Austin Fire Fighters Relief and Retirement Fund

Summary of Proposed Legislative Changes for Member Feedback

The Board of Trustees of the Austin Fire Fighters Relief and Retirement Fund is considering changes to the Fund’s governing statute during the upcoming 2021 legislative session. The Board values the input of the members of the Fund and requests feedback on its list of proposed changes, and specifically, whether members are in support of each legislative change described below. Please submit all comments by [__________, 2020] via email to staff@afrs.org for the Board’s consideration.

Proposal #1: Fund Staff Participation in Pension System

In order to attract and retain qualified staff to administer the Fund, the Board proposes that full-time employees of the Fund be eligible to participate as members of the Fund. Benefits would be modified based on contribution levels, and Fund employees would not be eligible for disability benefits.

Proposal #2: Survivor Benefits for Designated Beneficiaries

The Board proposes that the provisions of the Act governing survivor benefits be revised to provide that survivor benefits are first available to the designated beneficiary of each member to better ensure consistent treatment for all members, regardless of married status. The key provisions of the proposed changes to the survivor benefits are described in more detail in the attached Exhibit A.

Proposal #3: Return to Work After Receiving Disability Benefits

The Board proposes a technical correction to remove the reference to the Board’s ability to “restore” a member to active service with AFD. The Board does not have this authority. The Fund is working with AFD to understand the process for firefighters seeking reemployment after being on disability.

Proposal #4: DROP Interest Rate and Crediting

In order to protect the long-term sustainability of the Fund and ease Fund administration, the Board proposes to make changes to the DROP interest rate and how it is credited to DROP accounts.

*Interest Rate:* The guaranteed 5% interest rate would be replaced with a variable interest rate that would be capped at 5%, but be no less than 0%. The Board is considering different options for how the rate might vary between 0% and 5%, including tying the rate to the Fund’s investment return, the Fund’s actuarial assumed rate of return or a market rate based on long-term Treasury bills or other financial instrument. Examples of this variable interest rate are attached as Exhibit B.

*Crediting of Interest:* Interest will be credited to a member’s DROP account once per calendar year rather than on a monthly basis. If a member withdrew funds from a DROP account during the year, interest would be credited on a pro-rata basis.

Proposal #5: Pension Board Size

In order to provide for additional representation by members of the Fund and the City of Austin, the Board proposes to increase the Board size from five members to seven members by adding one trustee position from the City of Austin (appointed by the City Manager) and one trustee position from the membership (elected by the membership).

Proposal #6: Mayor Designee

The Mayor of the City of Austin is a member of the Board by statute. Considering the Mayor’s schedule and responsibilities, the Board proposes that the Mayor be permitted to designate a member of the Austin City Council to serve on the Board in place of the Mayor, which would ensure that the position on the Board is still filled by an elected official of the City of Austin.

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Exhibit A

Summary of Proposed Changes to Survivor Benefits

As described under Proposal #2 above, the Board proposes that the provisions of the Act governing survivor benefits be revised to provide that survivor benefits are first available to the designated beneficiary of each member to better ensure consistent treatment for all members, regardless of married status, as described in more detail below.

**Survivor Annuity Benefit**

- Each member would be eligible to designate a beneficiary to receive a survivor annuity benefit upon the member’s death which would be payable to such beneficiary for the beneficiary’s lifetime. For members who die while in active service, the beneficiary’s benefit would be based upon no less than 20 years of credited service.

- Each member may name one individual to be his or her designated beneficiary, regardless of whether or not the member is married or has children. However, if the member is married and wants to name someone other than the member’s spouse as beneficiary, the member’s spouse must consent to the designation in order for it to be valid. Such designation must be filed with the Fund prior to the member’s death.

- If the designated beneficiary is 10 or more years younger than the member, the designated beneficiary’s benefit will be reduced to the actuarial equivalent of the benefit that would have been payable if the beneficiary and the member were the same age. This rule will apply the same to all beneficiaries, including spouses.

- If an active or vested terminated member dies without naming a beneficiary, the statute would provide a default list of individuals who would be deemed to be the member’s beneficiary for the survivor benefit as follows:
  - First, the member’s spouse, if married at the time of death;
  - Second, if no surviving spouse, the member’s children, whether dependent or not (split equally between all of the member’s children if more than one child survived the member);
  - Third, if no surviving spouse or children, the member’s dependent parent(s), if any; or
  - If no surviving spouse, children, or dependent parents, the member’s estate would receive an amount equal to the excess, if any, of the accumulated contributions credited to the member’s account in the Fund, plus interest, over the amount of benefits previously paid to the member, if any.

- The default list set forth above would not apply to retired members in order to avoid an adverse actuarial impact to the Fund. Accordingly, if a member dies after commencing a benefit without a beneficiary designation in place, no survivor benefit will be payable, regardless of the member’s marital status at death. As part of the retirement process, members will be strongly encouraged to complete or update their beneficiary designations.

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1 Note to Board: a brief discussion was held in a prior meeting about whether a designated beneficiary should be allowed to waive the annuity benefit and elect to receive a refund of contributions instead. Consider whether you would like to incorporate that concept which is not currently allowed under the statute as part of these revisions.

2 Note: If a member elected a single life annuity upon retirement, there would be no survivor benefit payable.
• An active or vested terminated member may update or change a beneficiary designation at any time prior to retirement.

• Once a member commences a retirement benefit with a survivor benefit, the retiree may only change a beneficiary designation twice, and each change will result in an actuarial reduction to the benefit of the member and/or beneficiary to avoid any adverse impact to the Fund as a result of such change.\(^3\)

**Dependent Child Annuity Benefit**

• The dependent child’s benefit would be remain in place as currently provided in the Act, provided that no dependent child annuity benefit would be paid if the member’s child is named, or deemed to be, the member’s designated beneficiary for the survivor annuity benefit described above.

**DROP Benefit**

• A member may designate a beneficiary for DROP which may, but is not required to be, the same person that the member designates for the survivor annuity benefit. If the member is married and wants to name someone other than the member’s spouse as beneficiary, the member’s spouse must consent to the designation in order for it to be valid.\(^4\)

• A member may designate more than one beneficiary to receive the balance in the member’s DROP account and may designate a specific percentage of the DROP account that each beneficiary is entitled to receive upon the member’s death.

• If a member dies without designating a beneficiary for the DROP account, the member’s designated beneficiary for the survivor annuity benefit will be deemed to be the beneficiary for the DROP account, or, if there is no designated beneficiary for the survivor annuity benefit, the DROP account will be paid to the member’s estate.

• If a member dies prior to electing to participate in DROP but was eligible to participate in DROP, the member’s designated beneficiary for the survivor annuity benefit may elect to participate in the DROP so long as the election is made prior to the beneficiary receiving any survivor annuity benefit payments.

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\(^3\) To discuss with Foster & Foster

\(^4\) To confirm with Board whether spousal consent should be required for DROP account beneficiary
Exhibit B

Examples of Calculation of Variable DROP Interest Rate

As described under Proposal #4 above, the Board is considering different options for how the rate might vary between 0% and 5%, including tying the rate to the Fund’s investment return, the Fund’s actuarial assumed rate of return or a market rate based on long-term Treasury bills or other financial instrument.

The following examples show how the DROP interest rate would be calculated under each scenario contemplated above. These examples contemplate that interest would be credited annually.

(1) Fund’s actual investment return

Under this scenario, the DROP interest rate would be determined each year by taking the Fund’s actual investment return for the prior calendar year less 2%, capped at 5% and no less than 0%.

Examples

- If the Fund achieved an investment return equal to 8% for calendar year 2020, the DROP interest rate for calendar year 2021 would be 5% (i.e., 8% less 2% = 6%, capped at 5%).
- If the Fund achieved an investment return equal to 5% for calendar year 2020, the DROP interest rate for calendar year 2021 would be 3% (i.e., 5% less 2% = 3%).
- If the Fund achieved an investment return equal to 2% for calendar year 2020, the DROP interest rate for calendar year 2021 would be 0% (i.e., 2% less 2% = 0%).
- If the Fund achieved a negative investment return equal to -4% for calendar year 2020, the DROP interest rate for calendar year 2021 would be 0% (i.e., -4% less 2% = -6%, but no less than 0%). In this case, the member is not negatively impacted by the Fund’s investment losses.

(2) Fund’s actuarial assumed rate of return

Under this scenario, the DROP interest rate would be determined each year by taking the Fund’s actuarial assumed rate of return for the prior year’s actuarial valuation less 3%, capped at 5% and no less than 0%.

Examples

- The Fund’s current actuarial assumed rate of return is 7.5%. For any calendar year in which the Fund’s assumed rate of return as used for the prior year’s valuation is 7.5%, the DROP interest rate would be 4.5% (i.e., 7.5% less 3% = 4.5%).
- If the Fund’s assumed rate of return was decreased to 6.75%, the DROP interest rate would be 3.75% (i.e., 6.75% less 3% = 3.75%).

(3) Market rate based on long-term Treasury bills or other financial instrument

Under this scenario, the DROP interest rate would be equal to the market rate for long-term Treasury bills (or some other defined financial instrument) as determined on a specified date of the applicable calendar year, capped at 5% and no less than 0%.