

**Texas Pension Review Board
Minutes
May 05, 2016**

1. MEETING CALLED TO ORDER (0:05)

The second meeting of 2016 of the Texas Pension Review Board (PRB) was called to order by Chair Josh McGee on Thursday, May 5, 2016 at 10:00 AM, at the Capitol Extension Building, Room E1.012 in Austin, Texas.

2. ROLL CALL OF BOARD MEMBERS (0:07)

Board Members Present:

Chair Josh McGee
Keith Brainard
Andrew Cable
Stephanie Leibe
Robert May
J. Robert Massengale
Ernest Richards

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

3. DISCUSS AND CONSIDER BOARD ADMINISTRATIVE MATTERS, INCLUDING THE FOLLOWING ITEMS – Chair McGee (0:40)

A. APPROVAL OF THE FEBRUARY 11, 2016 BOARD MEETING MINUTES (0:51)

Chair McGee entertained a motion to suspend the reading of the minutes of the PRB meeting held February 11, 2016 and to approve them as circulated.

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

MOTION CARRIED UNANIMOUSLY

B. EXCUSING THE ABSENCE OF BOARD MEMBERS FROM FEBRUARY 11, 2016 BOARD MEETING (1:30)

Chair McGee entertained a motion to excuse Mr. J. Robert Massengale from the February 11, 2016 Board meeting.

Motion made by Judge Cable and seconded by Mr. Brainard.

MOTION CARRIED UNANIMOUSLY

4. EDUCATION AND RESEARCH COMMITTEE – DISCUSS AND CONSIDER THE MINIMUM EDUCATIONAL TRAINING (MET) PROGRAM FOR TRUSTEES AND SYSTEM ADMINISTRATORS PURSUANT TO SECTION 801.211 OF THE TEXAS GOVERNMENT CODE, INCLUDING THE FOLLOWING –Judge Cable (2:29)

A. RECEIVE REPORT ON THE DEVELOPMENT OF PRB ONLINE TRAINING – Christine Taylor (2:35)

Ms. Taylor provided an update on the PRB Online Training. She stated that Risk Management became available this week and that staff is working to have all courses available by Fall 2016.

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B. RECEIVE UPDATE ON PREVIOUS TRAINING APPROVAL FORM, MET REGISTRATION FORM (PRB-150) AND MET PROGRAM REPORT (PRB-2000) –Christine Taylor (3:12)

Ms. Taylor provided a brief explanation of the PRB-150 and PRB-2000 entry processes.

C. DISCUSS AND CONSIDER FINAL ADOPTION OF PROPOSED RULE AMENDMENTS TO 40 TAC PART 17, CHAPTER 607, PUBLIC RETIREMENT SYSTEM MINIMUM EDUCATIONAL TRAINING PROGRAM, SUBCHAPTER B, MINIMUM EDUCATIONAL TRAINING REQUIREMENTS FOR TRUSTEES AND SYSTEM ADMINISTRATORS, §607.110 MINIMUM EDUCATIONAL TRAINING REQUIREMENTS; SUBCHAPTER C, MINIMUM EDUCATIONAL TRAINING PROGRAM SPONSORS, §607.120 PROGRAM STANDARDS FOR ALL SPONSORS; AND SUBCHAPTER D, COMPLIANCE WITH THE MINIMUM TRAINING REQUIREMENTS, §607.140 PRS REPORTING – Michelle Kranes (4:20)

Ms. Kranes reported that the proposed adoption of the rule amendments related to the Minimum Educational Training Program were published in the Texas Register and the PRB received no public comments. Ms. Kranes requested the final adoption of the proposed rule amendments.

Chair McGee entertained a motion to adopt the rules (as presented) OR (with the changes agreed to) in Texas Administrative Code, Title 40, Part 17, Chapter 607, relating to the Public Retirement System Minimum Educational Training Program and authorized the staff to post the rule adoption notice in the *Texas Register* with the preamble to be approved by the Assistant Attorney General Counsel.

Motion made by Mr. Massengale and seconded by Mr. May.

MOTION CARRIED UNANIMOUSLY

5. RECEIVE PRESENTATION FROM THE DALLAS POLICE AND FIRE PENSION SYSTEM – Chair McGee (7:16)

A. Dallas Police and Fire Pension System Executive Director – Kelly Gottschalk

Ms. Gottschalk provided an overview and challenges of the Dallas Police and Fire Pension System (DPFP). Ms. Gottschalk advised that she will be concentrating on the Combined Plan.

Mr. Brainard requested Ms. Gottschalk to explain their system's DROP. Ms. Gottschalk stated that DPFP system does not put a time limit for the DROP and does not make members remove their money when they retire. Mr. Brainard inquired if there were any legal rulings on their DROP. Ms. Gottschalk stated that there was a plan amendment in 2014 and is currently in litigation concerning the interest rate related to DROP. Mr. Brainard confirmed with DPFP Legal Counsel that the litigation was in response to the reduction in interest rate of the DROP.

Chair McGee inquired if the interest rate change was built into the liability calculation or was it something realized over time with real life returns or interest credit. Ms. Gottschalk confirmed that the change reduction is built into the liability number currently presented.

Chair McGee requested that the PRB be kept up to date on the liquidity issue and investment returns. He suggested preparing the plan members and sponsor for the potential that the expectation is not realized and that adjustments may need to be made over the next 5 – 10 year period to make sure enough money is coming into the plan for promised benefits.

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Mr. May inquired about plan change approvals for the system. Ms. Gottschalk stated that to amend the plan requires a 65% vote of active members or the State Legislature which is established in their plan document.

Chair McGee asked what it took to change the employer contribution rate cap at 28%. Ms. Gottschalk stated that increasing the employee contribution rate from 8 1/2 to 9 % would increase the employer rate by state law. There are proposed changes in our plan amendment to request the employer contribution rate to increase.

Chair McGee inquired about what changes have been made around the investment function, decision making and reporting to rectify this issue. Ms. Gottschalk stated that structurally things are very different with the system now having an Executive Director and a Chief Investment Officer to have checks and balances in place. They have created a new investment policy and an investment advisory committee and a clear investment reporting system.

Chair McGee stated he remained concerned with the plan and recommended monitoring real estate and private equity that are difficult to value on the investments. Ms. Gottschalk indicated that she understood that completely and DFPF is looking to invest in other real estate funds that are easier to value.

Mr. May questioned if there was a role for the state in key decisions in investment choices for plans and who has a fiduciary responsibility. Sam Friar, DFPF Chairman, commented that their new implementation of their advisory committee along with help from professionals in the Dallas area will be a part of that process and with their help, DFPF should not repeat this.

Ms. Anumeha provided that the PRB can put together prudent investment practices for our retirement systems as part of the PRB mandate. Chair McGee suggested the PRB might consider as a board to put out best practice statements for public plans; statements and not authority on best practices.

**6. ACTUARIAL COMMITTEE – DISCUSS AND CONSIDER THE FOLLOWING MATTERS –
Anumeha (1:22:18)**

A. UPDATE ON THE ENROLLED ACTUARIES CONFERENCE – Bob May

Mr. May provided information on the Actuary Conference.

B. PUBLIC RETIREMENTS SYSTEM REPORTING AND COMPLIANCE, INCLUDING NON COMPLAINT RETIREMENT SYSTEM UNDER SECTION 801.209 OF THE TEXAS GOVERNMENT CODE – Ashley Rendon (1:24:00)

Ms. Rendon provided an update on non-compliant retirement system plans. She stated that five plans are currently non-compliant over sixty days and that the PRB staff has been in contact with the plans to complete their audits.

Ms. Anumeha stated that in 2013 the systems are now required to complete an annual, standalone audit instead of filing their sponsor's audit.

C. ACTUARIAL VALUATION REPORT – Kenny Herbold (1:33:02)

Mr. Herbold reported current Actuarial Valuation information by systems and noted that number of plans with an infinite amortization period decreased from twelve plans to four. Mr. Herbold pointed out that plans with a good range of fifteen to twenty-five years amortization has

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increased from sixteen to twenty-three and those plans that are zero amortization or fully funded have moved from two to four.

Chair McGee recommended that the PRB look at a way to find an accurate amortization schedule for plans.

D. UPDATE ON CYPRESS-FAIRBANK'S ISD PENSION PLAN TERMINATION – Kenny Herbold (1:47:46)

Mr. Herbold provided an update on the termination of Cypress-Fairbank's ISD Pension Plan. He stated that the plan was terminated on December 31, 2015; the plan was frozen and replaced with a non-elective defined contribution plan. Cypress-Fairbanks ISD have committed to fully funding their plan and paying out 100% of the accrued benefits. Distribution paperwork has been sent out to all of the members and they expect to distribute all of the plan assets by June of 2016.

E. UPDATE ON FUNDING SOUNDNESS RESTORATION PLAN (FSRP) REQUIREMENT, INCLUDING THE FOLLOWING – Anumeha (1:50:14)

i. RETIREMENT SYSTEMS SUBJECT TO THE FSRP REQUIREMENT (1:50:22)

Ms. Anumeha provided an updated report on the FSRP list of systems. Ms. Anumeha stated that since the last Board meeting the PRB has added another system to the immediate FSRP list and there are four systems on the at-risk list.

ii. UPDATE TO POLICY FOR DETERMINATION OF SYSTEM ACTUARIAL REVIEW, INCLUDING PUBLIC COMMENT (1:52:04)

Ms. Anumeha explained the current *Policy for Determination of System Actuarial Review*. The PRB received public comments from one system and included updates from the PRB's Attorney General Counsel for the Board to review.

Ms. Anumeha requested the Board to approve the policy and its proposed changes as presented and will come back at a later date to place the policy into the PRB rules.

Ms. Leibe requested clarification on the provision to provide the entities with written notice, twenty business days prior to the meeting.

Ms. Anumeha briefly explained the reasoning behind the change. Members discussed the notice requirement and it was determined that ten business days would be sufficient.

Chair McGee entertained a motion to approve the updated *Policy for Determination of System Actuarial Review* after incorporating comments from the Board (as presented) OR (after incorporating comments from the Board) pending final approval by the Assistant Attorney General Counsel.

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

MOTION CARRIED UNANIMOUSLY

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F. CONSIDER REVIEW OF PRB GUIDELINES FOR ACTUARIAL SOUNDNESS –Ashley Rendon (2:07:11)

Ms. Rendon briefly explained the PRB Guidelines for Actuarial Soundness.

Chair McGee entertained a motion to charge the Actuarial Committee to review the PRB *Guidelines for Actuarial Soundness*.

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

MOTION CARRIED UNANIMOUSLY

G. CONSIDER A RATING SYSTEM FOR PENSION PLAN FISCAL HEALTH AND ANNUAL FUNDING ADEQUACY –Anumeha (2:10:34)

Ms. Anumeha explained the request to consider a rating system for pension plan fiscal health and annual funding adequacy.

Ms. Leibe recommended the charge to the committee be broader to consider whether or not it would be prudent to do something lesser than a rating system, but would still be a mechanism to provide information to the public and provide some type of merit to a plan.

Chair McGee entertained a motion to charge the Actuarial Committee to research and consider proposals for developing a rating system for pension plan fiscal health and annual funding adequacy.

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

MOTION CARRIED UNANIMOUSLY

7. LEGISLATIVE COMMITTEE – DISCUSS AND CONSIDER THE FOLLOWING ITEMS – Robert Massengale (2:17:46)

A. 84TH LEGISLATURE INTERM CHARGES AND COMMITTEE HEARING UPDATES – Anumeha (2:17:55)

Ms. Anumeha stated that the House Pension Committee had hearings on March 30 and April 13 requesting the PRB to keep the committee informed of the current financial challenges of Dallas Police and Fire Pension Plan.

B. UPDATE ON THE PRB LIST OF COMPANIES ENGAGED IN SCRUTINIZED BUSINESS OPERATIONS IN IRAN – Anumeha (2:21:01)

Ms. Anumeha reported on the most current *PRB List Of Companies Engaged In Scrutinized Business Operations In Iran*.

Chair McGee requested that the list be posted on the PRB website.

C. INTERNAL REVENUE SERVICE PROPOSED GUIDANCE ON APPLICABILITY OF THE NORMAL RETIREMENT AGE RULES TO GOVERNMENTAL PLANS – Jamie Kings (2:29:33)

Ms. Kings provided an overview of the normal retirement age rules to governmental plans. She explained the safe harbor plans for normal retirement age for governmental pension plans and referenced further information in the report.

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D. RECEIVE UPDATE ON PUERTO RICO ASSISTANCE ACT OF 2015 (S.2381) AND THE PUBLIC EMPLOYEE PENSION TRANSPARENCY ACT (PEPTA) – Jamie Kings (2:31:56)

Ms. Kings provided information on the Puerto Rico Assistance Act of 2015 to include reporting requirements for state and local pension systems. Ms. Kings indicated that at this time there are new bills introduced through Congress that have not contained any federal reporting requirements for state and local pension systems.

Chair McGee summarized that the PEPTA bill was stripped from the Puerto Rico Assistance Act of 2015 and is now a stand-alone bill. It would place a reporting burden on our plans, but is unlikely to pass and impact Texas.

8. REVIEW AND DISCUSS REPORT FROM THE EXECUTIVE DIRECTOR ON THE FOLLOWING MATTERS – Anumeha (2:33:47)

A. 2017 – 2021 STRATEGIC PLAN (2:33:57)

Ms. Anumeha reported on the agency's 2017 – 2021 Strategic Plan due on June 24, 2016.

B. SAO FINANCIAL PROCESSES AUDIT OF THE PRB (2:34:38)

Ms. Anumeha stated that the agency is going through a financial processes audit. The State Auditors have completed their preliminary interview of financial staff and the next step would be to conduct an on-site audit which will begin this month. The final report is expected to be released in August.

C. 2016 TLFFRA TRUSTEE TRAINING (2:35:47)

Ms. Anumeha reported that the 2016 TLFFRA Trustee Training will be on May 12 and 13 in Irving.

D. TEXPERS SUMMER EDUCATIONAL FORUM (2:36:32)

Ms. Anumeha informed the Board of the upcoming TEXPERS Summer Educational Forum on August 14 – 16, 2016, in San Antonio. Ms. Anumeha stated that those interested in attending please let the PRB staff know and arrangements will be made for them to attend.

Chair McGee entertained a motion to approve the attendance of interested Board members at the 2016 TEXPERS Summer Educational Forum.

Mr. May indicated that he would like to attend.

Motion made by Ms. Leibe and seconded by Judge Cable.

MOTION CARRIED UNANIMOUSLY

E. UPDATED FISCAL YEAR 2016 OPERATING BUDGET (2:37:54)

Ms. Anumeha provided an update on the PRB budget and stated that the PRB is within their budget.

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**9. CALL FOR FUTURE AGENDA ITEMS AND FUTURE MEETING DATES – Chair McGee
(2:39:02)**

Chair McGee inquired about future agenda items. The Board moved to the next item on the agenda.

10. DATE AND LOCATION OF NEXT PRB MEETING – Chair McGee (2:39:22)

Chair McGee noted that the next meeting of the PRB will be held in late July or early August. Chair McGee requested that Ms. Anumeha coordinate a date that works for the Board members.

11. INVITATION FOR PUBLIC COMMENT (2:39:55)

No public comment.

12. ADJOURNMENT (2:40:37)

With the business of the Board completed, Chair McGee entertained a motion to adjourn the meeting at 12:40 p.m.

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

MOTION CARRIED UNANIMOUSLY

In Attendance:

PRB Staff Present

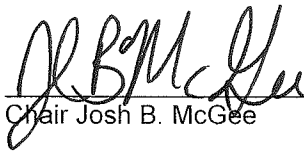
Anumeha
Samantha Buckley
Bryan Burnham
Joey Evans
Reece Freeman
Jamie Kings
Michelle Kranes
Eloisa Mata
Shelley Murphy
Sheryl Perry
Ashley Rendon
Christine Taylor

Guests Present

Josh Mond, Dallas Police and Fire
Sam Friar, Dallas Police and Fire
Bob Nicks, Austin Firefighters Fund
John Riddle, Texas State Association of Firefighters
Glen Deshields, Fire Fighters
Ron Pinkston, Dallas Police Association
Michael Blynn, Fort Worth Firefighters Association, Local 440
Ryan Zelazny, Fort Worth Firefighters Association, Local 440
Eddie Solis, Texas Association of Public Employee Retirement Systems
William S. Nail, Employees Retirement System of Texas
Clint Smith, HILLCO
Tom Harrison, TCDRS
Michael Trainer, San Antonio Fire and Police Pensioners' Association
Eloise Raphael, Houston Firefighters Relief & Retirement Fund

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John Lawson, Houston Police Officer's Pension System
Terry Bratton, Houston Police Officer's Pension System
Alva Littlejohn, Lubbock Fire Pension
Nancy Fisher, Austin Fire Fighters
Warren Schott, San Antonio Fire and Police Pension
Andrew Clark, Speaker's Office
Jason McElvaney, Texas County and District Retirement System
Kelly Gottschalk, Dallas Police and Fire Pension System
James Pernel, Dallas Police and Fire Pension System



Chair Josh B. McGee