

**Texas Pension Review Board  
Minutes  
March 7, 2012**

**1. Meeting called to order (00:0)**

The first meeting of 2012 of the Texas Pension Review Board (PRB) was called to order by Chair Richard McElreath on Wednesday, March 7, 2012 at 10:32 AM, at the Capitol Extension Building, Committee Room E1.012 in Austin, Texas.

**2. Roll call of Board members (00:32)**

**Board Members Present:**

Chair Richard McElreath  
Andrew Cable  
Leslie Greco-Pool  
J. Robert Massengale  
Norman Parrish  
Wayne Roberts  
Rep. Vicki Truitt (arrived at 10:35 AM)

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

**3. Consider Board administrative matters, including the following - Chair McElreath (00:55)**

**A. Approval of the December 8, 2011 Board meeting minutes**

Chair McElreath entertained a motion to suspend the reading of the Minutes of the PRB meeting held December 8, 2011 and to approve the Minutes as circulated.

Motion made by Mr. Roberts, seconded by Mr. Massengale that the PRB suspend the reading of the Minutes of its meeting held December 8, 2011 and to approve the Minutes as circulated.

Chair McElreath inquired if there were any comments or discussion from the Board. There being none, the motion carried unanimously to suspend the reading of the Minutes of its meeting held December 8, 2011 and to approve the Minutes as circulated.

**MOTION CARRIED UNANIMOUSLY**

**B. Excusing the absence of Board members from the December 8, 2011 Board meeting**

Chair McElreath entertained a motion to excuse Mrs. Leslie Greco-Pool, Representative Vicki Truitt and Senator John Whitmire from the December 8, 2011 Board meeting.

Motion made by Mr. Cable, seconded by Mr. Roberts to excuse Mrs. Leslie Greco-Pool, Representative Vicki Truitt and Senator John Whitmire from the December 8, 2011 Board meeting.

Chair McElreath inquired if there was any discussion from the Board. There being none, the motion carried unanimously to excuse Mrs. Leslie Greco-Pool, Representative Vicki Truitt and Senator John Whitmire from the December 8, 2011 Board meeting.

**MOTION CARRIED UNANIMOUSLY**

**4. Actuarial Committee – Receive update from staff on the following matters - Norman Parrish (01:46)**

**A. Public retirement system reporting and compliance – Chris Hanson**

Mr. Chris Hanson, Executive Director of the Pension Review Board (PRB), pointed out the continued trend of growth of plan assets. Mr. Hanson stated the growth reflected on the strong market performance up through the second quarter of 2011.

Mr. Hanson noted the compliance numbers have continued to improve.

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**B. Discuss and consider noncompliant retirement systems requiring formal attention at the next Board meeting – Chris Hanson**

Mr. Hanson stated that the new noncompliance policy was included in the Board packet in order for the Board to consider what actions the Board may take at a meeting.

**C. Discuss and consider approval of letter sent to noncompliant retirement systems – Chris Hanson**

Mr. Hanson noted there are a number of plans that have not submitted their annual reports in two or more years. He stated the vast majority of these plans are very small volunteer fire plans or defined contribution plans. Mr. Hanson stated that with the adoption of the noncompliance policy, the Board communicated how serious it is about a plan being compliant with state law.

Mr. Hanson informed the Board there was also a letter included in their packet that would go out to all noncompliant plans, to be considered for adoption. If the letter is adopted by the Board, the next step would be for staff to mail out the letter to the noncompliant plans.

Chairman McElreath inquired as to how the staff was aware the emails had been received by the plans.

Mr. Hanson stated the email was followed up by a phone call to the contact person for the plan. Mr. Hanson stated there are some plans that the PRB has not been able to contact.

Chair McElreath suggested sending an email and a certified letter to the plans that the staff could not contact by phone.

After some discussion, Chair McElreath entertained a motion to approve the form letter that is sent to noncompliant retirement systems.

Motion made by Mr. Roberts, seconded by Mr. Massengale to approve the form letter that is sent to noncompliant retirement systems.

Chair McElreath inquired if there were any further Board discussion. There being none, the motion carried unanimously to approve the form letter that is sent to noncompliant retirement systems.

**MOTION CARRIED UNANIMOUSLY**

Chair McElreath recommended sending a certified letter to all the plans that had previously been sent an email and the staff was not able to contact them by phone.

**D. Actuarial Standards Board – Daniel Moore**

**1. Proposed revision of Actuarial Standards of Practice No. 4**

**2. Proposed revision of Actuarial Standards of Practice No. 27**

Daniel Moore, PRB Actuary, delivered a report on the proposed revisions to Actuarial Standards of Practice (ASOP) No. 4 and ASOP No. 27. Mr. Moore stated the purpose of the exposure drafts is to address the economic value issues regarding actuarial methods and actuarial assumptions.

Mr. Moore noted the Actuarial Standards Board is reviewing ASOP No. 4 in its entirety. Mr. Moore informed the Board that the comment period for these exposure drafts ends May 31, 2012.

Mr. Moore stated some of the key proposed changes to ASOP No. 4 are: Clarify the current definition of "fully funded", funding status disclosure, disclosure of funded status under spread gain methods, proposed definition of "market consistent present value", requirement of rationale for any plan provision that is not valued and disclosure of expected declining feature funded status.

Some of the key proposed changes to ASOP No. 27 are: Definition of a reasonable assumption standard and rationale required for assumptions and changes in assumptions.

Mr. Hanson stated these standards govern actuaries who perform public plan valuations. This would impact the work of the actuarial valuations the PRB receives and the plans.

Mr. Roberts inquired if this was something the PRB was interested in commenting on.

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Chair McElreath recommended that staff get Mr. Parrish's opinions so he can advise the Board of suggestions or thoughts he may have on the proposed changes.

**5. Presentations by invited pension plans (32:01)**

**A. Texas County & District Retirement System – Amy Bishop, Deputy Director**

Amy Bishop, Deputy Director, Texas County & District Retirement System (TCDRS) gave a brief overview on how the benefits work at TCDRS and how the benefits are funded. See Ms. Bishop's presentation located behind Tab 3 in the Board packet.

Representative Truitt inquired about the minus 1.1% as it compared to other state plans.

Ms. Bishop stated TCDRS has a diversified portfolio. TCDRS has a much larger allocation to hedge funds; this is due to the employer's contribution rate varying from year to year. She stated that hedge funds provide the same returns as equities with half the risk. The endowments are returned right at minus 1%.

Chair McElreath asked what the TCDRS benchmark was comprised of outside of the bond allocation.

Ms. Bishop replied that she did not have the information with her but it is on the TCDRS website.

Representative Truitt inquired about the concerns of TCDRS and cost.

Ms. Bishop stated the concerns are the 7% interest credit should be lowered on member's accounts and the period of time to vest should be increased.

Mr. Roberts asked who does the investments for TCDRS.

Ms. Bishop explained TCDRS has an investment officer that reports to the Board and they have investment consultants that are hired by the Board.

Mr. Massengale inquired if there was anything that compares TCDRS benefits to other plans.

Ms. Bishop noted the average benefit is a little less than half of a person's salary at retirement. That can be compared to final salary formulas at Employees Retirement System or Teacher Retirement System.

Mrs. Pool inquired how much of the overall asset allocation is in hedge funds.

Ms. Bishop stated it is about a quarter of the fund.

**B. Texas Municipal Retirement System – David Gavia, Executive Director**

David Gavia, Executive Director, Texas Municipal Retirement System (TMRS) stated that TMRS was similar to the TCDRS plan. Mr. Gavia noted that TMRS is considered a "hybrid plan" because it has some of the features of a traditional defined benefit plan and some features of a defined contribution plan. See Mr. Gavia's presentation located behind Tab 3 in the Board packet.

Mr. Roberts inquired how many people are on the TMRS and TCDRS staff.

Mr. Gavia replied that TMRS has 84 employees. Ms. Bishop replied that TCDRS has about 100 employees.

Chair McElreath asked what is TMRS' percentage of fixed income.

Mr. Gavia replied it is about 55%.

Chair McElreath inquired as to what kind of investment management fees were paid when the fixed income was at 100%.

Mr. Gavia stated all of the investments were done in-house at that time. The fees are presently at about 5%.

Mr. Roberts asked when the "return to work" policy was adopted.

Mr. Gavia stated the "return to work" policy evolved over time.

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Mr. Massengale inquired if employees were allowed to return to work part-time.

Mr. Gavia stated if an employee returned to work in a part-time capacity, they are allowed to work in the same city without a suspension of their annuity. Mr. Gavia noted a part-time employee does not participate in TMRS.

**6. Legislative Committee – Receive update from staff on the following matters – Wayne Roberts  
(1:27:25)**

**A. Sunset Advisory Commission presentation– Michelle Downie, Policy Analyst**

Michelle Downie, Policy Analyst, Sunset Advisory Commission (SAC) informed the Board about the Sunset Review process. Ms. Downie's presentation was handed out to the Board and is in the Board Packet.

**B. 82<sup>nd</sup> Legislative interim charges – Chris Hanson**

Mr. Hanson noted that a list of interim charges were included in the Board packet. Mr. Hanson stated the staff included this listing because the Legislature was in the process of conducting interim hearings.

Representative Truitt announced that the Dodd-Frank Wall Street Reform and Consumer Protection Act on Texas industries hearing is scheduled for April 3, 2012.

**C. Discuss and consider the 2012 Annual Seminar**

**1. Update on grants and sponsors**

Mr. Hanson stated that staff had explored the ideas of sponsors and grants. The staff contacted the Texas Ethics Committee and they responded that conflict of interest or ethics related issues with having sponsors for the annual seminar did not fall under the Commission's statutory jurisdiction.

Mr. Hanson noted the PRB staff also contacted the Board's legal counsel at the Texas Attorney General's Office. The findings were the PRB could utilize sponsors. Legal counsel recommended a disclaimer if a sponsor would be doing business with the PRB in the future.

Mr. Hanson stated the agency cannot receive money directly from a sponsor; however, the sponsor can pay a portion of the cost to the hotel.

Mr. Roberts commented the authority of the PRB to accept gifts and grants should be discussed as preparation for the upcoming legislative session is at hand.

Chair McElreath asked the Board if they were in favor of soliciting sponsorships within the parameters that had been laid out.

A few members had some reluctance and so, Chair McElreath directed staff to put together a protocol to engage sponsors that spells out the expectations. The entity would be a sponsor and no assurances are implied by the PRB.

Mr. Hanson added the staff is still pursuing the grant issue but there were not any grants available to match what the PRB is doing with the seminar.

**2. Speaker and topic suggestions**

Chair McElreath asked that any suggestions for speakers and topics be sent to the PRB staff and then forwarded to him and the rest of the Board. He also requested that the protocol contain any internal and external communication.

**D. Discuss and consider PRB website**

**1. Financial transparency and posting of high-value public data**

Mr. Hanson informed the Board that Senate Bill 701 requires an agency to post high-value data sets online. He stated the goal of the bill is to provide additional transparency, good governance and

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improve public knowledge. Mr. Hanson noted the data that is posted should be in a format that allows the data to be extracted, searched and analyzed by the public.

Mr. Hanson stated the staff would like to generate some discussion as to what high-value data sets should be posted on the PRB's website.

**2. Additional information to be posted on agency website**

Mr. Hanson noted that staff wanted to solicit any input from the members as to what additional information they would like to see posted on the PRB website.

Mr. Massengale suggested that the database project was one item to be posted, the report of noncompliant funds and any links to other resources of pension information.

Mr. Hanson stated there are several ways that the data could be posted at no cost to the PRB. Mr. Hanson noted staff could present these options on cost or no-cost projects at the May 2012 meeting.

Mr. Massengale inquired if the PRB kept up with the number of hits on the website. He requested information on the number of hits/visitors be provided to the Board.

Mr. Hanson said the PRB does track the number of hits on the website and that information would be provided at the May 2012 meeting or sooner if necessary.

**7. Research Committee – Receive update from staff on the following matters – Paul Braden, Chair (2:00:10)**

**A. Discuss and consider draft paper – “A Review of Defined Benefit, Defined Contribution, and Alternative Plan Designs” – Chris Hanson**

Mr. Hanson stated the draft paper focused primarily on defined benefit and defined contribution plans and the pros and cons of these types of plan designs. The paper also discusses hybrid plan types. Mr. Hanson noted that this is a preliminary draft paper presented for peer review and Board comments.

Mr. Hanson informed the Board the PRB would like to receive comments on this paper over the next 30 days.

Representative Truitt said she appreciated the work on the paper and its timeliness in preparation for the next legislative session.

Chair McElreath entertained a motion to direct staff to work with the Research Committee and the Chair of the Actuarial Committee to coordinate peer review and Board comments.

Motion made by Mr. Roberts, seconded by Mr. Cable to direct staff to work with the Research Committee and the Chair of the Actuarial Committee to coordinate peer review and Board comments.

Chair McElreath asked if there was any further Board discussion. There being none the motion carried unanimously to direct staff to work with the Research Committee and the Chair of the Actuarial Committee to coordinate peer review and Board comments.

**MOTION CARRIED UNANIMOUSLY**

**B. Discuss and consider draft paper – “Financial Economics and Public Pensions” – Chris Hanson**

Mr. Hanson informed the Board that this draft paper is a more technical paper in the sense that it contained many actuarial terms. Mr. Hanson reiterated that this paper is also presented for peer review and Board comments.

Mrs. Pool inquired what the process is going to be for distribution of the paper for peer review and Board comments.

Mr. Hanson explained that copies have already been provided to the four statewide systems and other interested parties. Mr. Hanson stated staff has developed a distribution list.

Chair McElreath entertained a motion to direct staff to work with the Research Committee and the Chair of the Actuarial Committee to coordinate peer review and Board comments.

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Motion made by Mr. Roberts, seconded by Mr. Cable to direct staff to work with the Research Committee and the Chair of the Actuarial Committee to coordinate peer review and Board comments.

Chair McElreath asked if there was any Board discussion. There being none, the motion carried unanimously to direct staff to work with the Research Committee and the Chair of the Actuarial Committee to coordinate peer review and Board comments.

**MOTION CARRIED UNANIMOUSLY**

**C. Discuss and consider future staff research topics– Chris Hanson**

Mr. Hanson explained this item was placed in the Board packet in order to get the members input on future research topics.

Chair McElreath inquired if there were any thoughts or suggestions from the Board.

Mr. Roberts suggested the first topic of "What is Unfunded Actuarial Accrued Liability?", followed by "Why Use Actuarial Smoothing?"

Chair McElreath asked for feedback on how the two papers developed through the comment period.

**D. Internal Revenue Service proposed regulation to define the term "governmental plan" – Chris Hanson**

Mr. Hanson stated that this was an important topic being the PRB statute defines a "governmental plan" in the State of Texas. There is some concern the Internal Revenue Services proposed definition of a "governmental plan" may disqualify certain plans that currently consider themselves "governmental plans". Whether or not this would cause conflict under the existing state "governmental plans" is still being researched by the staff. Mr. Hanson welcomed any help from the plans in the discovery process of this matter.

Mr. Hanson noted the deadline for comments is June 18, 2012.

**8. Administrative Committee – Receive update from staff on the following matters – Richard McElreath, Chair (2:15:31)**

**A. Internal operating budget FY 2012 – Chris Hanson**

Mr. Hanson stated there have been no changes to the FY 2012 internal operating budget since the last Board meeting.

**9. Receive update from the Executive Director on the following matters – Chris Hanson (2:16:33)**

**A. Introduction of new staff**

Mr. Hanson introduced Steven Crone, Research Analyst for the PRB. The addition of Mr. Crone brings the PRB to 12 FTEs.

Mr. Hanson thanked the staff for the work on the research papers.

**B. State Office of Risk Management – Update on the findings of the Risk Management Program Review**

Mr. Hanson informed the Board the Risk Management Program Review was conducted in December 2011. The State Office of Risk Management (SORM) reviewed if prior recommendations had been addressed by the agency and internal policies and procedures.

SORM recommended the PRB inclusion in the business continuity plan an alternate facility in the event that something happened to the existing facility. Mr. Hanson stated that staff is in the process of developing the Memorandum of Understanding (MOU).

Additionally, SORM recommended posting the new healthcare network notification for the employees. Mr. Hanson noted this recommendation had been completed.

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Mr. Hanson stated the PRB had a workplace violence policy and procedure in place, but training had not been provided to the employees on that policy. Mr. Hanson noted that on February 9, 2012 staff completed its training on this policy and procedure.

Mr. Roberts requested staff report back on the alternative facility selection and the MOU.

**10. EXECUTIVE SESSION – Chair McElreath (2:21:50)**

Enter into Executive Session

Chair McElreath announced at 12:54 PM., the PRB would enter into executive session pursuant to Texas Government Code, section 551.074, to deliberate personnel matters and "The Executive Director Performance Goals" and thereafter might consider appropriate action in open session. Chair McElreath requested all non-Board members leave the room with the exception of John Perryman and Lynda Baker.

Return to Open Session

Chair McElreath announced at 1:28 PM., the PRB meeting was back in open session; no action was taken during the executive session.

**11. Election of Vice Chair for FY 2012 – Chair McElreath (2:26:22)**

Chair McElreath recognized Vice Chair Braden for his dedication to the PRB and for serving as Vice Chair of the PRB in 2011. Chair McElreath called for nominations for the position of Vice Chair for 2012.

Motion made by Mr. Wayne Roberts, seconded by Mr. Andrew Cable that the PRB elect Mr. Paul Braden for Vice Chair of the PRB for FY 2012.

Chair McElreath inquired whether there was any discussion from the Board. There being none, the motion carried unanimously that the PRB elect Mr. Paul Braden for a third term as Vice Chair of the PRB.

**MOTION CARRIED UNANIMOUSLY.**

**12. PRB committee assignments – Chair McElreath (2:23:50)**

Chair McElreath assigned Mrs. Leslie Greco-Pool to the Research Committee.

**13. Call for future agenda items – Chair McElreath (2:24:23)**

Chair McElreath asked for comments. There being none, the Board moved to the next item on the agenda.

**14. Date of the next Board meeting – Chair McElreath (2:24:29)**

Chair McElreath informed the Board the next PRB meeting will be held on Wednesday, May 23, 2012.

**15. Invitation for audience participation – Chair McElreath**

Chair McElreath asked for public comment.

**16. Adjournment (2:25:09)**

With the business of the Board completed, Chair McElreath adjourned the meeting at 1:32 PM.

**In Attendance:**

**Staff:**

Anumeha  
Lynda Baker  
Nickolas Ballard  
Emily Brandt  
Steven Crone  
Joey Evans  
Chris Hanson  
Daniel Moore

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**PRB Staff (continued):**

Cathy Overton  
John Perryman  
Ashley Rendon

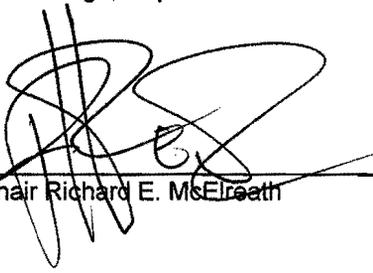
**Guests:**

Amy Bishop, Texas County & District Retirement System  
Paul Brown, Texas Association of Public Employee Retirement Systems  
Chuck Campbell, Jackson Walker  
Maria Eyna Canales-Zarate, Texas Association of Public Employee Retirement Systems  
Todd E. Clark, Houston Firefighters Relief & Retirement Fund  
Glenn Deshields, Texas State Association of Fire Fighters  
Michelle Downie, Sunset Advisory Commission  
Pattie Featherston, Consultant, Strategic Partnership, Inc.  
Mark Fenlaw, Rudd and Wisdom  
Meredith Fowler, Speaker Strauss' Office  
Juan V. Garcia, Office of the Governor  
David Gavia, Texas Municipal Retirement System  
Leslee Hardy, Texas Municipal Retirement System  
Tom Harrison, Texas County & District Retirement System  
Demetrio Hernandez, Legislative Budget Board  
Carrie Holley-Hurt, Sunset Advisory Commission  
Chris Jones, Combined Law Enforcement Association of Texas  
John Lawson, Houston Police Officers Pension System  
Robert May, Rudd and Wisdom  
Wade McDonald, Legislative Budget Board  
Jason McElvaney, Texas County & District Retirement System  
Ann McGeehan, Texas County & District Retirement System  
Yuniedth Midence Steen, Locke, Lord, LLP  
Steven Ogle, Sunset Advisory Commission  
Max Patterson, Texas Association of Public Employee Retirement Systems  
Erin Perales, Houston Municipal Employees Pension System  
Warren Schott, San Antonio Fire and Police Pension Fund  
Clint Smith, Dallas Police and Fire Retirement Plan, Houston Police Officers Pension System, Houston Firefighters Relief & Retirement Fund, Houston Municipal Employees Pension Fund and Texas Association of Public Employee Retirement Systems  
Eddie Solis, Texas Association of Public Employee Retirement Systems  
David Stacy, Midland Firemen's Relief & Retirement Fund  
Robert Stanton, El Paso Fire and Police  
Michael M. Trainer, San Antonio Fire & Police Pensioner's Association  
Johnny Villarreal, Houston Firefighters Relief & Retirement Fund  
Dan Wattles, Texas Municipal Retirement System

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**Guests (continued):**

David Stacy, Midland Firemen's Relief & Retirement Fund  
Michael Trainer, San Antonio Fire & Police Pension  
Dan Wattles, Texas Municipal Retirement System  
Lara Wendler, Senator John Whitmire's Office  
Merita Zoga, Representative Vicki Truitt's Office



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Chair Richard E. McCreath