

**State Pension Review Board
Actuarial Committee Meeting
Minutes
November 12, 2013**

1. Meeting called to order (00:00)

The first meeting of 2013 of the State Pension Review Board (PRB) Actuarial Committee was called to order by Chair Bob May on Tuesday, November 12, 2013, at 2:30 p.m., in the William P. Clements Building, Room 103, in Austin, Texas.

2. Roll call of Committee members (00:45)

Board Members Present:

Robert M. May
Andrew W. Cable
J. Robert Massengale

3. Discuss and consider preparation of the study of the financial health of public retirement systems in the state – Chris Hanson (01:30)

A. Actual Valuations Report

Mr. Hanson noted that Section 7 of HB 13 directs the Pension Review Board to conduct a study of the financial health of public retirement systems in Texas, including each system's ability to meet its long-term obligations. Mr. Hanson noted that the bill sets a date of September 1, 2014 for a draft report of the study to be made available to public retirement systems. He noted that the bill establishes a timeframe for the retirement systems to comment on the draft report and stated that the final version of the report is due to the legislature by December 31, 2014.

Mr. Hanson discussed the Summary of the Actuarial Soundness and Financial Health of Texas Public Retirement Systems and noted that the Teacher Retirement System of Texas (TRS) held a briefing earlier in the day, and stated that the numbers will change slightly in December, 2013.

Mr. May noted that TRS has moved in a positive direction in regards to the strengthening of their plan, and noted that the employee funding rate has been raised to a higher percentage. He noted that TRS will receive additional contributions from each school district not covered by social security which encompasses a majority of the school districts throughout the state of Texas. He stated that TRS has provided a benefit increase for elderly retirees which may add liabilities; however, they have been doing very well regardless.

Mr. Massengale noted that there are three positive effects on the contribution side, noting that the employee rate has grown, the state's rate will be going up, and the school districts will be putting in contributions.

B. Establish the standard for each system's ability to meet its long-term obligations (14:53)

Mr. Hanson noted that the *Guidelines for Actuarial Soundness* were reviewed by the Board at the September, 2011 board meeting and have been consistent since 1984 when they were first adopted. He noted that there were few modifications made to the language when they were last reviewed.

Mr. May discussed the GASB 30 year ARC and noted that one or more systems report a 30 year amortization period based on the ARC but are not contributing the ARC. He noted that when this occurs, the actual contribution rate should count in determining the financial condition of the system. Mr. May stated there is a difference between missing the ARC one year versus a pattern of not paying the ARC.

Mr. Hanson noted that pension systems in Texas are required to conduct actuarial valuations every three years. Depending on the size of the plan, the larger plans generally conduct valuations annually, while the mid-size plans generally do them every two years. The smaller plans generally conduct valuations every three years.

**State Pension Review Board
Actuarial Committee Meeting
Minutes
November 12, 2013**

Mr. Hanson suggested linking the study of the financial health of Texas public retirement systems to the *Guide to Public Retirement Systems in Texas* as both members and retirement systems find the current data informative and helpful.

Mr. Hanson suggested that PRB staff reach out to the retirement systems not meeting the guidelines for actuarial soundness and present any concerns to the attention of the committee and the board. This would place everyone on the same page.

C. Discuss the scope of the study (46:50)

Mr. May suggested that the PRB look at what might be considered by various local systems as things that could be done to strengthen their fund, such as a rainy day fund.

Mr. Hanson noted there are some systems that either have established reserved funds or are in the process of establishing a reserve, and noted that it would be a good idea to discuss with those systems their involvement in the process and gain an understanding of how the process was designed.

4. Discuss and consider preparation of comments received on Investment Returns and Assumptions Report (PRB-1000) survey – Chris Hanson (54:47)

Mr. Hanson noted that HB 13 included a new section of reporting which requires retirement systems to submit an investment returns and assumptions report. Mr. Hanson noted that the PRB received feedback from a few of the systems regarding the possibility of adopting a standardized form. He noted that the feedback was well received as it would allow a system to electronically complete a PDF and submit the form online to the PRB. PRB staff developed a standardized form and received feedback from members of the board. Staff incorporated the comments into a proposal, and released it to the retirement systems to obtain feedback. Based on the feedback, staff drafted two proposals. Mr. Hanson noted there is an accompanying rule which adopts the form by reference allowing the board to modify the form as needed.

Mr. Ballard provided an overview of the two proposals and noted that Proposal 1 allows retirement systems the flexibility to calculate the gross investment returns earned as either net of administrative expenses or not net of administrative expenses in each of the ten years for which the reporting system is presenting performance. Mr. Ballard noted that Proposal 2 includes a definition of gross investment return within the form which states that gross investment returns should be calculated as the actual rate of return earned by the reporting system, net of administrative expenses for each of the ten years for which the information is being presented.

It was decided by the Committee that Proposal 1 is preferable to Proposal 2 as it provides greater flexibility to reporting systems and would be less demanding for systems to generate historical gross investment return data.

A motion was made by Mr. Massengale, and seconded by Mr. Cable to recommend Proposal 1 to the full board.

MOTION CARRIED UNANIMOUSLY

5. Invitation for audience participation – Chair May (01:16:45)

Rhonda Smith, Executive Director of the Houston Municipal Employees Pension System noted her appreciation for the ability to allow for some flexibility moving forward as their system is larger.

6. Adjournment – Chair May (01:23:34)

Chair May thanked the Committee and the audience for their participation at the meeting, and the staff for their time and effort. With the business of the Committee completed, Chair May adjourned the meeting at 4:00pm.

**State Pension Review Board
Actuarial Committee Meeting
Minutes
November 12, 2013**

In Attendance:

Staff:

Chris Hanson
Daniel Moore
Nick Ballard
Michelle Kranes
Jamie Kings
Reece Freeman
Anne Benites

Guests:

Leslie Hardy, Texas Municipal Retirement System
Steve Waas, Houston Municipal Employees Pension System
Chris Jones, Combined Law Enforcement Associations of Texas
Eloise Raphael, Houston Firefighters' Relief and Retirement Fund
Yuniedth Steen, Locke Lord LLP
Rhonda Smith, Houston Municipal Employees Pension System



Chair Bob May

