

**Pension Review Board
Actuarial Committee Meeting Minutes
Thursday, December 15, 2016**

1. **Meeting called to order** (00:06)

The fourth meeting of 2016 of the State Pension Review Board (PRB) Actuarial Committee was called to order by Chair Bob May on Thursday, December 15, 2016, at 1:01 p.m. at 300 West 15th Street, Room 103, in Austin, Texas.

2. **Roll call of Committee members** (00:22)

Board Members Present:

Robert M. May
Keith W. Brainard
Josh McGee

3. **Approval of the September 15, 2016 Committee minutes – Chair May** (00:37)

Chair May entertained a motion to suspend the reading of the Minutes of the PRB Actuarial Committee meeting held September 15, 2016.

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

MOTION CARRIED UNANIMOUSLY

4. **Review and consider modifications to the PRB Guidelines for Actuarial Soundness, including presentation of comments received on the proposed language for updating the PRB Guidelines – Chair May** (02:05)

A. **Staff update on the PRB Guidelines For Actuarial Soundness, including presentation of comments received on the proposed language for updating the PRB Guidelines – Kenny Herbold** (02:34)

Mr. Herbold provided an update on the *PRB Guidelines for Actuarial Soundness*, including the process and presentation of comments received on the proposed language revised after the November 3 board meeting.

After a brief discussion on the preamble and the use of the terms liability and obligation, the Committee decided to keep the current wording.

Mr. Herbold stated that a comment was received to strike the second paragraph.

Mr. Brainard stated that the PRB should mention a funding policy. He recommended the following language: "Public retirement systems should develop a funding policy, the primary objective of which is to fund the obligations over a time frame that ensures benefits security while balancing the additional and sometimes competing goals of intergenerational equity and a stable contribution rate."

Mr. McGee recommended including the plan sponsors' responsibility in helping with the funding policy.

Chair May stated that bringing the employer into the discussion would be asking for a change in direction.

Mr. Brainard questioned the responsibility of systems such as the Teacher Retirement System of Texas, which have hundreds of sponsoring employers, and how the employer would participate in that. He stated that employers are looking to the retirement systems as the experts to come up with a funding policy. The funding policy belongs to the system- not to the sponsor- and the employer's responsibility is to honor the funding policy- not to develop one.

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Chris Bucknall, Texas County and District Retirement System, stated that they have big and small employers and at some point they just have to make a determination of what they think is right. He noted that there is no way the small and big employers would agree what was best for one or the other.

Mr. McGee and Mr. Brainard agreed that it would be ideal if both the sponsor and the plan would be committed to the funding policy. Mr. Brainard noted that implying the plan sponsor has equal footing with the retirement system in terms of developing the funding policy is fraught with risk- political, financial and otherwise.

Mr. Joe Newton, GRS, recommended the Committee use the original language that Mr. Brainard proposed.

Mr. Brainard restated his proposed language to replace the first sentence in the second paragraph:

The Committee agreed to Mr. Brainard's modification.

Mr. Herbold reviewed the survey responses to the amortization period.

Chair May stated that he has seen the standard across the nation change to less than 40 years and that he believes we need to tighten up Texas' standard accordingly. Many sources would probably say 30 years is too long too, but 30 could be a step in the right direction. He stated his preference for a 30-year maximum at this time, and a 10-25 range as a preferred target range.

Mr. Brainard expressed concern that going below 15 for the target range could generate volatility.

Mr. Newton stated that a fixed rate plan actually gets less volatile if the funding period is less and suggested adding language to address layered approaches.

The Committee discussed how to address effective amortization periods for plans using layered approaches and requested Mr. Herbold to put together wording to accommodate plans that use multiple amortization periods.

Mr. McGee expressed a preference for a maximum of 25 years rather than 30.

Mr. Bucknall questioned the need to have a target range. The Committee and various commenters discussed the merits of keeping a range versus setting a maximum amortization period only and what the range should be.

Mr. Brainard requested staff to include a flat statement on the contribution rate never being less than the normal cost. After some discussion, Chair May and Mr. McGee agreed.

Mr. David Stacy, Midland Firemen's Relief & Retirement Fund, stated that when you look at the goal of the Pension Review Board offering guidelines for funding because there are so many different variables, does it really make a difference on the range of the minimum? He noted that the objective should be to set a maximum.

The Committee agreed to recommend to the full Board Option 2 with 10-25 years as the preferable target range.

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Mr. Brainard suggested including language encouraging plans to amortize the unfunded liability over as brief a period as possible.

The Committee agreed to recommend the following to the full Board: Option 2, with 10-25 years as the preferable target range and that the unfunded liability be amortized over as brief a period as possible not to exceed 30 years. Mr. Herbold will provide wording to accommodate plans that use multiple amortization layers.

Tyler Grossman, El Paso Fire and Police Pension Fund, requested a ten-year grace period to adjust to a new amortization period.

Chair May recommended 5 years from December 31, 2016.

Mr. McGee questioned the need for a compliance grace period for a set of guidelines, and expressed a preference for plans to meet the guidelines by the end of the legislative session, June 30, 2017.

Mr. Brainard recommended adding language to the effect that it would be nice for plans to be in compliance with the guidelines as soon as practicable and include an effective date.

Mr. Alva Littlejohn, Lubbock Fire Pension, expressed concerns regarding the importance of the *PRB Guidelines*, stating that they will be used as a standard, and requested the Committee to consider his concern.

Mr. McGee stated that the PRB's hope is to give the plans more tools to obtain sufficient contributions from sponsors.

Mr. Stacy stated the PRB's recommendations regarding actuarial soundness are a huge deal and set the standard for public defined benefit plans both inside and outside the state of Texas. He noted that the ten-year grace period to adjust to a new amortization period was not unrealistic and recommended not less than seven years. He stated that the number of plans outside the bounds would roughly triple and that the current PRB staff infrastructure is not adequate to fulfill the need to monitor the number of plans that would move to the FSRP list. He recommended increasing the PRB's budget in such case.

Mr. Grossman stated that his idea of the 10 years was not to implement the guidelines in 10 years but rather to allow funds below 40 years but above 30 years a grace period to not be listed outside of the parameters until ten years from now.

Mr. McGee questioned what list plans would be added to and what would actually happen during the grace period if the PRB updated the *Guidelines* but said that plans don't have to comply. Mr. Grossman clarified the actuarial valuation report which lists plans according to amortization period and that legislators will ask if his plan meets the PRB guideline or not.

Mr. McGee recommended presenting the *Guidelines* to the full Board with an additional statement that acknowledges that it may take plans some time to get there, but to get there as quickly as possible and over a period not to exceed some number of years.

Chair May stated that the plans will be aware of the new standard, and their actuaries will start working on it now.

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After discussion of the options for the length of the grace period, Mr. Brainard recommended the following language: "Plans with an amortization period that exceeds 30 years as of June 30, 2017 should seek to reduce their amortization period to 30 years or less as soon as practicable, but not later than June 30, 2025."

The Committee agreed to include Mr. Brainard's language.

Ms. Anumeha asked if the PRB will start reporting in its actuarial valuation report according to the new *Guidelines* on the implementation deadline.

The Committee agreed to discuss the reporting at a different time.

Mr. Herbold reviewed the survey responses on item #6 on monitoring, reviewing and reporting plan experience.

The Committee agreed on item #6 as presented without modification. Chair May entertained a motion to direct staff to update draft language of the *PRB Guidelines for Actuarial Soundness*, incorporating Committee discussion and public comments received on the *PRB Guidelines* survey, to be presented to the Board at its January 26th meeting pending approval of the Actuarial Committee members.

Motion made by Mr. McGee and seconded by Mr. Brainard.

MOTION CARRIED UNANIMOUSLY

B. Receive Public Comments (1:43:45)

Mr. Brainard thanked the commenters for their technical assistance throughout the discussion.

5. Receive staff update on the Dallas Police and Fire Pension System (1:48:12)

Ms. Anumeha provided an update on the Dallas Police and Fire Pension System. She stated that the member election was scheduled for November 14th. Before the election there was an application for a temporary injunction to prevent the plan amendment election, filed by DPFP members, alleging that the system board of trustees was wrongly constituted. The court denied the requested temporary restraining order and the case is set for trial on the merits in March 2017. The plan amendment election has resumed and is currently underway with an end date of December 17th.

Ms. Kelly Gottschalk, DPFP Executive Director, provided further updates on the system. She stated that the appellate court found in favor of the system on the 2014 plan amendment election concerning the lowering of the interest rate in the DROP.

She stated that the Mayor of Dallas, in his individual capacity, filed a lawsuit against the system to require that the DPFP close any distributions from DROP. The Board took action to temporarily close the distributions out of the DROP fund. A hearing is scheduled for January 17th.

Ms. Anumeha stated that the City has also revealed their proposed benefit changes and briefly outlined those changes.

Ms. Gottschalk stated that the fund and the city are each working on legislative proposals but she hopes they will come together on just one bill in the end.

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6. Receive staff update on the upcoming 85th Legislative Session, including pre-filling of pension-related bills and the Actuarial Impact Statement process (01:58:05)

A. Staff update on the upcoming 85th Legislative Session, including pre-filling of pension-related bills and the Actuarial Impact Statement process

Ms. Anumeha provided an update on the upcoming 85th Legislative Session, including pre-filling of pension-related bills and the Actuarial Impact Statement process.

Ms. Anumeha stated that the role of the PRB is to review the analysis provided by the fund and conduct a review to prepare an impact statement.

Mr. May asked about the timing of legislation, and Ms. Anumeha said the PRB acts quickly given legislative deadlines.

Mr. McGee asked if the staff has asked that the DFPF attend the January PRB meeting to give another update. Ms. Anumeha confirmed that they have.

An audience member asked how the PRB's role would differ depending on whether one or two bills were filed. Ms. Anumeha explained the process would be the same.

An audience member asked if the impact statements were available on the PRB website.

Ms. Anumeha stated that the impact statements are available on the Texas Legislature Online (TLO) website.

7. Invitation for audience participation – Chair May (2:08:04)

No public comment.

8. Adjournment – Chair May

Chair 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 3:10 p.m.

In Attendance:

Staff

Anumeha
Reece Freeman
Kenny Herbold
Michelle Kranes
Eloisa Mata
Sheryl Perry
Ashley Rendon

Guests

Joe Newton, GRS
Jennifer Jones, ERS
Jill Jones, Odessa Firefighters Relief and Retirement Fund
Ben Marts, Odessa Firefighters Relief and Retirement Fund
Andrew Clark, Speaker's Office
Lois Emerson, CPS Energy
Debra Wainscott, CPS Energy

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Eloise D. Raphel, Houston Firefighters Relief & Retirement Fund
Steve Waas, Houston Municipal Employees Pension System
Eddie Solis, Texas Association of Public Employee Retirement Systems
Kelly Gottschalk, Dallas Police & Fire Pension System
Glenn Deshields, Fire Fighters
Frederick Frazier, Dallas Police Association
James Parnell, Dallas Police Association
Chris Bucknall, Texas County & District Retirement System
Leslee Hardy, Texas Municipal Retirement System
David Gavia, Texas Municipal Retirement System
John Rybusu, PFM
Katy Fallon, Legislative Budget Board
Suzanne Henry, TSR
Alva Littlejohn, Lubbock Fire Pension

Robert M. May

Chair Robert M. May