

**State Pension Review Board
Actuarial Committee Meeting
Minutes
June 20, 2016**

1. Meeting called to order (1:36)

The first meeting of 2016 of the State Pension Review Board (PRB) Actuarial Committee was called to order by Chair Bob May on Monday, June 20, 2016, at 1:18 p.m. at 300 West 15th Street, Room 103, in Austin, Texas.

2. Roll call of Committee members (02:02)

Board Members Present:

Robert M. May
Keith W. Brainard
Josh McGee

3. Discuss and consider review of Actuarial Valuation Report, including reporting of amortization periods for public retirement systems

A. Staff update on the Actuarial Valuation Report, including reporting of amortization periods for public retirement systems – Kenny Herbold (02:19)

Mr. Herbold provided a brief background of the material in the packet regarding the review of the PRB's Actuarial Valuation (AV) Report.

Mr. McGee stated that the main AV and Supplemental reports both contain a lot of information. He recommended simplifying the main AV report and moving some of the information to the Supplemental report so it is easier to read for board members and the general public.

Mr. McGee noted that it may be useful to align the information in the main AV Report with GASB 67 and move some additional information over to the Supplemental report.

Chair May inquired if any plans use the Market Value of Assets (MVA). Ms. Anumeha and Mr. McGee advised that sixteen percent of plans use contributions based on the MVA and seventy-three percent use 5-year smoothing.

Mr. Brainard stated that he is not averse to including GASB 67 information in the AV report, but he does not want to lose the funding information. Mr. McGee stated that he would agree to keep smoothed assets on the AV report as long as MVA was also included.

Mr. Brainard confirmed removing the following columns from the main Actuarial Valuation report: Plan Status, prior Actuarial Value of Assets, and prior Unfunded Actuarial Accrued Liability (UAAL) and adding the current MVA to the report.

The Committee supported that decision.

Mr. McGee requested a report at the next Committee meeting on current amortization periods to know how the method for calculating amortization periods factors into the recorded periods included on the AV report. Mr. McGee stated the report should include those plans whose amortization period deviates from the effective or expected amortization period.

After a brief discussion, Mr. Brainard, Chair May and Mr. McGee agreed for staff to compile such a report for the next committee meeting.

Mr. McGee stated that the Supplemental report should be cleaned up as well.

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Mr. McGee recommended the staff to include contribution information in the Supplemental report; including actual and actuarially determined contribution (ADC) or a percentage of actual vs. ADC.

Mr. Brainard stated that he would like to see the ADC for the plans as a percentage of payroll. Mr. McGee agreed to include ADC as a percentage of payroll.

After a brief discussion, Mr. Brainard stated that a table with the components of the cost can be compiled with normal and unfunded liability based on employee and employer contributions.

Mr. McGee summarized a simplified sheet that focuses on current financial status of the plan and a secondary one that focuses on contributions; ADC, actual and a breakdown of where that contribution is coming from.

Chair May directed staff to update the Actuarial Valuation Report based on Committee's discussion and bring a draft to the next Committee meeting.

B. Receive Public Comments (48:19)

Chair May opened the floor for public comment.

Mr. David Stacy, Midland Firemen's Relief and Retirement Fund, stated that regarding GASB there has been a substantial amount of previous discussion disconnecting GASB from funding since GASB was not concerned about funding. He also stated that previously the Board had much debate recognizing that funding was the more useful metric for the citizens and funds. He stated that he would hate to see the PRB stray from the historical strength that it has had in gathering the required funding of plans that recognizes the overall funding status.

Ms. Leslie Hardy, Texas Municipal Retirement System (TMRS), stated that it is her understanding that the numbers provided in the report are strictly funding numbers Ms. Hardy further stated that just making market value adjustments still wouldn't give you GASB 67 and it is her understanding that there is no relation to GASB 67 and actuarial valuation.

Mr. Chris Bucknall, Texas County and District Retirement System (TCDRS), also stated that just showing MVA doesn't accurately reflect GASB 67.

Jim Smith, San Antonio Fire and Police Pension Fund (SAFPPF), stated that he agreed with what the Committee decided, regarding normal costs being a percentage of payroll and not trying to look at the general funds of cities.

4. Discuss and consider review of PRB Guidelines for Actuarial Soundness

A. Staff update on the PRB Guidelines for Actuarial Soundness – Kenny Herbold (55:12)

Mr. Herbold provided a brief overview of the material covered in the packet for review of the *PRB Guidelines for Actuarial Soundness* and the changes to the Actuarial Standards of Practice (ASOP).

Chair May noted that by the end of this year the American Academy of Actuaries (AAA) and the Actuarial Standards Board are going to be offering information that could be useful to the PRB and suggested putting the review off for six months while the PRB staff begins information gathering.

Mr. McGee stated that we should get some input from the plans looking at their funding in the fall regarding any changes to the *PRB Guidelines for Actuarial Soundness*. Mr. McGee stated that plans should view it as such and try to ensure that the contributions to the plan are sufficient to meet benefit obligations and put some guidelines that policy makers will abide by because annual contributions have been somewhat problematic.

Mr. Brainard stated that the sponsor ultimately has to provide the funding and we may even wish to consider changing the nomenclature of *PRB Guidelines* to incorporate the plan sponsor because plans to some extent are innocent bystanders just trying to do their job.

Ms. Anumeha stated that at this time she recommends staff to look at funding standards and draft

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survey questions for systems that members can review at the next meeting.

Ms. Anumeha recommended sending out the survey after the July meeting to the systems. Committee members were in agreement with those recommendations.

Mr. McGee stated that he would like to discuss the important elements to consider for staff research on the funding policy; discount rate, asset smoothing, amortization policy, and payroll growth in relation to amortization policy.

Mr. McGee stated that he really likes the structure in the Guideline #4 for amortization period. It lays out a value that is the boundary of acceptable practice and lays out a target, which might be a good structure for these other elements.

Chair May stated that not to exceed 40 years is too long and he would rather see the 40 years change to 30 years and the 15 – 25, to 20 as the period not to exceed.

Mr. McGee stated that he would like to consider including recommendations around actuarial funding versus fixed rate funding. Mr. McGee stated that the staff should review the pros and cons of using fixed rate versus actuarial funding and the Committee should recommend to the Board a change towards actuarial funding.

Chair May pointed out that the reason actuaries used fixed rate funding is because employers are reluctant to get into a funding policy where they have to annually change the contribution rate.

Mr. Brainard stated that the State requires an actuarial experience study every five years for plans with assets of one hundred million dollars or more, which leaves a lot of plans not conducting an experience study. He suggested at a minimum the PRB should consider requiring a standard for having an experience study conducted at some interval for all plans in the guidelines.

Mr. Brainard noted that one concept that might be useful to explore is negative amortization and whether the unfunded liability increases at any given year simply because the contributions to the plan were not enough to cover interest costs on the liability.

Mr. Brainard stated that negative amortization needs to be considered or addressed and the PRB may wish to consider or address the maturity of a plan when looking at its effects.

Mr. McGee noted that it might be useful for the staff to look into the issue of negative amortization and provide the members with some summary information in relation to our plans.

Mr. Brainard stated that in regards to negative amortization the larger part of the problem is not the negative amortization per se, but the lack of knowledge and awareness among trustees and perhaps the general public.

Mr. Brainard stated that trustees should understand negative amortization is not necessarily a bad thing.

B. Receive Public Comments (1:23:30)

Jim Smith, San Antonio Fire and Police Pension Fund (SAFPPF), stated that using a fixed rate contribution has worked for his fund, allowing it to maintain level funding.

Mr. David Stacy, Midland Firemen's Relief and Retirement Fund, stated that he wanted to reinforce Mr. Brainard's comment that there was a list of items to study directed to staff. Mr. Stacy stated that the staff have roles to play in their every day job that this request of the board are generally above and beyond, so while information is valuable be patient with the staff as they produce this information.

Ms. Leslie Hardy, Texas Municipal Retirement System (TMRS), stated that she wants to caution when looking at negative amortization as a negative thing. TMRS is a very well-funded plan, but we expect there to be negative amortization with the twenty five year period.

Ms. Eloise Rafeal, Houston Firefighters' Relief and Retirement Fund (HFRRF), stated that the progress reports in the past years have been overall favorable for HFRRF, as far as funding.

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Ms. Rafeal asked if the PRB has spoken with municipalities that pay into the pension funds and will contributions be placed into the plan based upon the rules that are set forth today.

Chair May stated that the PRB has not had a discussion with the municipalities yet, but it will be an ongoing process and as the PRB develops input we certainly invite the employer, employees, and plans.

Mr. Brainard stated that the PRB values their input as we move forward.

5. Discuss and consider a rating system for pension plan fiscal health and annual funding adequacy

**A. Staff update on the rating system for pension plan fiscal health and annual funding adequacy–
Kenny Herbold (1:29:42)**

Chair May provided a brief history on a rating system for pension plan fiscal health and annual funding adequacy. Chair May stated that there are two important issues for a plan being the amortization period and amount funded (assets divided by liabilities).

Mr. Herbold provided a brief overview of the material covered in the packet for the rating system for pension plan fiscal health and annual funding adequacy.

Mr. Brainard stated that he likes the idea of a rating system, to provide an overall actuarial evaluation of a plan. He recommended using non-correlated indicators of the health of a plan; for example, to include funding rate, UAAL as % of payroll, actuarially determined contribution experience, ratio of actives to annuitants, and amortization period.

Mr. McGee added that the rating system should not focus only on the plans, but include the sponsors too, and added that the system should not have too many data points and proposed a simple A-F scoring method. Mr. McGee also stated that the current AV report is like a color coded rating system and the rating system should not be scary, but informational highlighting best performers and best practices.

Chair May stated that plans understanding amortization with their actuaries is a good way to go and the best way to view the health of the plans.

Mr. McGee requested the staff to look at rating systems that already exist in Texas and other states and review the core elements at the next Committee meeting.

B. Receive Public Comments

Mr. David Stacy, Midland Firemen's Relief and Retirement Fund, stated that a rating system would be difficult and dismiss some matters such as low risk, high marks vs. high risk, low marks, diminishing members vs. increased members.

Mr. Chris Bucknall, Texas County and District Retirement System (TCDRS), stated that if the plans are meeting their funding policy to be very careful using funding ratio to establish rating.

6. Invitation for audience participation

No public comment.

7. Adjournment

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 3:15 p.m.

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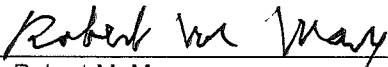
In Attendance:

Staff:

Anumeha
Bryan Burnham
Reece Freeman
Kenny Herbold
Michelle Kranes
Shelley Murphy
Sheryl Perry
Ashley Rendon

Guests:

Eddie Solis, Texas Association of Public Employee Retirement Systems
John Lawson, Houston Police Officers' Pension System
Jim Smith, SAFPPF/Texas Association of Public Employee Retirement Systems
Andrew Clark, Speaker's Office
Max Patterson, Texas Association of Public Employee Retirement Systems
Ralph Marsh, Houston Firefighters' Relief and Retirement Fund
Todd Clark, Houston Firefighters' Relief and Retirement Fund
Eloise Rafeal, Houston Firefighters' Relief and Retirement Fund
David Stacy, Midland Firemen's Relief and Retirement Fund
Jennifer Jones, Employees Retirement System of Texas



Chair Robert M. May