RETIREMENT COMMISSION MINUTES

The Retirement Commission met on Wednesday, September 27, 2023. The following members were present: Chris Cullinan, Jason Vandever, Scott Hendrix, Al Elias, Ben Cullop, Brian Pinkston, David Hughes, Mary Ann Hardie. Absent: Sam Sanders, Tony Newberry, Lindsay Ideson. Others present: Sara Butler, Lisa Burch, Krisy Hammill, Greg McNeillie.

This meeting was held in the CitySpace Large Conference Room.

Call to Order
Jason Vandever called the meeting to order at 8:33 AM.

Approval of Minutes
The minutes from the August 2023 meeting were approved unanimously.

Annual Financial Review
Greg McNeillie from Dahab reviewed the investment returns for the Charlottesville Retirement System portfolio for the period ending 6/30/2023 and answered questions from the Commission members.

The Investment Sub-Committee decided to meet at a later date to discuss the plan's asset allocation in more detail.

Administrative Update
Lisa Burch informed the Commission that the 457b amendment that was approved at the August meeting has been executed. In addition, she reported that the language from the City Attorney's office to allow Defined Contribution participants to serve on the Commission is still in process. Finally, she advised the Commission that the November/December meeting will be held on December 13 and will include a presentation from MissionSquare and CapTrust.

Other Business
No new business was discussed.

Adjournment
The meeting adjourned at 9:49 AM.

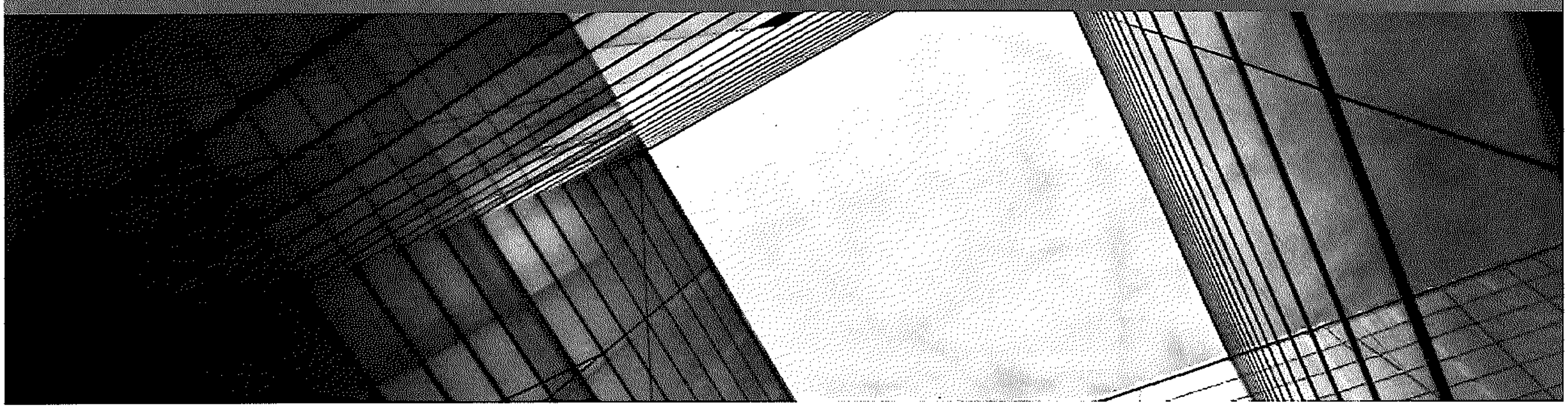
City of Charlottesville

Retirement and Postretirement Benefits Plans

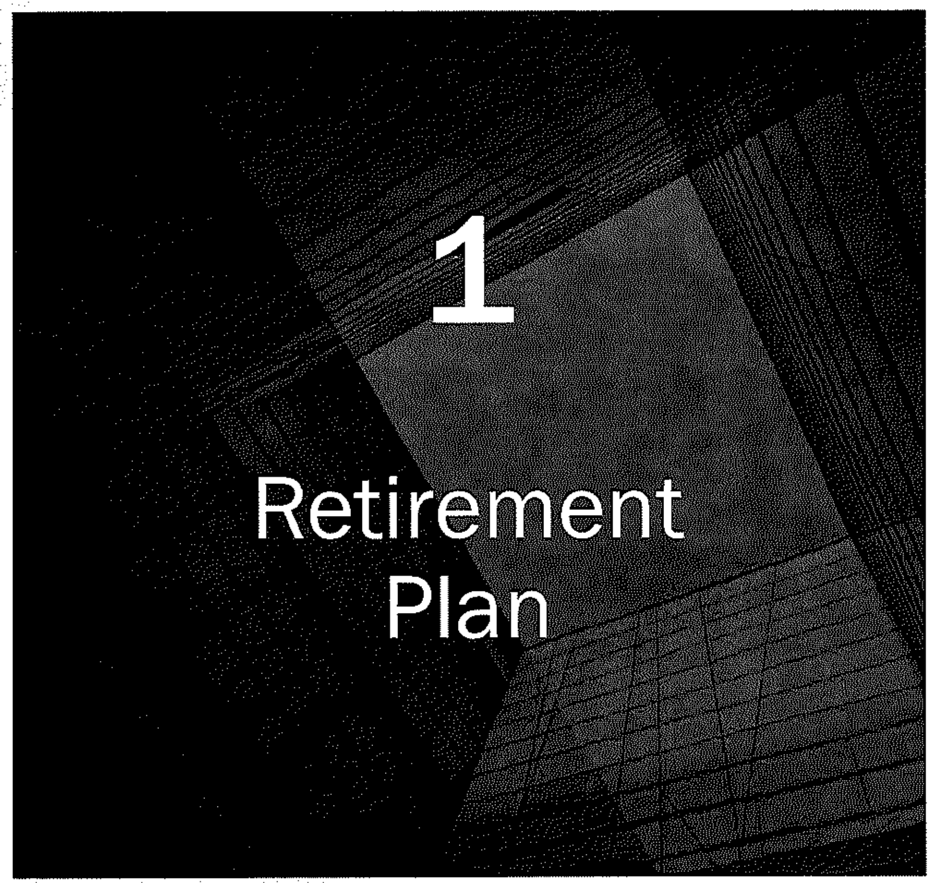
July 1, 2023 Valuation Results

October 25, 2023

SAGE VIEW



Contents


1
Retirement
Plan

Commentary

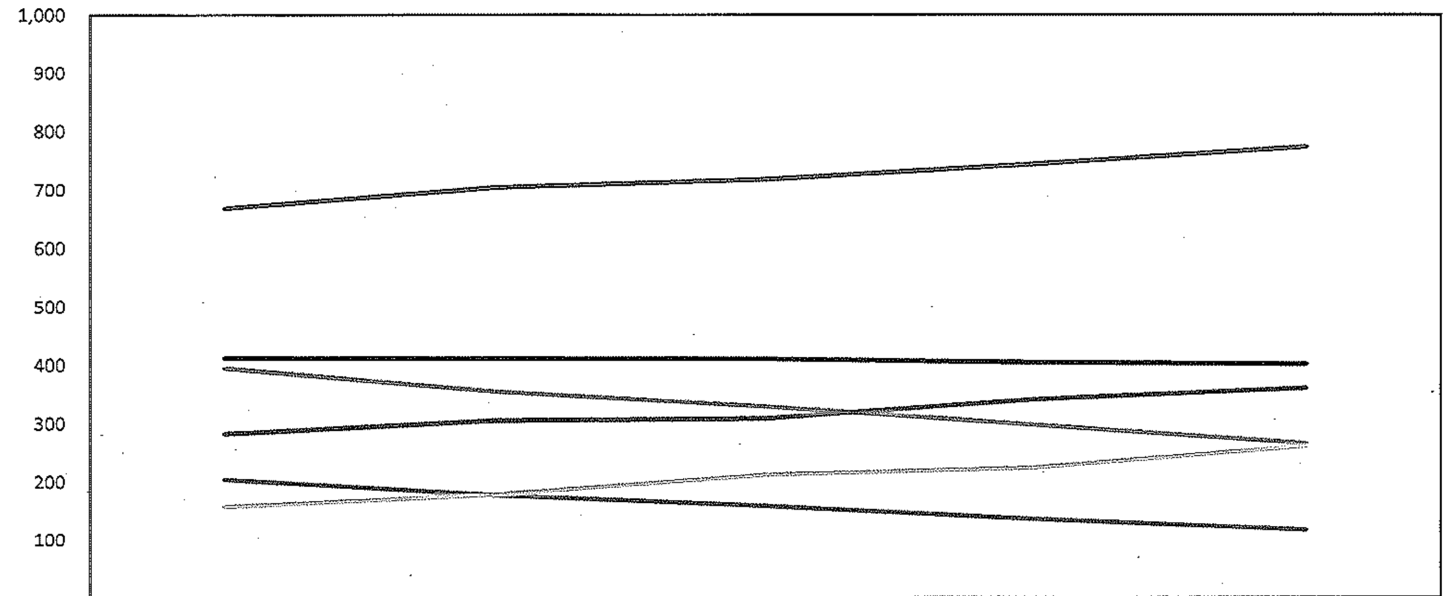
- Investment performance
  - Return on Fiduciary Net Position was 10.26% (for financial reporting)
  - Return on Actuarial Asset Value was 6.12% (4-year smoothing for contribution rates)
  - Assumed return is 7.50%
- Net Pension Liability (for GASB reporting)
  - Decreased from $93.2M to $88.6M primarily due to investment performance
  - The GASB 67/68 funded status increased from 58.7% to 62.2%
- Actuarially Determined Contribution (ADC)
  - Increases from 25.90% (fiscal 2024) to 25.93% (fiscal 2025)

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
  - 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 3% was granted effective July 1, 2023; this is higher than our 1% assumption

Current Results and Historical Information

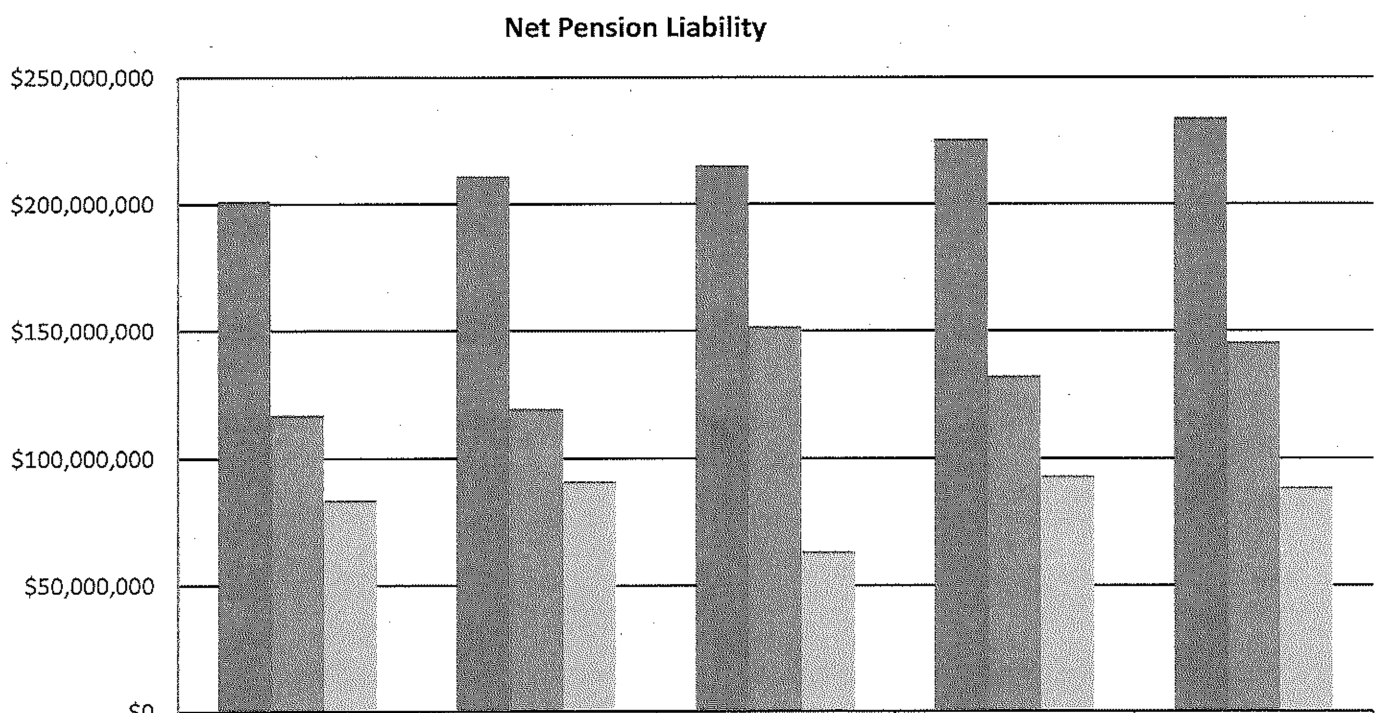
Membership



	2019	2020	2021	2022	2023
Active Plan 1	396	356	329	297	266
Active Plan 2	205	177	158	135	116
Active Plan 3	158	178	212	224	261
DC Plan	283	305	308	341	361
Vested Terms	412	411	410	404	401
Retired	668	704	717	743	772
Total	2,122	2,131	2,134	2,144	2,177

- Total membership increased slightly in 2023
- The number of retirees has increased 16% since 2019; there are currently 0.83 active members for each retiree (down from 1.14 in 2019)
- DC plan membership has trended slightly upward the last several years; 28 of the DC plan members also have a vested benefit in the DB plan

Current Results and Historical Information

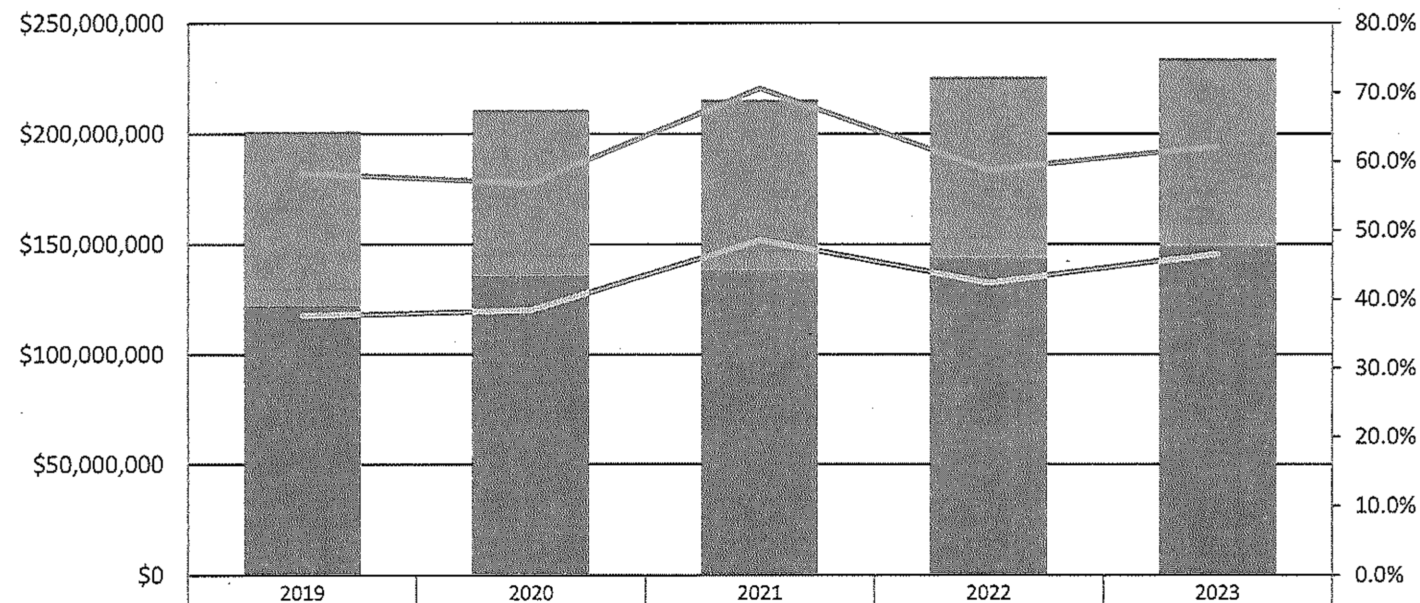


	2019	2020	2021	2022	2023
Total Pension Liability	201,427,626	211,072,055	215,294,510	225,724,262	234,235,672
Fiduciary Net Position	117,476,409	119,920,421	151,825,839	132,515,912	145,633,425
Net Pension Liability	83,951,217	91,151,634	63,468,671	93,208,350	88,602,247

- The Net Pension Liability (NPL) decreased in 2023 due to investment performance
- A +/- 1% change in the discount rate would result in a significant change in the NPL (-/+ approximately $24M)
- The NPL is reported on the City's balance sheet in accordance with GASB 68

Current Results and Historical Information

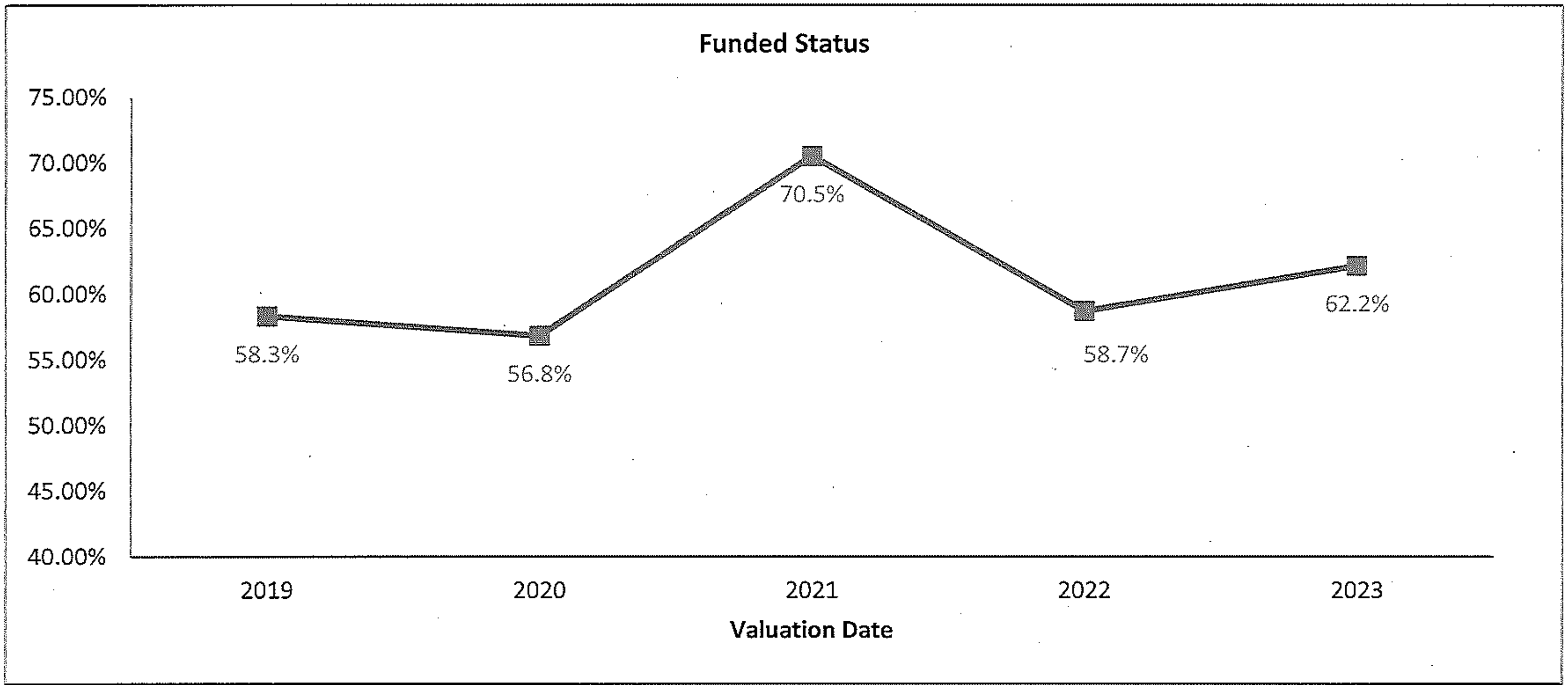
Assets and Liabilities



	2019	2020	2021	2022	2023
Pension Liability - Active	71,674,285	66,992,615	68,592,268	73,239,736	75,627,122
Pension Liability - Term Vested	7,887,418	8,582,624	8,726,227	8,750,199	9,320,214
Pension Liability - Retired	121,865,923	135,496,816	137,976,015	143,734,327	149,288,336
Fiduciary Net Position	117,476,409	119,920,421	151,825,839	132,515,912	145,633,425
Funded Status	58.3%	56.8%	70.5%	58.7%	62.2%

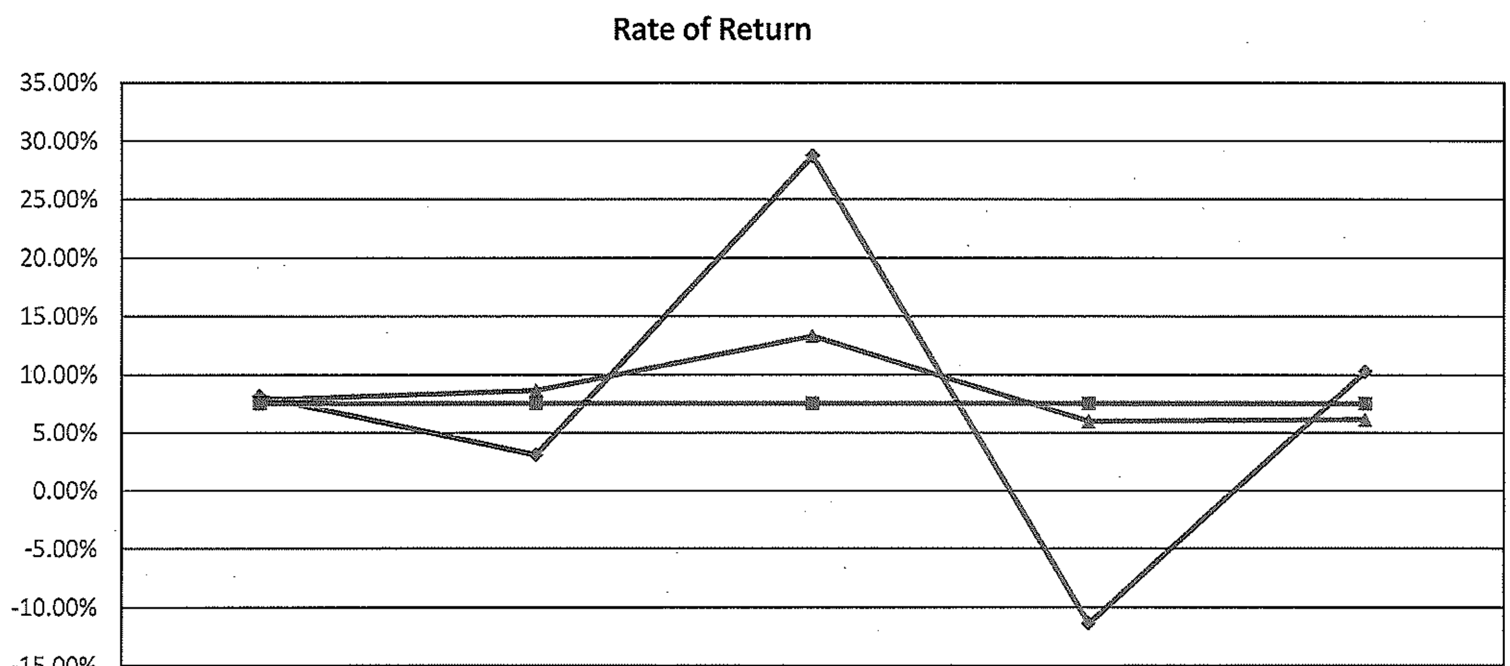
- The Total Pension Liability has steadily increased as benefits accrue
- In 2023, Retired and Terminated Participants account for 68% of the Total Pension Liability (64% in 2019)

Current Results and Historical Information



- 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 and dropped in 2022 for the same reason
- The funded status improved in 2023 primarily due to investment performance.

Current Results and Historical Information

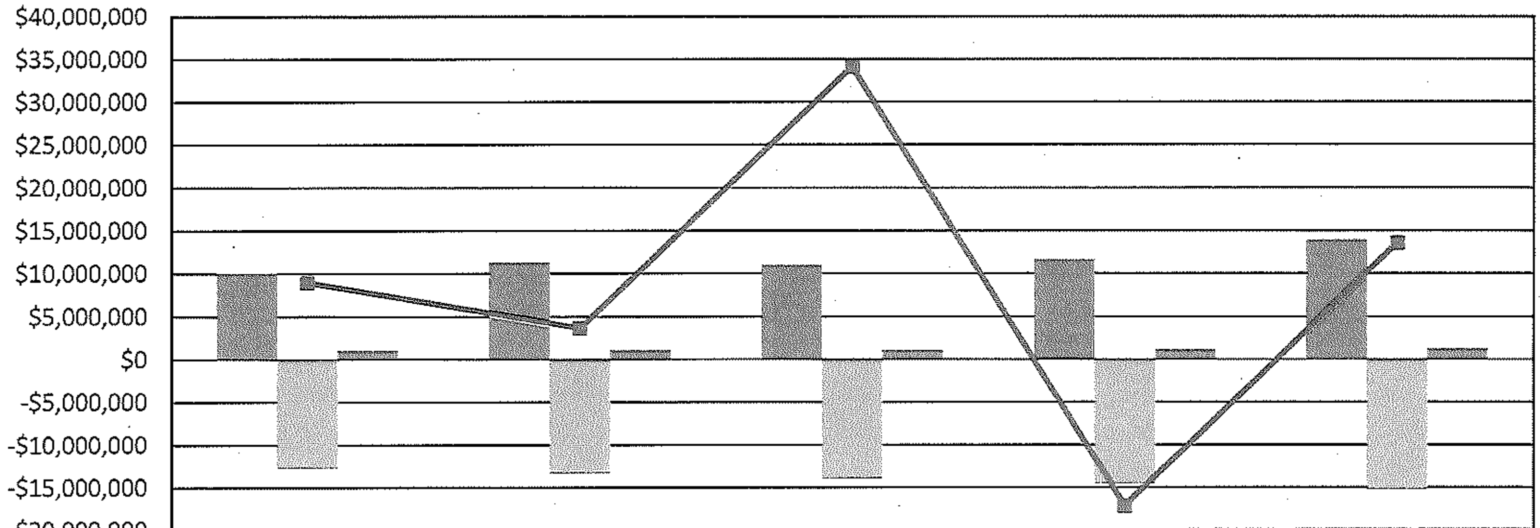


	2019	2020	2021	2022	2023
MV Return	8.18%	3.08%	28.70%	-11.40%	10.26%
AAV Return	7.86%	8.64%	13.30%	5.95%	6.12%
Assumed	7.50%	7.50%	7.50%	7.50%	7.50%

- 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, 2023 were as follows:
  - Market Value: 7.76%
  - Actuarial Asset Value: 8.37%

Current Results and Historical Information

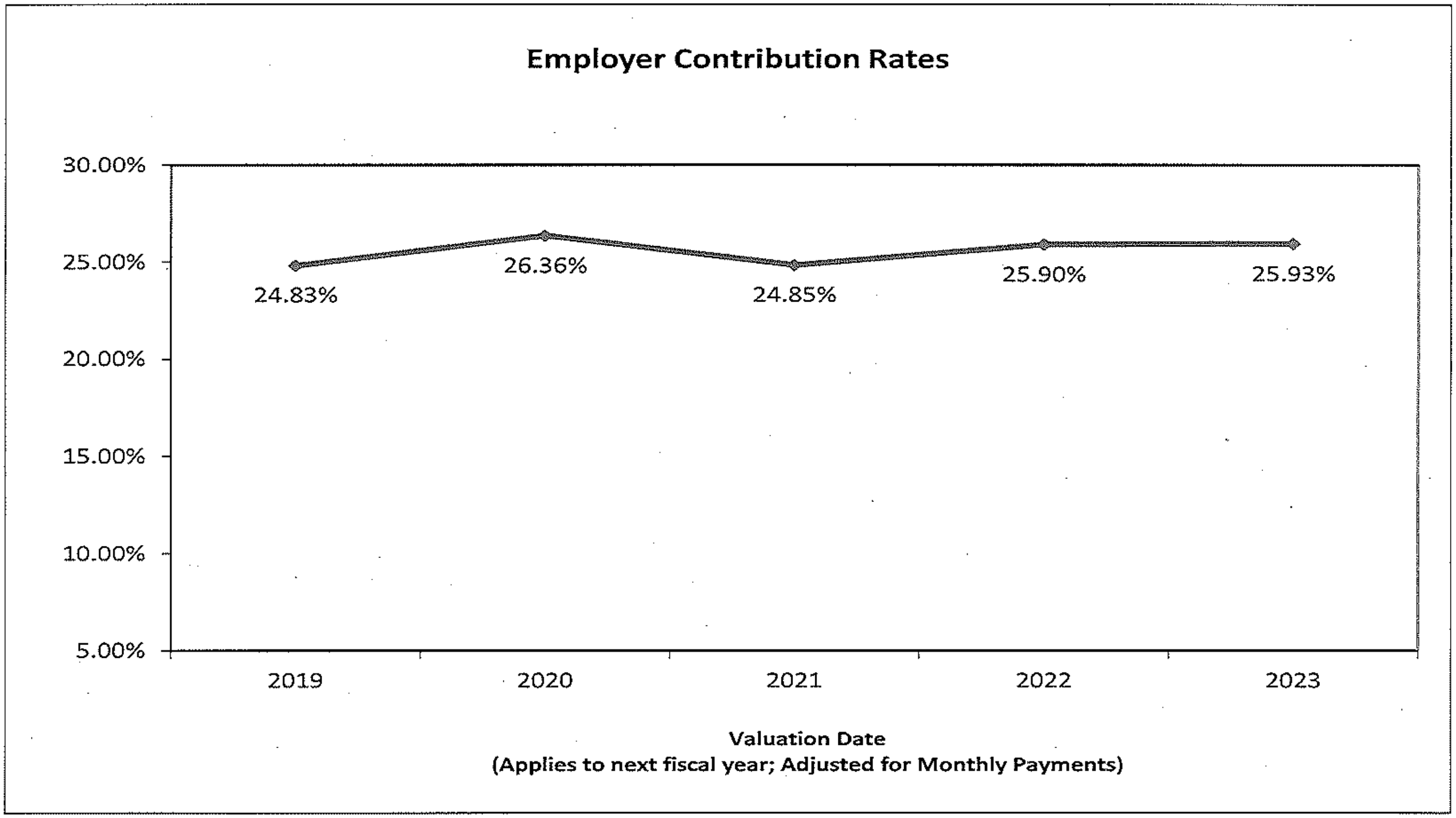
Contributions, Distributions, and Investment Earnings



	2019	2020	2021	2022	2023
Employer Contribs	10,143,794	11,391,629	11,022,358	11,675,185	13,949,835
Distributions	(12,780,445)	(13,412,920)	(14,067,437)	(14,688,183)	(15,379,171)
Employee Contribs	1,099,463	1,098,813	1,087,218	1,131,321	1,250,482
Investment Earnings	8,946,692	3,605,139	34,102,627	(17,187,453)	13,567,570

- 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

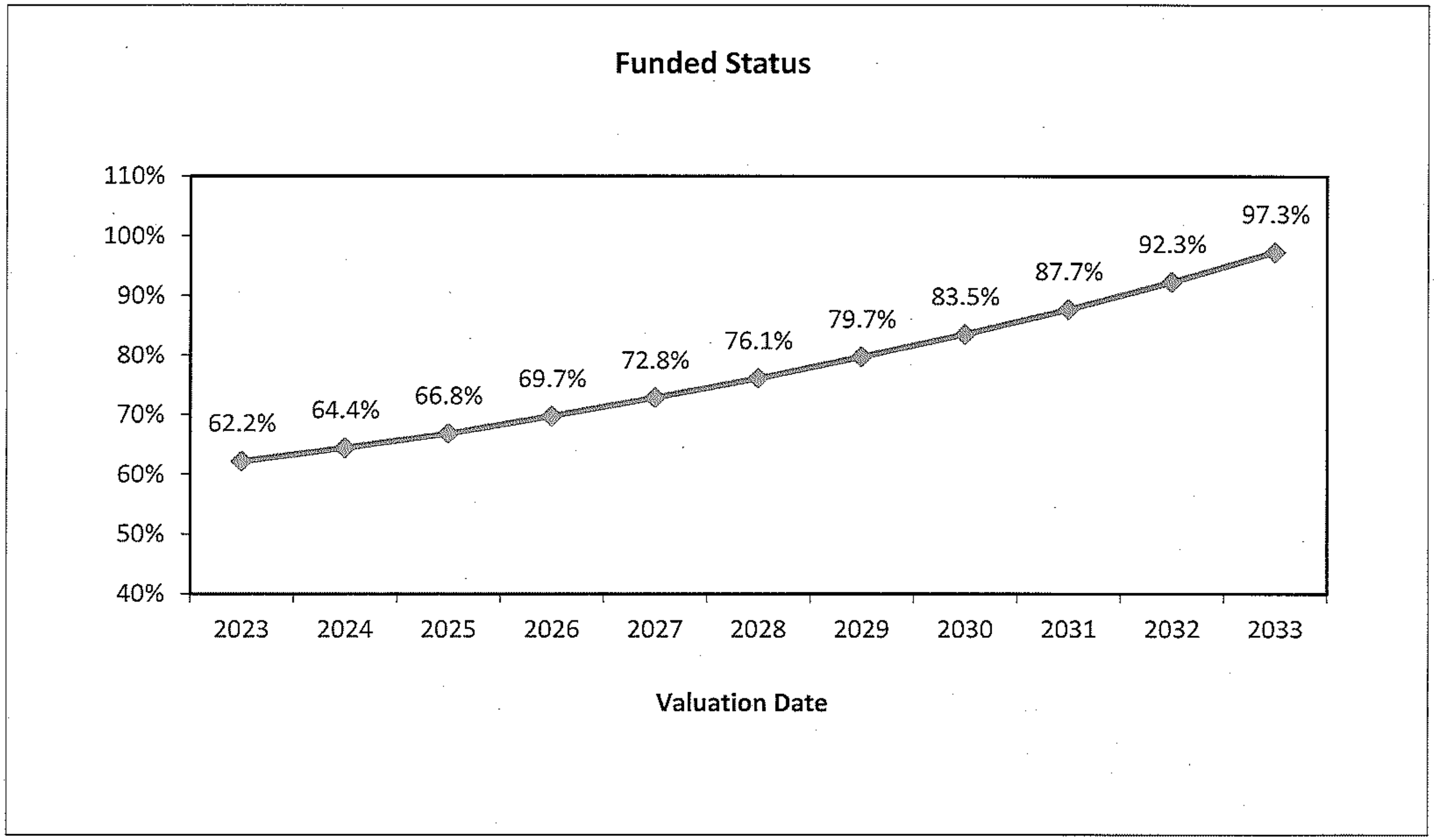


- Contribution rates have increased marginally this year due to investment performance; asset gains and losses are being spread over 4 years to determine contribution rates
- The unfunded liability is amortized as a level percent of pay with the assumption that covered payroll will increase 3% per year. If covered payroll remains level or declines, the rate will increase even though the dollar amount may not. Covered payroll increased 4.52% from 2022 to 2023

10 Year Projections

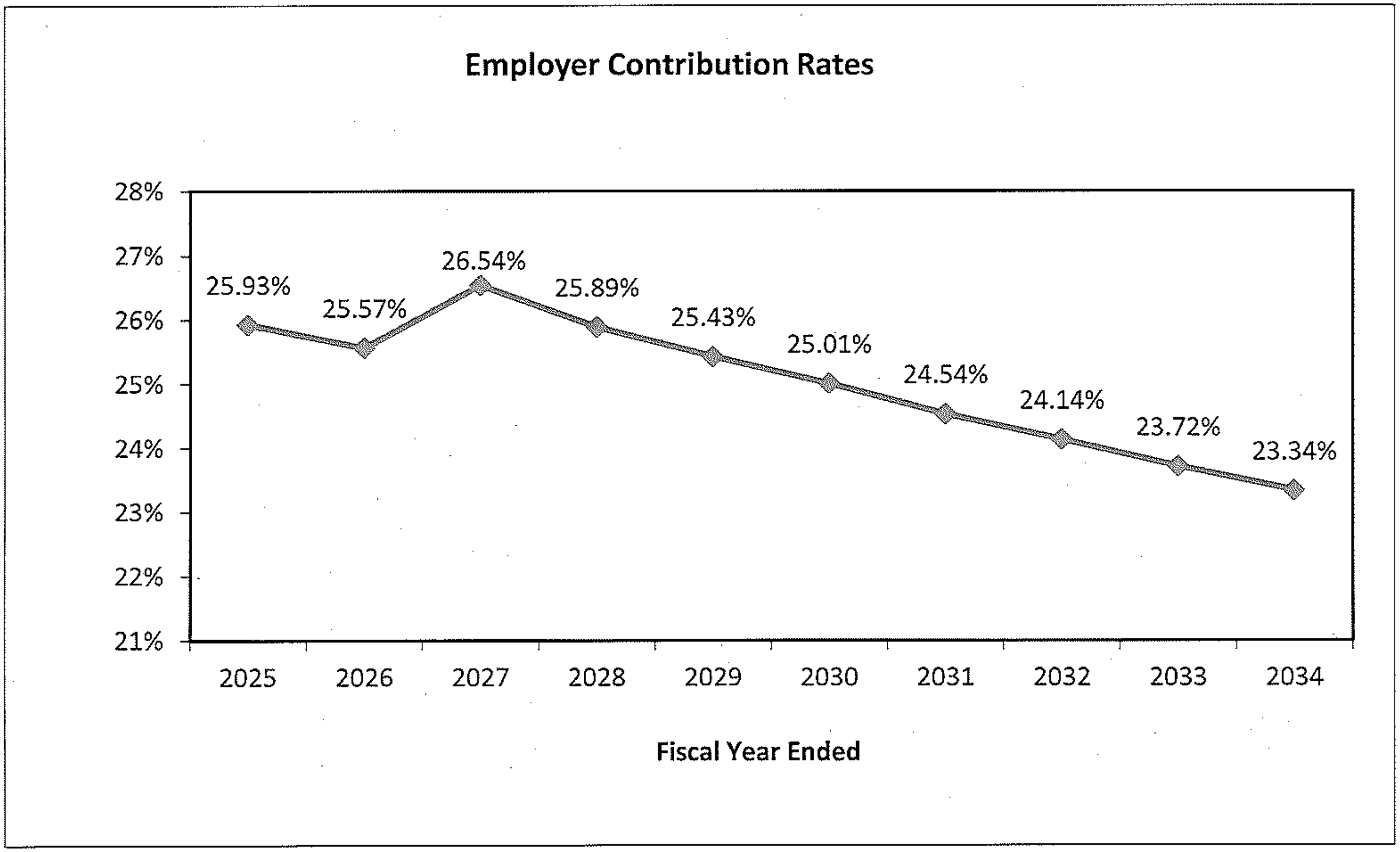
- Assume no changes in plan provisions or contribution strategies
- Active population assumed to remain at current levels
- Assets assumed to return 7.5% each year in the future
- Covered Payroll increases 3% per year
- All other actuarial assumptions assumed to be realized
- It is assumed that the City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

10 Year Projections



The funded status is projected to increase to 87.7% by 2031 and 97.3% by 2033 assuming an annual return on assets of 7.5% and full funding of the ADC.

10 Year Projections



Contribution rates are expected to increase slightly for the next three years before beginning to decline as the funded status improves, if all assumptions are realized.

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Postretirement Benefits Plan

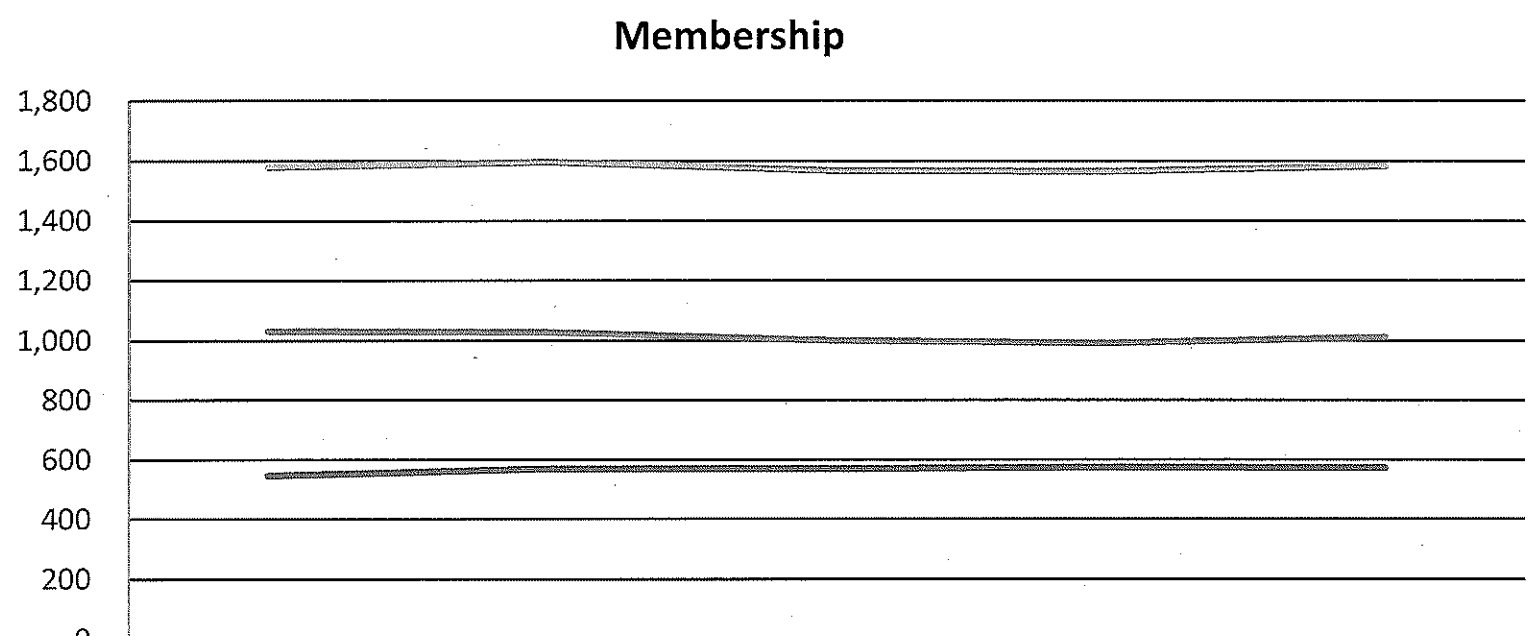
Commentary

- Actuarial assumptions and methods
  - The trend assumption was reset from last year
- Claims Experience
  - We have overhauled the approach we are using to determine the claims curve for this valuation due do better information provided by the City this year.
  - These changes resulted in a 17% reduction in plan liabilities.
  - We believe this updated approach provides a better estimate of future claims experience.
- Plan provisions
  - No changes since the last valuation

Commentary

- Investment performance for 2021-2022 plan year
  - Assumed return on assets of 7.50%
  - Estimated return was 10.26%
  - This resulted in a $1.4 million gain for the plan year
- Funded status
  - Increased from 71.0% to 90.3% primarily due to the updated claims analysis
- Annual Required Contribution
  - Increased from 5.92% (fiscal 2023) to 6.58% (fiscal 2024) but decreased to 2.85% (fiscal 2025)
  - There was a supplemental contribution from the City during the fiscal year ending June 30, 2023 of $116K

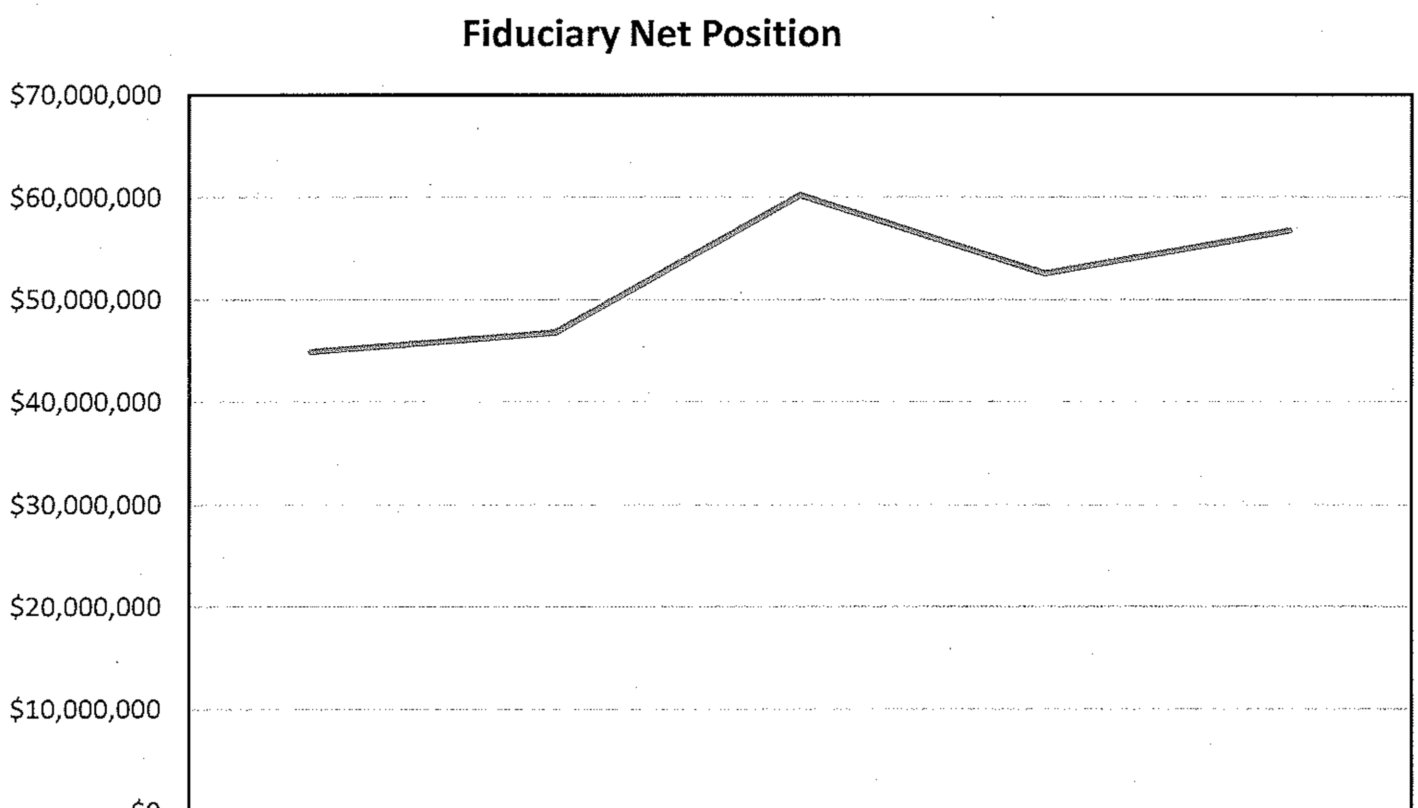
Current Results and Historical Information



	2019	2020	2021	2022	2023
Active	1,033	1,028	1,001	991	1,012
Retired	546	568	567	573	571
Total	1,579	1,596	1,568	1,564	1,583

Of the 1,012 actives at 7/1/2023, there are 157 (171 last year) grandfathered, 183 (202 last year) non-grandfathered Plan 1 participants and 672 (618 last year) Plan 2 participants.

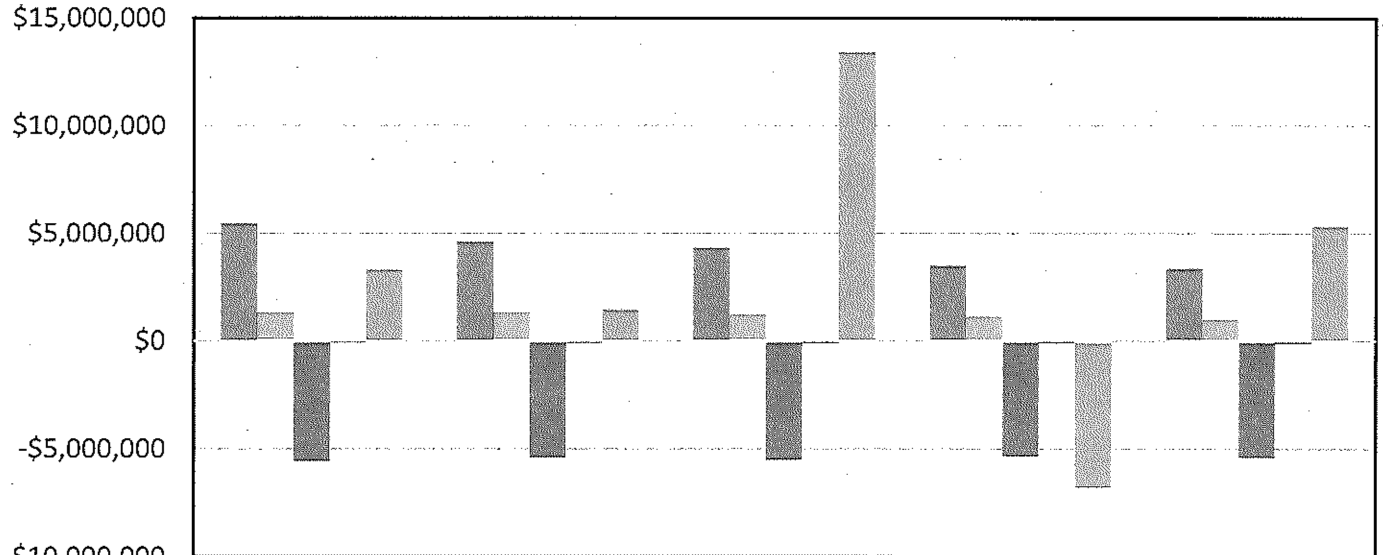
Current Results and Historical Information



	2019	2020	2021	2022	2023
Fiduciary Net Position	44,930,382	46,819,166	60,184,815	52,542,550	56,742,510

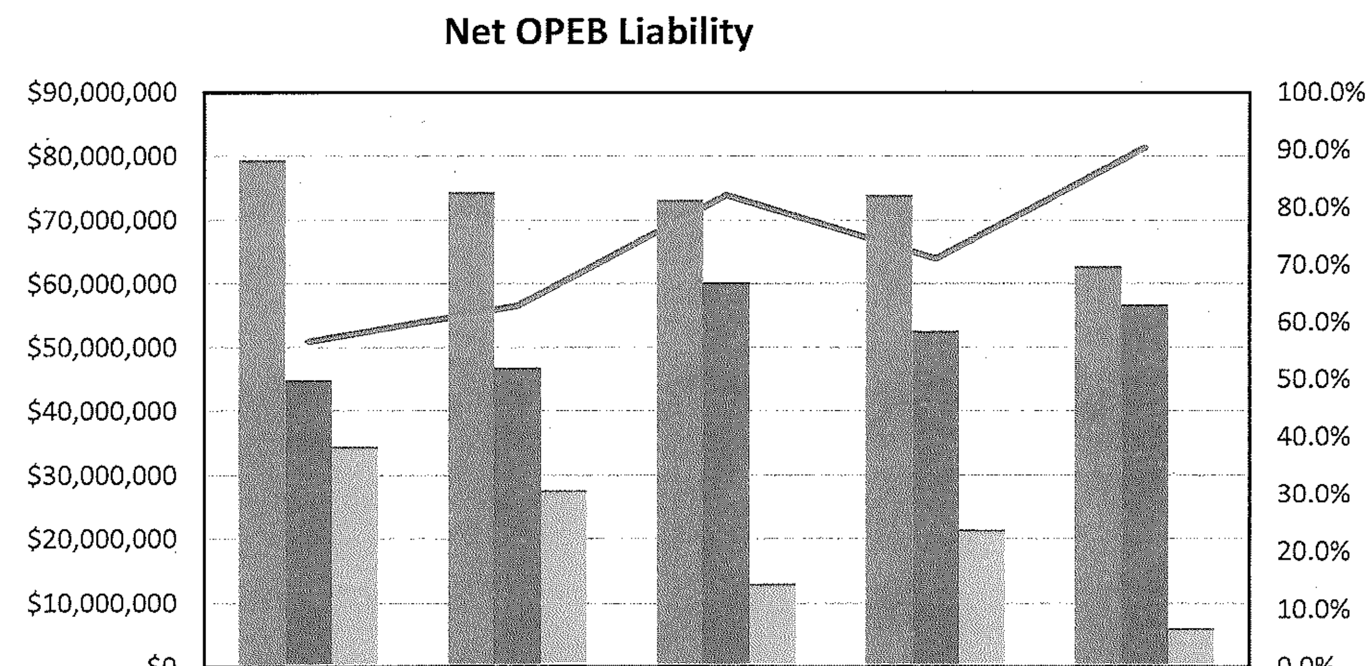
Current Results and Historical Information

Fiduciary Net Position Reconciliation Components



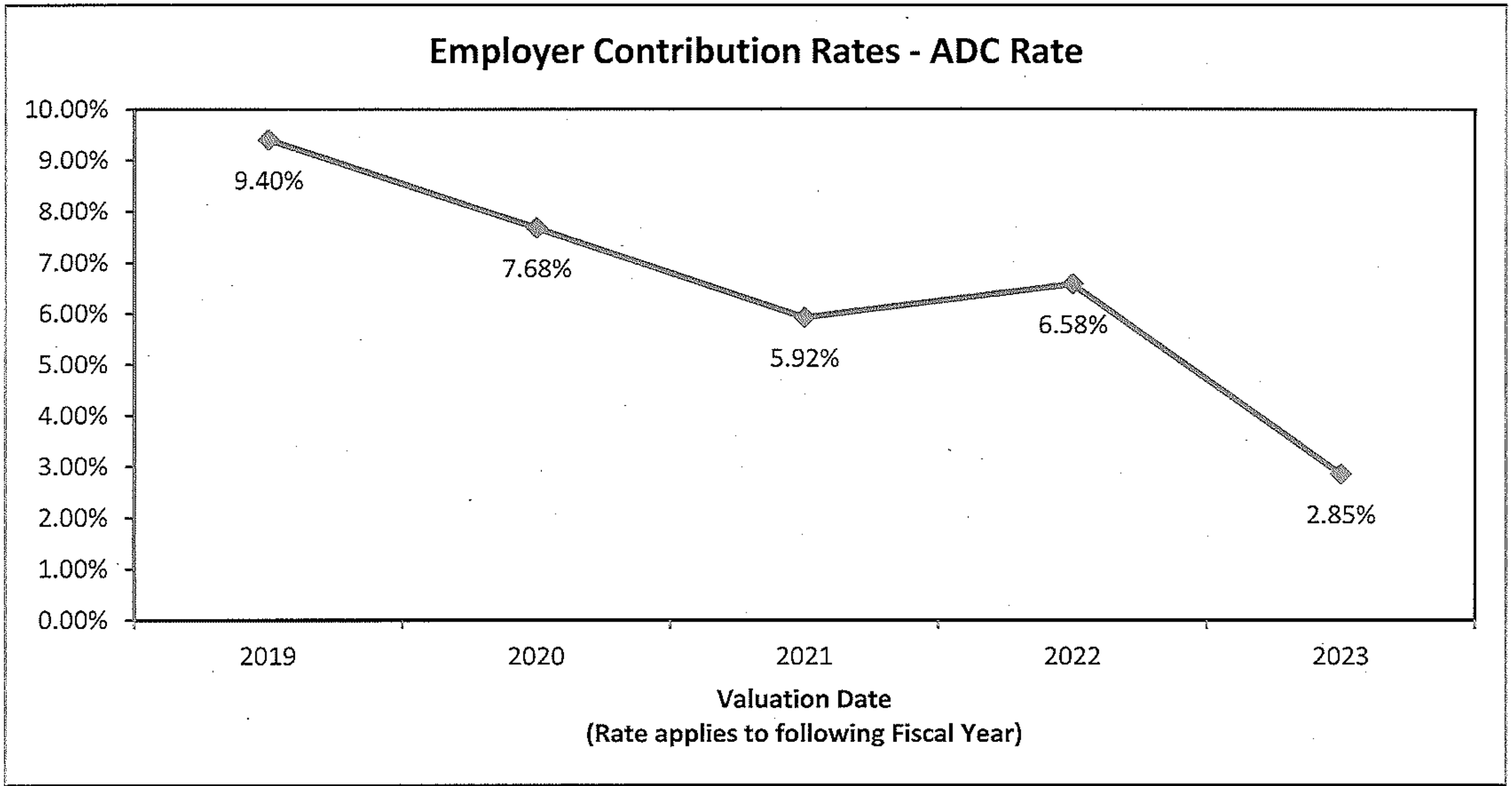
	2019	2020	2021	2022	2023
Employer Contributions	5,488,448	4,627,541	4,333,409	3,489,602	3,380,372
Employee Contributions	1,337,648	1,329,336	1,232,985	1,140,942	1,014,034
Premium Payments	(5,599,475)	(5,423,938)	(5,528,074)	(5,354,883)	(5,410,979)
Expenses	(90,151)	(100,184)	(102,093)	(103,471)	(114,565)
Net Investment Income	3,353,091	1,456,029	13,429,422	(6,814,455)	5,331,098

Current Results and Historical Information



	2019	2020	2021	2022	2023
Total OPEB Liability	79,509,679	74,541,217	73,274,159	73,979,596	62,812,951
Fiduciary Net Position	44,930,382	46,819,166	60,184,815	52,542,550	56,742,510
Net OPEB Liability	34,579,297	27,722,051	13,089,344	21,437,046	6,070,441
Funded %	56.5%	62.8%	82.1%	71.0%	90.3%

Current Results and Historical Information

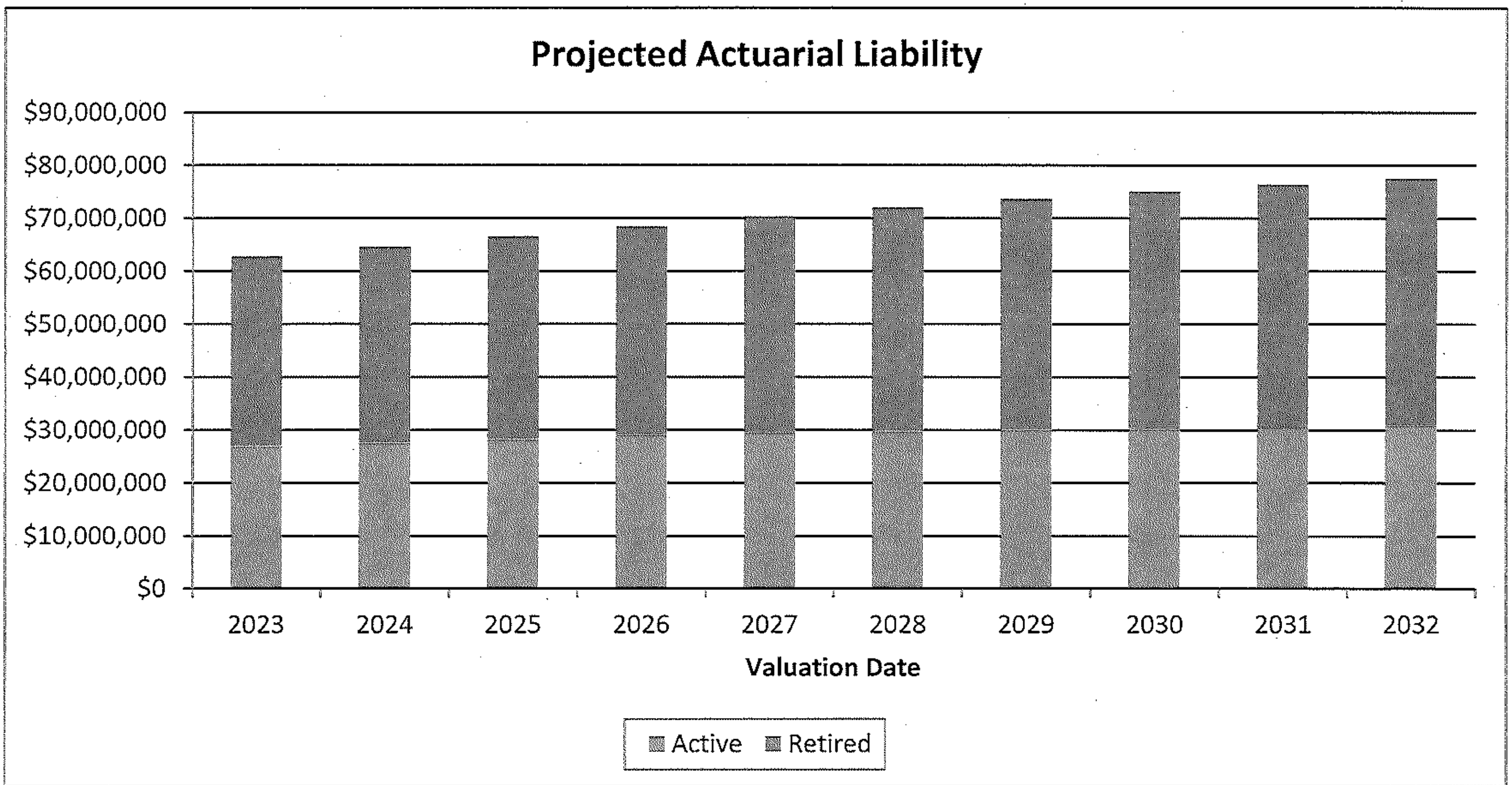


The decrease for 2023 is due to the updated claims curve development.

10 Year Projections

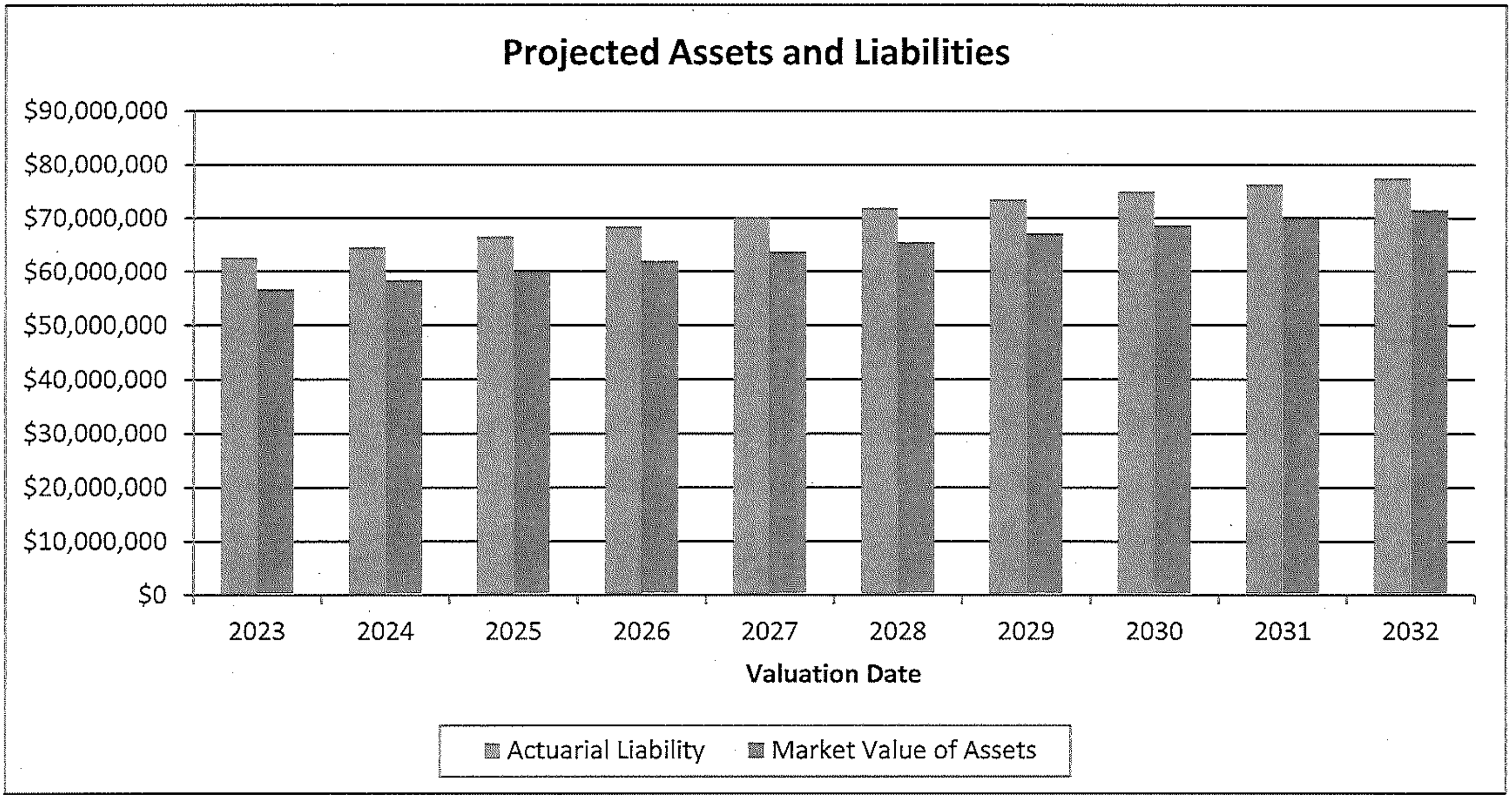
- Assume no changes in contribution strategies for the plan
  - City assumed to contribute the ADC each year
- Active population assumed to remain at current levels
- Assets assumed to return 7.5% each year in the future
- Medical trend assumed to be
  - Pre-65: 7.5% year 1, decreasing to 4.5% after 20 years
  - Post-65: 0% for year 1, then 5.93% decreasing to 4.50% after 20 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

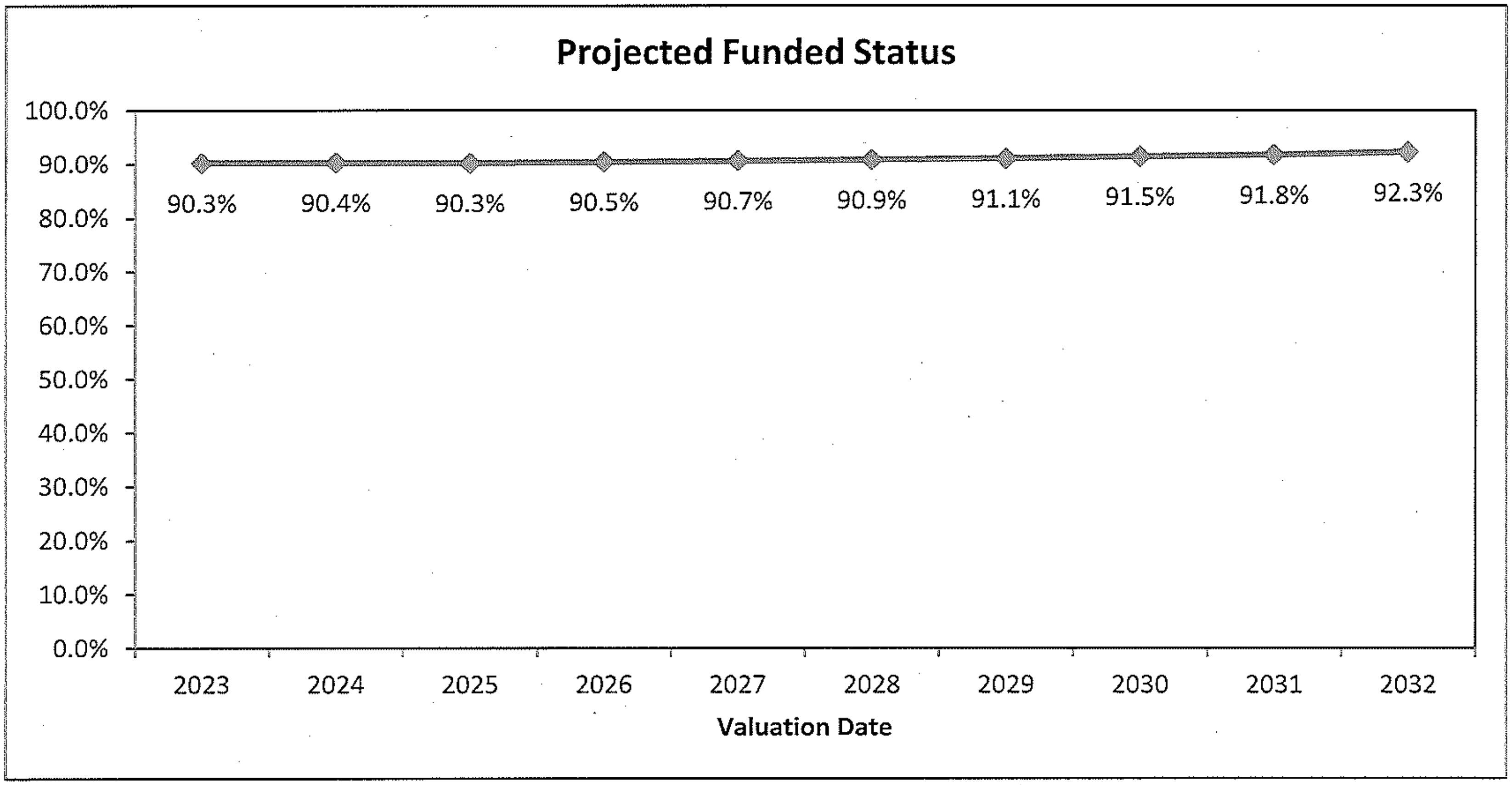


The liability split between active employees and retirees is expected to change from 43%/57% to approximately 40%/60% over the 10-year period.

10 Year Projections

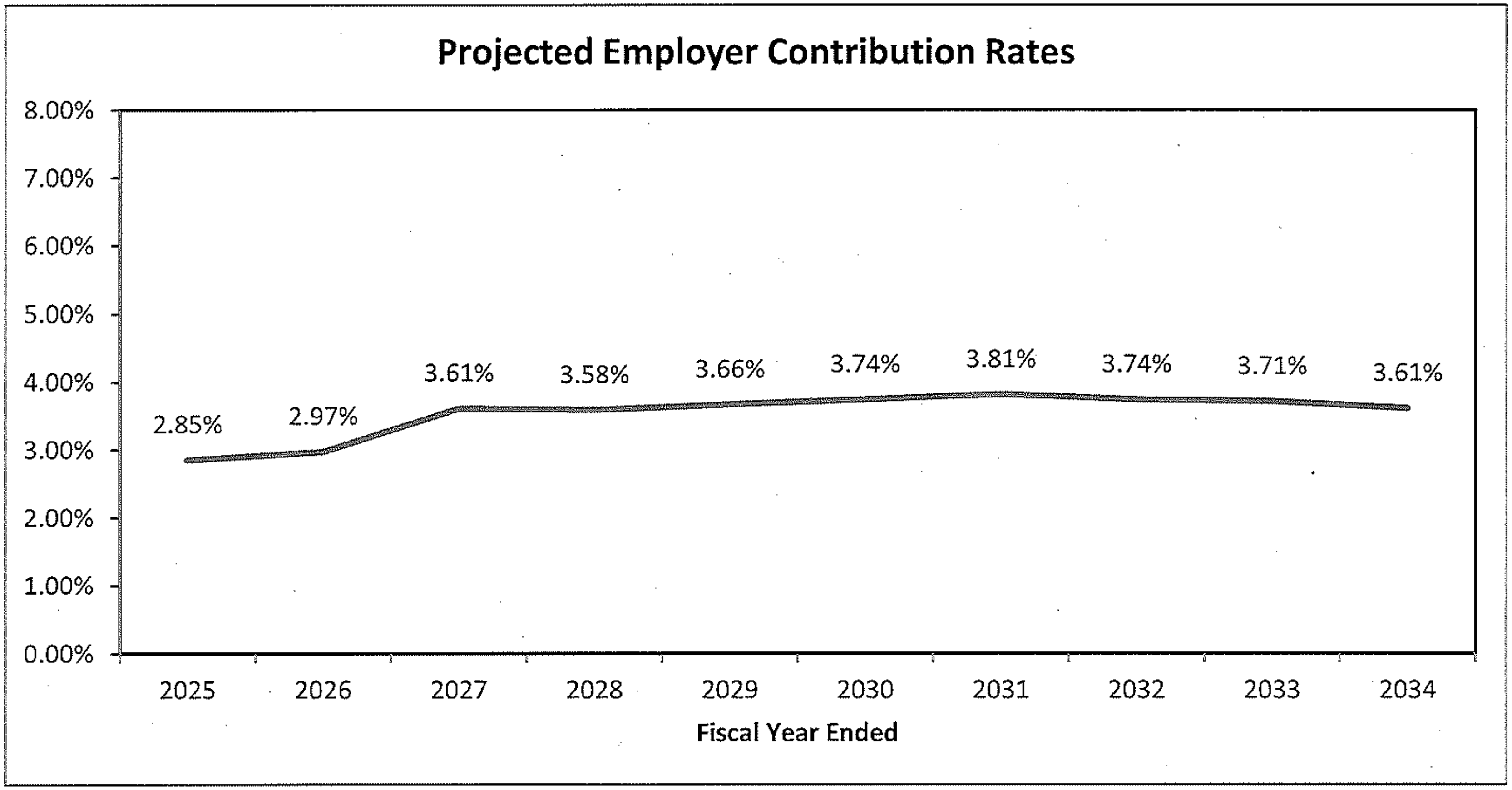


10 Year Projections



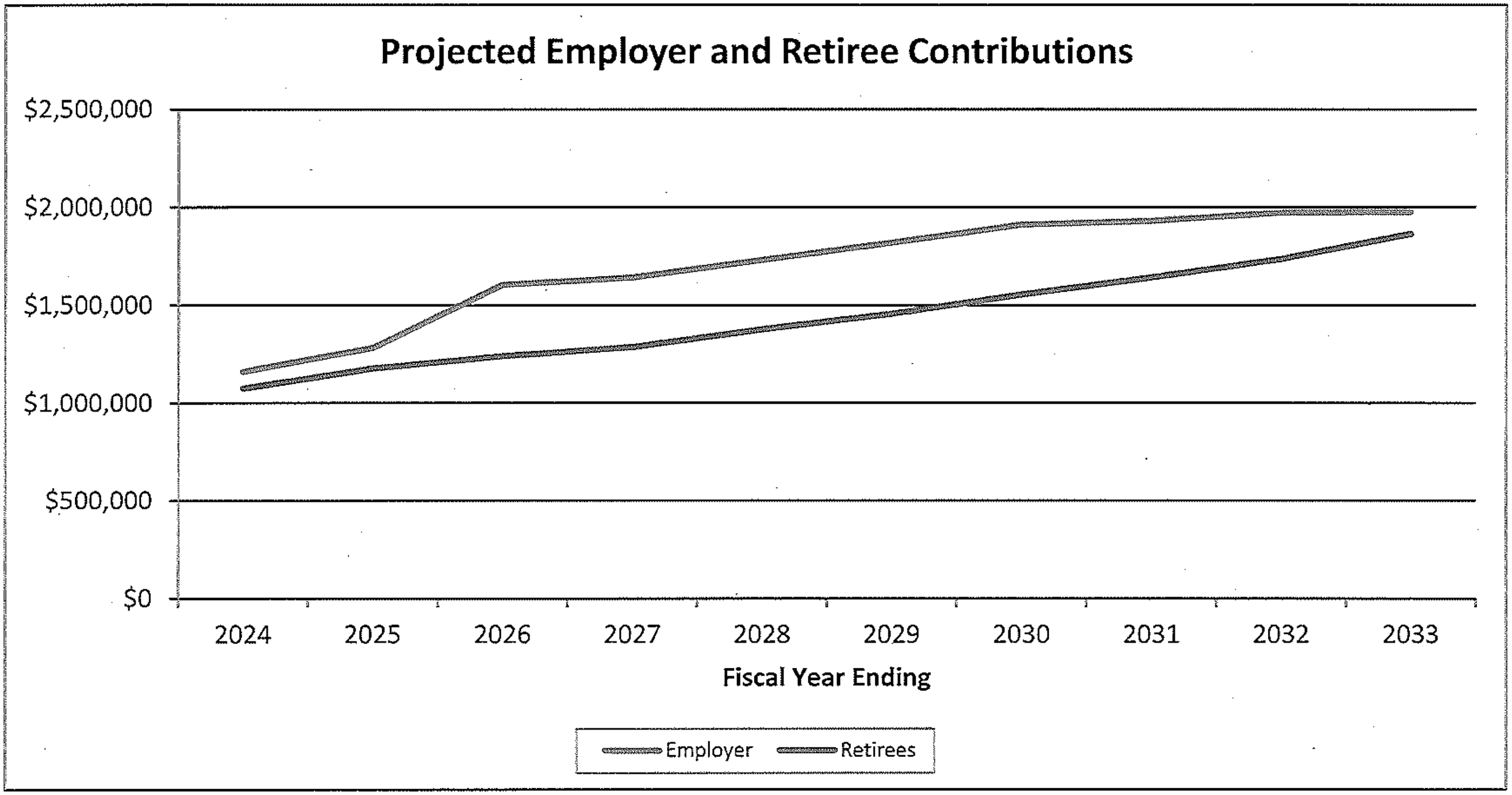
Funded status is projected to increase slightly, assuming the ADC is fully funded each year.

10 Year Projections



The ADC is projected to increase to a stable level over the 10-year period.

10 Year Projections



City contributions (ADC) are projected to increase as projected covered payroll increases; retiree contributions will increase slower over the projection period.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Disclosures

Plan Provisions, Assumptions and Methods

- All calculations have been made in conformance with generally accepted actuarial principles using assumptions and methods which are each individually reasonable based on past experience and expectations of future experience.
- A description of plan provisions, assumptions, census data and methods can be found in the most recent actuarial valuation report for the plans.