

**Pension Review Board
November 16, 2017
Minutes**

1. Meeting called to order (0:00)

The third meeting of 2017 of the Texas Pension Review Board (PRB) was called to order by Chair Josh McGee on Thursday, November 16, 2017 at 10:00 AM, at the Capitol Extension, Committee Room E1.012 in Austin, Texas.

2. Roll call of Board members (0:08)

Board Members Present:

Chair Josh McGee
Keith Brainard
Andrew Cable
Stephanie Leibe
Robert May
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

A. Consider approval of the August 11, 2017 Board meeting minutes (0:27)

Chair McGee entertained a motion to suspend the reading of the minutes of the PRB meeting held August 11, 2017 and to approve them as circulated.

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

MOTION CARRIED UNANIMOUSLY

B. Consider excusing the absence of Board members from the August 11, 2017 Board meeting (1:06)

Chair McGee entertained a motion to excuse Judge Cable from the August 11, 2017 meeting.

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

MOTION CARRIED UNANIMOUSLY

4. Actuarial Committee – Discuss and consider the following matters – Bob May

A. Update on Funding Soundness Restoration Plan (FSRP) for Fort Worth Employees Retirement Fund – Anumeha Kumar (6:14)

Ms. Kumar updated the Board on the October 13, 2017 Actuarial Committee meeting. She noted that representatives of the City of Fort Worth and the Fort Worth Employees Retirement Fund (FWERF) were present: City Manager David Cook, Assistant City Manager Susan Alanis, and FWERF Executive Director Joelle Mevi.

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Ms. Kumar stated that the City Council and pension board met in joint session on November 14, 2017, noting that a consulting firm provided a projection on when the fund would run out of money.

She also informed the Board that on November 21, 2017, the task force would start considering recommendations from the consulting firm, and that the PRB is looking to receive an update on the pending FSRP sometime in January. Ms. Kumar stated that the PRB staff would reach out to the City of Fort Worth and FWERF to stay on top of the issues and update the Board at the next meeting.

Mr. McGee asked whether the representatives would need to attend the next board meeting, and whether the staff is offering any assistance.

Ms. Kumar stated that staff would consider inviting the City and Fund to walk through the adopted FSRP, and that at the October Committee meeting, members offered to provide assistance.

Mr. Richards asked why the Fund is having problems. Ms. Kumar provided a summary of issues that were presented at the Actuarial Committee meeting.

B. System actuarial reviews – Kenny Herbold (14:40)

Mr. Herbold gave a background on system actuarial reviews, noting that one of the PRB's mandates is to conduct reviews of public retirement systems. He stated that staff provided nine metrics at the October Actuarial Committee meeting. The metrics are intended to serve as a starting point for deciding systems for actuarial reviews.

He stated that staff has identified three plans for the first round of reviews: Greenville Firemen's Relief & Retirement Fund, Marshall Firemen's Relief & Retirement Fund, and Galveston Employees' Retirement Plan for Police. Mr. Herbold noted that the expectation is to have a draft of reviews ready for the January Actuarial Committee meeting.

Mr. Richards asked if the spreadsheet included in the meeting packet showed plans in any particular order. Mr. Herbold stated that they were not in any particular order and that the spreadsheet is intended to give staff a more holistic view of the financial health of plans, rather than only focusing on amortization period.

Mr. Brainard asked Mr. Herbold to explain the reasoning for including payroll growth rate as a metric. Mr. Herbold explained that payroll growth rate and discount rate are both used to calculate the effective interest rate, which is used to determine the amortization period. He added that payroll growth rate is an important metric because the contribution is expected to increase at the payroll growth rate, so the larger the number, all else being equal, the smaller the amortization period. It can be a potential red flag.

Mr. McGee noted that high payroll growth likely means the amortization period is understated. Mr. Brainard noted that many plans on the list are above the national average actual payroll growth rate of 2%.

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Mr. McGee asked Mr. Herbold what the review process would look like going forward. Mr. Herbold answered that the next step would be continued discussion at the Actuarial Committee meeting.

Ms. Leibe asked why the spreadsheet was sorted the way it was. Mr. Herbold answered that the Actuarial Valuation Report is sorted that way and staff felt the board was used to seeing the data in that manner.

Mr. Brainard added that Texas generally focuses on amortization period, and that it is the convention of the PRB to present actuarial data based on amortization period.

Mr. McGee stated that he likes that Texas is focused on amortization period because it captures elements of both funded ratio and funding effort in one metric, which in his point of view is better than other metrics.

Mr. May added that the Actuarial Committee can further discuss the way the report is sorted.

Mr. Richards noted that staff should take a further look into discount rate, since higher rates are unrealistic.

Ms. Kumar added that staff is using the spreadsheet to prioritize plans to be reviewed. She mentioned that staff has informed the three plans about the first cycle of in-depth reviews.

Mr. Brainard asked Mr. Herbold to discuss the anticipated cycle length.

Mr. Herbold stated that staff would have a draft available by January. He noted that there is currently no template to follow, so staff is trying to identify potential concerns as the process moves along.

Ms. Kumar added that the review cycle should run about three months. She stated that in general, a typical review cycle will include staff informing the Actuarial Committee before making a determination, returning to the Committee with a preliminary draft, considering recommendations from the Committee members, and then bringing the final draft to the full board with recommendations.

C. Risk sharing valuation study (Houston Systems) – Kenny Herbold (39:04)

Mr. Herbold gave an update on the risk sharing valuation studies (RSVS) for Houston Police Officers' Pension System (HPOPS), Houston Firefighters' Relief & Retirement Fund (HFRRF), and Houston Municipal Employees Pension System (HMEPS).

He explained that Senate Bill 2190 created the requirement for the systems, and the purpose was to produce a corridor midpoint which would outline the City of Houston's contributions over the next 30 years.

Mr. Herbold added that the PRB is responsible for reviewing RSVSs from the three systems and ensuring that they comply with the SB 2190 requirements. He also mentioned that the bond measure for the pension obligation bonds passed.

Mr. Brainard asked for clarification on whether all three valuations were based on a 7% discount rate.

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Mr. Herbold answered that the 7% discount rate was required by the bill, and added that the PRB has received all three initial RSVs. He noted that HMEPS and HPOPS actuaries' contribution calculations fell within the 2% difference mentioned in statute, but HFRRF did not, so the arithmetic average was taken as the midpoint, as required by statute.

Mr. May asked if there is any other potential legislation for Houston plans.

Mr. Herbold answered that he did not know of any potential legislation for Houston, and added that the primary reasons for differences in contribution calculations were the use of different assumptions; however SB 2190 requires plans to conduct experience studies no later than 2020, so assumptions would be evaluated then.

D. Actuarial Valuation Report – Kenny Herbold (46:10)

Mr. Herbold stated that there have been 17 new actuarial valuations since the August board meeting, noting an overall small decrease in discount rates used. He discussed changes to Dallas Employees Retirement Fund, Odessa Firemen's Relief & Retirement Fund, Employees Retirement System, and University Park Firemen's Relief & Retirement Fund.

Mr. McGee asked about the future implications of ERS lowering the discount rate.

Mr. Herbold stated that ERS typically reviews assumptions once every four years, and the system has decided to take another look at the assumption in two years, when they may lower the discount rate again if the system does not meet investment returns.

Mr. Brainard noted that lowering assumptions doesn't mean that a plan has underperformed investment-wise, and that it lies with the legislature to provide adequate contributions over a sustained period of time.

Mr. McGee mentioned that the State has not put enough money into the system. He also noted that he is concerned that changing assumptions would necessitate additional contributions, which the State has been slow to do in the past. He also mentioned additional concern about the constitutional maximum contribution percentage.

Mr. May noted that he attended the ERS board meeting and it was his understanding that the actuary recommended a lower discount rate, but the board did not make that change. He stated that it is still too early to know what the system will do next time.

Mr. McGee stated that there was some discussion about contribution levels and the ability to get higher contributions from the State. He stated concern about how ERS is going to get adequate contributions.

Mr. May asked whether TRS is looking into lowering their interest rate.

Mr. Herbold answered that TRS is in the process of conducting an experience study, where they will look at assumptions.

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E. Online pension dashboard – Anumeha Kumar(57:06)

Ms. Kumar updated the Board on the development of the online public pension dashboard which takes into consideration the needs of constituents and the legislature based on technical assistance requests the PRB has received in the past.

She explained that the dashboard will feature three main sections: individual plan data, comparative plan data, and a section where the public will be able to download raw data.

Mr. Richards asked whether the dashboard would be open to the general public, and if there are any privacy issues.

Ms. Kumar answered that there is no identifiable plan member information and that the information uploaded to the dashboard comes from the systems, which is public information, so the dashboard would be an open data portal, available to the legislature and the public.

Mr. McGee asked when the dashboard should be completed.

Ms. Kumar stated that staff has just begun the process, but that the dashboard should be completed before next legislative session.

F. Public retirement system reporting and compliance, including the following items:

i. Update on FSRP requirement – Reece Freeman (1:01:42)

Mr. Freeman gave an overview of the FSRP lists, noting the plans that will be required to conduct an FSRP in 2018.

Mr. McGee noted that staff should make sure to monitor plans that need to develop updated FSRPs.

Mr. Richards asked staff to clarify the list that states plans are immediately subject to FSRP requirement.

Mr. Freeman stated that those plans are required to send the PRB an FSRP.

Mr. Richards asked about the deadline.

Mr. Herbold answered that plans have six months after the adoption of the actuarial valuation to formulate a plan, then 30 days to send the FSRP to the PRB.

ii. Noncompliant retirement systems under Sections 801.209 of the Texas Government Code – Reece Freeman (1:08:36)

Mr. Freeman noted that the number of plans on the list that are compliant is much higher than the last meeting because a majority of plans' reports are due at the end of July.

He also noted that Midland Firemen's Relief & Retirement Fund was added to the 60-day Non-Compliant list and that staff has been in communication with the fund.

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iii. Receive update on noncompliance of Northeast Medical Center Hospital Retirement Plan – Ashley Rendon (1:11:10)

Ms. Rendon updated the Board on the Northeast Medical Center Hospital Retirement Plan. She explained that at the August PRB meeting, the Board made a motion to invite the Plan and its governing body to the November meeting.

Ms. Rendon stated that the Plan and sponsor were unable to attend the meeting, but through the formal request, staff was able to communicate with the Plan's board chair, who agreed to begin the plan audit process with the sponsor's current auditor. She added that the plan reports are due to the PRB at the end of January each year.

Ms. Kumar added that since board chair has acknowledged the plan's 3-year non-compliance with reporting requirements and has engaged an auditor, staff did not feel it necessary to require plan representatives to attend the November board meeting.

Mr. McGee commented that it is positive movement, as they have been on the list for a while.

5. Update on the initial meeting of Advisory Committee on Principles of Retirement Plan Design – Keith Brainard (1:13:30)

Mr. Brainard updated the Board on the first meeting of the Advisory Committee on Principles of Retirement Plan Design in October. He gave a brief background of the basis of forming a committee, which was to have the PRB be on record for deciding what a retirement plan should be for state and local governments, rather than assuming that type of plan is in place and provided to workers.

Mr. Brainard stated that the Committee had a robust conversation and they wanted to share the ideas from the Committee with the Board, though there are many more meetings before the Committee will have a draft of the Principles for adoption by the Board.

Mr. McGee noted that a mandate of the PRB includes oversight of benefits and funding of benefits. Since the PRB has goal posts for funding, he emphasized the need for goal posts on the benefits side and emphasized that the document in the board meeting packet is a preliminary draft and once the final is ready, there will be opportunity for comments.

Mr. Richards commended the Committee members for creating the draft and asked whether the Committee was using ideas from other parts of the country.

Mr. Brainard answered that many ideas come from a resolution maintained by the National Association for State Retirement Administrators, which was a rough starting point for many of the elements.

Ms. Leibe stated that she would like to take a step back and figure out who the target audience is and what the ultimate goal should be. She added that once those two parameters are set, it will help the Committee get a better focus on the *Principles*.

Mr. McGee agreed and stated that the audience should be the decision-makers on the benefits side, which varies depending on plan structure. He added that the goal is similar to what was done for the *Funding Guidelines*, setting goal posts.

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Mr. May asked if the Committee is looking at CalPERS and other large funds in the nation to incorporate any of their best practices.

Mr. McGee stated that he was unaware of benefit design parameters from CalPERS, but would like to know more if there is more information available.

Mr. Brainard stated that they will continue to work on the *Principles*, incorporating ideas from other funds if appropriate.

6. Education and Research Committee – Discuss and consider the Minimum Educational Training (MET) Program pursuant to Section 801.211 of the Texas Government Code – Judge Cable

A. Recognition of staff for development of MET Program (1:48)

This item was taken up earlier in the meeting. Judge Cable read a resolution for Ms. Kranes, recognizing her work to develop the MET Program.

B. MET compliance reporting – Christine Taylor (1:20:52)

Ms. Taylor updated the Board on MET compliance reporting, noting that the numbers do not reflect trustee and system administrator compliance with training requirements, rather compliance with reporting from systems. She gave the overview of non-compliance and stated that 60-day late notices would be sent in December.

C. Accredited sponsor and approved course renewal – Christine Taylor (1:22:27)

Ms. Taylor stated that all eleven sponsors due for renewal have renewed their sponsor status with the PRB and will be accredited for the next four years.

Mr. Brainard requested the staff to provide the Board with a list of those sponsors.

7. Legislative Committee – Discuss and consider the following items – Robert Massengale

A. Ideas for interim study – Anumeha Kumar (1:24:08)

Ms. Kumar reminded the Board that one of the PRB's mandates is to recommend policies, practices, and legislation. She requested the Board members to recommend topics for interim studies to include within the Biennial Report to the legislature.

Mr. Brainard suggested the staff to research benefits and feasibility of smaller pension funds in the state merging their assets.

Mr. McGee suggested staff research funding policies for fixed rate plans.

Mr. Richards suggested staff research investment policies and look into what type of investments plans are making and the distribution of those investments.

Mr. McGee asked about the timing for the studies and how they would be executed.

Ms. Kumar answered that studies would conclude by November 2018, since that is when the Biennial Report is submitted to the legislature. She noted that given the time frame and other projects staff are completing, there would be a limit of 2-3 topics for these studies.

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Ms. Leibe asked whether the topics should align with the interim charges from the legislature.

Ms. Kumar answered that staff could look into the topics to see whether they overlap with the legislature, but if they do overlap, they could potentially include more staff recommendations within those studies.

Mr. McGee asked when the topics will be finalized.

Ms. Kumar stated that she will research more into the interim charges to see if the study on investments could be merged with the interim charge. If so, staff could start immediately on the other two suggestions.

8. Review and discuss report from the Executive Director on the following matters – Anumeha Kumar

A. Updated Fiscal Year 2018 Operating Budget (1:31:40)

Ms. Kumar updated the Board on the 2018 Operating Budget. She noted that the agency is in line with the budget that was approved by the Board for the fiscal year.

B. TLFRA Annual Conference (1:32:27)

Ms. Kumar stated that the conference was held in October, where staff actuary Kenny Herbold taught a course on risk management, which is a core topic in the MET program.

C. 2017 Evaluation of PRB Educational Services results (1:33:22)

Ms. Kumar informed the Board that the survey was conducted partly for performance measure requirements. She noted that constituents' overall satisfaction with PRB educational services was close to 96%.

Ms. Kumar mentioned that there were a couple of suggestions included in survey responses and the staff will be sure to review the suggestions and make necessary changes.

D. Staff update (1:34:36)

Ms. Kumar introduced the two newest members of the PRB staff, Mr. Eusebio (Chevo) Arizpe, who will assist Wes Allen with accounting duties, and Marc Chytil, who is the investment analyst. She noted that the PRB is fully staffed at 12 employees, since the budget will not allow for the authorized 14.

9. Call for future PRB agenda items (1:36:37)

There were no items mentioned.

10. Date and location of next PRB meeting – TBD (1:36:51)

Ms. Kumar mentioned that the next committee meetings would be in January, with a full Board meeting undetermined, but possibly early or mid-March 2018.

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11. Invitation for public comment (1:37:37)

Mr. David Keller, the Houston Firefighters' Relief and Retirement Fund Board Chair, thanked the PRB for the work that went into the Houston legislation and implementation of legislation. He also thanked staff as the Fund is working through adjustments.

He apprised the Board on the averaging process that happens once the City of Houston and Fund actuaries have a difference in calculation of contribution greater than 2%. He raised concerns about systematic underfunding of the Fund. He noted that there is an open question of constitutionality which is being litigated in appellate court.

Mr. McGee stated that he appreciates the Fund's engagement in the entire process and noted that the Fund and the City's estimates were 10% from each other, which required averaging to find the corridor midpoint. He explained that the top corridor maximum captures the Fund's calculation.

Mr. Keller agreed and stated that an experience study by a third party will help the Fund get closer to the City in its next calculation.

Mr. Brainard asked if Mr. Keller could provide the Board with a brief explanation of the reasons why there are different outcomes between the Fund and City.

Mr. Keller answered that the mortality assumption was different and also the cost-of-living adjustment assumptions.

Mr. Brainard asked Mr. Keller if he could provide more detail on the differences and asked which consultants the Fund is using. He also asked if the lawsuit is challenging the constitutionality of the state's action.

Mr. Keller answered that the lawsuit challenges the constitutionality of the state setting assumptions for the plan's valuations.

Ms. Kumar informed the board that staff will work with the plan and provide more information at a later time.

12. Adjournment (1:45:00)

Chair McGee moved to adjourn the meeting. Mr. Brainard seconded.

MOTION CARRIED UNANIMOUSLY

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In Attendance:

PRB Staff Present

Anumeha Kumar
Westley Allen
Eusebio Arizpe
Bryan Burnham
Marc Chytil
Reece Freeman
Kenny Herbold
Michelle Kranes
Eloisa Mata
Joey Evans
Ashley Rendon
Christine Taylor

Guests Present

Dan Wattles, TMRS
Jim Smith, San Antonio Fire & Police Pension Fund
Robert Hulme, Fort Worth Employees Retirement Fund
Alva Littlejohn, Lubbock Fire Pension
Leslee Hardy, TMRS
Ben Marts, Odessa FRRF
David Stacy, Midland Fire
Paul Brown, TEXPERS
Jen Jones, ERS of Texas
Ann McGeehan, TCDRS
Juliet Higgins, HFRRF
Pat Haggerty, EPFPPF
Lois Emerson, CPS Energy
Robert Nathan, CPS Energy
Tony Essalih, CGA
Martin Hubert, CGA
Josh Mond, Dallas Police & Fire Pension System
Jarod Love, Delisi Communications
Eddie Solis, TEXPERS
Katy Fallon, LBB
David Keller, HFRRF



Chair Josh B. McGee