

**Pension Review Board
Actuarial Committee Meeting
Minutes
July 14, 2016**

1. **Meeting called to order**

The second meeting of 2016 of the State Pension Review Board (PRB) Actuarial Committee was called to order by Chair Bob May on Thursday, July 14, 2016, at 1:38 p.m. at 300 West 15th Street, Room 103, in Austin, Texas.

2. **Roll call of Committee members**

Board Members Present:

Robert M. May
Keith W. Brainard
Josh McGee

3. **Approval of the June 20, 2016 Committee minutes – Chair May**

Chair May entertained a motion to suspend the reading of the minutes of the PRB Actuarial Committee meeting held June 20, 2016 and to approve them as amended.

Motion made by Mr. Keith Brainard, seconded by Mr. Josh McGee.

MOTION CARRIED UNANIMOUSLY

4. **Review and consider modifications to the Actuarial Valuation report, including discussion of amortization periods, GASB 67 data, actuarial assumptions, asset allocations and contribution rates for public retirement systems – Chair May**

A. Staff update on the Actuarial Valuation Report, including reporting of amortization periods, GASB 67 data, actuarial assumptions, asset allocations, and contribution rates for public retirement systems – Kenny Herbold

Mr. Herbold provided a brief description of the proposed changes to the Actuarial Valuation Report and information on the Contribution Report.

Mr. Herbold stated that three versions of the Actuarial Valuation Report were provided for the Committee's consideration. Mr. Herbold explained that Version 1A removed Plan Status, Prior Actuarial Value of Assets (AVA) and Prior Unfunded Actuarial Accrued Liability (UAAL); and added Market Value of Assets (MVA) and explained the definition of UAAL, as UAAL = AAL-AVA.

Mr. Herbold noted that Version 1B of the Actuarial Valuation Report was essentially the same as Version 1A, but also included UAAL as % of Payroll from the Supplemental to primary report.

Mr. Herbold explained that Version 2 was an alternative approach to add Discount Rate, and UAAL as % of Payroll to the Current Actuarial Valuation. Version 2 would remove AVA and UAAL from the Prior Actuarial Valuation columns. Mr. Herbold also explained that Version 2 of the Supplemental Report would include primarily GASB 67 reporting information including, GASB 67 Reporting Date, Discount Rate, Total Pension Liability (TPL), Fiduciary Net Position, NPL, NPL Funded Ratio, NPL -1%, NPL -1% Funded Ratio and 1 year money-weighted rate of return.

The Committee agreed upon Version 2 of the Actuarial and Supplemental Reports and to include a 10 year return for the NPL.

Mr. Herbold presented two drafts of the Contribution Report to include employer and employee contributions.

The Committee agreed upon Version 2 of the Contribution Report.

Mr. McGee noted that he is still in favor of considering doing something with a common discount rate potentially for plans to see what that would mean for the liabilities and unfunded liability.

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Mr. McGee stated that he would like to hear other Committee member's thoughts on the value of a column on the supplemental report.

After a brief discussion, the Committee agreed to have staff seek advice of the AG counsel to determine if the PRB would be within statutory guidelines and not stepping into a fiduciary role.

Mr. Brainard recommended an alternative of grouping the funds based on real rate of return or some way so plan sponsors who wish to know can see that they are on the riskier side of the group and they can make their own inference.

Mr. McGee agreed on coming up with some way of grouping the funds based on nominal rates of return and requested staff to work on suggestions to present at the next meeting.

Committee members agreed on having staff work on suggestions for grouping the funds and will not consult with AG Counsel at this time.

Mr. Herbold provided a brief background of the report on amortization periods.

Chair May recommended postponing action on amortization periods until the September 15th Committee meeting.

After a brief discussion, the Committee agreed on directing staff to gather more information on amortization periods.

Mr. Brainard made a motion to postpone the amortization discussion until the September 15, 2016 Actuarial Committee Meeting.

Motion made by Mr. Brainard and seconded by Chair May to postpone the amortization discussion until the September 15, 2106 Actuarial Committee Meeting.

Chair May stated that all aspects for amortization for all plans would be discussed at the September 15, 2016 meeting.

Ms. Anumeha recommended that staff can use this as an opportunity to make sure the PRB has a consistent policy in place for its effective amortization period methodology, as well as review systems that fall under the specific category of rolling amortization method.

Mr. McGee clarified that at the next meeting he would like to have a discussion of PRB's reporting of rolling amortization periods in its AV Report and not the amortization policies.

Ms. Anumeha stated that staff would work with the Board Actuary to come back with a more thorough analysis which would reflect the current plans for which staff is calculating an effective amortization period for, including for the systems that are using a rolling method.

Mr. McGee confirmed that the Committee agreed to adopt Version 2 of the Actuarial Valuation, Supplemental and Contribution Reports.

B. Receive Public Comments (39:00)

Mr. Max Patterson, TEXPERS, stated that regarding the investment and assumption rates, the PRB has not gotten into trying to regulate what funds should do other than in the area of training. He stated that he strongly suspects that the Legislature would not want to get into the position of sharing the investment risks of the different boards and the liability for the funds. Once the state gets into investment returns, it blurs the line. Mr. Patterson stated that he would suggest that the PRB put emphasis on training.

Ms. Jennifer Jones, Employees Retirement System recommended the committee to consider identifying fixed rate vs ADC plans.

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Mr. Brainard asked Ms. Jones if she would suggest adding a column indicating indication whether plans have a fixed rate or variable contributions. Ms. Jones indicated yes.

Mr. McGee agreed with Ms. Jones recommending a column at the end of the Contribution Report labeled: fixed, actuarial or other. Chair May and Mr. Brainard agreed with Mr. McGee's suggestion.

5. Review and consider modifications of the PRB Guidelines for Actuarial Soundness– Chair May

A. Staff update on the PRB Guidelines for Actuarial Soundness (45:09)

Ms. Anumeha provided a brief description of staff's preliminary research on the funding standards of other states. Ms. Anumeha stated that staff would continue their research for a more thorough analysis to be presented at the August 4, 2016 Board meeting.

Mr. Herbold asked the Committee if there was particular information that they were looking for or would help them in guiding them to make changes to the *Guidelines for Actuarial Soundness*.

Chair May stated that staff should look at the similarities and differences of the PRB and other states.

Mr. McGee stated that the PRB should look at the key elements previously discussed and determine if other states have guidelines around those key elements. He stated that the PRB doesn't have enforcement authority, but some states have guidelines and enforcement of insufficient contribution levels because of elements in the funding policy. Understanding the extent to which those exist and what those enforcement mechanisms are, would be useful.

Mr. Brainard recommended reviewing Tennessee's, Illinois' and Massachusetts' standards for pension plans.

Mr. Brainard stated that ideal or optimal or recommended funding standards are what staff should be looking for.

Ms. Anumeha stated that staff would group the information as far as minimum funding standards, compare it against our guidelines as well as research recommended standards and provide it to the Committee in September.

Mr. Herbold provided a brief explanation of negative amortization.

Mr. Brainard stated that amortization and negative amortization should be discussed within our funding guidelines. The heart of the matter is transparency and disclosure so that trustees understand when they are engaging in negative amortization. Whether or not they choose to do it is their decision, but we ought to be making sure that they understand when it is occurring. Mr. Brainard recommended that the PRB should address this as part of its funding guidelines.

Mr. Herbold provided background information for the Actuarial Soundness Survey sample questions.

Ms. Anumeha stated that retirement system plan administrators and their plan actuaries would receive the survey.

Mr. Brainard stated that we should be specific in the survey questions and use the following language "appropriate target range and/or suggested maximum boundary."

Mr. Brainard agreed to present the survey questions as bullet points to inform the reader that these are industry recommendations and practices and then get feedback on what they believe is an appropriate amortization period. Mr. McGee stated that he thinks that would be a great approach and Chair May agreed.

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The Committee agreed to include negative amortization input from systems and provide a brief explanation of negative amortization.

Mr. Brainard recommended the survey questions to be as open ended as possible to encourage people to elaborate.

Ms. Anumeha noted that staff can have the survey completed and sent out to systems before the August 4th Board Meeting or present changes to the survey at the August 4th Board Meeting for the Board to review and finalize before submission to systems.

After a brief discussion on a timeline for survey submission, Ms. Anumeha will consult with the Attorney General Counsel to see if the Committee can approve the survey by email. Mr. McGee recommended if the Committee is unable to approve by email, staff will include it in the Actuarial section of the August 4th Board Meeting with the full board to recommend that it be sent out at that meeting.

B. Receive Public Comments (1:36:30)

Mr. Chris Bucknall, Texas County and District Retirement System, commented on negative amortization and layered amortization.

Chair May requested Mr. Bucknall to put his comment in writing on the survey for consideration. Mr. Bucknall agreed.

Mr. David Stacy, Midland Firemen's Relief and Retirement Fund, requested clarification on the Actuarial Experience Study mentioned in the survey. Mr. Stacy noted that there could be a cost burden to some plans relative to assets or size of the plan. Mr. Stacy requested clarification on what qualifies as an actuarial experience study.

Mr. Brainard stated point well taken and PRB may need to be more specific about what is meant.

Chair May stated that the system's actuaries would need to explain what they do for a thorough actuarial analysis; hopefully the survey will provide some input.

6. Review and consider a rating system for pension plan fiscal health and annual funding adequacy – Chair May (1:43:35)

A. Staff update on the rating system for pension plan fiscal health and annual funding adequacy

Ms. Anumeha provided a brief description of different industry and state rating systems researched by the PRB staff.

Chair May noted that he would include two elements: funding ratio and amortization period.

Mr. McGee stated that simplicity is important in the presentation of the rating. He recommended defining what is being rated, which is the current fiscal health and funding sufficiency of the plan. He also noted that studies have proven that a rating system has significant impact on people's behavior.

Mr. Brainard stated that he has submitted to staff a document titled the *PRB Factors* and the three elements he would suggest including are: funding ratio, actuarially determined contribution rate and UAL as % of payroll.

Mr. McGee stated that staff should consider how these different elements could be scaled relative to each other.

The Committee directed staff to take the five measures (funded ratio, actual contribution as a percentage of ADC, unfunded as a percentage of payroll and amortization period and ADC or AAL

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as a percentage of payroll) and look at the options of putting together an A – F scale for the next Actuarial Committee meeting.

B. Receive Public Comments (2:03:40)

Mr. Chris Bucknall, Texas County and District Retirement System, commented that with regards to actuarially determined contribution as part of the scoring method, social security vs. no social security of employers should be included for a more holistic picture.

Mr. McGee stated that this is one element that could be included and this is one that we will need to be more careful about than the other elements.

Mr. Max Patterson, TEXPERS, stated that trying to attach an agency grade to a pension system is a grave mistake; it leaves the reader to apply their own definition to what that means. If a system is having a problem it's far more beneficial to state it in the narrative.

Mr. McGee stated that the fundamental difficulty is bad terminology and bad communications in the past. We are trying to capture the fiscal health of the pension plan not the job the plan is doing. The express purpose of the rating system would be to get the employers/plan sponsors to fundamentally pay attention and address the problems and take more responsibility.

Ms. Anumeha stated that staff would consult with Attorney General Counsel to make sure there are no potential legal impediments in creating a rating system.

Mr. Brainard stated that anything done should be accompanied by a qualitative assessment from the staff. More often than not when a plan is in distress the source of that distress is the plan sponsor either through inadequate funding usually or poor plan design. He further stated that the qualitative assessment can and should inform the readers of those facts.

Mr. Patterson stated that he agrees with Mr. Brainard, but without putting a letter grade to it.

Mr. Brainard noted that a letter grade has not been settled on and what he proposed was just a factor or a number that in and of itself wouldn't mean anything. Mr. Brainard further stated that we are the Pension Review Board and our job is to review and this is one way, a tool in our tool box potentially that would inform us and members of the public as to the overall condition of these plans.

Jim Smith, San Antonio Fire and Police Pension Fund, stated that he agrees with Max on the stigma of a letter grade. The objective is the correct objective, but the letter grade creates a bad stigma.

Mr. McGee commented that he understands a lot of pressure has been put on plans, but academic research has shown that ratings can lead to improvements.

Ms. Jennifer Jones, Employees Retirement System, mentioned it might be helpful to survey systems and their actuaries to solicit comments on what would be the most helpful metrics for their plan.

Mr. McGee stated that the Committee should look at that at the next meeting once we have a little more information.

Jim Smith, San Antonio Fire and Police Pension Fund, stated that people are self-correcting in Texas and taking care of business.

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7. **Date and location of next Committee Meeting** – Chair May

The next two committee meetings of the Actuarial Committee will be held on September 15, 2016 and October 13, 2016 at 1:30 p.m.

8. **Invitation for audience participation** – Chair May

No public comment.

9. **Adjournment**

Mr. May thanked the Committee and the audience for their participation at the meeting. With the business of the Committee completed, Chair May adjourned the meeting at 4:15 p.m.

In Attendance:

Staff

Anumeha	Jamie Kings
Wes Allen	Michelle Kranes
Bryan Burnham	Shelley Murphy
Eloisa Mata	Sheryl Perry
Kenny Herbold	

Guests

D. Rivera, Austin Retired Teachers Association
Tom Rogers, Austin Retired Teachers Association
Leslee S. Hardy, Texas Municipal Retirement System
Andrew Clark, Speaker's Office
Jennifer Jones, Employees Retirement System of Texas
Chris Bucknall, Texas County and District Retirement System
Michael Trainer, San Antonio Fire and Police Pensioners Association
Mark Harkrider, Austin Police Retirement System
Eddie Solis, Texas Association of Public Employee Retirement Systems
Jim Smith, SAFPPF/Texas Association of Public Employee Retirement Systems
John Lawson, Houston Police Officers' Pension System
Hope Osborn, Texas Retired Teachers Association
Glenn Deshields, Texas State Association of Fire Fighters
Joe Gimenez, Texas Association of Public Employee Retirement Systems
Steve Waas, Houston Municipal Employees Pension System
Max Patterson, Texas Association of Public Employee Retirement Systems
David Stacy, Midland Firemen's Relief and Retirement Fund



Chair Robert M. May