

**Pension Review Board
Advisory Committee on Principles of Retirement Plan Design Meeting Minutes
Thursday, March 1, 2018**

1. **Meeting called to order** (0:10)

The first meeting of 2018 of the Pension Review Board (PRB) Advisory Committee on Principles of Retirement Plan Design was called to order by Chair Keith Brainard on Thursday, March 1, 2018, at 9:21 AM at Capitol Extension, Committee Room E1.012, 1400 N. Congress Avenue, Austin, Texas.

2. **Roll call of Committee members** (0:20)

Board Members Present

Keith Brainard
Stephanie Leibe
Josh McGee

3. **Approval of the October 13, 2017 Committee meeting minutes** (0:38)

Chair Brainard entertained a motion to suspend reading of the minutes.

Motion made by Mr. McGee, seconded by Ms. Leibe.

Motion Approved Unanimously

4. **Discuss and consider developing recommendations for PRB Principles of Retirement Plan Design** (1:26)

Chair Brainard noted that the committee meeting packet included a draft of the Principles of Retirement Plan Design as discussed in the prior Advisory Committee meeting. He stated that the draft took into consideration public testimony from that meeting.

Chair Brainard opened the discussion, noting that he had some suggestions. He explained that the meeting packet included his draft of the preamble to the Principles of Retirement Plan Design.

He recommended including the suggested preamble, beginning with "whereas," until the word "therefore". He also suggested an amendment to the second bullet, to replace "protecting the environment," with "protecting the state's natural resources."

Chair Brainard moved to approve the preamble as submitted, as amended.

Ms. Leibe suggested mentioning that proper plan design provides economic stability on the part of the governmental entity providing the plan.

Mr. McGee suggested changing the first sentence of the preamble to strike "employing 1 in 8 Texans," due to demographic changes and state employment changes.

Chair Brainard agreed.

Ms. Leibe suggested a modification of the last bullet of the preamble, or within its own bullet, the general idea that the design and management of the retirement benefit, in addition to providing a benefit to the employees to attract and retain those employees, should also be managed in such a way to provide economic stability to the governmental entity so that those entities do not find themselves with significant funding gaps which effect their annual budget on a going-forward basis.

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Chair Brainard suggested adding Ms. Leibe's input to the principles themselves, instead of the preamble.

Mr. McGee stated that the final bullet point of the preamble talks about the goal of the Principles, and suggested modifying the last bullet to include "the design and prudent financial management of the retirement benefits provided to public employees can significantly affect the ability of the employers to attract and retain employees and the sponsoring government's ability to provide an essential public service."

He stated that it would be good to also put in the Principles that it is also very important that the benefits are not managed in such a way that it creates instability with the sponsoring government.

Chair Brainard stated that the Principles should include the "should" language and that he believed the spirit of Ms. Leibe and Mr. McGee seemed to be that the benefits should be sustainable for the employer in advance of certain financial and economic goals of the employer. He suggested allowing staff to refine the language. The Committee agreed.

Chair Brainard proposed an amendment to "initial draft language" in the draft of the Principles. He suggested adding after the first sentence, "and that a retirement benefit is vital to attainment of the objectives of multiple public sector stakeholders, including employers, employees, and taxpayers," so it goes beyond the critical element of the employee's compensation. The Committee agreed.

Mr. McGee asked how the Principles document would flow with the preamble.

Chair Brainard suggested staff work it out, stating that the preamble should go after the paragraph stating: "initial draft language."

Ms. Leibe suggested taking a step back, stating that some of what is on paper does not currently line up neatly with current state law. She asked whether there should be an acknowledgement to that fact.

Chair Brainard stated that in his view, the Principles are intended to affect policy and added that his hope was that retirement plan representatives and plan sponsors would compare it to their plan and make changes accordingly. Mr. McGee agreed.

Mr. McGee suggested specifying in the first bullet that plans must offer a primary benefit.

Ms. Leibe suggested "employer-sponsored primary retirement." The Committee agreed.

Chair Brainard stated that in item 3, the word "immediate" is prescriptive. He stated that vesting should take place over a short period and should not exceed 5 years. He added that immediate seemed too specific.

Ms. Leibe suggested leaving it as "reasonable vesting period," adding that she had a lot of concern about "immediate" and "short" vesting periods.

Mr. McGee stated that in his experience, moving vesting periods has a relatively small impact on funding. He stated that there are a lot of plans with vesting requirements between 5 or 10 years. He added that 10 would be too long, but a 5-year reduction would not have a big impact.

Ms. Leibe stated that she was more concerned about "immediate."

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Chair Brainard stated that 5 years is the maximum vesting allowed by ERISA.

Mr. McGee suggested “over a short period, not to exceed 5 years.” The Committee agreed.

Chair Brainard suggested replacing “must” with “should” in item 8. The Committee agreed.

Ms. Leibe suggested replacing “prudent person standards” with “prudent investor standards.” The Committee agreed.

Chair Brainard opened the discussion to public testimony.

Mr. David Stacy from Midland Firefighter’s Relief & Retirement Fund stated that since governmental plans are not subject to ERISA, the ERISA requirements should not be discussed in this context since they are not applicable in the public sector. He added that he disagreed with accelerating vesting period, since public sector plans use vesting to recruit and retain employees. He stated that a longer vesting period is one of the incentives to make it less attractive for an employee to terminate after a short period of employment.

Mr. McGee stated that one primary goal of offering shorter vesting periods is for workers to be on the path to retirement security. He added that research has shown that vesting is not a significant recruitment tool.

Chair Brainard added that retirement plan design is a balance and that employers can use other tools to retain employees besides vesting.

Mr. McGee asked that staff make sure that the document flows once the preamble is added.

Chair Brainard agreed and asked that the Committee give staff a wide latitude in editing the Principles.

Mr. McGee asked that the format of the Principles match the Pension Funding Guidelines.

Chair Brainard outlined the next steps of the process, stating that once staff finishes the draft, the PRB will send it out for public comment. He added that the Committee will review the comments at the next meeting before recommending a draft to the full board.

Mr. McGee noted that one thing the current Principles are completely silent on are DROP plans. He added that it has been a problematic element of plan design for Texas plans.

Chair Brainard suggested bringing his thoughts on DROP elements for consideration at the next Committee meeting.

5. Date and location of next Advisory Committee meeting (38:06)

Chair Brainard noted that the next meeting of the committee is scheduled for April 24, 2018.

6. Invitation for audience participation

Public comments were taken throughout the meeting.

7. Adjournment (38:18)

Chair Brainard moved for adjournment of the Committee.

Motion made by Mr. McGee and seconded by Ms. Leibe.

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The Committee adjourned at 10:05 AM.

In Attendance:

Staff

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

Guests

Dan Wattles, TMRS
Tom Harrison, TCDRS
Alva Littlejohn, Lubbock Fire Pension
David Stacy, Midland FRRF
Michael Trainer, San Antonio Fire & Police Pension System Pensioners
Paul Brown, TEXPERS
Tyler Grossman, El Paso Fire & Police Pension Fund
Nancy Fisher, Austin Fire Fighter's Relief and Retirement Fund
Eloise Raphel, Houston FRRF
Max Patterson, TEXPERS
Jason McElvaney, TCDRS
Pattie Featherston, Austin Police Retirement System



Chair Keith Brainard