

**Texas Pension Review Board
Actuarial Committee Meeting
Minutes
September 21, 2010**

1. Meeting called to order (00:00)

The second meeting of 2010 of the Texas Pension Review Board (PRB) Actuarial Committee was called to order by Chair Norman Parrish on Tuesday, September 21, 2010, at 10:05 a.m., in the Capitol Extension Building, Committee Room E1.012, in Austin, Texas.

2. Roll call of Committee members (14:3)

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. Approval of the August 5, 2010 Committee Minutes - Chair Parrish (24:5)

Chair Parrish entertained a motion to suspend the reading of the Minutes of the PRB Actuarial Committee meeting held August 5, 2010.

Motion made by Mr. J. Robert Massengale, seconded by Mr. Andrew Cable that the PRB Actuarial Committee suspend the reading of the Minutes of its meeting held August 5, 2010.

MOTION CARRIED UNANIMOUSLY

Chair Parrish inquired if any corrections were to be made to the Minutes of the August 5, 2010, PRB Actuarial Committee meeting. There being none, Chair Parrish stated that the Minutes of the August 5, 2010, PRB Actuarial Committee meeting are approved as circulated.

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 of the current "Guidelines for Actuarial Soundness" included in their packet. Mr. Hanson stated staff took a wide range of the discussions at the August 5, 2010 Actuarial Committee meeting and narrowed it down to a few proposals.

Mr. Hanson stated staff hoped the proposals could be discussed at this meeting and be narrowed down to a single proposal for public comment. Once public comment has been received, the staff would present the "Guidelines for Actuarial Soundness" at the next Committee meeting to gauge exactly what are the next steps the Committee would like to take. Hopefully, by the December Board meeting, the Committee will be in favor of the proposal and can recommend the proposal to the full Board.

Mr. Hanson went through the five current and proposed guidelines noting no changes to Guidelines 1 and 3 were being considered.

Mr. Cable inquired if the audience had an opportunity to view the proposed guidelines.

Mr. Hanson stated if any members of the audience had not received a copy of the proposed guidelines, one could be provided for them.

Chair Parrish went into greater detail about the five guidelines and the proposed changes.

B. Receive Public Testimony

Chair Parrish opened the discussion with Guideline 2 referencing the allocation of the normal cost portion of the contributions.

Mr. Robert May, Rudd & Wisdom, stated there is a divided opinion among actuaries on Guideline 2. Actuaries have used this method in the past, and the rationale behind it is was not thinking of managing

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unfunded liabilities or push them into futures, but it was having, as a primary objective, a contribution level as a percent of pay over a long period of time.

After much discussion, Chair Parrish asked the Committee members if they had any questions regarding Guideline 2.

For clarification purposes, Mr. Cable asked if taxpayers who are hired under a certain package with benefits, would be protected by this proposed guideline.

Chair Parrish stated that is correct.

Mr. Hanson provided some background information on Guideline 2 and stated the Committee should consider how firm it wants to speak on this particular method.

Mr. Massengale inquired if there is was a way to determine what the impact is on actuarial soundness with the unfunded liability.

Mr. Hanson responded due to having a slightly lower normal cost by assigning all members to a group, you are moving some of that cost to the unfunded and it will be paid out over a period of the fund. In a compound interest environment, it may be more expensive.

Chair Parrish stated essentially, it reduces contribution it does not make funding stronger but weakens the funding of the plan.

Mr. Hanson stated another thing to be considered is if the Committee wanted to defer the judgment of Guideline 2 to the actuarial community, then it should take the guideline as it is "level of generation over taxpayers, and calculate under applicable actuarial standards". In other words, keep the language as it is and allow the actuarial community to determine whether the language is appropriate.

Chair Parrish stated after this meeting, the PRB staff will develop a single proposed guideline and at a later meeting discuss the guideline and see if there is any public comment.

Chair Parrish proceeded to discuss Guidelines 3, 4 and 5. He stated that there was no need to make any changes to Guideline 3, but Guideline 4 was discussed the most at the last Actuarial Committee meeting. Guideline 4 focuses on the amortization period of unfunded actuarial accrued liability. Three different alternatives for this guideline were presented to the Committee. One of the alternatives focused on a rolling amortization period.

Mr. Robert May testified that a "rolling period" needed to be defined. Mr. May defined a "rolling period" as an amortization period that is set and the actuary is annually determining the contribution rate. In Texas, you have a fixed rate in statute or the rate is set by policy. Mr. May suggested careful wording when defining a "rolling period".

Mr. Hanson reminded the Committee Employees Retirement System (ERS) and Teacher Retirement System (TRS) can adopt periods outside of the preferable range of 15-25 years. Mr. Hanson stated the Committee should consider consistency between the different types of plans.

Mr. David Stacy, Midland Firemen's Relief and Retirement Fund, concurred with Mr. May's comments. Mr. Stacy stated alternative C is a reasonable approach over alternative A.

Mr. Hanson inquired if the Committee wanted to adopt language for Guideline 4 to address the ERS and TRS statutes.

Mr. Cable stated he would be in favor of always having the stipulation in the guideline that addresses the ERS and TRS statutes just for clarification.

Chair Parrish continued with Guideline 5 which discusses the choice of assumptions in the aggregate. Chair Parrish stated this guideline was outdated because it used the word "aggregate".

After some discussion, Chair Parrish asked staff to look at Governmental Accounting Standards Board (GASB) and the Actuarial Standards of Practice (ASOP) to see if there are any conflicts with the language of the proposed guideline.

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Chair Parrish entertained a motion to direct staff to develop a final proposal incorporating Committee discussion and public testimony to be distributed to interested parties for comment and to report back to the Committee at the next meeting.

Motion made by Mr. Massengale, seconded by Mr. Cable to direct staff to develop a final proposal incorporating Committee discussion and public testimony to be distributed to interested parties for comment and to report back to the Committee at the next meeting.

MOTION CARRIED UNANIMOUSLY

Chair Parrish inquired if there was any discussion from the Committee. There being none, Chair Parrish stated staff is directed to develop a final proposal incorporating Committee discussion and public testimony to be distributed to interested parties for comment and to report back to the Committee at the next meeting.

5. Review and consider modifications to the procedures for monitoring the status of actuarially unsound pension systems in Texas – Chair Parrish (1:02:01)

A. Staff report on PRB procedures for monitoring the status of actuarially unsound pension systems

Chair Parrish called on Mr. Hanson to give some background on this item. Mr. Hanson referred the members to the draft of the Policy for Determination of System Actuarial Review included in their packets. Mr. Hanson proceeded to outline the draft proposal for the members.

Mr. Hanson stated when staff came up with the proposal their intention was to set up clear lines of communication between the PRB staff and the plans if there are issues about a plan being actuarially unsound. Mr. Hanson further explained that the proposal gave the plans ample time to communicate with the staff about what the issue is and what needs to be done to fix the problem.

B. Receive Public Testimony

Mr. May testified that this was a reasonable approach, but if it delays the plan appearing before the Board then you may be delaying significant action time.

Chair Parrish agreed it is a legitimate problem; however, one of the intrinsic problems of getting anything done in the pension arena is things happen very slowly.

Mr. Hanson stated language could be put into the proposal giving a plan the opportunity to request to appear before the Committee or the Board if they were having a problem communicating with the city or their board about actuarial soundness issues.

Chair Parrish agreed with Mr. Hanson.

Chair Parrish entertained a motion to direct staff to develop a final proposal incorporating Committee discussion and public testimony to be distributed to interested parties for comment and to report back to the Committee at the next meeting.

Motion made by Mr. Cable, seconded by Mr. Massengale to direct staff to develop a final proposal incorporating Committee discussion and public testimony to be distributed to interested parties for comment and to report back to the Committee at the next meeting.

MOTION CARRIED UNANIMOUSLY

Chair Parrish inquired if there was any discussion from the Committee or any comments from the audience. There being none, Chair Parrish stated staff is directed to develop a final proposal incorporating Committee discussion and public testimony to be distributed to interested parties for comment and to report back to the Committee at the next meeting.

6. Establish committee work schedule and determine work product – Chair Parrish (1:15:22)

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

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Chair Parrish inquired if there were any areas of concern from the Committee. There being none, Chair Parrish proceeded to the next item of business.

B. Date and location for next committee meeting

Chair Parrish informed the audience the PRB staff would email possible dates in November for the next Actuarial Committee meeting.

7. Invitation for audience participation – Chair Parrish (1:15:45)

Chair Parrish asked for public comment.

Mr. Max Patterson, TEXPERS, requested copies of the proposals be sent out as early as possible so the information could be forwarded on to the membership and be reviewed with their actuaries. Mr. Patterson stated he appreciated working with Mr. Hanson who has kept him well informed about what was taking place with the PRB.

Mr. Hanson stated the PRB would put the proposals online for comment and send out hard copies as well in an attempt to get responses back in time for presentation at the next Committee meeting and at the December 8, 2010 PRB meeting.

8. Adjournment (1:18:06)

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 11:23 AM.

In Attendance:

Staff:

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

Guests:

Anthony Alexander, Fire Fighters' Pension Commission
Holly Baird, Teacher Retirement System of Texas
Andy Barboza, Texas Association of Public Employee Retirement Systems
Trish Boden, HillCo Partners
Paul Brown, Texas Association of Public Employee Retirement Systems
Eyna Canales-Zarate, Texas Association of Public Employee Retirement Systems
Todd E. Clark, Houston Fire Fighters Relief & Retirement Fund
Everard Davenport, Dallas Police and Fire Pension System
Alva Littlejohn, Lubbock Fire Pension Fund
Robert May, Rudd and Wisdom
Yuniedth Midence Steen, Locke, Lord, Bissell & Liddell
Carly Nichols, Buck Consultants
Max Patterson, Texas Association of Public Employee Retirement Systems
David Stacy, Midland Fire Relief & Retirement Fund
Ana V. Tingley, Fire Fighters' Pension Commission


Chair Norman Parrish