

Pension Review Board  
June 14, 2018  
Minutes

**1. Meeting called to order (0:07)**

The second meeting of 2018 of the Pension Review Board began on Thursday, June 14, 2018 at 10:30 AM in the Capitol Extension, Committee Room E1.028, 1400 N. Congress Avenue, Austin, Texas 78701.

**2. Roll call of Board members (0:15)**

**Board Members Present**

Chair Josh McGee  
Keith Brainard  
Andrew Cable  
Marcia Dush  
Stephanie Leibe  
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**

**A. Consider approval of the March 1, 2018 Board meeting minutes (0:42)**

Chair McGee entertained a motion to suspend the reading of the minutes of the PRB meeting held March 1, 2018 and to approve them as circulated.

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

**Motion Approved Unanimously**

**B. Consider excusing the absence of Board members from the March 1, 2018 Board meeting (01:16)**

Chair McGee entertained a motion to excuse Judge Cable and Mr. Richards from the March 1, 2018 Board meeting.

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

**Motion Approved Unanimously**

**C. Recognition of outgoing Board Actuary (01:48)**

Chair McGee read a resolution for Mr. Bob May, recognizing him for his service.

Chair McGee opened the floor for public comment.

Mr. Max Patterson, Executive Director of TEXPERS, and Mr. Jim Smith, first Vice President of TEXPERS, recognized Mr. May for his service.

Mr. Brainard noted Mr. May's professionalism and wished him the best of luck.

Mr. Massengale noted his appreciation of Mr. May's effort.

Anumeha Kumar stated that staff is very thankful for Mr. May's service.

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**D. Introduction of new Board Actuary (08:18)**

Chair McGee introduced Marcia Dush as the new Board Actuary.

**E. Committee Assignments (09:15)**

Chair McGee assigned Marcia Dush to the Actuarial and Legislative committees of the Board.

**4. Actuarial Committee – Discuss and consider the following matters – Keith Brainard (09:32)**

**A. Intensive actuarial reviews of the following systems – Kenny Herbold (09:47)**

**i. Irving Firemen's Relief & Retirement Fund (review postponement) (10:22)**

Mr. Herbold informed the Board that since the Irving Firemen's Relief and Retirement Fund requested that staff postpone the review until the fall, the system would be included in the next round of reviews.

**ii. Beaumont Firemen's Relief & Retirement Fund (13:33)**

This item was taken out of order, after the discussion of Marshall Firemen's Relief & Retirement Fund.

Mr. Herbold noted that the primary focus for this review was the post retirement option plan (PROP) guaranteed 6% return. He explained the differences between a forward deferred retirement option plan (DROP) and a retroactive DROP and stated that there was an asset/liability mismatch concern, since the PROP accounts were equal to almost 30% of the plan's assets.

Mr. Herbold noted that after discussions with the plan and its actuary, staff updated the report to clarify that the issue the report raised concerned short-term liabilities that were being backed by long term investments.

**iii. Marshall Firemen's Relief & Retirement Fund (10:53)**

This item was taken out of order, after the discussion of Irving Firemen's Relief and Retirement Fund.

Mr. Herbold explained that the Marshall Firemen's Relief & Retirement Fund was a small plan under the Texas Local Fire Fighters Retirement Act (TLFFRA). He noted that they consistently underperformed their assumed rate of return and contributions were consistently below the actuarially determined contribution (ADC).

He noted that the Fund requested assistance from the PRB and that staff was planning on sending a letter to the City to explain the review and recommendations.

Chair McGee asked about the nature of the ongoing help from staff. Mr. Herbold mentioned that the plan did not ask for ongoing or specific help other than the letter, but staff would be able to assist them upon request.

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**B. Current intensive actuarial reviews of Orange Firemen's Relief & Retirement Fund and Longview Firemen's Relief & Retirement Fund – Kenny Herbold (16:32)**

Mr. Herbold explained the updated metrics spreadsheet and stated that the next reviews will be of Irving Fire, Longview Fire and Orange Fire.

**C. Actuarial Valuation Report – Kenny Herbold (17:25)**

Mr. Herbold stated that since the last board meeting, the PRB received 11 actuarial valuations from plans. He mentioned that since the last meeting, the average funded ratio rose slightly, but the unfunded actuarially accrued liability also grew.

Chair McGee mentioned that the increase in the unfunded liability is a 4.5% growth rate from prior effective date. He encouraged the board members to keep an eye on the growth. Mr. Brainard stated that there was a pattern of plans lowering assumed rates of return, which was probably driving the growth in unfunded liabilities. He added that the Teacher Retirement System of Texas (TRS) accounts for 60% of total assets of all Texas public retirement systems and will be reducing their assumed rate of return, which will have a material effect on the overall numbers.

Chair McGee stated that once TRS lowers their assumption, he would like staff to lead the board through the implications of the new investment return assumption at the subsequent meeting.

Mr. Herbold pointed out that it appears that overall amortization periods are moving in the right direction.

Chair McGee stated that there is positive movement in funding policy from plans, which should be expected in the coming years.

**D. Update on Houston Firefighter's Relief & Retirement Fund experience study – Kenny Herbold (23:10)**

Mr. Herbold reported that staff inquired as to when to expect an experience study from Houston Fire, as it would be expected in 2018. He stated that the plan did not indicate when the next experience study would occur, but that the legislation states no later than 2020.

Chair McGee encouraged the plan representatives to not delay the experience study as long as the legislation allows.

Mr. Herbold followed up on questions asked at the prior board meeting, regarding the plan's cost of living adjustments and mortality table. He stated that the COLA was equal to the 5-year average return with a minimum of 0% and maximum of 4%. He explained that the blue collar table is generally for any plan with 70% or more hourly/union workers. He added that blue collar employees have a higher incidence of mortality at a younger age.

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Mr. Brainard asked whether the city or fund used the blue collar tables. Mr. Herbold stated that both the city and fund used the tables and added that Houston Police also uses the blue collar adjustment.

**E. Staff update on Funding Soundness Restoration Plan for Fort Worth Employees Retirement Fund – Kenny Herbold (28:33)**

Mr. Herbold reminded the Board that the Fort Worth Employees Retirement Fund's FSRP was due in January of 2017. He stated that the City started a Task Force and gave an overview of the schedule leading to a member vote in November.

Mr. Brainard asked Ms. Joelle Mevi, Executive Director of Fort Worth Employees Retirement Fund, to give an update. She explained the process that would happen to pass any changes, which entails notifying the members of the proposals and a member vote. She stated that the election would be for a contribution increase and that the plan's solvency is contingent on the election. She stated that the mayor and city council would like to solve the issue locally.

Chair McGee asked Ms. Mevi to walk the Board through the logistics on governance.

Ms. Mevi stated that benefit levels and contributions are not defined in statute, but the sponsor is given the authority to change benefit levels and employer contributions. She added that employee contributions must be voted on and approved by a majority of members.

**F. Update on Actuarial Standards of Practice – Kenny Herbold (36:59)**

Mr. Herbold gave an overview of Actuarial Standard of Practice (ASOP) 51, which will be effective in November. He stated that it is referred to as the Risk ASOP, which defines risk as any difference between actual results and assumptions.

**G. Online pension dashboard preliminary design and structure – Kenny Herbold (41:54)**

Mr. Herbold stated that the dashboard moved from the design phase to the construction phase and the expectation is that the dashboard would be complete by the end of the year.

**H. Public retirement system reporting and compliance, including the following items: (43:13)**

**i. Update on FSRP requirement – Reece Freeman (43:37)**

Mr. Reece Freeman, Financial Analyst, gave the update on the funding soundness restoration plan (FSRP) requirement, describing the different tables for tracking plan requirements and progress.

Mr. Brainard asked whether plans that needed an FSRP could be removed before they submitted a plan.

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Chair McGee suggested that once a change was made that could result in an amortization period below 40 years by the goal year, that change might allow a plan to be removed from the list. Mr. Freeman stated that the change could be considered an FSRP.

Chair McGee noted a concern about revised FSRPs, stating that staff should apply additional scrutiny to plans with multiple revised FSRPs.

Mr. Freeman stated that plans that submit actuarial valuations with amortization periods below 40 years are shown on the report for the board and then subsequently removed from the report. Michelle Kranes, Deputy Director, stated that staff will keep record of the plans that submit FSRPs and later fall below 40 years, to include in the PRB's Biennial Report to the Legislature.

ii. **Noncompliant retirement systems under Sections 801.209 of the Texas Government Code – Reece Freeman (51:42)**

Mr. Freeman stated that there have been six plans added to the list of registered active plans since the last meeting, and although staff has received initial reports from the plans, staff is still working through them and will incorporate the new plans for the next PRB meeting reports.

He explained that Northeast Medical Center Hospital Retirement Plan was still not compliant and since the last meeting, staff communicated with the auditor, who confirmed that they were working on the audit but need participant data from the plan. Ms. Kranes added that the plan has been non-compliant for three years.

Chair entertained a motion to put Northeast Medical Center Hospital Retirement Plan on the October PRB meeting agenda.

Motion made by Mr. Brainard, seconded by Ms. Dush.

**Motion Approved Unanimously**

5. **Advisory Committee on Principles of Retirement Plan Design – Discuss and consider the following items – Keith Brainard (54:55)**

A. **Comments received on the draft Principles (55:03)**

Mr. Brainard updated the board on the Principles of Retirement Plan Design, stating that the committee prepared the Principles and sent them to constituents for public comment. He added that at the last Committee meeting, the comments were incorporated into the draft, which the Committee hoped to finalize based on discussion and input made by the full board.

Mr. Brainard opened the floor for public testimony.

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Mr. David Stacy, from Midland Firemen's Relief & Retirement Fund, lauded the Committee's efforts to come out with a broad outline, but took exception to the item regarding vesting periods. He stated that a shorter vesting period would not help the plans, and added that PRB recommendations often become law.

Mr. Brainard stated that the board tries to accommodate multiple stakeholders.

Mr. Stacy clarified that most plans provide a return of contributions, so the longer vesting requirement wouldn't be as if they left with nothing.

Chair McGee stated that plans are supposed to be a vehicle for retirement security, and added that he thought long vesting periods leave a lot of people off the path of retirement security.

Ms. Dush added that pension benefits accrue much faster later in a member's career, so early in their career, a majority of their benefit is funded. She stated that there is not a large cost in vesting between 5 to 10 years.

**B. Draft of the Principles of Retirement Plan Design (01:11:40)**

Mr. Brainard directed the board to Principle 8, and stated that he had a concern, and proposed a revision.

Mr. Richards asked what the cost would be to move vesting from 10 to 5 years. Chair McGee pointed out that the Principles are meant to guide and inform the retirement systems, and they can choose to do as they wish. He added that the cost would be small.

Ms. Dush added that the normal cost would increase, unfunded liabilities increase, then that amount would be factored into the amortization period.

Mr. Brainard gave an example in North Carolina where the vesting period was changed and there was not a change in cost.

Ms. Dush mentioned that she could see how there could be a one-time reaction where people might leave because of the change in vesting requirements.

Chair entertained a motion to adopt the PRB Principles of Retirement Plan Design, as amended.

Motion made and seconded.

**Motion Approved Unanimously**

**6. Education and Research Committee – Receive update on Minimum Educational Training (MET) Program – Judge Cable (1:18:06)**

**A. Accredited sponsor course evaluation summary – Michelle Kranes and Joey Evans (1:18:22)**

Ms. Kranes explained that staff conducted a survey of the most recent course evaluations from MET sponsors, and stated that the data showed good overall rating and seemed to validate their accredited status.

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Mr. Brainard recognized that the program was impressive. He asked Max Patterson, Executive Director at TEXPERS for comments.

Mr. Patterson stated that they made a change to using professionals as instructors, which the students preferred. He added that they monitor the instructors and set some guidelines.

**B. MET compliance reporting – Michelle Kranes and Joey Evans (1:21:24)**

Ms. Kranes noted that there was one non-compliant plan that staff is attempting to work with to get the required trustee training reports filed.

Mr. Cable thanked the team for maintaining the program.

**7. Legislative Committee –Discuss and consider the following items – Robert Massengale (1:22:00)**

**A. Update on Senate State Affairs and House Pensions Committee interim hearings – Michelle Kranes (1:22:10)**

Ms. Kranes updated the board on the interim hearings. She said Ms. Kumar, Mr. Herbold and Mr. Brainard presented at a Senate State Affairs Committee meeting and in May, there was a House Pensions Committee meeting in Dallas where Ms. Kranes and Mr. Herbold presented. She added that both meetings went well and staff is awaiting notice of any further meetings before the next session.

**B. Update on Interim study topics – Marc Chytil and Kenny Herbold (1:23:10)**

Mark Chytil, Investment Analyst, gave the update of the interim study of asset pooling for small plans. He stated that staff is looking into academic studies and potential benefits for smaller plans to pool their assets. He noted that the data was grouped into quartiles by asset size, comparing smaller groups to the larger groups of plans.

Mr. Chytil stated that staff found that on average, the returns in quartile 3 were better than quartile 1 by over 100 basis points, noting that the aggregate value of assets in quartile 1 are close to average value of quartile 3 plans. He added that there is no standardized reporting of investment fee data.

Mr. Brainard asked about the values of the different quartiles. Mr. Chytil stated that the data did not include statewide plans, since they would skew results, and that the largest fund in quartile 1 was about \$14 million. Mr. Chytil stated that the aggregate amount of quartile 1 would be about \$150 million for 2016.

Ms. Dush asked whether the funds generally had investment consultants. Mr. Chytil stated that some funds do. Ms. Dush further asked whether each of the funds filed investment policies and whether the plans are in compliance with the policies. Mr. Chytil stated that staff does review the investment policy statements and did not recall plans that were outside of their range stated within their investment policy.

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Mr. McGee suggested that staff divide plans into quintiles to see how it would vary. Mr. Brainard suggested comparing return assumptions of plans in quartile 1 against the others.

Mr. Herbold stated that regarding the other interim study, funding policies for fixed rate plans, staff would like to work with the Actuarial Committee to complete the studies for presentation at the next full board meeting.

Chair entertained a motion to direct staff to work with the Actuarial Committee to complete the interim study research to present to the board at the next board meeting.

Motion made by Mr. Richards, seconded by Ms. Dush.

**Motion Approved Unanimously**

**C. 2018 TEXPERS Summer Educational Forum (1:44:12)**

Ms. Kranes informed the board that the 2018 TEXPERS Summer Educational Forum was coming up in August and that Ms. Anumeha Kumar was asked to present.

Chair entertained a motion to approve the attendance of interested board members at the 2018 Summer Educational Forum.

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

**Motion Approved Unanimously**

**8. Discuss and consider 2020-2021 Legislative Appropriations Request (1:45:00)**

Ms. Kranes explained the request, which would be due prior to the next PRB meeting.

Chair entertained a motion to direct staff to work with the Chair and Vice Chair to finalize the 2020-2021 Legislative Appropriations Request.

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

**Motion Approved Unanimously**

**9. Review and discuss report from staff on the following matters: (1:53:26)**

**A. 2018 Customer Service Survey (1:53:40)**

Ashley Rendon, Management Analyst at the PRB, gave an overview of the report, stating that it was already been submitted to the Legislative Budget Board. She thanked the participants for taking the time to submit surveys and staff will take feedback into consideration.

**B. 2019 - 2023 Strategic Plan (1:55:46)**

Ms. Rendon stated that the Strategic Plan was the starting point for developing the agency biennial budget and that the plan was submitted prior to the board meeting.

**C. Updated Fiscal Year 2018 Operating Budget (1:56:36)**



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Ms. Kranes updated the board on the budget, noting that the agency is where it should be as the fiscal year closes out.

**10. Call for future PRB agenda items (1:57:06)**

There were no items discussed.

**11. Date and location of next PRB meeting – October 4, 2018 (1:57:23)**

Chair McGee stated that the next meeting would be October 4, 2018, in the Capitol annex.

**12. Invitation for public comment (1:57:32)**

David Keller, from Houston Firefighters Relief & Retirement Fund, made a correction to a previously reported update by PRB staff. He stated that the City did not use the blue collar adjustment, but the fund did use the adjustment.

Chair McGee noted that it was surprising that the City uses an older assumption.

**13. Adjournment (1:58:51)**

Chair McGee adjourned the meeting at 12:30 PM.

**In Attendance**

**PRB Staff**

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

**Guests**

Michael Trainer – San Antonio Police Pensioners Association  
Steve Waas – Houston Municipal Employees Pension System  
Max Patterson – TEXPERS  
Brian Hebert – Beaumont Fire Pension  
Tiffany Bunton – Fort Worth Police  
Carolyn Gilmore – Fort Worth Police  
Mark Fenlaw – Rudd and Wisdom  
Leslee Hardy – TMRS  
Dan Wattles – TMRS  
Tom Harrison – TCDRS  
Jason McElvaney – TCDRS  
Joelle Mevi – Fort Worth Employees' Retirement Fund  
Lois Emerson – CPS Energy

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Robert Nathan – CPS Energy  
Rebecca Morris – Rudd and Wisdom  
Joe Gimenez  
Jarod Love – Houston Firefighters Relief and Retirement Fund  
Ted Delisi – Houston Firefighters Relief & Retirement Fund  
Frederick Frazier – Dallas Police Association  
David Keller – Houston Firefighters Relief & Retirement Fund  
David Stacy – Midland Firemen's Relief and Retirement Fund  
Tyler Grossman – El Paso Fire & Police Pension  
Mitch Landry – TMPA



Chair Josh McGee