

**Texas Pension Review Board
Actuarial Committee Meeting
Minutes
August 5, 2010**

1. Meeting called to order (00:00)

The first meeting of 2010 of the Texas Pension Review Board (PRB) Actuarial Committee was called to order by Chair Norman Parrish on Thursday, August 5, 2010, at 1:35 p.m., in the Capitol Extension Building, Committee Room E1.012, in Austin, Texas.

2. Roll call of Committee members (00:21)

Board Members Present:

Chair Norman Parrish
Andrew W. Cable
J. Robert Massengale

A quorum being present, the meeting was called to order by Chair Parrish.

3. Discuss Committee charges - Chair Parrish (00:29)

Chair Parrish gave an overview of the purpose of the Actuarial Committee meeting.

4. Review and consider modifications to the "Guidelines for Actuarial Soundness" as issued by the PRB - Chair Parrish (02:26)

A. Staff report on PRB Guidelines for Actuarial Soundness - Chris Hanson

Mr. Hanson referred the members to the PRB report on "Guidelines for Actuarial Soundness" included in their packet. Mr. Hanson stated the reason for establishing the guidelines was threefold: 1) Lend consistency to positions advocated in impact statements; 2) Aid in providing technical assistance to registered plans; and 3) Promote public disclosure. The current PRB guidelines have been in existence since 1984.

Mr. Hanson stated staff researched the concept of actuarial soundness and found citations for the concept in the Constitution. The articles state "financing of benefits must be based on sound actuarial principles" and "public retirement systems shall select legal counsel and an actuary and adopt sound actuarial assumptions to be used by the system or program". Mr. Hanson also referred to statutes of Teacher Retirement System (TRS) and Employee Retirement System (ERS) referencing the term "actuarial soundness".

Mr. Hanson stated when staff looked at how other states defined actuarial soundness, they found that the term was vague. Different states have different litmus tests for actuarial soundness and none of them are the same.

Mr. Hanson referred the members to a matrix, included in their packets, of the results of an online survey staff conducted regarding possible changes to the PRB guidelines on actuarial soundness. The matrix applies a numerical grading system to the responses that were received from the survey. Also included were the comments that were received on the survey.

Chair Parrish gave a brief overview of the five PRB actuarial soundness guidelines and a definition of each one.

Chair Parrish asked if the members had any questions. There being none, the Committee moved to the next item on the agenda.

B. Discuss possible modifications to the "Guidelines for Actuarial Soundness"

Chair Parrish opened the discussion with the 40-year amortization period and whether or not it should be shortened to 30 years to remain consistent with Governmental Accounting Standards Board (GASB) Statement No. 27. Chair Parrish noted, in his opinion, the amortization should be shortened to 31 years, to legally accommodate TRS and ERS, is reasonable. The idea of a 30-year amortization period was generally agreed to by the plans that participated in the PRB online survey.

The next issue discussed was if the amortization period is shortened to 30 years should there be a phase-in period.

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Mr. Cable inquired as to the repercussions of a short span to make the change from 40 years to 30 years. Chair Parrish stated it would increase the number of plans that would not meet the PRB's standards.

Mr. Hanson stated the Committee should take into consideration the number of plans whose current amortization period is between 30 and 40 years. These are the type of plans that would immediately be affected by any kind of phase-in plan that may be adopted by the Board.

Mr. Massengale inquired as to what the effect of GASB Statement No. 27 would be on a phase-in plan.

Chair Parrish noted that GASB is no longer concerned about the contributions made, but is more concerned about how the assets compare to the liabilities. He explained that the PRB is concerned about a plan being adequately funded not the plans disclosure. Chair Parrish stated GASB provides guidelines, but the PRB is not tied to it.

After much discussion, Chair Parrish asked for public comment.

C. Receive Public Testimony

Mr. Bob May, Actuary, Rudd & Wisdom, Inc., testified the PRB has done well with the 40-year amortization. The PRB has 18 plans that are above the 40-year amortization period, if the amortization period was shortened, that number would increase. Mr. May stated if the amortization period was shortened to 30 years, would the PRB have the time and resources to do a careful review and bring the plans in front of the Board. Mr. May said the PRB should also anticipate a difference of opinion from some actuaries.

Mr. Randy Stalnaker, Vice President, TEXPERS, testified something does happen to plans when they drop below the 40-year amortization or whatever the actuarial soundness standard is set by the PRB. The public defined benefit pension plans in Texas are under attack and if more of them drop below the actuarial standard set by the PRB, it will give ammunition to the people that are attacking the plans. This would cause the plans benefits to be reduced or the plan could be terminated.

Mr. Stalnaker advised the Committee not to take any of the actions under consideration lightly.

Mr. David Stacy, Trustee, Midland Firemen's Relief & Retirement Fund, agreed with Mr. Stalnaker's testimony. He stated there are definitely consequences for pension plans that fall outside of the actuarial soundness guidelines. The majority of the plans have limited resources of time and staff, managing the plan's assets is far more important than trying to defend what a plan is doing. When the limited resources are diverted to defending what a plan is trying to do, it diverts the time from managing the plan's assets.

Chair Parrish continued the discussion of items 5-9 of the PRB online actuarial soundness survey. Chair Parrish stated in his opinion none of the items should be added to the PRB Guidelines.

Chair Parrish inquired if there were any other opinions or comments, there being none, Chair Parrish called on Mr. Hanson to give the staff's report on GASB Statement No. 27.

5. Discuss Governmental Accounting Standards Board (GASB) Statement No. 27 preliminary view – Chair Parrish (59:47)

A. Staff report on GASB Statement No. 27

Mr. Hanson referred the Committee members to the preliminary view of GASB Statement No. 27 in their packets. Mr. Hanson stated that GASB is moving away from funding and focusing on disclosure of net pension liability instead of net pension obligation.

Mr. Hanson explained this item was placed on the agenda because a couple of plans have asked whether or not the Board would issue public comment on GASB Statement No. 27 and also to apprise them of what GASB is doing.

Chair Parrish and the Committee members agreed the Board should not make any public comment.

Chair Parrish called on the audience to receive public testimony.

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B. Receive Public Testimony

Mr. May testified GASB would be open to receive any comments from the Board.

Chair Parrish stated if GASB begins modifying their guidelines on funding, the Board should comment.

6. Review and consider modifications to the procedures for monitoring the status of actuarially unsound pension systems in Texas – Chair Parrish (1:07:43)

A. Staff report on PRB procedures for monitoring the status of actuarially unsound pension systems (Adopted May 13, 2002)

Mr. Hanson explained these procedures were developed under the recommendation of an internal audit conducted during the 77th Legislature. At the time, the PRB did not have a well-defined action plan for dealing with actuarially unsound pension plans.

Mr. Hanson stated staff is looking for guidance from the Board as to what their role will be if a plan were to stray from the guidelines and also to clarify the process for the plans.

Chair Parrish commented that creating official lists should be minimized and the PRB guidelines should be the only criteria the plans should follow. Other information should be used to apply these standards and to determine which plans need the most attention.

B. Discuss possible modifications to the procedures for monitoring the status of actuarially unsound public pension plans in Texas

Mr. Massengale stated it would be appropriate to develop some other type of action plan to give notice to the plans.

Chair Parrish stated the PRB should not create a specific list of steps. The PRB would like to engage the plans in a discussion before we ask them to appear before the Board.

C. Receive Public Testimony

Mr. Stacy testified due to the long-term nature of the plans and volatility of the market, if a plan has been outside the guidelines for two actuarial cycles the PRB should evaluate the trend and decide if it should intervene.

Mr. Max Patterson, Executive Director, TEXPERS, testified there should be some criteria that alert the PRB of a plan requiring attention. The PRB should initiate correspondence and discussion with a plan before calling it before the Board. Mr. Patterson suggested holding another Actuarial Committee meeting to further discuss this item which would give the PRB staff more time to develop some procedures.

Mr. May suggested some ways the staff could establish criteria to determine if a plan needed their attention. One method would be to look at the way a plan is contributing.

Mr. Massengale stated he believed the way to approach establishing the guidelines are by looking at the trends.

7. Establish committee work schedule and determine work product – Chair Parrish (1:29:28)

A. Other possible areas of committee actions, if suggested by Board members at this meeting

Chair Parrish explained the next step would be for staff to take the comments and develop a new set of guidelines for discussion at the next Actuarial Committee meeting.

B. Date and location for next committee meeting

Chair Parrish noted the next Actuarial Committee meeting should be held in conjunction with the next Board meeting on Tuesday, September 21, 2010.

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8. Invitation for audience participation – Chair Parrish (1:31:12)

Chair Parrish asked for public comment.

9. Adjournment (1:31:24)

There being no comments, Chair Parrish thanked the Committee and the audience for their participation at the meeting, and the staff for their time and effort. With the business of the Committee completed, Chair Parrish adjourned the meeting at 3:05 PM.

In Attendance:

Staff:

Anumeha
Lynda Baker
Joey Evans
Daniel Gunter
Chris Hanson
Daniel Moore
Cathy Overton-Johns
Kimberly Rhodes

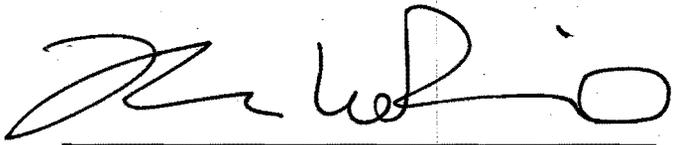
Guests:

Anthony Alexander, Fire Fighters' Pension Commission
Trish Bale, Texas Association of Public Employee Retirement Systems
Paul Brown, Texas Association of Public Employee Retirement Systems
Eyna Canales-Zarate, Texas Association of Public Employee Retirement Systems
Carol Chaney, Fire Fighters' Pension Commission
Todd Clark, Houston Fire Fighters Relief & Retirement Fund
Steve Edmonds, City of Austin Employee Retirement System
Brody Edwards, Lower Colorado River Authority
Mike Evins, Employee Retirement System
Mark Fenlaw, Rudd and Wisdom
Ken Gold, Denton Firefighters Relief & Retirement Fund
Leslee Hardy, Texas Municipal Retirement System
Lynda Jackson, Dallas Area Rapid Transit
Rick Mackesey, Buck Consultants
Richard Malone, Port Arthur Fire Fighters Pension
Robert May, Rudd and Wisdom
Mickey McDaniel, Retirement Horizons, Inc.
Jason McElvaney, Texas County and District Retirement Systems
Sherry Mose, Houston Municipal Employees Pension System
Russell Nash, City of Austin
Mercer Nessour, Port Arthur Fire Fighters Pension
Scott Olguin, Choice Investments
Genia Owens, Texas Association of Public Employee Retirement Systems
Max Patterson, Texas Association of Public Employee Retirement Systems
Warren Schott, San Antonio Fire & Police Pension
Steve Shaw, Dallas Police & Firefighters Pension

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Continued Guests:

Clint Smith, Texas Association of Public Employee Retirement Systems
Rhonda Smith, Houston Municipal Employees Pension System
David Stacy, Midland Fire Retirement & Relief Fund
Randy Stalnaker, Texas Association of Public Employee Retirement Systems
Ana V. Tinsley, Fire Fighters' Pension Commission
Michael Trainer, San Antonio Fire & Police Pension Association
Gary Vincent, Houston Fire Fighters Relief & Retirement Fund
C. Kay Watson, Dallas Employee Retirement Fund
Michael Wheeler, Employee Retirement System of Texas
Richard White, Milliman

A handwritten signature in black ink, appearing to read 'Norman Parrish', written over a horizontal line.

Chair Norman Parrish