AFRF
AUSTIN FIREFIGHTERS RETIREMENT FUND

The following is a summary of a verbal and written discussion between an Active Member (AM) of the Fund and the AFRF Executive Director, as a representative of the Working Group (WG). The Active Member raised several points for consideration for future pension policy adjustments and both deemed the resulting conversation beneficial to share with all members.

AM: Thank you for the work you are putting into this initiative. I believe we are in this situation by and large because of at least one poor decision to increase the multiplier from 2.4% to 3.3%. Our contribution history and the liability associated with increasing lifespans support this opinion.

WG: Based on the historical data, the Fund's multiplier has increased over the years to the current factor of 3.30%. Every time the factor was increased, both actives and retirees received a benefit increase. If a benefit increase is not adequately funded, it will have the potential over time to cause a drag on a fund's long-term financial health. Please see Graph 1 below illustrating the multiplier increase for our Fund from 1984 through the present day, and Graph 2 with the corresponding contribution rates. Additional factors that may have contributed to the situation we are facing today include market downturns, the Fund's actual experience deviating from certain actuarial assumptions on a consistent basis, benefit payments such as COLAs being granted using investment gains instead of being prefunded, correction of inaccurate actuarial assumptions such as mortality rate assumption, DROP liability calculations that did not include the previously granted COLAs, and correction of member data. Graph 3 below, provided by our actuary, illustrates this point.

AM: Increasing contributions from Active Members is an untenable position. Everyone is dealing with the same inflation and loss of buying power.

WG: We understand that our current active member contribution rate of 18.70% is one of the highest in the state of Texas. The Working Group is mindful of that fact and is looking at all possible options that would not cause current member contributions to increase.

AM: It is short-sighted to give Retirees a COLA that meets or exceeds the raise the Active Members received for the same time period. I respect the care we give to our Retirees, but the Fund needs to continue growing to support the payment of future member benefits.

WG: The Working Group is trying to find the right balance for the Fund's three groups of members: retired members, current actives, and future new hires. It is a complicated task, but providing a modest and predictable form of purchasing power protection for our retired members is one of the goals outlined by the Working Group.

AM: Can you explain what occurred in terms of Retired Members annuities once the 0.9% multiplier increase went into effect in the early 2000s? Did all Retirees get an increase in their annuity retroactively or did it only affect Retirees moving forward? It seems that if Retirees are drawing more than their years of contributions were set to pay out, the Fund would need to increase money coming in.

WG: Yes, every time the multiplier was increased, pension benefits for the retirees were recalculated based on the higher multiplier. Effectively, they ended up receiving a permanent COLA with every multiplier increase. Based on what we have gathered in talking to the membership, those retiree base benefit increases were considered COLAs. The table below, provided by our actuary, illustrates this point.

AM: Please don't mess with the DROP. I would understand the need for a variable rate of return, but the DROP is a sum of money we can count on leaving to our family if we pass shortly after retirement.

WG: One of the goals for the Working Group is to preserve the benefits promised to current active members. However, they must also balance that preservation against the long-term financial sustainability of the Fund. The Working Group will be focusing on refining and clarifying the policies related to the DROP program. For current members, one area the Working Group is considering for possible change is an adjustment to the DROP interest crediting structure that would be fair and also maintain its appeal to members.

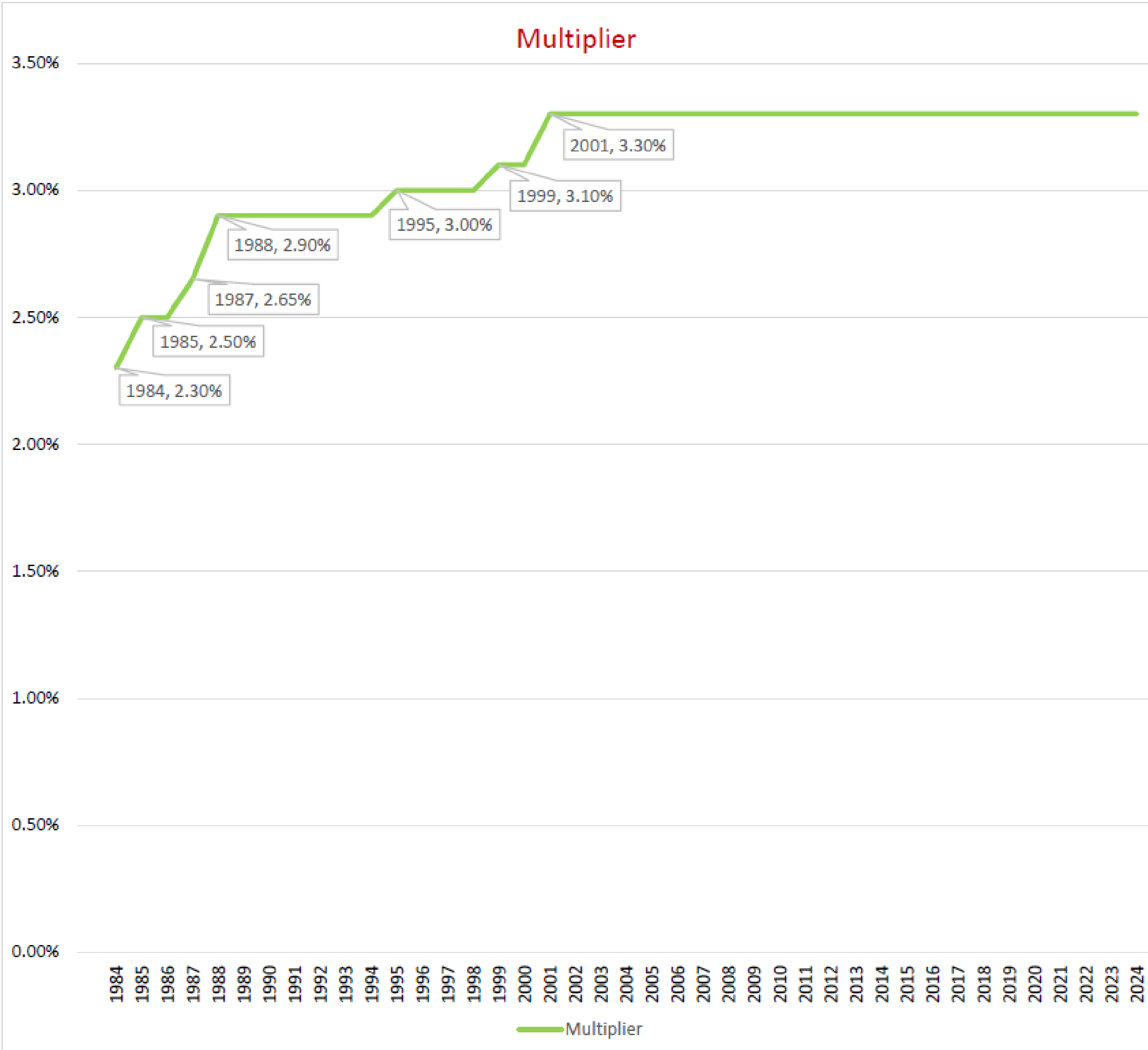
AM: A two-tiered system still matters. Please do not create inequity between the older generations and our future members.

WG: AFRF takes pride in continuing to offer a singular benefit structure to all members. However, given the current inadequate contribution arrangement that has resulted in negative funding projections, one of the levers available to and widely utilized by defined-benefit plans is adding a more-affordable tier. The Working Group is trying not to put the full burden on the shoulders of future hires, so they have focused on minimizing any potential inequities between the two tiers. Unfortunately, there is no solution without shared responsibility amongst all three membership groups.

AM: Staff the Pension office as needed. Two people with outdated tech is not sufficient to oversee a billion-dollar fund like ours. You are doing a good thing and I appreciate the improvements.

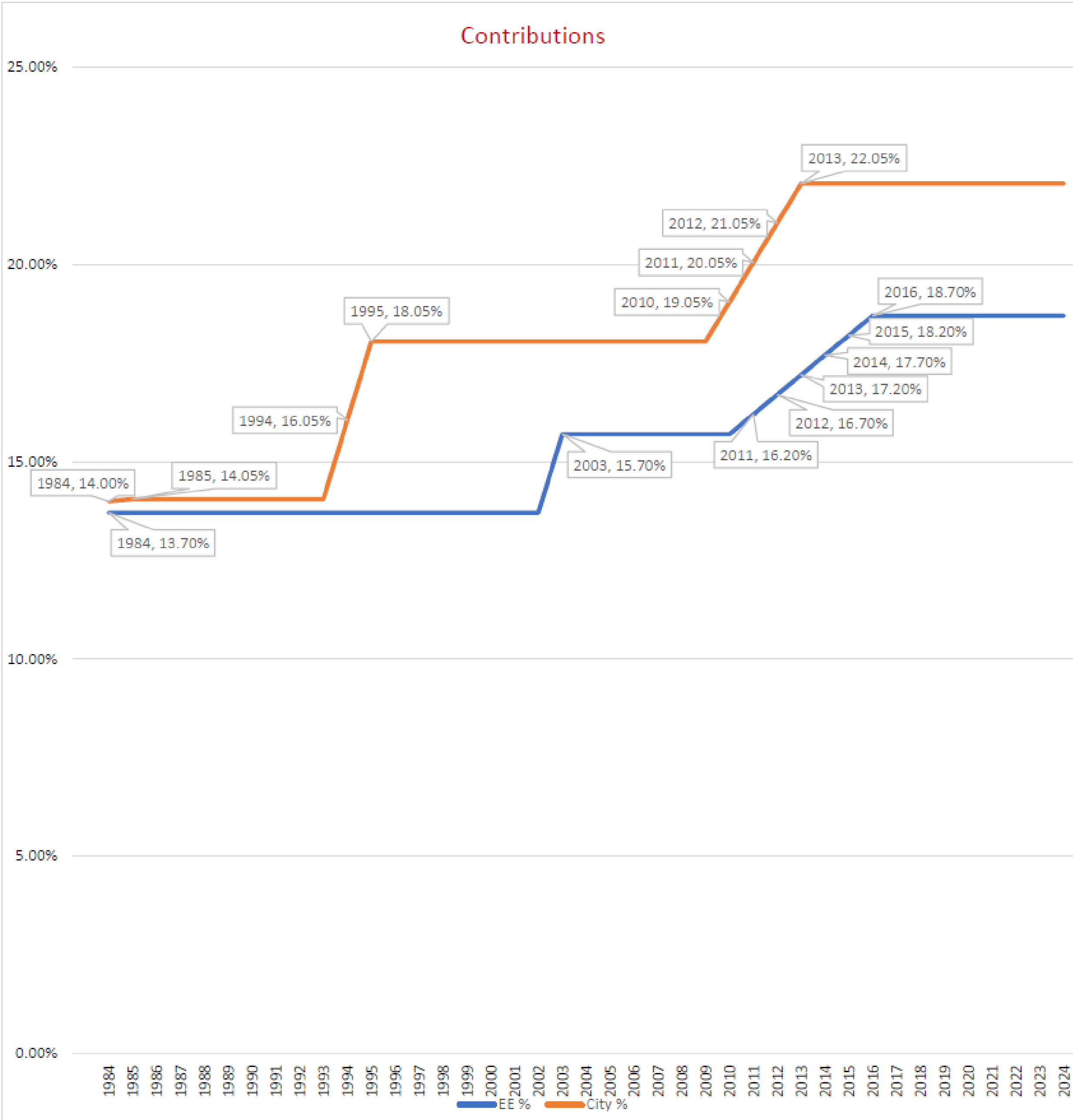
WG: We strongly believe in transparency and accountability and have a dedicated and hardworking staff. We appreciate your trust and confidence in their ability to continue to bring about the needed changes within the Fund.

Graph 1



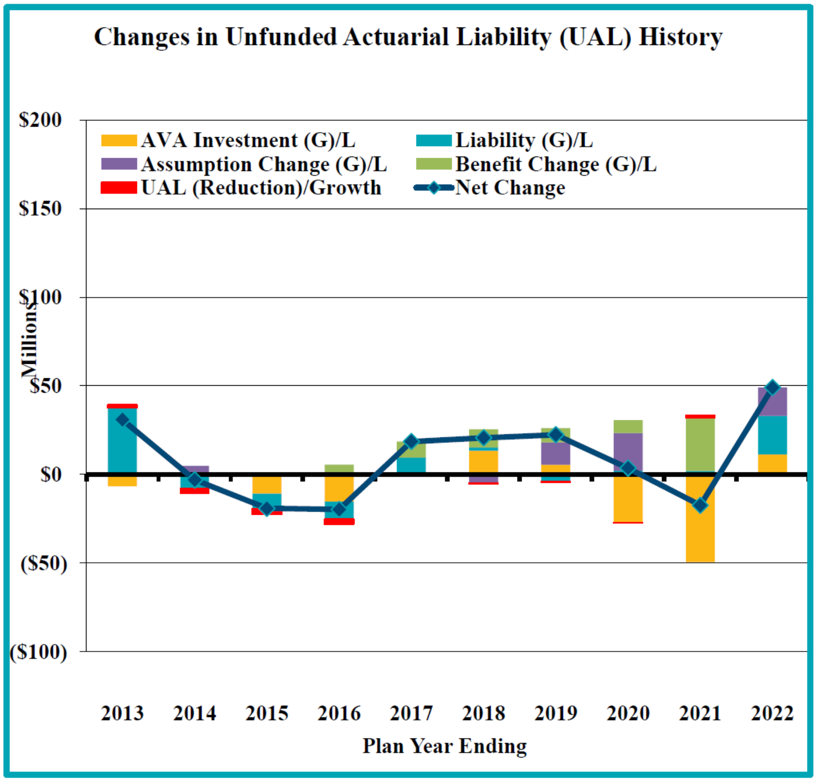
Multiplier
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
2001, 3.30%
1999, 3.10%
1995, 3.00%
1988, 2.90%
1987, 2.65%
1985, 2.50%
1984, 2.30%
1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024
Multiplier

Graph 2


Contributions
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
2013, 22.05%
2012, 21.05%
2011, 20.05%
2010, 19.05%
1995, 18.05%
1994, 16.05%
1985, 14.05%
1984, 14.00%
1984, 13.70%
2003, 15.70%
2011, 16.20%
2012, 16.70%
2013, 17.20%
2014, 17.70%
2015, 18.20%
2016, 18.70%
1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024
EE %
City %

Graph 3

Gain/Loss Trends



Table

Historical COLAs and CPI

Year	COLA ($ monthly)	CPI-U Prior
1975	2.0%	11.96%
1976	2.0%	7.84%
1977	2.0%	5.50%
1978	2.0%	6.60%
1979	2.0%	8.21%
1980	2.0%	12.20%
1981	2.0%	12.67%
1982	2.0%	10.97%
1983	2.0%	5.01%
1984	2.0%	2.90%
1985	4.0%	4.21%
1986	3.0%	3.18%

Year	COLA ($ monthly)	CPI-U Prior
1987	1.5%	1.76%
1988	4.0%	4.30%
1989	4.3%	4.20%
1990	4.5%	4.34%
1991	6.3%	6.16%
1992	2.9%	3.39%
1993	3.2%	2.99%
1994	2.8%	2.69%
1995	2.6%	2.96%
1996	2.9%	2.54%
1997	3.0%	3.00%
1998	2.1%	2.15%

Year	COLA ($ monthly)	CPI-U Prior
1999	1.5%	1.49%
2000	2.6%	2.63%
2001	3.4%	3.45%
2002	2.1%	2.65%
2003	0.0%	1.51%
2004	0.0%	2.32%
2005	$ 32	3.15%
2006	$ 100	5.38%
2007	0.0%	2.06%
2008	0.0%	3.16%
2009	0.0%	4.94%
2010	0.0%	-1.29%

Year	COLA ($ monthly)	CPI-U Prior
2011	0.0%	1.14%
2012	0.0%	3.87%
2013	$ 93	1.99%
2014	$ 64	1.18%
2015	1.3%	1.66%
2016	0.0%	-0.04%
2017	1.5%	1.46%
2018	2.2%	2.23%
2019	2.3%	2.28%
2020	1.7%	1.71%
2021	1.4%	1.37%
2022	5.4%	5.39%

Year	COLA ($ monthly)	CPI-U Prior
2023	0.0%	8.20%
2024	0.0%	3.70%