15.65%	50/20	Highest consecutive 78 biweekly pay periods	Option for a Service Retirement Benefit with COLA.	No
Killeen (Pop. 143,400)	7.75%	228	68	11.00%	13.13%	55/20 or 50/25	Highest 60 months	None	Yes
Laredo (Pop. 257,156)	7.90%	379	169	15.00%	20.13%	50/20	Highest 78 consecutive biweekly pay periods within final 104 biweekly pay periods	Ad hoc based on financial condition of the system as determined by the actuary.	No
Lubbock (Pop. 252,506)	7.75%	402	289	12.43%	21.73%	50/20	Final consecutive 48 months	None	No
Midland (Pop. 134,610)	7.75%	207	162	14.20%	22.20%	50/20 or 25 YCS	Highest 60 months	2% simple, after receiving benefits for 5 yrs provided fund's investment performance does not fall below rolling audited 5-yr avg of 8.25%.	No

CCFFRS Benefit Formula

- Benefit is the sum of
 - (i) 52% multiplied by the Participant's Highest 60-Month Average Pay, plus
 - (ii) \$150.00 multiplied by the Participant's Years of Service in excess of 20 Years.

CCFFRS Funding Basics

- CCFFRS is a **defined benefit plan** with statutory provisions in place that ensure oversight and responsible funding.
- CCFFRS investment return assumption is **7.75%**, the median for TLFFRA plans. This amount has been reduced twice since the actuarial valuation for December 31, 2012.
- Several changes were made to the CCFFRS Plan in 2007 to ensure compatibility, to strengthen the financial condition of the Fund, and to incorporate recommendations of an Advisory Board established by the City of Corpus Christi.
- The changes to the Plan also helped ensure a benefit increase to retirees based on the good financial condition of the Fund.

CCFFRS Funding Basics - Continued

- Neither the City or Fire fighters contribute into Social Security.
- Medicare contributions are made by fire fighters hired after April 1, 1986.
- Fire fighters contribute 13.1% of their covered biweekly pay.
- City contributes 20.78% of the participant's covered biweekly pay.

Contributions/Distributions 2018-2006

CONTRIBUTIONS-DISTRIBUTIONS 2017-2006

Date	Contr Rate FF / City	Fire Fighter	City	Total	Total Benefits Paid	UAAL Amort. Period
12/31/18		\$4,100,046.31	\$6,503,738.54	\$10,603,784.85	\$14,045,886.14	
12/31/17		\$4,137,182.45	\$6,562,646.31	\$10,699,828.76	\$10,778,327.68	
12/31/16		\$4,137,400.31	\$6,562,992.65	\$10,700,392.96	\$14,056,060.84	23.1 Yrs
12/31/15		\$3,896,613.02	\$6,361,275.81	\$10,257,888.83	\$11,091,484.65	
06/01/15	13.10% / 20.78%					
12/31/14		\$3,526,755.54	\$6,007,047.96	\$9,533,803.50	\$11,757,922.76	23.1 Yrs
12/31/13		\$3,605,345.70	\$6,140,906.37	\$9,746,252.07	\$10,888,832.24	
01/12/13	12.20% / 20.78%					
12/31/12		\$3,422,314.98	\$5,654,367.86	\$9,076,682.84	\$11,847,957.80	26.7 Yrs
12/30/12	12.20% / 20.13%					
12/31/11		\$3,322,962.32	\$5,060,579.52	\$8,383,541.84	\$11,136,431.30	
01/02/11	12.20% / 18.78%					
12/31/10		\$3,338,939.70	\$4,711,698.34	\$8,050,638.04	\$9,232,729.97	22.3 Yrs
01/03/10	12.20% / 17.68%					
12/31/09		\$3,045,042.43	\$4,251,376.72	\$7,296,419.15	\$9,024,578.88	
01/04/09	12.20% / 16.58%					
12/31/08		\$2,937,182.51	\$3,705,091.70	\$6,642,274.21	\$9,447,986.86	26.0 Yrs
01/06/08	12.20% / 15.39%					
12/31/07		\$2,415,259.13	\$3,308,020.34	\$5,723,279.47	\$8,848,242.69	
07/09/07	11.10% / 14.58%					
12/31/06		\$2,209,566.37	\$2,748,150.04	\$4,957,716.41	\$9,163,007.78	25.0 Yrs
01/03/00	10.00% / 12.00%					
TOTAL		\$39,957,428.32	\$61,015,245.85	\$100,972,674.17	\$130,541,121.91	

Contributions for Other City Employees

EMPLOYER Contributions

24.61% to TMRS

6.20% to Soc Sec

30.81% Total ER Contr

EMPLOYEE Contributions

7.00% to TMRS

6.20% to Soc Sec

13.20% Total EE Contr

System Soundness

- CCFFRS will amortize the unfunded actuarial accrued liability (UAAL) in 23.1 years.
- CCFFRS Board policy precludes benefit increases if UAAL exceeds 25 years.
- The Pension Review Board considers periods of 10 years to 25 years to be preferable and 30 years to be the maximum acceptable period.
- CCFFRS funded ratio is 62.1%.
- UAAL is \$86 million (as of 12/31/16).

Basics of December 31, 2016 Actuarial Valuation Results

• Total liability of system	\$277,000,000
• Liability that should be funded to date	\$227,000,000
• Assets	\$141,000,000
• Unfunded liability to date	\$ 86,000,000
• Annual contributions (13.10% by fire fighters + 20.78% by city)	33.88%
• Annual cost of current benefit provisions	15.91%
• Amount of contributions to pay off unfunded liability	17.97%
• How many years to pay off unfunded liability	23.1 years

Steps Taken to Strengthen the System

- CCFFRS fire fighters increased their contribution rate from 12.2% to 13.1%.
- Reduced the actuarial assumed rate of return from 8.00% to 7.75%.
- Portfolio of assets is well diversified and professionally managed.
- City has honored its resolution to contribute 20.78% of covered pay.

City's Actuarial Audit

- The City of Corpus Christi complied with Section 802.1012 of the Texas Government Code which requires an actuarial audit at least every five years.
- Retirement Horizons, Inc. conducted actuarial audit on November 12, 2018 based on the Retirement System's actuarial valuations for December 31, 2014 and 2016.
- Opinion from City's actuarial audit: Actuarial methods and assumptions used for December 31, 2014 and 2016 valuations were reasonable and consistent with generally accepted actuarial standards of practice.

City's Actuarial Audit Recommendations

- Recommendations from City's actuarial audit for the next biennial actuarial valuation:
 - Consider lowering the inflation assumption
 - Use the results of new public plan mortality tables report
 - Consider projecting mortality improvement using a generational projection method instead of a static projection method
 - Continue lowering the rate of return assumption

Anticipated Results from Implementing Actuarial Audit Recommendations

- Increase in unfunded liability
- Increase in years to pay off unfunded liability

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

Mitchell L. Bilbe, F.S.A.
Evan L. Dial, F.S.A.
Philip S. Dial, F.S.A.
Philip J. Ellis, A.S.A.
Charles V. Faerber, F.S.A., A.C.A.S.
Mark R. Fenlaw, F.S.A.
Brandon L. Fuller, F.S.A.

Shannon R. Hatfield, A.S.A.
Christopher S. Johnson, F.S.A.
Oliver B. Kiel, F.S.A.
Dustin J. Kim, A.S.A.
Edward A. Mire, F.S.A.
Rebecca B. Morris, A.S.A.
Amanda L. Murphy, F.S.A.

Michael J. Muth, F.S.A.
Khiem Ngo, F.S.A., A.C.A.S.
Timothy B. Seifert, A.S.A.
Chelsea E. Stewart, A.S.A.
Raymond W. Tilotta
Ronald W. Tobleman, F.S.A.
David G. Wilkes, F.S.A.

April 16, 2019

Mr. Matt Wood, Chairman
Board of Trustees
Corpus Christi Fire Fighters'
Retirement System
711 N. Carancahua, Suite 724
Corpus Christi, Texas 78401-0544

Re: Assumptions for the Actuarial Valuation as of
December 31, 2018

Dear Matt:

We received your letter of April 1, 2019 asking us for input on whether implementing assumption changes recommended by Retirement Horizons, Inc. (RHI) as a part of an actuarial audit completed in December 2018 might preclude Rudd and Wisdom, Inc. from approving any benefit improvements. As we wrote in our response to that actuarial audit, we agree with RHI's recommended assumption changes for a lower inflation assumption and a new mortality assumption based on a new public plan mortality tables study.

We have not yet completed our review of all economic assumptions with our specific recommendations to the System Board of Trustees for the December 31, 2018 actuarial valuation. However, it is very likely that the economic assumption changes that we will probably recommend to you, in connection with lowering the inflation assumption, will result in an unfunded liability pay off period that will be too high to approve benefit improvements. Therefore, it is our expectation that we will not be able to approve any benefit improvements without an increase in the total contribution rate.

Please let us know if you have any questions.

Sincerely,

Mark R. Fenlaw

Mark R. Fenlaw, F.S.A.

Rebecca B. Morris

Rebecca B. Morris, A.S.A.

Actuarially Determined Contributions by the City

- The preferred range for the UAAL amortization period is 10 to 25 years in the Pension Review Board's pension funding guidelines. If the City decides the UAAL period should be reduced below the current 23.1 years, it would need to increase its contributions as follows to achieve amortization periods of 15, 18 and 21 years.

UAAL Amortization Period	Actuarially Determined Contribution Rate By the City	Firefighter Contribution Rate	Total Contribution Rate
15 Years	26.83%	13.10%	39.93%
18 Years	23.93%	13.10%	37.03%
21 Years	21.89%	13.10%	34.99%

(Actuarial Valuation 12/31/16)

Benefit Increases for Retirees

- Eligible retirees received an approximately 1% increase in December 2015 based on the good experience of the Fund and an increase of contribution from the fire fighters from 12.2% to 13.1%.
- Previous retiree benefit increase was approximately 4% in July 2007 after the complete restructuring of the retirement plan.
- CCFFRS retirees have not received any other benefit increases in over 10 years.

Requirements for Benefit Increases

- TLFFRA requires an actuarial valuation be performed to determine if system's financial condition allows the actuary to approve benefit changes.
- To be eligible to approve an addition or change, an actuary must be either a fellow of the Society of Actuaries or a member of the America Academy of Actuaries.
- The unfunded liability pay off period must be less than 25 years.
- The participants of the System must approve any benefit changes through an election.
- Board of Trustees must approve election for benefit changes.
- Changes must meet funding guidelines of the State Pension Review Board.

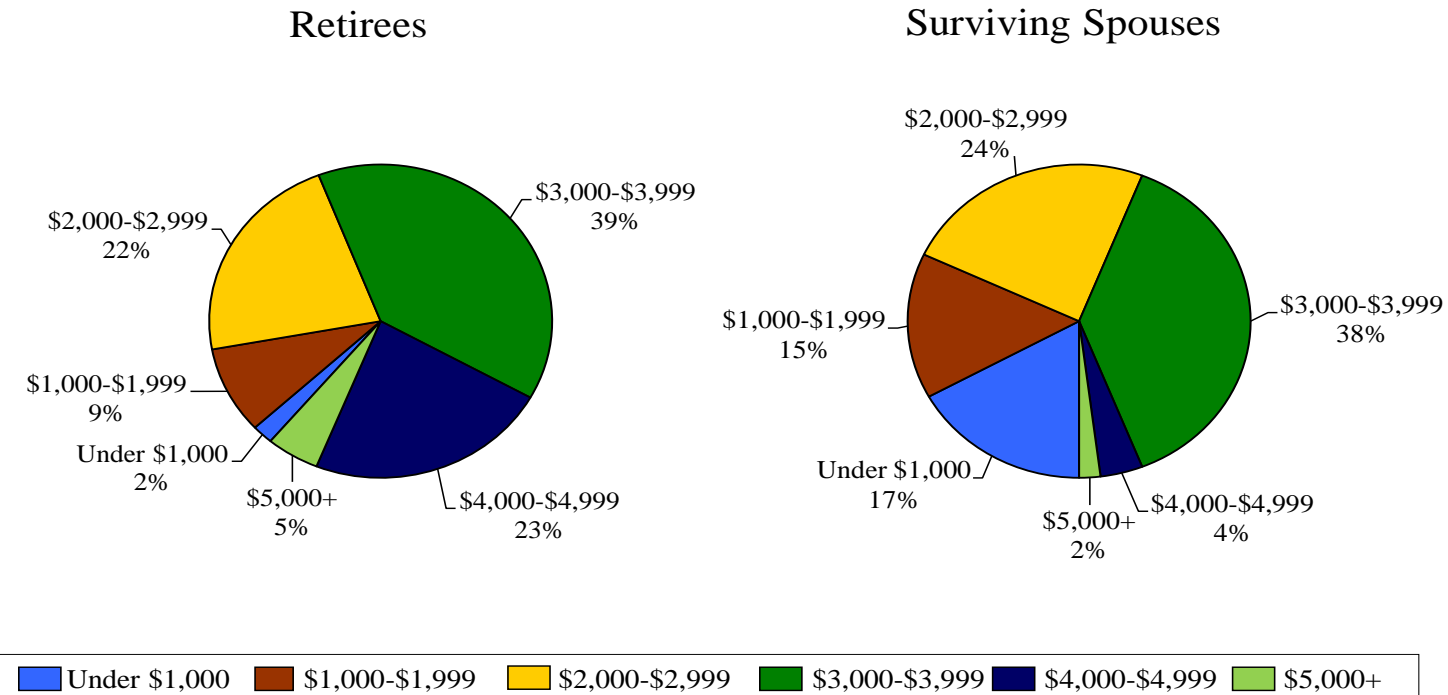
Benefits-Retirees

- The average CCFFRS benefit paid to retired CCFFRS members and surviving spouses is \$3,100.00 per month.
- The average retiree age is 68.6.
- The average surviving spouse age is 76.2.

Monthly Benefits Amounts

Exhibit 3

Breakdown of Pensioners by Monthly Benefit Amounts as of December 31, 2016



City's Vested Interest in CCFFRS

- Providing benefits that are adequately funded.
- Reduce contingent liabilities.
- Benefits that are attractive for hiring and retaining good fire fighters.
- Benefits affordable for the long term.



Recognition of CCFFRS Practices

- Meets all of the current funding guidelines of the Texas State Pension Review Board.
- CCFFRS Board of Trustees have met or exceeded the educational requirements set by the Texas State Pension Review Board.
- As one of the 42 Fire Fighter TLFFRA Systems, CCFFRS is recognized as a leader in the development of effective approaches to pension administration, reporting, communication, and transparency.
- Successful actuarial peer review by actuary selected by the City of Corpus Christi.

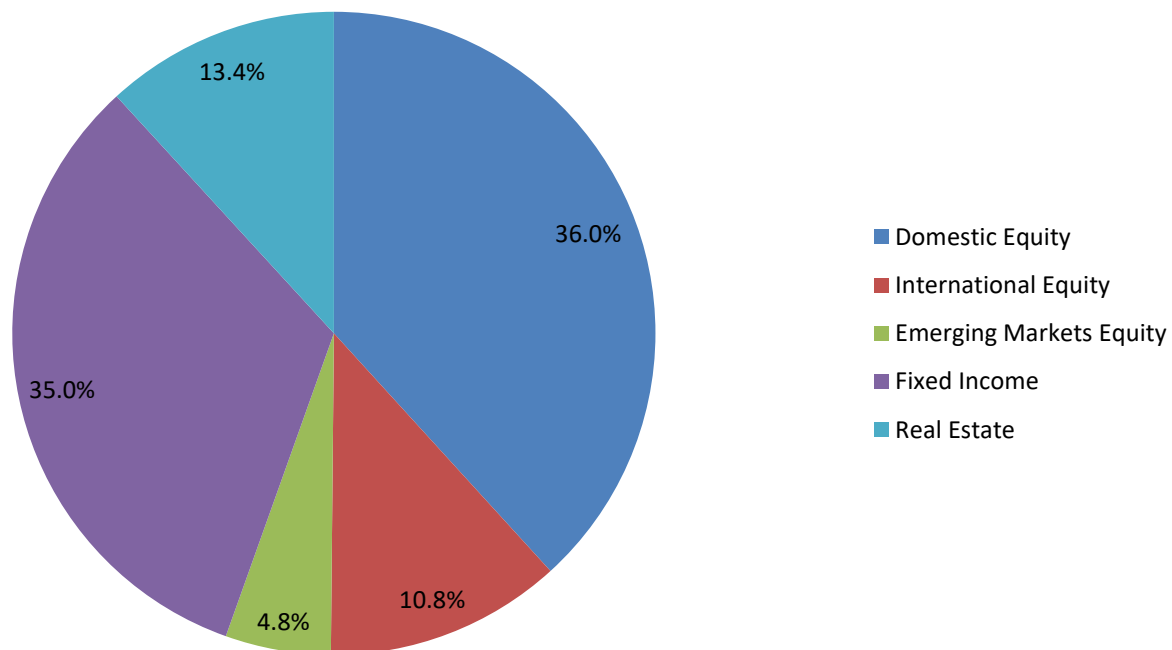
CCFFRS Investment Best Practices

- Investment consultant is a fiduciary of the Retirement System, oversees performance of seven professional investment managers and attends Board meetings quarterly.
- Investment managers are monitored monthly and reviewed quarterly at regularly scheduled Board meetings.
- Local bank is custodian of actively managed investment accounts.
- Audit conducted annually.

CCFFRS Investments

Investment Asset Allocation as of 12/31/2018

(Target Allocation 60% Equity/40% Fixed Income and Real Estate)



Total Market Value: \$140 Million

Returns (net of fees) as of 12/31/2018

1-Year Return	-3.57%
3-Year Average	4.95%
5-Year Average	4.12%
10-Year Average	7.40%
20-Year Average	6.66%

Summary of CCFFRS Goals

- Comply with Texas law and CCFFRS plan document.
- Carry out fiduciary duties to Corpus Christi fire fighters, retirees and beneficiaries, and City of Corpus Christi.
- Strengthen the financial condition of the CCFFRS.
- Provide for increases in benefits when prudent and possible to do so.

QUESTIONS

