

Pension Review Board  
October 4, 2018  
Minutes

**1. Meeting called to order (0:05)**

The third and final meeting of 2018 of the Pension Review Board began on Thursday, October 4, 2018 at 11:05 AM in the Capitol Extension, Committee Room E1.012, 1400 N. Congress Avenue, Austin, Texas 78701.

**2. Roll call of Board members (0:10)**

**Board Members Present**

Chair Josh McGee  
Keith Brainard  
Andrew Cable  
Marcia Dush  
Rosy Fariña-Strauss  
Stephanie Leibe  
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 (0:28)**

**A. Consider approval of the June 14, 2018 Board meeting minutes (0:33)**

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 Marcia Dush and seconded by Keith Brainard.

**Motion Approved Unanimously**

**B. Recognition of outgoing Board Member (01:09)**

Chair McGee read a resolution for Mr. J. Robert Massengale, recognizing him for his 10 years of service.

Mr. Massengale stated that it was an honor and privilege to serve on the Pension Review Board.

Ms. Kumar stated that it has been a pleasure to have worked with Mr. Massengale, and he will be deeply missed.

Chair McGee opened the floor for public comment.

Mr. Jeff Litchfield expressed his gratitude towards Mr. Massengale and thanked him for his influence.

Mr. Brainard mentioned that Mr. Massengale has been a source of stability and wisdom on the board and stated that it has been a joy serving on the board with him.

**C. Introduction of new Board Member (7:06)**

Chair McGee introduced Ms. Rosy Fariña-Strauss and welcomed her to the Board.

Pension Review Board  
October 4, 2018  
Minutes

**4. Actuarial Committee – Discuss and consider the following matters – Keith Brainard (7:53)**

**A. Intensive actuarial review of Irving Firemen’s Relief & Retirement Fund (8:12)**

Mr. Herbold gave an overview of the Irving Firemen's Relief & Retirement Fund and reminded the Board that the review was delayed, as it was originally to be reviewed in the summer based on the December 31, 2015 actuarial valuation. He added that the PRB was waiting for an updated actuarial valuation as well as an actuarial audit, which was received, but not in time to include the update into the review.

Mr. Herbold stated that the new valuation lowered the assumed investment return from 8.25% to 7.5%, and also lowered the assumptions for payroll growth and inflation. He stated that the main risks that were raised in the review, despite the changes, were essentially the same.

Mr. Herbold stated that the primary risks were the significant deferred retirement option plan (DROP) account, as the account represents 30% of total assets and the guaranteed interest rate tied to the assumed rate of return. He noted potential concern for assets not achieving the guaranteed rate of return, and potential for members to pull out assets over a short period.

Mr. Brainard asked Mr. Herbold to summarize the changes in the recently received actuarial valuation. Mr. Herbold stated that they lowered some assumptions and the impact of the changes increased the amortization period to infinity, which will make the plan subject to a revised funding soundness restoration plan (FSRP).

Mr. Brainard asked City of Irving and Irving Fire plan representatives to provide their testimony. Representatives included Mr. John Crider, plan actuary, Tony Harvey, Board Chairman, and Mr. Jeff Litchfield, Chief Financial Officer of the City of Irving.

Mr. Litchfield stated that he serves as a member of the Irving Fire Board, and he felt the PRB's report and review provided good historical information that will help moving forward. He stated that he agreed with the findings of the review, and will consider the recommendations.

He pointed out that the City of Irving focuses greatly on pensions due to neighboring cities handling pension issues. He stated that since 2011, both the member and City contributions have increased, and based on the increases, the City anticipated the lowered assumed rate of return to provide for a 40-50 year amortization period, but was surprised that it went to infinite.

Mr. Litchfield stated that he could not give concrete plans for the future, but the next meeting of the audit and finance committee would be on October 17, where he would share the PRB's report and start discussions with the committee.

Mr. Litchfield thanked the Board for the delay of review, as it would have been based on the 2015 actuarial valuation, and they would not have known that the next valuation would show an infinite amortization period. He stated that the City is very supportive of the fund, and that there should be no hindrance to work out a plan.

Mr. Brainard asked Mr. Harvey and Mr. Crider if they had any prepared remarks.

Pension Review Board  
October 4, 2018  
Minutes

Mr. Harvey mentioned that the intensive actuarial review did not catch the Fire Board off guard. He stated that the firefighters have been working on the issues since 2011, when the firefighters increased their contributions; he added that the City has also increased its contribution.

Mr. Harvey agreed with the review that the DROP is a major issue with the fund, but he stated that because of the State's Constitutional benefit protection law, they were under the impression that they could not change that. He noted that the plan is waiting on court decisions concerning the Dallas Police & Fire Pension System to see if they can change the DROP interest rate. He mentioned that the plan was also waiting on the actuarial valuation to see what actions they should take.

Mr. Harvey stated that the plan had a tier two election that addressed the length of the DROP participation, DROP interest, and other factors, which ultimately failed. He stated that he felt the decision was due to lack of education of the members. He stated that the Board is focusing on educating its members before coming to another vote on plan changes and adding a second tier. He stated that the intensive review helps the Irving Fire Board and they will consider the recommendations and will use the review as an opportunity to educate their members.

Mr. Crider added that since it is a reverse DROP, every time a dollar of drop is paid out, the unfunded actuarial accrued liability decreases by about the same amount. He stated that the reverse DROP can be viewed as an optional form of payment.

Chair McGee thanked the representatives for their attendance and stated that he appreciated their dedication to addressing the problem and the steps being taken. He acknowledged the increased contributions from both parties.

He stated that the plan's issues are fixable and encouraged the plan and City to take action as soon as possible, even if it is a small action that builds to something bigger later.

Chair McGee noted that DROP programs are meant to fix a problem where workers want to work longer than retirement age. He added that DROPS need to be implemented in a way that they do not cause financial issues.

Ms. Dush suggested the plan use a Monte Carlo simulation where the payouts of the DROP are anticipated based on raising interest rates.

Mr. Brainard acknowledged the changes made to the plan and expressed his appreciation to the representatives.

Chair McGee emphasized the need to address the issues sooner rather than later and encouraged the plan to review fees and asset allocation.

Mr. Brainard asked how often services are bid for investment and actuarial consultants. Mr. Harvey stated that since he has been on the Board, they have never bid for services.

Ms. Dush inquired as to whether NASRA has model RFPs. Mr. Brainard stated that he could make some available if needed.

Ms. Kumar stated that the staff could reach out to other plans for examples of RFPs and make them available.

Pension Review Board  
October 4, 2018  
Minutes

**B. Update on intensive actuarial reviews of the following systems – Kenny Herbold  
(52:20)**

**i. Longview Firemen's Relief & Retirement Fund (52:42)**

Mr. Herbold stated that the review noted that Longview Fire has a good working relationship with their city. He stated that they implemented a plan in 2012 to address potential issues, which increased contributions, created a new benefit tier, and modified asset allocation. Mr. Herbold stated that despite the changes made to the plan, there are still a number of concerns.

Mr. Herbold explained the changes made to the report since the Actuarial Committee meeting. He stated that in addition to the changes requested from the Committee, the Fund also asked to work with staff to make some clarifying and technical changes. He explained a chart that included a comparison of Longview's asset allocation to various capital market assumptions.

Chair McGee recommended that staff include the chart in Longview Fire's final report.

Mr. Brainard asked whether Longview Fire has taken any action based on the report. Ms. Kumar stated that she was not aware of any action, however staff worked closely with the Fund, and the Fund understands the concerns that the board has raised.

**ii. Orange Firemen's Relief & Retirement Fund (1:07:10)**

Mr. Herbold explained that Orange Fire was reviewed at the September Actuarial Committee meeting. He stated that it is similar to other plans that have been reviewed.

Mr. Herbold stated that their actual returns have not met their assumed rate of returns, and that they've had one of the highest expense ratios in their peer groups. He suggested that they take a closer look at their consultant fees and peer group analysis to see if they are paying more than their peer group.

Chair McGee stated that the peer group comparison shows that Orange Fire has an expense ratio around 1.38%, which is particularly high. He commented on the investment consultant, who services Orange Fire and many of the peers in the group that have the highest expense. He noted that this is an area that the Board should keep an eye on and that plans above 1% should put additional scrutiny on consultant fees.

Mr. Brainard echoed Chair McGee's concerns and stated that it is incumbent on each plan to ask their investment consultant to justify the additional fees that they are charging. He asked whether Orange Fire made any changes as a result of the PRB's report.

Ms. Kumar stated that the Orange Fire pension board discussed the recommendations included in the review and have laid out a concrete action plan to address and try to implement some of those plans. She added that the plan has been interacting with staff and expressed clear interest to take these

Pension Review Board  
October 4, 2018  
Minutes

recommendations seriously and moving forward, to make necessary changes, including reviewing the consultants that they hire.

**C. Adoption of published 2018 intensive actuarial reviews (1:13:09)**

Mr. Brainard recommended that the Board consider adopting the seven reviews completed by the PRB in 2018.

Chair entertained a motion to adopt all seven intensive actuarial reviews for publication in the agency's 2018 Biennial Report, incorporating changes agreed upon by the Board and any technical changes to the Irving, Orange, and Longview Fire reviews.

Motion made by Marcia Dush, seconded by Keith Brainard.

**Motion Approved Unanimously**

Mr. Brainard commended the staff on their work on the reviews, noting the template and work that goes into the reviews. Chair McGee echoed Mr. Brainard's remarks and stated that the reaction from plans and sponsors has been fantastic. He added that since the process was started, the amount of collaboration and ability to work together has improved.

Ms. Kumar thanked the Chair and Vice Chair and stated that staff has been trying to follow up with the systems that have been reviewed as well, and have heard from some of the systems that they view the reviews positively.

**D. Actuarial Valuation Report – Kenny Herbold (1:16:17)**

Mr. Herbold stated that there were not significant changes since the last PRB meeting. He stated that the assumed rates of return have lowered, and funded ratio average improved slightly. He added that the dollar amount of unfunded liabilities did rise. Mr. Herbold noted that there are now 99 plans, with six recently registered.

**E. Update on Teacher Retirement System's investment return assumption change – Kenny Herbold (1:18:30)**

Mr. Herbold stated that the presentation in the meeting packet was from the GRS presentation that was given at the recent TRS Board meeting. He stated that the Board chose to lower the assumed rate of return to 7.25%, so the unfunded liabilities increased and funded ratio dropped. He added that in order for the system to have a 30-year amortization period, they would need to increase current contributions by 1.82%, or an immediate lump sum of approximately \$786 million per year.

Mr. Herbold noted that TRS has requested an additional \$1.4 billion as a special item in their appropriations request.

Mr. Brainard stated that TRS accounts for more than half of the money of the people in the state, in terms of public pension plans, so it is worth watching what they do. Also, he stated that it is extraordinary that they dropped their return assumption by 75 basis points.

Chair McGee stated that in the past, TRS has reported an open amortization period. He asked whether it would be the same for the recommended increase, keeping them at 30 years (open).

Pension Review Board  
October 4, 2018  
Minutes

Mr. Herbold stated that the plan is fixed rate, so the amortization period is recalculated at each valuation. He added that in order to make benefit improvements, they are required to have an amortization period of 31 years or less after the benefit improvements are taken into account.

**F. Staff update on Funding Soundness Restoration Plan for Fort Worth Employees Retirement Fund – Anumeha Kumar (1:23:33)**

Ms. Kumar stated that at the June meeting, the System and City provided a timeline for the city council to vote on pension reforms. She stated that a vote was scheduled to be held on September 18, however, they lost a police officer in the line of duty, and because of that, the vote was delayed. Ms. Kumar stated that they are unsure of when they will vote, however, the City has informed staff that they are trying to schedule that sometime before the end of the year.

The Board asked that staff invite the System and City to the next PRB meeting.

**G. Public retirement system reporting and compliance, including the following items: (1:25:49)**

**i. Update on FSRP requirement – Reece Freeman (1:25:58)**

Mr. Freeman gave the update of the funding soundness restoration plan report, noting that Galveston Fire's FSRP was recently received, showing a decreased amortization period given the changes.

He stated four plans were immediately subject to the FSRP requirement, and no plans have come off the list since the last PRB meeting.

**ii. Noncompliant retirement systems under Section 801.209 of the Texas Government Code, including Northeast Medical Center Hospital Retirement Plan – Reece Freeman and Ashley Rendon (1:29:37)**

Mr. Freeman stated that there are 99 total plans, and two plans have been non-compliant over 60 days.

Ms. Rendon stated that the representative sent the required reports for fiscal year 2017, and they are working on getting information together to begin the 2018 required reports. She explained that the plan has been non-compliant for several years, but due to the plan being closed and frozen, as well as updates in PRB statute and GASB requirements, the plan fell out of compliance.

Ms. Kumar added that the system was excused from the meeting due to the fact that staff received required reports.

Ms. Rendon explained that Nacogdoches County Hospital is beginning the process of producing the required reports.

Pension Review Board  
October 4, 2018  
Minutes

**H. Discuss and consider the following Interim studies and possible recommendations:**  
(1:35:10)

**i. Pooling Assets for Small Plans – Kenny Herbold (1:35:23)**

Mr. Herbold stated that in November the board requested staff to look into the potential benefits of small plans pooling their assets. He stated that staff looked at the last ten years of investment return data and expense ratios.

He stated that staff found that on a risk-adjusted basis, larger plans are performing better than smaller plans. He added that there is a significant difference for investment expense and administrative expense ratios; as plan size goes up, those ratios go down. He stated that there is certainly the potential for benefits associated with pooling assets.

Mr. Herbold stated that staff also identified some models found in the US and Canada: investment management only, and investment management and administration.

Mr. Brainard noted that there are a large number of small plans in the state, and many of those plans are paying over 1% a year on investment management expenses. He stated that a lot of the plans face a tough road, and the current model does not serve the smaller plans well.

Ms. Kumar stated that when staff conducted the study and looked at different modeling exercises, they wanted to illustrate and quantify the idea that there are potential savings to be realized if the idea is pursued further. She added that this study is just a first step.

Mr. Brainard asked for clarification on the recommendation in the study. Mr. Herbold stated that staff has identified some potential benefits to pooling assets, is a good first step, and warrants further study.

Mr. Richards asked about needed authorization by the state.

Mr. Brainard stated that his understanding was that doing this would require legislation.

Ms. Dush stated that she would like to see further work done to make sure that the appropriate statistical tests have been completed. She added that even if all the smaller plans pooled assets, she still did not think it was enough to provide sufficient economies of scale.

Ms. Kumar stated that the motion is requesting the Board to allow staff to further work with the Board Chair, Vice Chair and Board Actuary to fine tune the review.

Chair entertained a motion to adopt the recommendations of the interim study and direct staff to work with the Board Chair and Vice Chair to finalize the report for publication in the agency's 2018 Biennial Report pursuant to Government Code 801.202 and 801.203.

Pension Review Board  
October 4, 2018  
Minutes

Motion made by Keith Brainard and seconded by Judge Andrew Cable.

**Motion Approved Unanimously**

**ii. Funding Policies for Fixed Rate Plans – Michelle Kranes (1:51:10)**

Ms. Kranes gave a high level overview on the funding policies for fixed rate plans study. She stated that approximately 80% of Texas plans have a fixed rate funding structure.

She stated that the study attempts to directly engage the notion that fixed rate plans do not need funding policies. Ms. Kranes stated that ideally, funding policies could allow systems to look at mechanisms and put into place a written plan. She stated that staff talked to systems and heard them talk about the benefits of a funding policy.

Ms. Kranes explained the benefits of a funding policy, including transparency, funding discipline, and governance.

Chair McGee asked about the timing of the final paper. Ms. Kumar stated that staff was hoping to recommend the study for adoption at the January PRB meeting. She added that the study could then be included as an addendum to the Biennial Report to the Legislature.

**5. Education and Research Committee – Receive update on Minimum Educational Training (MET) Program – Judge Cable (1:59:01)**

**A. MET compliance reporting – Joey Evans and Michelle Kranes (1:59:15)**

Mr. Evans stated that as of the date of the report, all systems are compliant with the PRB-2000 requirement.

**B. Copyright of PRB MET courses – Joey Evans and Michelle Kranes (2:00:07)**

Ms. Kranes stated that the staff secured copyright on the online courses in February.

Mr. Brainard stated that this is information that the staff prepared and that it was very good. He asked if staff could share the evaluations with the Board.

**6. Legislative Committee – Discuss and consider the following items – Chair McGee (2:01:28)**

**A. 85<sup>th</sup> Legislature interim charges and committee hearing updates (2:01:38)**

Ms. Kumar stated that the upcoming House Pensions Committee hearing was scheduled for October 12 in Houston. The Committee asked the staff to provide updates on general pension health as well as updates on the Houston plans.

Chair McGee asked staff to provide the presentation to the Board.

**B. 2017-2018 Biennial Report (2:03:15)**

Ms. Kumar stated that staff will be working on the Biennial Report to include the PRB's activities over the last two years and incorporate recommendations to the Legislature and Governor, and Lieutenant Governor.



Pension Review Board  
October 4, 2018  
Minutes

**C. 2018 TEXPERS Summer Educational Forum (2:04:19)**

Ms. Kumar stated that the Summer Educational Forum was held in August. She added that staff was requested to provide a presentation with regards to unfunded liabilities.

Ms. Dush thanked TEXPERS, stating that she found them to be very open and welcome.

**7. Review and discuss report from the Executive Director on the following matters: (2:05:33)**

**A. Staff update (2:05:42)**

Ms. Kumar introduced the new Research Specialist, Mariah Miller, and stated that staff is fortunate to have her. She also updated the Board that there are two vacant positions: the Investment Analyst is no longer with the agency and staff is currently interviewing for a Research Specialist.

**B. Agency budget hearing (2:07:03)**

Ms. Kumar stated that the hearing was in August and was attended by the LBB and Governor's Office. She stated that Chair McGee attended to represent the Board, and that the hearing went well.

**C. Report on End of Fiscal Year 2018 Operating Budget (2:07:35)**

Ms. Kumar stated that the agency was within the appropriated budget, using 99% of the appropriation.

**D. Approval of Fiscal Year 2019 Operating Budget (2:07:41)**

Ms. Kumar stated that the budget is in line with general appropriations line items.

Chair entertained a motion to approve the Fiscal Year 2019 Operating Budget as presented.

Motion made by Keith Brainard and seconded by Stephanie Leibe.

**Motion Approved Unanimously**

**8. Call for future PRB agenda items (2:11:14)**

Mr. Brainard asked that staff prepare a brief summation for the Board and its stakeholders on governance of public retirement plans in Texas concerning governing structures pertaining to benefits and financing structures.

Chair McGee also noted the Board would also discuss the fixed rate funding policy paper at the next meeting.

**9. Date and location of next PRB meeting – TBD (2:12:14)**

Chair McGee stated that the next meeting will be in January, but the Board still needs to be polled for a date. He stated that since session will have begun, the agency also needs to find a location for the meeting.

Pensión Review Board  
October 4, 2018  
Minutes

**10. Invitation for public comment (2:12:45)**

Mr. Paul Brown, President of TEXPERS, thanked the Chairman and Board and expressed appreciation for attendance at the recent Educational Forum. He stated that TEXPERS has formed a committee concerning RFPs and would work with the PRB staff on that.

He stated that TEXPERS represents 80 of the plans under PRB purview. He stated that over 40 plans are small TLFRA funds. He encouraged staff to get the plans' opinion on the asset pooling study.

Mr. William Gates, Chairman of Lufkin Fire Pension Fund, asked that the asset pooling topic not be approached lightly. He stated that they would encourage staff to attend TLFRA meetings and go through an extreme and detailed process.

Mr. David Stacy, Midland Fire, stated thanked staff for attempting to quantify a long known issue for small plans. He pointed out that over 10 years ago, the Fire Fighters' Pension Commissioner brought the topic up as a viable condition, but unfortunately the office staff did not have the ability to take on technical and legal issues that it raised.

He stated that one of the things that the agency does is develop legislative recommendations and would like the Board to recognize that pooling assets is not likely to happen during this Legislative Session.

Mr. Tony Robinson, Amarillo Fire thanked the Board and staff and recognized that the minimum educational training runs very smoothly and is a great baseline. He recognized John Crider for the service he has provided and education given to plans on actuarial information.

Chair McGee reopened agenda item 4.H.i, and stated that the Board fully agrees that the pooling of assets interim study is a first step. He added that the topic will be researched properly and that he does not anticipate any movement on this topic this session other than an additional study. He stated that the Board's intention is aligned with a lot of comments that have been heard.

**11. Adjournment (2:23:13)**

Chair McGee adjourned the meeting at 12:30 PM.

**In Attendance**

**PRB Staff**

Wes Allen

Eusebio Arizpe

Bryan Burnham

Joey Evans

Reece Freeman

Kenny Herbold

Michelle Kranes

Anumeha Kumar

Mariah Miller

Ashley Rendon

Pension Review Board  
October 4, 2018  
Minutes

**Guests**

Michael Trainer – San Antonio Police Pensioners Association  
Paul Brown – TEXPERS  
Ben Marts – Odessa Firefighters Relief & Retirement Fund  
Travis Jones – Odessa Firefighters Relief & Retirement Fund  
Tony Robinson – Amarillo Firefighters Relief & Retirement Fund  
Dan Wattles – TMRS  
Tom Harrison – TCDRS  
Jason McElvaney – TCDRS; Fort Worth Retirement  
Bob May  
Pat Haggerty – El Paso Fire & Police Pension Fund  
Kenneth Oliver – TMRS  
Tony Harvey – Irving Fire  
John Crider – John Crider Consulting Agency  
Jeff Litchfield – Irving Fire; City of Irving  
Micah Johnson – Irving Fire  
Joe Gimenez – G3 Public Relations  
William Gates – Lufkin Fire Fund  
David Stacy – Midland Firemen’s Relief and Retirement Fund  
David Keller  
Eddie Solis – TEXPERS  
Eloise Raphel – Houston Firefighters' Relief and Retirement Fund  
Katy Fallon Brown – LBB  
Tyler Grossman – El Paso Fire & Police Pension Fund  
Max Patterson – TEXPERS  
Pattie Featherston – Austin Police Retirement System  
Chuck Campbell – Jackson Walker LLP  
Jarod Love – Houston Firefighters Relief and Retirement Fund

  
Chair Josh McGee