

RETIREMENT COMMISSION MINUTES

The Retirement Commission met on Wednesday, December 3, 2025. The following members were present: Jason Vandever, Chris Cullinan, Brian Pinkston, Ben Cullop, Tony Newberry, Lindsay Ideson, Phillip Garber, Josh Bontrager, Joe Gilkerson, Casey Parker, Sam Sanders (remotely). Others present: Lisa Burch, Sara Butler, Jamie Valencia, Jimmy Morani, Krisy Hammill, Melissa Ruby, Ian Haug, Bill Reid, Courteny Lowe.

This meeting was held in the CitySpace Large Conference Room.

Call to Order

Jason Vandever called the meeting to order at 8:38 AM.

Sam Sanders requested to attend the meeting remotely. A motion was made to approve his request, and the motion was approved unanimously.

On a motion by Ben Cullop, seconded by Joe Gilkerson, the Commission unanimously adopted the meeting agenda.

Approval of Minutes

The minutes from the October 2025 meeting were approved unanimously.

DROP Presentation

At the request of the Police Collective Bargaining Unit Retirement Work Group, Bill Reid from Sageview shared a presentation to explain how a deferred retirement option plan (DROP) works. The collective bargaining unit would like to add this provision to the Defined Benefit plans. The process to add such a provision would require the Commission to first discuss and create a proposed DROP, approve the DROP plan and then refer it to City Council in the form of an ordinance change.

Unused Sick Leave Presentation

At the request of the Police Collective Bargaining Unit Retirement Work Group, Bill Reid from Sageview shared a study conducted by Sageview regarding the cost of changing how unused sick leave is considered at retirement. The Police Collective Bargaining Unit would like to change the plan provisions so that all of the unused sick leave for sworn police officers is converted to service upon retirement. Currently, half of unused sick leave is converted to service at retirement. Bill Reid's presentation included both the amortized and ongoing cost of implementing such a change and the impact it would have on the plan's funded status.

Investment Sub-Committee Update

Jason Vandever shared that the investment sub-committee met in October. Barry Schmitt from CapTrust reviewed the Defined Contribution plan investments and noted that the American Funds EUPAC fund is on the watch list. He will update the Commission with a recommendation at the February 2026 meeting. In addition, Greg McNeillie from Dahab presented a request from

Brown Advisory regarding the investment guidelines governing this investment. The current guidelines allow no more than 7% of the total market value of equity investments to be invested in any one company. Brown requested the limit be raised to 10%. Greg explained that the retirement fund as a whole is very diversified, and he had no problem allowing the change. The committee granted the request.

New Business

No new business was discussed.

Adjournment

The meeting adjourned at 9:46 AM.

Retiree COLA Discussion

Social Security 2026 increase: 2.8%

VRS 7/1/25: Plan 1: 2.95%, Plan 2: 2.48%

Annual Inflation for December 2025: 2.7%

FY26 General Employees: 2% step increase and 1% pay scale adjustment

FY26 Retiree COLA: 1%

An additional 1% COLA costs about \$1 Million

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.

City Commitments

- 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

Employee Commitments

- 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

Public Safety Commitments

- 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

Retiree Commitments

- 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

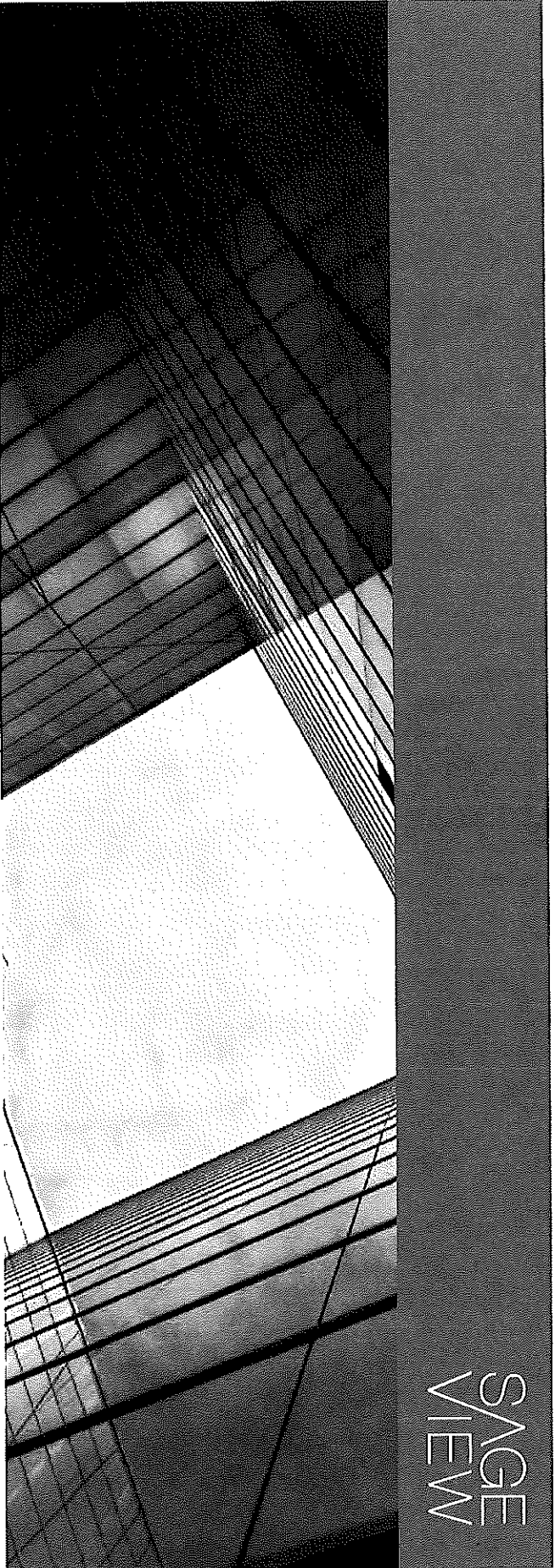
- Adopting a formal policy that results in a COLA exceeding 1% a year would drastically increase costs to the plan



City of Charlottesville

Deferred Retirement Option Program (DROP)

February 10, 2025





DROP Program

- A public plan DROP (Deferred Retirement Option Program) allows employees to defer their retirement while still actively working.
- **Eligibility Criteria:** Employees must meet specific age and service requirements to participate.
- **Participation Period:** The employee can choose to participate for a defined period, often 3-5 years, during which they continue working while their retirement benefits are deferred.
- **Deferred Retirement Benefits:** Instead of receiving pension benefits, the employee's pension is "deferred" and placed in an interest-bearing or non-interest-bearing account.
- **Accumulation of Benefits:** The funds that would have been paid as monthly pension benefits are deposited into a DROP account that may or may not include interest or investment earnings.
- **Continued Employment:** Employees continue to work and earn their salary, while the deferred pension is accumulated in the DROP account.





DROP Program

- **Payout at the End of DROP Period:** After completing the DROP period, the employee receives a lump-sum payout of the accumulated benefits from their DROP account either as a taxable cash distribution or a rollover at the employee's direction.
- **Impact on Retirement Benefits:** Participation in DROP typically does not impact the employee's eligibility for full retirement benefits, but the calculation of final retirement benefits may be based on salary or pension terms during the DROP period.
- **Retirement Option:** After the DROP period ends, the employee must retire, although some plans may allow for reemployment under specific terms.
- **Tax Implications:** The funds in the DROP account may be subject to taxes upon withdrawal, depending on the tax laws governing the plan.
- **Administrative Expenses:** A reasonable fee may be charged to the DROP account to cover the administrative cost of the program.

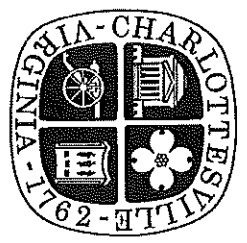




DROP Program

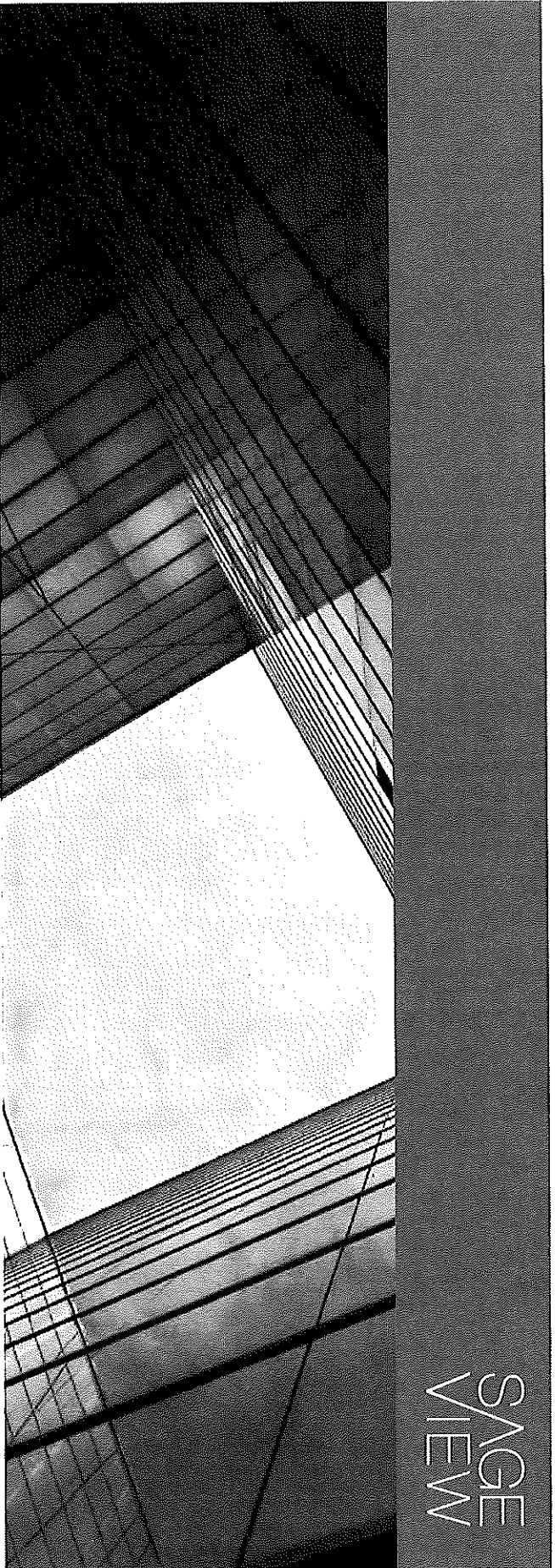
- **Program Goals:** Aimed at providing a transition for older workers who want to continue working but also wish to secure their pension benefits in advance.
- These plans are often designed to provide flexibility for public employees in planning for retirement while maintaining workforce stability for public agencies.
- DROP Programs may be cost neutral for the plan itself by design, but not the City.





City of Charlottesville
The Retirement Plan for the City of Charlottesville
Cost of Enhanced Unused Sick Leave Provisions for Sworn Police

September 2025





Plan Study Objectives

- Show the lump sum cost of increasing the creditable service conversion of unused sick leave for Sworn Police
- Currently the Plan converts 50% of unused sick leave into creditable service at retirement, up to a maximum of 2,000 hours (11 months)
- Scenario #1 of study: Convert 100% of unused sick leave for the first six months of creditable service and 50% of unused sick leave for the second six months of creditable service, up to a maximum of 1 year of creditable service
- Scenario #2 of study: Convert 100% of unused sick leave into creditable service at retirement, up to a maximum of 2,080 hours (1 year)
- See the City Code definition of Creditable Service and proposed changes on slides 6 and 7



Results – Sworn Police Only

Sworn Police Only	Current Plan ("50%")	Scenario #1 ("100%/50%")	Scenario #2 ("100%")
Normal Cost (NC)	\$300,000	\$311,000	\$312,000
Increase (\$)	N/A	\$11,000	\$12,000
Active Liability (AL)	\$19,041,000	\$19,383,000	\$19,408,000
Increase (\$)	N/A	\$341,000	\$366,000
One-Time Cost		\$341,000	\$366,000

The increase in Normal Cost will be an annual additional cost included in the contribution rate.
The change in contribution rate is de minimis.

All amounts shown above are estimates and rounded to the nearest \$1,000.



Study Conclusions

- No significant difference in impact between Scenarios #1 and #2. Scenario #2 adds only a small amount of additional unused sick leave to the calculations across a small group of active participants.
- The city could fund the change in actuarial liability in a single lump sum payment of \$341,000 for Scenario #1 or \$366,000 for Scenario #2.
- Annual ongoing additional cost is \$11,000 for Scenario #1 or \$12,000 for Scenario #2. The change in annual contribution rate is de minimis.



Study Assumptions

- Actuarial inputs
 - Changes to creditable service effective as of July 1, 2025
 - Data used is Sworn Police active census as of July 1, 2025
 - Projected pay for upcoming year = \$7.5 million
 - Actuarial Assumptions as published in most recent actuarial valuation report (for July 1, 2024) updated for changes adopted after 2025 experience study
 - Actuarial methods and plan provisions as published in most recent actuarial valuation report (for July 1, 2024)



City Code Definition of Creditable Service

“Creditable service means, for any member who is in service at any time after July 1, 1982, their total service as an employee, whether or not continuous, exclusive of any separate period of service of less than nine (9) months in duration, but inclusive of official leave for military service, to the extent required by federal or state law...

For any employee eligible to retire pursuant to the provisions of section 19-95(a), (e), (g) or section 19-100 of this chapter, creditable service shall include, for purposes of computing the retirement allowance, one-half (½) of the employee's accumulated and unused sick leave as of the date of retirement, up to a maximum of two thousand (2,000) hours...”

Source: Excerpted from Code of the City of Charlottesville (1990), Sec. 19-91 – Definitions.



Proposed Changes to City Code for Unused Sick Leave

Scenario #1 (“100%/50%”): Add highlighted clause as shown to reflect the following change to provisions –

“For Sworn Police, creditable service shall include... the sum of a) and b) as defined below:

- a) all (100%) of the employee’s first one thousand forty (1,040) hours of accumulated and unused sick leave as of the date of retirement
- b) one-half (½) of the employee’s accumulated and unused sick leave in excess of one thousand forty (1,040) hours (not less than zero) as of the date of retirement, up to a maximum of two thousand eighty (2,080) hours...”

Scenario #2 (“100%”): Add highlighted clause as shown to reflect the following change to provisions –

“For Sworn Police, creditable service shall include... all (100%) of the employee’s accumulated and unused sick leave as of the date of retirement, up to a maximum of two thousand eighty (2,080) hours...”



Actuarial Certification

All costs and liabilities have been determined in conformance with generally accepted actuarial principles and on the basis of actuarial assumptions and methods which are each individually reasonable taking into account past experience and reasonable expectations of future experience. We believe the actuarial assumptions and methods used meet the parameters set by the Actuarial Standards of Practice.

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Principal

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Consulting Actuary