RETIREMENT COMMISSION MINUTES

The Retirement Commission met on Wednesday, February 26, 2025. The following members were present: Ben Cullop, Sam Sanders, Jason Vandever, Brian Pinkston, Lindsay Ideson, Josh Bontrager, Phil Garber, Kai Pacheco, Chris Cullinan, Tony Newberry. Others present: Sara Butler, Lisa Burch, Jamie Valencia, Frank Kosich, Andrew Sicora, Barry Schmitt. This meeting was held at CitySpace.

Call to Order

Jason Vandever called the meeting to order at 8:32 AM. Attendees introduced themselves.

Approval of Minutes

The minutes from the January 2025 meeting were approved unanimously.

Cybersecurity Presentation

Andrew Sicora reviewed MissionSquare's cybersecurity and anti-fraud measures. He confirmed that MissionSquare is in alignment with the Department of Labor's cyber security guidance.

MissionSquare – Secure 2.0

Frank Kosich presented information about Secure 2.0 provisions, including the mandatory Roth catch up contributions starting in plan year 2026, the emergency withdrawal provision, the domestic abuse withdrawal provision and the federally declared disaster withdrawal provision. The commission requested more information to discuss at a future meeting.

CapTrust Presentation

Barry Schmitt updated the commission on the state of the economy and how it relates to retirement investments. He then reviewed the investment options for the Defined Contribution plans. Based on the CapTrust matrix, the Calvert Equity A fund should be considered for termination. His recommendation was to move existing assets and future contributions from the Calvert Equity A fund to the Vanguard FTSE Social Index Admiral fund. After discussion, a motion was made by Ben Cullop to adopt the recommendation. The motion was seconded by Chris Cullinan and the motion was approved unanimously.

Barry then presented a fee analysis and explained administrative fees v. investment management fees. He explained a plan fee trend toward making plan fees level among participants. He was asked to present more information at a future meeting with options for actions that the commission may take regarding plan fees.

City Code Amendment

Jason Vandever updated the commission on the status of the request to change City Code to clarify public safety disability retirement eligibility for defined contribution participants. The item is scheduled for its first reading on the March 17th City Council agenda.

New Business

No new business was discussed.

Adjournment

The meeting adjourned at 9:47 AM.

MissionSquare
RETIREMENT

About the Target 2015 Fund Closing and Transfer

Effective on or about July 11, 2025, the Target 2015 Fund will close. Upon your approval, existing balances and future contribution allocations to the Target 2015 Fund will be directed to the Target Income Fund.

Closing Fund	Transfers to	Replacement Fund
MissionSquare Retirement Target 2015 Fund	→	MissionSquare Retirement Target Income Fund

You must either confirm acceptance of the Target Income Fund as the replacement fund or notify us if you wish to select an alternative replacement fund currently in your plan lineup to which existing balances and future contribution allocations should be directed. See the Action Required section below for steps to confirm your acceptance of the replacement fund or provide an alternative replacement fund.

Action Required

No later than April 18, 2025, you must either confirm your acceptance of the changes described above or provide us with alternative instructions.

To confirm your acceptance of the transfer of the Target 2015 Fund to the Target Income Fund, or to provide alternative elections, please follow these instructions:

- Send an email to fundelection@missionsq.org by April 18, 2025.
- In the subject line, write "MSQ Fund Update."
- In the email, include the full name(s) and number(s) of the plan(s) you are referencing. State that you accept the Target 2015 Fund changes or that you reject the Target Income Fund as the replacement fund and provide the name of an alternative replacement fund already in your plan lineup.

If no response is received by April 18, 2025, the existing balances and future contribution allocations to the closing Target 2015 Fund will be directed to the plan's default investment or QDIA, on or about June 13, 2025.

Below are answers to questions you may have about the Target 2015 Fund closing and transfer.

Q. As a plan sponsor, can I elect to keep the closing fund?

A. No, the Target 2015 Fund is closing and will no longer be available on or about July 11, 2025.

Q. How was the decision made to transfer the Target 2015 Fund to the Target Income Fund?

THE TEACHING COMPANY FEE LEVELING DISCUSSION

Background - MissionSquare reduced their fee to 10 bps. The fee changes went into effect October 1, 2021. The current fee structure lacks transparency. Implementing fee leveling means all plan participants pay a fee to participate in the plan.

CURRENT STRUCTURE (INDIRECT FEES)

- Historically, plan sponsors used the investment menu to pay costs through revenue sharing or plan services credits (*There are currently 9 funds on the menu that share revenue.*)
- Participants pay different amounts toward the cost of administration based on their specific investment choices
- No transparency. Generally, participants do not know how much they are paying.
- **Current Mission Square fee is 10 basis points (0.10%).**

CONSIDERATIONS

- Fee leveling provides more transparency
- There has been a trend in the marketplace to assess fees on a per head basis as opposed to an asset-based approach which takes market dynamics out of the equation.
- The fixed per head fee approach offers an easy way for participants to know how much they are paying each vendor to administer their plans. However, it does benefit higher balance participants as the percentage goes down as account balances increase. ***MissionSquare charges a slight premium for this approach.***
- With the move to the lowest share class, there will be 4 funds that share revenue.
- Annual CAPTRUST Fee is $31,900.

RECOMMENDED STRUCTURE (DIRECT FEES)

<u>Option 1 - Basis Points (one year term)</u>

- **9.5 basis points** (2.375 basis points per quarter) which is approximately **$70,966** in required revenue based on December 31, 2024, assets.

<u>Option 2 - Per Head/Per Plan Fee (one year term)</u>

- **$56 per participant per plan** ($14 per quarter). If a participant is in two plans total fee is $112 annually (or $28 per quarter). **Total fee to Mission Square is $75,824.**

Any revenue that is generated at the participant level would be credited back to those plan participants.

City of Charlottesville Fee Leveling Discussion

Plan Name	Assets as of 12/31/2024	MissionSquare Proposed Fee	Required Revenue	Annual CAPTRUST Fee	Total Required Revenue	Current Revenue Account Balance	Option A - Fee Holiday for One Year	Remaining Revenue Account Balance After One Year	Keep 3 Years Worth of Advisor Fee	Remaining Revenue Account Balance
City of Charlottesville 457 Plan	$ 40,698,598	0.095%	$ 38,664	$ 17,300	$ 55,964	$ 138,750	$ (55,964)	$ 82,786	$ (51,900)	$ 30,886
City of Charlottesville 401a Plan	$ 24,973,884	0.095%	$ 23,725	$ 10,700	$ 34,425	$ 120,500	$ (34,425)	$ 86,075	$ (32,100)	$ 53,975
City of Charlottesville 401a Plan- lead team	$ 9,028,395	0.095%	$ 8,577	$ 3,900	$ 12,477	$ 48,750	$ (12,477)	$ 36,273	$ (11,700)	$ 24,573
Totals	$ 74,700,877	0.095%	$ 70,966	$ 31,900	**$ 102,866**	**$ 308,000**	**$ (102,866)**	**$ 205,134**	**$ (95,700)**	**$ 109,434**

*** Assumes we migrate to the lowest net share class - projected annual savings of $27,300 based on 12/31/24 assets.**

Per head fees based on one year term of 9.5 basis points		
City of Charlottesville 457 Plan - 658 participants	$ 56.00	$ 36,848
City of Charlottesville 401a Plan - 657 participants	$ 56.00	$ 36,792
City of Charlottesville 401a Plan - lead team - 39 participants	$ 56.00	$ 2,184
Total fee		**$ 75,824**

Breakeven for $56 is an account balance of $59,000.
If you are in two plans, breakeven is $118,000 account balance

CITY OF CHARLOTTESVILLE
4TH QUARTER, 2024

SHARE CLASS ANALYSIS

CAPTRUST

Our mission is to enrich the lives of our clients, colleagues and communities through sound financial advice, integrity, and a commitment to service beyond expectation.

Period Ending 09.30.2024 |Q3 24

CIT EDUCATIONAL DECK

COLLECTIVE INVESTMENT TRUSTS

WHAT IS A CIT?

A Collective Investment Trust ("CIT") is a bank-administered tax-exempt investment vehicle that commingles assets from eligible investors, such as 401(k)s.

CITs operate similar to a mutual fund, but offers additional benefits to investors, such as cost reductions and ERISA fiduciary standards.

WHO GOVERNS/REGULATES CITS?

CITs are overseen by federal or state banking regulators. National banks are regulated by the Office of the Comptroller of the Currency (OCC), and state banks are regulated by state authorities. CITs are exempt from Securities Exchange Commission (SEC) registration.

Additionally, CITs are subject to the fiduciary rules of ERISA and are required to file a 5500 with the IRS annually.

WHAT ARE THE BENEFITS OF CITS?

Because they are exempt from SEC registration, typical mutual fund overhead costs (prospectus mailings, distributions, legal, compliance, board, etc.) can be avoided. Typically, CITs offer lower investment management expenses as well as customizable expenses.

Market Trends

By the end of 2020, over 30% of all 401(k) plan assets were held in CITs, representing a 50% market share increase from five years earlier.

Among CAPTRUST 401(k) plan clients, over 40% of assets are invested in CITs.

- Target-date fund assets make up the lion's share of those invested assets, representing over 65% of the total CIT assets.
- A majority of stable value options are in the form of CITs, which also increases overall CIT assets and usage rates.

Historically, CITs have been available only to the largest qualified retirement plans. More recently, CIT providers have started targeting core markets with their newly launched products.

As the desire for Collective Investment Trusts grows in the industry, investment managers are proactively revamping their current pricing structures to create a more scalable product. For example:

- Fidelity introduced new share classes and enhanced existing ones throughout the last half of 2023
- Vanguard restructured their CIT offerings in 2024 to establish specific minimums for passive suites. Previously Vanguard's process was to create custom CITs on a client-by-client basis

Legislative Environment for CITs in 403(b) Plans

Although there has been significant industry advocacy and bipartisan support, legislation to allow for 403(b) plans to access Collective Investment Trusts (CITs) did not pass in 2024.

Industry advocates and plan sponsors remain committed to pushing forward this legislation, though the new session of Congress in 2025 will bring other competing priorities to the forefront.

Overview of Previous Stage Gates

- **Passed in the House:** Included as part of a larger bill package
- **Introduced in the Senate:** As a standalone bill and part of Senate Banking Committee package
- **Additional Attempts:** Through unanimous consent procedure and end-of-year spending bill
- **Outcome:** A handful of objections blocked unanimous consent process, stopgap spending bill removed many original unrelated provisions

Next Steps (2025 Onwards)

- **Reintroduction Required:** New session of Congress in 2025
- **Bipartisan Support:** Strong backing and advocacy needed from both parties
- **Key Republican Leadership:** Senator Tim Scott (R-SC) significant supporter
- **Challenges Ahead:**
  - Ensure passage through Republican House (historically supported by 87 Democrats)
  - Overcome potential filibuster in Senate (required at least seven Democratic votes)
  - Attach to broader legislative package
  - SEC involvement due to exemptions afforded to CITs through the 40' Act

WHAT ARE THE BENEFITS OF A CIT?

BENEFITS

- Added layer of trustee / fiduciary oversight
- Typically lower fees
  - Lower administrative and operational expense translate to lower overall cost to plan
- Similar to mutual funds, they are:
  - Offered on recordkeeping platforms (Provide daily valuation)
  - Offer daily liquidity, daily valued, NSCC trading (Trade via NSCC)

Collective Investment Trust	Similarities:	Mutual Fund
• Qualified Plans Only	• Pooled Vehicle	
• Declaration of Trust	• Daily Valued	
• OCC & State Regulated	• NSCC Traded	
• Held to ERISA Standard	• Fact Sheets Available	
• Institutional Pricing	• Audited Annually	
• Pricing Flexibility		
• Data Provided by Manager		

Mutual Fund Expenses: Share Classes

Mutual fund offers more than one "share class" to investors; each share class represents a similar interest in the mutual fund portfolio but differs in net expense ratio (fee paid by participant/shareholder)

A fund's expense ratio is comprised of:

- Revenue Share - a portion of the expense ratio collected by the fund that can be allocated to the plan's service provider for shareholder servicing, can be used to pay other eligible plan expenses, or returned to participants who are shareholders in the fund
- Expense Ratio – Total Fund Operating Revenue
- Net Investment Fee* = Expense Ratio – Revenue Sharing
- Fee Leveling** – retirement plan fees are shared equally among all plan participants (no matter which investments are selected)

*Net investment fees represent the portion of the expense ratio that is retained by the mutual fund manager (after revenue sharing)

**When plan use "fee leveling", revenue share is returned to participant/shareholder accounts

Consideration

- Some fund families institute a disproportionate revenue share amount across share classes so that the share class with the lowest net expense ratio may not be the share class with the lowest net investment fee.

Example

Investment Name	Expense/Total Cost	Revenue Share (Recordkeeping/Admin)	Net Investment Fee (Asset Management)
XYZ Fund R6	0.80%	0.00%	0.80%
XYZ Fund R4	1.00%	0.25%	0.75%

Share Class Selection Guidelines Determined by the Plan Sponsor (or Committee)

- If a committee decides to follow and implement a "best-net" lineup approach, CAPTRUST recommends establishing a threshold for when a share class change may be warranted (e.g., the plan will only make a change if the cost savings are greater than 5 bps)
- Another recommended guideline is to maintain awareness of the fund's total expense amount relative to a peer group average (e.g., avoiding expense ratios that exceed 100 bps)

	Current Lineup					Best Net Lineup				
Passive Management	Fund Name	Ticker	Assets	Net Cost* %	Net Cost* $	Fund Name	Ticker	Assets	Net Cost* %	Net Cost* $
Intermediate Core Bond	Vanguard Total Bond Market Index Adm	VBTLX	$1,008,097	0.05%	$504	Vanguard Total Bond Market Index Adm	VBTLX	$1,008,097	0.05%	$504
Large Blend	Vanguard 500 Index Admiral	VFIAX	$8,265,149	0.04%	$3,306	Vanguard Institutional Index I	VINIX	$8,265,149	0.04%	$2,893
Large Blend	Vanguard FTSE Social Index Admiral	VFTAX	$948,994	0.14%	$1,329	Vanguard FTSE Social Index Admiral	VFTAX	$948,994	0.14%	$1,329
Mid-Cap Blend	Vanguard Extended Market Index Admiral	VEXAX	$1,619,735	0.06%	$972	Vanguard Extended Market Index Admiral	VEXAX	$1,619,735	0.06%	$972
Foreign Large Blend	Vanguard Total Intl Stock Index Admiral	VTIAX	$1,998,892	0.12%	$2,399	Vanguard Total Intl Stock Index Admiral	VTIAX	$1,998,892	0.12%	$2,399
Small Value	Vanguard Small Cap Value Index Admiral	VSIAX	$1,283,082	0.07%	$898	Vanguard Small Cap Value Index Admiral	VSIAX	$1,283,082	0.07%	$898
Passive Total			$15,123,948	0.06%	$9,407			$15,123,948	0.06%	$8,994
Active Management										
Money Market	Mission Square (VT) Cash Management R5	Separate Account	$532,021	0.43%	$2,288	Mission Square (VT) Cash Management R5	Separate Account	$532,021	0.43%	$2,288
Stable Value	MissionSquare PLUS Fund R10	92208J709	$7,549,955	0.52%	$39,260	MissionSquare PLUS Fund R10	92208J709	$7,549,955	0.52%	$39,260
Intermediate Core-Plus Bond	Fidelity Advisor Total Bond I	FEPIX	$1,201,251	0.25%	$3,003	Fidelity Advisor Total Bond I	FEPIX	$1,201,251	0.25%	$3,003
Large Value	JHancock Disciplined Value R6	JDVWX	$1,825,786	0.66%	$12,050	JHancock Disciplined Value Trust - P1	47805F385	$1,825,786	0.41%	$7,486
Large Growth	Calvert Equity A	CSIEX	$514,260	0.46%	$2,366	Calvert Equity A	CSIEX	$514,260	0.46%	$2,366
Large Growth	Fidelity Contrafund	FCNTX	$6,690,920	0.14%	$9,367	Fidelity Contrafund	FCNTX	$6,690,920	0.14%	$9,367
Mid-Cap Value	JPMorgan Mid Cap Value I	JMVSX	$835,341	0.64%	$5,346	JPMorgan Mid Cap Value I	JMVSX	$835,341	0.64%	$5,346
Mid-Cap Growth	T. Rowe Price Mid-Cap Growth	RPMGX	$1,608,967	0.61%	$9,815	T. Rowe Price Mid-Cap Growth	RPMGX	$1,608,967	0.61%	$9,815
Foreign Large Growth	American Funds Europacific Growth R6	RERGX	$1,309,388	0.47%	$6,154	American Funds Europacific Growth R6	RERGX	$1,309,388	0.47%	$6,154
Small Growth	MassMutual Small Cap Gr Eq I	MSGZX	$498,293	0.87%	$4,335	MassMutual Small Cap Gr - Class CT	390933109	$498,293	0.72%	$3,588
Real Estate	Cohen & Steers Realty Shares L	CSRSX	$414,688	0.63%	$2,613	Cohen & Steers Realty Fund- Class CT	19249E761	$414,688	0.55%	$2,281
Active Total			$22,980,869	0.42%	$96,596			$22,980,869	0.40%	$90,953

Data sourced from third-party entities, including investment managers and databases, is believed to be reliable but cannot be guaranteed. Fund investment minimums may be waived for participant-directed retirement plans. Detailed fund and share class information is in each fund's prospectus. Expense ratios are rounded to two decimal places. CAPTRUST Peer Group Median Expense is calculated using institutional mutual fund share classes and further categorized between active and passive managers. This analysis is educational and not a solicitation to invest. Alternative share class data is based on third-party information and is not guaranteed. Recordkeepers must verify the availability of alternative share classes and revenue amounts.

	Current Lineup					Best Net Lineup				
				Net Cost*					Net Cost*	
Allocation Solutions	Fund Name	Ticker	Assets	%	$	Fund Name	Ticker	Assets	%	$
Moderately Conservative Allocation	T. Rowe Price Retirement Balanced Adv	PARIX	$118,580	0.34%	$403	T. Rowe Price Retirement Balanced Adv	PARIX	$118,580	0.34%	$403
Moderate Allocation	MissionSquare Retirement Income Advantage R5	74440A696	$212,664	1.52%	$3232	MissionSquare Retirement Income Advantage R5	74440A696	$212,664	1.52%	$3232
Target Date Fund	T Rowe Price Retirement 2005-2060 Advisor	TDF Series	$35,413,393	0.44%	$155,819	T Rowe Price Retirement 2005-2060 Tr- A	TDF Series	$35,413,393	0.38%	$134,571
Allocation Total			$35,744,637	0.45%	$159,455			$35,744,637	0.39%	$138,207
Total Cost			$73,849,454	0.35%	$265,458			$73,849,454	0.32%	$238,153
Cost Difference									0.04%	$27,305

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Asset Class	Investment Name	Ticker/ CUSIP	Assets	Expense Ratio %	Revenue Share %	Net Cost %	CAPTRUST Category Median Expense	Investment Type	Investment Minimum
Target-Date 2000-2060	T. Rowe Price Retirement Advisor	TDF Series	$35,413,393	0.74%-0.89%	0.40%	0.34%-0.49%	0.250%	Mutual Fund	$2,500
Target-Date 2000-2060	T. Rowe Price Retirement Tr- A	TDF Series		0.38%	0.00%	0.38%		CIT	$20,000,000
Stable Value	MissionSquare PLUS Fund R10	92208J709	$6,814,878	0.52%	0.00%	0.52%	0.446%	CIT	$0

Current Share Class
Alternative Share Class
Minimum Not Met
Net Cheapest Share Class

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EXPENSE REVIEW | SHARE CLASS ANALYSIS

Asset Class	Investment Name	Ticker/ CUSIP	Assets	Expense Ratio %	Revenue Share %	Net Cost %	CAPTRUST Category Median Expense	Investment Type	Investment Minimum
Intermediate Core Bond	Vanguard Total Bond Market Index Adm	VBTLX	$967,952	0.05%	0.00%	0.05%	0.070%	Mutual Fund	$3,000
Intermediate Core Bond	Vanguard Total Bond Market Idx InstlPls	VBMPX		0.03%	0.00%	0.03%		Mutual Fund	$100,000,000
Intermediate Core Bond	Vanguard Total Bond Market Index I	VBTIX		0.04%	0.00%	0.04%		Mutual Fund	$5,000,000
Large Blend	Vanguard 500 Index Admiral	VFIAX	$7,666,682	0.04%	0.00%	0.040%	0.120%	Mutual Fund	$3,000
Large Blend	Vanguard Institutional Index Instl Pl	VIIIX		0.02%	0.00%	0.020%		Mutual Fund	$100,000,000
Large Blend	Vanguard Institutional Index I	VINIX		0.04%	0.00%	0.035%		Mutual Fund	$5,000,000
Large Blend	Vanguard FTSE Social Index Admiral	VFTAX	$735,735	0.14%	0.00%	0.14%	0.120%	Mutual Fund	$3,000
Large Blend	Vanguard FTSE Social Index I	VFTNX		0.12%	0.00%	0.12%		Mutual Fund	$5,000,000

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Alternative Share Class
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EXPENSE REVIEW | SHARE CLASS ANALYSIS

Asset Class	Investment Name	Ticker/ CUSIP	Assets	Expense Ratio %	Revenue Share %	Net Cost %	CAPTRUST Category Median Expense	Investment Type	Investment Minimum
Mid-Cap Blend	Vanguard Extended Market Index Admiral	VEXAX	$1,427,806	0.06%	0.00%	0.06%	0.155%	Mutual Fund	$3,000
Mid-Cap Blend	Vanguard Extended Market Index Instl	VIEIX		0.05%	0.00%	0.05%		Mutual Fund	$5,000,000
Foreign Large Blend	Vanguard Total Intl Stock Index Admiral	VTIAX	$1,598,785	0.12%	0.00%	0.12%	0.100%	Mutual Fund	$3,000
Foreign Large Blend	Vanguard Total Intl Stock Index I	VTSNX		0.09%	0.00%	0.09%		Mutual Fund	$5,000,000
Small Value	Vanguard Small Cap Value Index Admiral	VSIAX	$1,150,876	0.07%	0.00%	0.07%	0.080%	Mutual Fund	$3,000
Small Value	Vanguard Small Cap Value Index I	VSIIX		0.06%	0.00%	0.06%		Mutual Fund	$5,000,000
Money Market	Mission Square (VT) Cash Management R5	-	$417,306	0.43%	0.00%	0.00%	0.200%		$0

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Alternative Share Class
Minimum Not Met
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EXPENSE REVIEW | SHARE CLASS ANALYSIS

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Asset Class	Investment Name	Ticker/ CUSIP	Assets	Expense Ratio %	Revenue Share %	Net Cost %	CAPTRUST Category Median Expense	Investment Type	Investment Minimum
Intermediate Core-Plus Bond	Fidelity Advisor Total Bond I	FEPIX	$1,088,740	0.50%	0.25%	0.25%	0.450%	Mutual Fund	$0
Moderately Conservative Allocation	T. Rowe Price Retirement Balanced Adv	PARIX	$118,580	0.74%	0.40%	0.34%	0.605%	Mutual Fund	$2,500
Moderately Conservative Allocation	T. Rowe Price Retirement Balanced	TRRIX		0.49%	0.15%	0.34%		Mutual Fund	$2,500

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Alternative Share Class
Minimum Not Met
Net Cheapest Share Class

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Asset Class	Investment Name	Ticker/ CUSIP	Assets	Expense Ratio %	Revenue Share %	Net Cost %	CAPTRUST Category Median Expense	Investment Type	Investment Minimum
Moderate Allocation	MissionSquare Retirement Income Advantage R5	74440A696	$212,664	1.67%	0.15%	1.52%	0.690%	Separate Account	$0
Large Value	JHancock Disciplined Value R6	JDVWX	$1,803,574	0.66%	0.00%	0.66%	0.690%	Mutual Fund	$1,000,000
Large Value	JHancock Disciplined Value Trust - P1	47805F385		0.41%	0.00%	0.41%		CIT	$0

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Asset Class	Investment Name	Ticker/ CUSIP	Assets	Expense Ratio %	Revenue Share %	Net Cost %	CAPTRUST Category Median Expense	Investment Type	Investment Minimum
Large Growth	Calvert Equity A	CSIEX	$495,576	0.91%	0.45%	0.46%	0.720%	Mutual Fund	$1,000
Large Growth	Fidelity Contrafund	FCNTX	$5,482,802	0.39%	0.25%	0.14%	0.720%	Mutual Fund	$0
Mid-Cap Value	JPMorgan Mid Cap Value I	JMVSX	$815,187	0.89%	0.25%	0.64%	0.760%	Mutual Fund	$1,000,000

Current Share Class
Alternative Share Class
Minimum Not Met
Net Cheapest Share Class

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Asset Class	Investment Name	Ticker/ CUSIP	Assets	Expense Ratio %	Revenue Share %	Net Cost %	CAPTRUST Category Median Expense	Investment Type	Investment Minimum
Mid-Cap Growth	T. Rowe Price Mid-Cap Growth	RPMGX	$1,172,444	0.76%	0.15%	0.61%	0.835%	Mutual Fund	$2,500
Mid-Cap Growth	T. Rowe Price U.S. Mid-Cap Gr Eq Tr-D	87281A104		0.61%	0.00%	0.61%		CIT	$10,000,000
Mid-Cap Growth	T. Rowe Price Instl Mid-Cap Equity Gr	PMEGX		0.61%	0.00%	0.61%		Mutual Fund	$1,000,000
Foreign Large Blend	American Funds Europacific Growth R6	RERGX	$1,235,748	0.47%	0.00%	0.47%	0.810%	Mutual Fund	$250

Current Share Class
Alternative Share Class
Minimum Not Met
Net Cheapest Share Class

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EXPENSE REVIEW | SHARE CLASS ANALYSIS

Asset Class	Investment Name	Ticker/ CUSIP	Assets	Expense Ratio %	Revenue Share %	Net Cost %	CAPTRUST Category Median Expense	Investment Type	Investment Minimum
Small Growth	MassMutual Small Cap Gr Eq I	MSGZX	$419,210	0.87%	0.00%	0.87%	0.900%	Mutual Fund	$0
Small Growth	MassMutual Small Cap Gr - Class CT	390933109		0.72%	0.00%	0.72%		CIT	$0
Small Growth	MassMutual Small Cap Gr Eq A	MMGEX		1.37%	0.60%	0.77%		Mutual Fund	$1,000
Real Estate	Cohen & Steers Realty Shares L	CSRSX	$351,523	0.88%	0.25%	0.63%	0.800%	Mutual Fund	$10,000
Small Growth	Cohen & Steers Realty Fund-Class CT	19249E761		0.55%	0.00%	0.55%		CIT	$0

Current Share Class
Alternative Share Class
Minimum Not Met
Net Cheapest Share Class

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City of Charlottesville

Retirement Commission

Retiree Cost-of-living adjustments (COLAs)

Presentation Outline:

1. Reasons why the City needs a defined retiree COLA
2. Virginia Cities, Towns, and others comparison
3. Recommendation of a Retiree COLA

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Retirement Commission

Retiree Cost-of-living adjustments (COLAs)

Reasons for consideration of a defined retiree COLA:

1. **COLA in relation to the percentage of employee raise pool has disappeared with the Bargaining Units.**
2. **The City needs to be competitive with Retirement Benefits to attract and retain employees. Retiree COLA is a part of the Retiree benefits.**
3. **Current retirees are and future retirees will be facing inflation when receiving pension checks.**

City of Charlottesville

Retirement Commission

Retiree Cost-of-living adjustments (COLAs)

Virginia Cities, Towns, and others Comparison:

1. **Total VRS participation employers = 840.**
   163 Cities and Towns
   93 Counties
   214 Authorities and others
   142 Schools
   228 Agencies of Virginia including Colleges and Universities.
2. **Found 5 other jurisdictions in Virginia. All have caps and use the CPI-U. Similar to the VRS model.**

City of Charlottesville

Retirement Commission

Retiree Cost-of-living adjustments (COLAs)

VRS COLA Calculation from VRS Retiree Handbook

COST-OF-LIVING ADJUSTMENT (COLA)

You receive cost-of-living adjustments (COLAs) to your retirement benefit to assist with rising costs.

The COLA is based on the annual monthly average of the Consumer Price Index for all Urban Consumers (CPI-U), which is published each December 31 by the U.S. Bureau of Labor Statistics.

VRS reviews the COLA annually and implements any increases the following July 1 at the start of the fiscal year. During years of no inflation or deflation, the COLA will be 0%.

Plan 1 (Members before July 1, 2010). The COLA is calculated using the first 3% increase in the annual monthly average of the CPI-U and half of any additional increase (up to 4%), for a maximum COLA of 5%.

Plan 2 (Members between July 1, 2010 to December 31, 2013) and Hybrid Retirement Plan (Members on or after January 1, 2014). The COLA is calculated using the first 2% increase in the annual monthly average of the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Plan: The Virginia Retirement System (VRS) is administered based on the plan year July 1 to June 30. VRS is governed by the provisions of Title 51.1 of the Code of Virginia and other applicable law. Changes to the law can be made only by an act of the General Assembly.

City of Charlottesville

Retirement Commission

Retiree Cost-of-living adjustments (COLAs)

COST-OF-LIVING ADJUSTMENT (COLA)

VRS COLA starting July 1, 2025.

Plan 1 = 2.95%

Plan 2 & Hybrid = 2.48%

Social Security COLA using CPI-W Starting January 1, 2025 = 2.5%

City of Charlottesville

Retirement Commission

Retiree Cost-of-living adjustments (COLAs)

Recommended items for retiree COLA to be included in City Code that would apply to City retirees who are receiving benefits under the Defined Benefit Plan. Based on available funding, the COLA will be determined by the following.

1. **The COLA is based on the annual monthly average of the Consumer Price Index for all Urban Consumers (CPI-U), which is published each December 31 by the U.S. Bureau of Labor Statistics.**
2. **City Council reviews the COLA annually and approves any increases the following July 1 at the start of the fiscal year. During years of no inflation or deflation, the COLA will be 0%.**
3. **The COLA is calculated using the first 3% increase in the annual monthly average of the CPI-U and half of any additional increase (up to 4%), for a maximum COLA of 5%.**

This would replace Sec. 19-107(d) of City Code.

History of the City of Charlottesville Retirement Sustainability Initiative

In 2015 the City embarked on a Retirement Fund Sustainability Study. At the time the plan's funded status was around 54%, while the industry standard recommends a funded status of at least 80% for healthy pension plans. The City held thirteen meetings with over 420 employees to discuss the study and gather input.

There were several reasons the plan's funded status was so low:

- At plan creation (around 1959) employees were immediately vested, incurring a large unfunded liability
- In the plan's early years there was no scientific effort to quantify the plan's liabilities or match contributions to future costs
- For many years the plan used an outdated mortality table (UP84), resulting in a lower than needed "annual required contribution"
- The City had a history of granting "ad hoc" retiree COLAs every year, even though they were never pre-funded, incurring an unfunded liability each year
- In 2009 the City reset the amortization schedule on the pension plan's unfunded liability to help alleviate budget constraints from the Great Recession, leading to lower contribution rates
- Until 2012, no employee contributions were required, leaving the entire pension funding burden to the City
- Technically the City was making its "annual required contribution" but only because of unrealistic assumptions and funding practices

As a result of the study, the following changes were implemented in 2017:

- Phased in 2% Contribution for Plan 1 employees (hired before 7/1/12)
- Previously adopted 3% employee contribution for employees hired between 7/1/12 and 7/1/17 (plan 2)
- 5% Employee contribution for new hires starting 7/1/17 (plan 3)
- Retiree COLA requires 15 years of service
- COLA requires retirement from the City and becomes effective after 1 full year of retirement
- Capping the public safety supplement at the estimated full Social Security benefit for all Public Safety Employees
- Capping the public safety supplement at 17 years prior to Social Security eligibility
- For purposes of calculating the City's required contribution, employee contributions to the plan were ignored (employee contributions would NOT be used to offset the City's costs)
- The lead team contribution rate was decoupled from the pension rate and savings would be transferred to the pension plan every year as an excess contribution

There was a give and take from all interested parties, including the City, current employees, public safety employees, and retirees, who all committed to improving the funded status of the plan to ensure the plan's health and ability to meet both future obligations and past commitments.

<u>City Commitments</u>

- The City committed to adopting a new mortality table, which drastically increased its contribution rate
- The City agreed to not supplant its own contributions with the new employee contributions
- The City agreed to prefund a 1% COLA for retirees, increasing the contribution rate in 2015 by about 6%
- The City agreed to prefund the costs associated with any significant changes that affected the unfunded liability (large pay scale changes, collective bargaining, COLAs that exceed 1%)
- The City agreed to make excess pension contributions from lead team plan savings

<u>Employee Commitments</u>

- Phased in a 2% contribution for all employees hired before 7/1/2012
- Going forward, retiree COLA requires 15 years of service
- COLA requires retirement from the City and becomes effective 1 full year after retirement
- New employees require a 5% contribution
- Lead team contributions were decoupled from pension contribution rate

<u>Public Safety Commitments</u>

- Capping the public safety supplement at the estimated full Social Security benefit for all Public Safety Employees
- Capping the public safety supplement at 17 years prior to Social Security eligibility

<u>Retiree Commitments</u>

- While a 1% retiree COLA was assumed for contribution purposes, it was decoupled from the practice of automatically granting ½ of active employee salary increases
- A general recognition that since the plan's inception, retirees were granted COLAs that were not prefunded, and no employee contributions were made until 2017 (future budgets and current employees inherited a large liability for employees who already retired)

Implications for Current COLA Discussion

- Adopting a formal policy that results in a COLA exceeding 1% a year would drastically increase costs to the plan

- Tying a retiree COLA to an external index would take away any flexibility the City has in managing costs associated with the retiree COLA
- The City would likely be required to grant retiree COLAs even in years when the fund suffered a large investment loss or faced other budgetary restraints
- Any formal COLA policy would add significantly to both the unfunded liability and the annual costs of the plan
- Adopting a codified COLA would undue much of the work of the Sustainability Study and violate the spirit of the compromises made from 2015-2017 to improve the funded status of the plan

Other Considerations When Comparing the City's Plan to VRS

- The VRS plan for political subdivisions has a funded status of 88.86%, compared to the City's funded status of 69.1%
- VRS employees in the hybrid plan receive a COLA only on the pension portion of their benefits (1%xYOSxAFC), whereas City employees receive a COLA on their entire benefit (1.6%xYOSxAFC)

Staff Recommendation

Staff recommends delaying any decisions about codifying or changing the City's retiree COLA discussion until the funding status meets its minimum target threshold of 80%

Retirement System	COLA
VRS	Tied to CPI
Fairfax County	Based on CPI of Washington-Arlington-Alexandria DC-VA-MD-WV area
City of Richmond	Ad hoc
Danville	Effective July 2013, no longer give a COLA. Starting 2013, they may provide a bonus in years that certain criteria are met and approved by City Council
Newport News	Tied to CPI - .7% for first 1% of CPI and .35% after first 1%
Roanoke	COLA is defined as 2/3 of CPI-U, not to exceed the lesser of 4% or the average pay increase provided to active employees
Norfolk	No COLAs, but on occasion provides a bonus approved by City Council
Alexandria	Based on CPI of Washington-Arlington-Alexandria DC-VA-MD-WV area