

**State Pension Review Board  
Minutes of February 26, 2014 Meeting**

**1. Meeting called to order**

The first meeting of 2014 of the State Pension Review Board (PRB) was called to order by Chair Paul Braden on Wednesday, February 26, 2014 at 9:30 AM, at the Capitol Extension Building, Committee Room E1.012 in Austin, Texas.

**2. Roll call of Board members**

**Board Members Present:**

Chair Paul Braden  
Keith Brainard  
Andrew Cable  
Robert Massengale  
Robert May  
Wayne Roberts

A quorum being present, the meeting was called to order by Chair Braden.

**3. Discuss and consider Board administration matters, including the following items – Chair Braden**

**A. Consider approval of the November 13, 2013 Board meeting minutes**

Chair Braden entertained a motion to suspend the reading of the minutes of the PRB meeting held November 13, 2013 and to approve them as circulated.

Motion made by Mr. Roberts and seconded by Mr. Massengale. All members voted in favor to approve the November 13, 2013 minutes with the exception of Mr. Brainard who abstained from the motion.

**MOTION CARRIED UNANIMOUSLY**

**B. Consider excusing the absence of board members from the November 13, 2013 Board meeting**

Chair Braden entertained a motion to excuse Ms. Greco-Pool from the November 13, 2013 Board meeting.

Motion made by Mr. Roberts and seconded by Mr. Cable. The motion carried unanimously to excuse Ms. Greco-Pool from the November 13, 2013 Board meeting.

**MOTION CARRIED UNANIMOUSLY**

**C. Introduction of new Board member**

Chair Braden introduced PRB's newest Board member, Mr. Keith Brainard.

**4. Discuss and consider educational training program for trustees and administrators, including the following items – Andrew Cable**

**A. Receive report on the January 29, 2014 working group meeting – Michelle Kranes**

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Ms. Kranes reviewed the details of the proposal that was adopted by the working group at the January 29, 2014 meeting.

<b>Working Group Proposal</b>	
<b>Required Hours and Frequency</b>	
<b>NEW trustees and system administrators</b>	<ul style="list-style-type: none"> <li>• Minimum of 7 hours of training within the first year of service.</li> <li>• The 7 hours must cover the entire core curriculum (see list of core and non-core topics below).</li> </ul>
<b>CONTINUING trustees and system administrators</b>	<ul style="list-style-type: none"> <li>• Minimum of 4 hours of training every 2 years after their first year of service.</li> <li>• The 4 hours may be in core or non-core topics.</li> </ul>
<b>Required Content Areas</b>	
<b>Core Content</b>	<b>Fiduciary, Governance, Ethics, Investments, Actuarial Matters and Benefits</b>
<b>Non-Core Content</b>	<b>Compliance and Risk Control, Legal and Regulatory, Pension Accounting, Custodial Issues, Plan Administration, Open Meetings/Open Government, Open Records/Public Information</b>

Chair Braden asked about the process used to identify the required content areas, as well as the minimum number of training hours for each category.

Ms. Kranes mentioned that the working group came up with a few different scenarios where the Board and the working group could approach the reporting period, and mentioned that it could be either on an annual basis or a biennial basis. Ms. Kranes stated that the working group did a combination of both, a first year requirement and an every two-year requirement after that. She noted that the working group attempted to look at a variety of plans and proposals and set a standard that is not burdensome.

Mr. Cable mentioned that the working group received helpful plan participation and input which aided the working group to come up with the proposal.

Mr. Brainard asked whether the committee has addressed the topic of risk management. He stated that his understanding is that risks run through the pension plan and its administration, and mentioned that any trustee should have a keen awareness of the range of risks. He further stated that the starting point for a pension plan is the payment of benefits, and there is a large risk if the pension plan does not pay its benefits. He noted that trustees need to understand that type of risk as well as the other range of risks.

The Board discussed the importance of risk management, with Mr. May and Chair Braden suggesting that the topic of risk management be added to the core content.

- B. Consider the approval of the working group proposal regarding minimum training requirements, including hours, frequency and content – Michelle Kranes**

Chair Braden entertained a motion to approve the working group's recommendation with the one change that the category of risk management would be added to the core content.

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Motion made by Mr. Cable, seconded by Mr. Massengale to approve the working group's recommendation with the one change that the category of risk management would be added to the core content.

**MOTION CARRIED UNANIMOUSLY**

**C. Receive reports on the following – Michelle Kranes**

**1. Applicability of training requirements to administrators and trustees**

Ms. Kranes presented a report prepared by staff on the application of the training requirements to certain trustees and administrators of public retirement systems.

In the report, Ms. Kranes outlined the following recommendations to provide clarity to trustee and administrator definitions, and requested the Board to direct staff to draft proposed rules accordingly:

- **Definition of a Trustee.** Ms. Kranes stated that staff recommends that a sponsoring entity's board that is only responsible for the creation, termination, and amendment of the retirement system should not be subject to the minimum training requirements. She then discussed the staff recommendation that a committee appointed by the sponsoring entity's board to act in an advisory or oversight capacity by providing guidance or recommendations to a pension committee or a pension board should not be subject to the minimum training requirements.
- **Definition of a System Administrator.** Ms. Kranes stated that staff recommends that a third-party system administrator should not be subject to the minimum training requirements.

Ms. Kranes also asked for clarification on a question raised at the January 29, 2014 working group meeting regarding the applicability of training requirements to system administrators acting in a part-time capacity or a clerical role for some TLFFRA plans. To address this issue, Ms. Kranes explained that the Board may create an exemption process for retirement systems that only have a system administrator acting in a part-time capacity or a clerical role. To streamline the process, staff could develop a standardized form for the said exemption process and require boards of trustees of systems seeking this exemption to provide documentation to substantiate their request.

Chair Braden stated that if a plan administrator's role is primarily clerical, someone else is likely directing the day-to-day operations. He further stated that he would believe the Board Chair or a designated member of the Board is then subject to the rules in getting training. Additionally, if someone is serving part-time, yet are directing the daily operations of the plan, that individual should not be exempted from receiving the training.

The Board directed the staff to develop a process for these retirement systems to certify that they have no system administrator who meets the statutory definition but require them also to identify which trustee is performing those duties and therefore will receive training.

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**2. PRB educational training program accreditation model**

Ms. Kranes presented the accreditation model that staff prepared by combining elements from the accreditation processes of the State Bar of Texas and the Texas State Board of Public Accountancy, and requested the Board to direct the staff to draft proposed rules relating to accreditation.

Ms. Kranes described two accreditation processes. The sponsor accreditation process would be for regular education providers. The idea behind this process would be that once staff has reviewed and accredited those providers, they would not need approval of each course they are offering. The PRB could at any time however, review the educational sponsor to ensure that they continue to meet standards. The second process is a process that deals with education provided by new sponsors who are not already accredited. The idea behind this process would be to encourage pre-approval by staff; however, in certain cases, the PRB may consider allowing approval after a course has been taken.

Chair Braden stated that it sounds like the PRB would approve certain sponsor accreditation entities, and they would occasionally make some type of re-certification that the programs qualify with the set requirements. In essence, if a course is not from one of these entities, then it would be on a program-by-program basis to make sure it qualifies with the statutory requirements.

Ms. Kranes stated that everything would be done through rule and that both the State Bar of Texas and the State Board of Public Accountancy have their model rules that the PRB can use to draft and bring to the next board meeting.

Mr. Brainard stated that there are sophisticated training programs already established, to the extent that the PRB does not have to re-invent the wheel.

**3. Compliance tracking and PRB training delivery**

Ms. Kranes stated that statute requires the PRB to provide some of the training itself, accessible in an online format, and to track trustee and administrators' compliance with the training requirements.

Ms. Kranes stated that in terms of training delivery, staff has begun to research technologies that are available for putting the training online. The first option would be to use software that would create a do-it-yourself course from an existing PowerPoint presentation which could then be posted on the PRB's website. Another option would be to use a full-service web-based education provider that would be hosted and tracked through their site. A third idea which would be a supplemental option, would be for the PRB to conduct a live presentation, archive it, and then place it online afterwards or conduct a webinar.

The Board discussed the costs of developing a database to track training compliance and developing PRB online training.

Staff presented some specific compliance-related issues for the Board's consideration:

- **Current trustees.** The Board discussed the issue that if it adopts the working group's proposal of a 7-hour requirement for new trustees and a 4-hour requirement every two years for continuing trustees, should trustees already in office be required to complete the 7-hour core? If so, should the Board establish a phase-in period for more than a year for them to complete the core?

Mr. May stated that he thinks the PRB should recognize that there is a considerable amount of continuing education that has already occurred, and that some of the board members have

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many years of experience. He further stated that he believes a continuing education requirement would be appropriate.

Chair Braden commented that Mr. May had a valid point; however, the idea is to have some uniformity to assure that all trustees have received the training. He suggested having some sort of certification process to verify that someone who has been on the board for several years has already received the core training.

Mr. Brainard asked whether staff or the working group has considered the in-house training that many retirement systems provide for trustees. Mr. Hanson explained that in-house training would be included in both the accreditation process and the certification process for training already done by current trustees.

- **Re-appointed trustees.** The Board discussed, as a consideration of adopting the working group proposal, whether trustees serving multiple terms or on multiple boards should be required to repeat the 7-hour core requirement for new trustees, and if not, the compliance system should be configured accordingly.

Chair Braden stated that he thinks the core requirement should apply only after a break in service, and a reasonable period of time should be determined.

- **Even-numbered board terms.** The Board discussed, as a consideration of adopting the working group proposal how even-numbered board terms (i.e., terms of 4 or 6 years) should be handled. After the initial year's new trustee training is completed, the remaining number of years in the term will be odd, and therefore will not match a two-year continuing education cycle. Should the last year of the term be exempt from the continuing education requirement?
- **Training documentation.** The Board discussed, as a consideration of adopting the working group proposal, whether trustees and administrators who complete the PRB-accredited training should be required to submit to the PRB, a certificate signed by the provider indicating their successful completion of a course. Such forms could possibly be uploaded into an interactive compliance system or emailed to the PRB. Alternatively, should the PRB require systems to keep such documentation themselves, which could be requested and audited if necessary?

Mr. Braden requested that the working group consider these items at its next meeting, and come back with recommendations to the Board.

5. **Receive the report of the Actuarial Committee on its January 29, 2014 meeting and consider related matters, including – Robert May**
  - A. **Study of the financial health of public retirement systems in the state as required by section 7 of House Bill 13 (83<sup>rd</sup> Texas Legislature)**

Mr. Hanson summarized the January 29<sup>th</sup> Actuarial Committee Meeting where the Committee discussed the financial health study that was part of House Bill 13 from the 83<sup>rd</sup> Legislative Session. He noted the PRB was directed to conduct a study of the financial health of public retirement systems in the state, including each system's ability to meet its long-term obligations. Additionally, the PRB has been asked to comment on recommendations for how a system may mitigate its risk of not meeting its long-term obligations. The preliminary

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report is due on August 31, 2014, and the final report is due to the Legislature not later than December 31, 2014.

Mr. Hanson reviewed the current amortization periods as reported in system actuarial valuations, along with their prior amortization periods. He provided some general aggregate information on total net assets to the public retirement systems in Texas, as well as the annual year-to-year change in assets and aggregate returns. Mr. Hanson mentioned that the number of systems with amortization periods over 40 years has grown over the years from 2000 to 2012.

Mr. Brainard asked whether the draft outline of the study captures information regarding the actuarial cost and funding methods used by the systems as well as whether the systems are using an open or closed period.

Mr. Hanson noted that information regarding actuarial cost and funding methods used by the systems is included in the draft and that when submitting reports to the Legislature, a breakout of the cost methods and the rate of return assumptions is generally included. He further stated that the report will cover open and closed periods, noting that the report will walk through the information by plan. Mr. Hanson commented that this information would be submitted to the Legislature prior to next session, and suggested tying the Guide to Public Retirement Systems and the financial health study together. The Guide to Public Retirement Systems includes current financial, actuarial, benefit, membership, and assumption information of all plans in Texas, and the Legislature has found the information very useful.

Mr. Brainard mentioned that in most cases, for cities around the country that are in pension trouble, the underlying issue is not necessarily the pension plan, but the fiscal condition of the city. He suggested that staff gain a sense of the fiscal capacity of the city's annual revenue, as it would be both revealing and helpful.

Mr. Hanson stated that there has been discussion about looking at the contribution shortfall for systems not getting sufficient contributions as this would provide an idea of what the contribution shortfall is which is necessary in order to get that system to a sufficient amortization period.

**B. Receive report on system actuarial valuations – Chris Hanson**

Mr. Hanson reviewed the February, 2014 actuarial valuations report which represents the information as reported in the actuarial valuation by the system. He noted that TRS no longer has an infinite amortization period which is the most significant change in terms of larger systems.

Mr. May stated his biggest concern for state plans are the plans not contributing to the ARC. He stated there are instances that will be corrected in the report that will shift some plans from showing a 30-year amortization period to showing an infinite amortization period. The 30-year period that is shown represents the amortization period the plan would have if they were making the contributions required to produce a 30-year amortization. If their actual

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contributions are less than that, then their amortization period is not 30 years, it would be infinite, and the change will be made in the next report.

**C. Review and discuss other pension studies – Chris Hanson**

Mr. Hanson stated at the request of the actuarial committee, staff has identified three pension studies to provide the Board with an idea of other topics. The Moody's Investors Service Report discussed areas that will overlap with the PRB study including the examining of factors that will increase funded liabilities of systems, the payment of the ARC, as well as some discussion on legal issues. The National Institute of Retirement Security conducted a report that looked at lessons from well-funded plans, and gave their best practice recommendations. The Center for Retirement Research at Boston College performed a study comparing state and local plans and made comments relative to what they determined captures the financial health of a public retirement system.

**6. Receive report on public retirement system reporting and compliance, including the Form PRB-1000 (Investment Returns and Assumptions report) – Nick Ballard**

Mr. Ballard stated that all non-compliant plans as of November, 2013 with the exception of Waxahachie Firemen's Relief and Retirement Fund have submitted their reports to the PRB. The PRB has communicated with Waxahachie and is expecting them to become compliant in April.

Mr. Ballard reviewed the finalized Investment Returns and Assumptions report which was approved at the November, 2013 PRB meeting.

**7. Receive update on the PRB list of companies engaged in scrutinized business operations in Iran – Nick Ballard**

Mr. Ballard presented this agenda item and stated that Senate Bill 200 added Chapter 807 to the Texas Government Code requiring the PRB to prepare and provide a list of scrutinized companies doing business in Iran. Mr. Ballard reported that staff provided a list of scrutinized companies to the statewide retirement systems. The procedure for maintaining the list of scrutinized companies includes a statement that the PRB will rely on publicly available information for compiling the list, including the quarterly report published by the Florida State Board of Administration. The next update to the Florida list is scheduled to be released in March.

**8. Receive report on agency website, including the posting of the *Model Ethics and Conflict-of-Interest Policy for Texas Public Retirement Systems* – Chris Hanson**

Mr. Hanson reviewed the quarterly web report. He stated that House Bill 13 directed the PRB to post a *Model Ethics and Conflict-of-Interest Policy* on the PRB website by December 31, 2013. Final approval was received from the Attorney General's Office stating the PRB is in compliance with the directive from House Bill 13.

**9. Receive report on the Public Employee Transparency Act (PEPTA) – Chris Hanson**

Mr. Hanson stated that the bill has language stating that it would explicitly exempt the United States from liability for any current or future shortfall in any state or local government employee

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pension plan. He further stated that it creates a federal level of reporting requirements for state and municipal pension systems and requires information, reports, and a penalty for non-compliance involving the loss of tax exempt status for issuing municipal or state bonds.

**10. Receive update and discuss 83<sup>rd</sup> Legislative Interim Charges – Chris Hanson**

Mr. Hanson reviewed the Legislative Interim charges and noted that the majority of the charges relate to the state healthcare systems for ERS and TRS.

**11. Discuss strategic planning for fiscal years 2015-2019 – Chris Hanson**

Mr. Hanson stated the PRB should receive instructions in March from the LBB regarding the strategic planning process. Over the next few months the PRB will evaluate its performance measures which will ultimately lead to the issuance of the strategic plan and the Legislative Appropriations Request.

**12. Review and discuss report from the Executive Director on the following matters – Chris Hanson**

**A. Fiscal Year 2014 Operating Budget**

Mr. Hanson reviewed the current operating budget.

**B. Filing of 2013 personal financial statements**

Mr. Hanson stated that because the PRB no longer has legislative board members, all members are now required to file personal financial statements with the Ethics Commission. The filing deadline is April 30, 2014.

**C. TEXpers Annual Conference, March 23-26, 2014**

Mr. Hanson stated he will be presenting at the TEXpers Annual Conference and will provide an update on the PRB.

**D. Introduction of new PRB staff**

Mr. Hanson introduced new staff member, Bryan Burnham to the PRB.

**13. Discuss and consider board approval to attend 2014 Annual TEXpers Conference – Chair Braden**

Chair Braden asked if there were any members of the Board interested in attending the TEXpers Conference.

Mr. Massengale stated his interest.

Chair Braden entertained a motion to approve the attendance of Mr. Massengale at the 2014 annual TEXpers Conference.

Motion made by Mr. Brainard, seconded by Mr. Cable to approve Mr. Massengale's attendance at the 2014 annual TEXpers Conference.

**MOTION CARRIED UNANIMOUSLY**

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**14. Discuss and consider approval of Executive Director performance goals – Chair Braden**

Chair Braden reviewed the key elements of the Executive Director's performance goals.

Chair Braden entertained a motion to approve the Executive Director's performance goals.

Motion made by Mr. Roberts, seconded by Mr. May.

**MOTION CARRIED UNANIMOUSLY**

**15. Update of committee assignments – Chair Braden**

Chair Braden stated there is a vacancy in the Research Committee and mentioned that Mr. Massengale has offered to fill that vacancy which will free him from serving on the Actuarial Committee. Mr. Brainard will take Mr. Massengale's place on the Actuarial Committee.

**16. Call for future PRB agenda items – Chair Braden**

Chair Braden asked that the Board notify Mr. Hanson of their requests for future agenda items.

Mr. May stated he would like to report on an upcoming meeting he will be attending of the American Academy of Actuaries.

**17. Date and location of the next PRB meeting – Chair Braden**

Chair Braden stated the next two PRB meetings will be held on May 14<sup>th</sup> and August 28<sup>th</sup>.

**18. Invitation for public comment**

No public comment.

**19. Adjournment**

With the business of the Board completed, Chair Braden adjourned the meeting at 11:35am.

**In Attendance:**

**PRB Staff Present**

Anumeha  
John Perryman  
Nickolas Ballard  
Ashley Rendon  
Michelle Kranes  
Chris Hanson  
Daniel Moore  
Bryan Burnham  
Reece Freeman  
Jamie Kings  
Anne Benites

**Guests Present**

Michael Trainer, San Antonio Fire and Police Pensioners' Association  
Eloise Raphael, Houston Firefighters Relief and Retirement Fund

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Ann McGeehan, Texas County & District Retirement System  
Jason McElvaney, Texas County & District Retirement System  
Dan Wattles, Texas Municipal Retirement System  
Michelle Jordan, Texas Emergency Services Retirement System  
Pattie Featherston, Legislative Budget Board  
Steve Edmonds, City of Austin Employees Retirement System  
Juan V. Garcia, Office of the Governor  
Lisa Hughes, El Paso Fire and Police Fund  
Glenn Deshields, Texas State Association of Firefighters  
Melinda Griffin, Combined Law Enforcement Associations of Texas  
Meredyth Fowler, Texas House of Representatives – Speaker Joe Straus  
Yuniedth Steen, Locke Lord  
Max Patterson, Texas Association of Public Employee Retirement Systems  
Eddie Solis, Texas Association of Public Employee Retirement Systems

A handwritten signature in cursive script that reads "Paul A. Braden". The signature is written in dark ink and has a long horizontal flourish extending to the right.

Chair Paul A. Braden