

**Pension Review Board
Actuarial Committee Meeting Minutes
Friday, October 13, 2017**

1. Meeting called to order (0:29)

The first meeting of 2017 of the Pension Review Board (PRB) Actuarial Committee was called to order by Chair Bob May on Friday, October 13, 2016, at 10:03 AM at Capitol Extension, Committee Room E2.014, 1400 N. Congress Avenue, Austin, Texas 78701.

2. Roll call of Committee members (0:45)

Board Members Present:

Robert May
Keith Brainard
Josh McGee

3. Approval of the December 15, 2016 Committee minutes – Chair May (1:20)

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

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

Motion Carried Unanimously

4. Receive update from City of Fort Worth and Fort Worth Employees Retirement Fund regarding Funding Soundness Restoration Plan (2:01)

Representatives from the City and the Fund were invited to provide testimony. The representatives included David Cook, City Manager; Susan Alanis, Assistant City Manager; and Joelle Mevi, Executive Director of the Fort Worth Employees Retirement Fund (FWERF).

The City representatives explained what they have been doing for the last ten years and what will happen in the near future. The actions that have taken place include a reduction in interest rate that the fund pays on withdrawals, suspending a DROP annuity option, an elimination of the purchase of service when it is not actuarially neutral, and an elimination of service credit for accrued medical or sick leave. For additional changes, the City is evaluating the cost of moving all or some employees to the Texas Municipal Retirement System (TMRS), reserving \$4 million in 2018's general fund budget to increase employer contribution, looking into legislative changes that may be necessary to phase general employees out of the legacy fund, commencing collective bargaining with the firefighter's association, and hiring consultants to work with the pension task force.

Mr. Cook mentioned that there will be a joint meeting of the city council and with the retirement fund in November, and that they expect to have an update on the funding soundness restoration plan (FSRP) in the beginning of 2018.

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Chair May inquired as to why it seems as if the plan has not made much progress since the 2016 interim hearing meeting in Arlington.

Mr. Cook answered that Moody's has downgraded the City of Fort Worth twice in the last three years, and that is related to the increase in the unfunded liability of the fund. He added that the rate of return was not being achieved, so lowering the discount rate and then not achieving returns due to the recession increased the unfunded liability over the long term.

Mr. McGee asked what the key items the City and Fund are looking to achieve through reform.

Mr. Cook answered that they are looking to recruit and retain the best employee at a cost that is acceptable to taxpayers.

Mr. McGee suggested that the City and Fund find some specific items that they are trying to achieve so there is a clear understanding of where they are trying to go through the reform.

Mr. Brainard asked the representatives to describe the Fund's DROP plan. Ms. Alanis explained that there is zero interest paid on the DROP accounts, there is a five-year maximum participation, and contributions from both the City and member continue after DROP election, so in terms of comparative DROP programs, it is conservative. Ms. Mevi added that members in the DROP program are eligible for a COLA after two years of participation.

Mr. Brainard asked about the amortization method. Ms. Alanis explained that it is a level percent, open, and the City is currently working with a consultant and evaluating the implications of the open methodology.

Chair May asked about the overall size of the City.

Mr. Cook answered that the City of Fort Worth is growing by about 25 thousand people a year, which is led by the job growth in the metroplex and the decreasing tax rate.

Mr. Brainard asked if GRS recommended moving toward a closed amortization. Ms. Mevi answered that the Fund hasn't asked them to opine on that, and Ms. Alanis answered that their consultant, PFM, has recommended.

Mr. McGee suggested the Fund and City be skeptical of their consultants' advice and ask a lot of questions, encouraged them to move into a more flexible direction, and noted that the actual contribution has been short for many years.

Ms. Mevi noted that the Fund will probably engage in an experience study in the near future, and that best practice does say to follow the advice of the actuary.

Chair May asked about the City's conversation with TMRS and whether the City is still looking at joining TMRS as an option.

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Ms. Alanis answered that they asked TMRS to prepare an analysis for new members joining TMRS, and noted that they found the City's contribution would be higher than providing the new benefit through FWERF. The consultant is helping the City go over the implications of that option.

Mr. McGee noted that if the new members went into another system or stayed with FWERF; there are no implications for debt service payments.

Ms. Alanis clarified that they would be looking into the financial implications of the City dealing with the implications to the legacy plan to not have the growing number of new members joining.

Mr. McGee explained that the payroll base doesn't change, and the City would still be making debt service payments on the entire payroll base. Mr. Brainard noted that there are some implications, but that could be discussed at a later time.

Chair May asked whether the City or Fund is working with the legislature.

Mr. Cook stated that they do keep in close contact with Representative Dan Flynn and will be meeting with him in November. Ms. Mevi added that the Fund will also be meeting with Representative Flynn in November.

The Committee thanked the City and Fund representatives for their open and transparent spirit and offered assistance if needed in the future.

5. Update on Actuarial Valuation Report and discussion of certain retirement systems (45:30)

Kenny Herbold provided the report and noted updates to a few plans on the report since the board meeting, including Dallas Employees Retirement Fund, Odessa Firemen's Relief and Retirement Fund, and Longview Firemen's Relief and Retirement Fund. He added that the Employees Retirement System of Texas has recently lowered the system's discount rate to 7.5%, which should cause their amortization period to change to infinite.

Also, Mr. Herbold noted that University Park Firemen's Relief and Retirement Fund and the City of University Park have passed the necessary resolutions to require new employees to become members of TMRS effective November 1. As a part of that negotiation, the Fund will reduce the existing employee contributions into the Fund to 10%.

Mr. Brainard inquired as to when Houston will be voting on the Pension Obligation Bonds (POBs), and Mr. Herbold answered that he believed it to be late October.

Mr. Brainard noted that San Antonio Police and Fire Pension Fund should be recognized for their work. Chair May added that there is a high amount of sharing of responsibility between the employees and the City and they are doing good things.

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6. Discuss and consider system actuarial reviews, including the review process (56:15)

Chair May asked Mr. Kenny Herbold to provide the report on system actuarial reviews.

Mr. Herbold stated that the Board directed staff at the August meeting to identify measures that could be considered, in addition to the amortization period, to provide a more holistic view of a plan. He added that staff has proposed nine metrics to use internally to start the review process, and that staff would like the committee to provide approval and help staff prioritize the plans based on these metrics for the review process.

Mr. Brainard asked for clarification on the metric concerning DROP and PROP. Mr. Herbold explained that PROP is typically post retirement rather than deferred retirement, and further explained that there are some plans that allow their retirees to defer a portion of their annuity into the plan and earn interest on that. He added that the metric would look at the balance as a percentage of FNP because it is an indication of potential liquidity issues.

Mr. Brainard suggested striking that metric since it is something that would be an unusual occurrence and that issue could be considered separately. Chair May agreed.

Mr. McGee disagreed and stated that it may not be much of an outlier, since there are plans that have a high DROP balances as a percentage of assets, which is an issue that the PRB should keep an eye on.

Mr. Herbold added that the information is readily available now, since GASB 67 and 68 requires plans to report their DROP balance.

Mr. Brainard rescinded his suggestion to strike that metric, but inquired about changes in discount rate. Mr. McGee agreed with the question of relevance of discount rate changes.

Mr. Herbold answered that increases in discount rate should be a red flag and unusual choice given the current trend of lowering discount rates. Also, Mr. Herbold noted that decreases in discount rate should be noted and taken as a positive change and should alert staff to consider whether a plan warrants a review based partly on this metric.

Mr. McGee stated that the purpose of the review is to help the plans and sponsor better understand what it takes to get back into a more sustainable track. He also stated that whenever a plan lowers its discount rate, it uncovers things that were hidden before, so while it is a positive action to take to lower a discount rate, it does not mean that the plan should be overlooked for a review.

Ms. Anumeha added that staff can take the factor out of the proposed list, but keep it in mind when the other factors are applied during the in-depth review process. Mr. McGee agreed and added that staff is going to apply their own judgment and knowledge of the plan's situation to determine whether a plan needs a review.

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The Committee agreed to strike the last bullet (Changes in Discount Rate) and take the metric into account during the review, if applicable.

Mr. Brainard suggested asking staff to develop a framework to quantify each metric. Chair May agreed.

Mr. McGee agreed that it would be helpful, and requested staff to provide a report similar to the AV Report, with the metrics across the top and each plan listed. He added that color coding would be helpful.

Chair May stated that he was concerned with the size of the plan and the amount of investment fees. He asked whether the issue would be covered in the reviews.

Mr. McGee agreed and stated that he would like to see the 10-year returns versus assumed rates of return to compare returns to discount rates. He stated that the discount rate is important to funding policy and staff could see how it is performing relative to returns. He also added that fees are a difficult metric to measure because the reporting is inconsistent.

Mr. Brainard agreed that he could not find a correlation between the return assumption and the performance of the plans, though other literature suggests that there is a difference.

The Committee discussed adding the 10-year return versus discount rate and could not come to a consensus on the topic and agreed to keep eight metrics. Mr. Brainard stated that he was interested in a real rate of return figure that measures the difference between the nominal versus rate of inflation assumption.

Ms. Anumeha reminded the Committee that the in-depth reviews would look at cost drivers for the plan, and that actual realized return would be taken into consideration.

Chair May asked what the next step in the process would be. Mr. Herbold answered that staff would like to begin working on reviews as soon as possible and that they were asking for approval of the metrics.

Mr. McGee asked what the concerns were with including contributions relative to revenue as a factor. Mr. Herbold answered that the numbers were not readily available and would require specific research. Mr. Brainard added that it is a deceiving metric and that another metric in the list picks up the spirit of the concept.

Mr. McGee asked whether there would be consideration on interest rate in DROP accounts or the COLA rate as part of the review. Mr. Herbold answered that staff would be researching all aspects of each plan during reviews and added that the proposed list is intended to provide a simple approach to help prioritize which plans to review.

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Mr. Brainard suggested the Committee reach a consensus on the metrics and further ask staff to develop a framework for quantifying each metric. He stated if it the Committee agreed, he would like to put that in the form of a motion.

Mr. McGee agreed and asked for clarification on the framework. Mr. Brainard agreed and added to possibly assign a value or suggest a concept to assign value or weights to each metric.

Mr. McGee asked for clarification on the weighting and whether color-coding suffices for this request.

Mr. Brainard stated that he would like a number or value that could be used for weighting each metric to be used for color-coding.

Ms. Anumeha asked whether the members wanted the staff to present the framework at the next Committee meeting. The Committee discussed the scheduling of committee meetings and full Board meetings and asked for staff to provide the list of plans along with the eight metrics by the November Board meeting, without an index.

Mr. McGee further stated that at an Actuarial Committee meeting in January, the committee would be able to discuss initial reviews of plans and would be able to discuss the Board's feedback on the metrics and possibly lay out the index concept suggested by Mr. Brainard.

Chair May asked opened the meeting to audience participation.

Mr. David Stacy from Midland Firemen's Relief and Retirement Fund informed the Committee that smaller plans have some advantages that larger plans cannot take advantages of, and that it should be considered. He added that a 10-year return average would not be beneficial as a metric, but rather a period of much longer than 10 years.

Chair May entertained a motion to approve the factors as updated and to come back at the next board meeting with the initial categorization of those factors, as well as that staff can begin the process of assessing risk and working with systems that require actuarial reviews.

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

Motion Carried Unanimously

7. Discuss and consider options for online public pension dashboard (1:44:21)

Chair May called on Anumeha to give an update on the public pension dashboard.

Anumeha gave background information on the dashboard, noting that the legislature appropriated money this session to fund the development of an online pension dashboard to allow the PRB to provide up-to-date data in an accessible format.

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Anumeha explained that staff is working with a database administrator to provide a dashboard that consists of three sections: an individual plan section to provide data on each system and focusing on ten-year data point; a comparative section that includes the most recent data sent to the PRB with a comparison through peer groups; and a raw data section that contains spreadsheets for downloading.

Mr. Brainard suggested that the staff consider adding some of the information that is reported to the Board.

Mr. McGee noted that the dashboard is a positive development for the state of Texas and suggested that the dashboard allow users to compare across peer groups.

Ms. Julie Higgins, Houston Firefighter's Relief and Retirement Fund, suggested the dashboard include standard deviation information and risk. She added that social security versus non-social security participation could be helpful.

Ms. Anumeha stated that staff will take all suggestions into consideration.

8. Date and location of next Actuarial Committee meeting (1:52:20)

Chair May noted that the next meeting has not been decided yet, but will likely be in January 2018.

9. Invitation for audience participation (1:52:53)

Mr. David Stacy noted that it is very commonplace for service providers to weigh in heavily for smaller funds. He added that he would like to see a continuing conversation about legacy plan cost.

10. Adjournment (1:56:37)

Chair May entertained a motion to adjourn the meeting.

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

Motion Carried Unanimously

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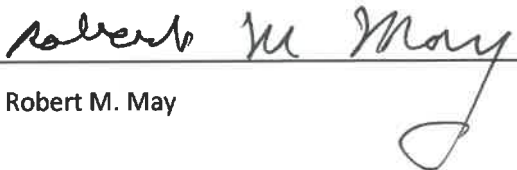
In Attendance:

Staff

Anumeha
Reece Freeman
Kenny Herbold
Michelle Kranes
Eloisa Mata
Ashley Rendon
Bryan Burnham
Eusebio Arispe
Westley Allen

Guests

Kolby Beckham, Longview Firemen's Relief & Retirement Fund
Lisa Hughes, El Paso Fire and Police Pension Fund
Eloise Raphel, Houston Firefighters' Relief & Retirement Fund
Joelle Mevi, Fort Worth Employees' Retirement
Dan Wattles, Texas Municipal Retirement System
Todd Cox, Fort Worth Employees' Retirement Fund
Jen Jones, Employees Retirement System of Texas
Eddie Solis, TEXPERS
Juliet Higgins, Houston Firefighters' Relief & Retirement Fund
Joe Gimenez, G3PR
Katy Fallon, Legislative Budget Board
Jill Jones, Odessa Firemen's Relief & Retirement Fund


Chair Robert M. May