

**State Pension Review Board  
Minutes of May 14, 2014**

**1. Meeting called to order**

The second meeting of 2014 of the State Pension Review Board (PRB) was called to order by Chair Paul Braden on Wednesday, May 14, 2014 at 1:00 PM, 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  
Leslie Greco-Pool  
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 February 26, 2014 Board meeting minutes.**

Chair Braden entertained a motion to suspend the reading of the minutes of the PRB meeting held February 26, 2014 and to approve them as circulated.

Motion made by Mr. Roberts and seconded by Mr. Brainard. All members voted in favor to approve the February 26, 2014 minutes.

**MOTION CARRIED UNANIMOUSLY**

**B. Consider excusing the absence of board members from the February 26, 2014 Board meeting.**

Chair Braden entertained a motion to excuse Ms. Greco-Pool from the February 26, 2014 Board meeting.

Motion made by Mr. Roberts and seconded by Mr. Brainard. The motion carried unanimously to excuse Ms. Greco-Pool from the February 26, 2014 Board meeting.

**MOTION CARRIED UNANIMOUSLY**

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

**A. Receive report on the April 15, 2014 working group meeting – Michelle Kranes**

At the February 26, 2014 PRB meeting, the Board requested the working group to consider and make recommendations on several unresolved questions in several areas related to the new educational training program. Ms. Kranes presented a summary of the April 15, 2014 working group's discussion relating to the educational training program. PRB staff

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incorporated the working group's recommendations on these issues into the draft program rules.

- B. Receive report on the development of proposed draft of PRB rules, Chapter 607, relating to Public Retirement System Minimum Educational Training Program, including:**
- i. General Provisions;**
  - ii. Minimum Educational Training Requirements for Trustees and System Administrators, including the Curriculum Guide;**
  - iii. Minimum Educational Training Program Sponsors; and**
  - iv. Compliance with Minimum Educational Training Requirements.**

Ms. Kranes noted that the proposed rules for the educational training program have been split into two groups to match the deadlines in the legislation that established the program. She presented the first batch of rules covering the minimum educational training program requirements as well as the rules for accreditation of educational sponsors. Legislation requires the PRB to have the training requirements in place by September 1, 2014.

Ms. Kranes noted that the second batch of rules will address compliance and will be presented to the Board at the August PRB meeting. Legislation does not allow the PRB to start tracking trustee and system administrator compliance with the educational training requirements until January 1, 2015.

**Action Item:** Staff requested the Board's authorization to post the draft rules for public comment in the *Texas Register* along with any modifications the Board chose to make. Ms. Kranes outlined the draft rules by section.

**Discussion:** Sections 607.101 and 607.103 establish the statutory authority for the rules, and the purpose and definitions for the rules.

Section 607.105 establishes the applicability of the minimum training requirements. As defined by statute, the definition for trustee states that trustees have the fiduciary responsibility for assets of the system, for overseeing investments and expenditures, and for the administration of benefits. The rules under Section 607.105 acknowledge that for some systems, not all layers of governance should be subject to the training requirements. The rules would exempt members of a public retirement system's sponsoring entity board that is only responsible for the creation, termination, and amendment of a public retirement system (PRS); and members of a committee appointed by a system's sponsoring entity board to act in an advisory or oversight capacity only by providing guidance or recommendations.

Section 607.107 establishes a certification process to exempt a system from system administrator training requirements if it designates an outside entity as the system administrator; or does not have an administrator that meets the statutory definition and affirms that a trustee performs this role and will be subject to the training. In either case, a system would be required to submit a certification letter to the PRB, on a form to be adopted

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by the Board, that someone else will be responsible for taking the training, or that they have outsourced everything to a third party.

Section 607.110 establishes the required minimum training hours and content areas. There is a first-year requirement for new trustees and administrators to complete seven hours of training in the core content areas within their first year of service. The core content areas include fiduciary matters, governance, ethics, investments, actuarial matters, benefits administration, and risk management.

- **Optional Staff Recommendation:** No less than half a credit hour and no more than two credit hours shall be earned in a single content area.

Mr. Hanson noted that by setting a minimum requirement of 30 minutes per content area, it provides more flexibility to the individuals receiving the training, and stated that the staff recommendation is aimed to provide flexibility and still achieve the concept that every subject matter is covered for at least 30 minutes.

Ms. Kranes stated that after the first year of service, after the trustee or administrator has taken their seven-hour core, they would need to complete at least four credit hours of continuing education in either a core or non-core content areas within each two-year period.

- **Working Group Recommendation:** A trustee or an administrator shall not be subject to the continuing education requirement for any term of service that is less than two years.

Ms. Kranes stated that the working group's recommendation is to waive any time period that is less than the two-year continuing education cycle that has been established.

Mr. Braden suggested clarifying the language in the rules under Section 110.

Mr. Hanson stated that if an individual is on a board for a minimum of twelve months, the core would apply; however, everything after that period would roll to a new two-year cycle for continuing education beginning at the start of their next term.

Section 607.111 establishes the training requirements for trustees and system administrators already in service when the training program starts on January 1, 2015. This section of the rules expires on December 31, 2016.

- **Working Group Recommendation:** To allow current trustees and administrators two years from the program's start date to either complete the first-year 7-hour core training or apply for and receive credit from the Board for acceptable training taken within the previous two years.

Ms. Kranes stated that in order for current trustees and administrators to receive credit, they would complete an application form which would be adopted by the Board at a later date. This would allow some flexibility while staying within the intent of the legislation to ensure that trustees and administrators have a basic baseline of knowledge to discharge their duties responsibly.

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Section 607.113 establishes training requirements for trustees and administrators who are serving subsequent terms.

- Working Group Recommendation: Trustees and administrators serving additional terms of service would not be required to repeat the 7-hour core unless more than two years have passed since the last day of their last term of service but would be subject to the continuing education requirement.

Ms. Kranes stated that individuals who are reappointed, reelected, or rehired would only be required to repeat the 7-hour core if they have had a break in service of more than two years. If the break was less than two years, or they are reappointed immediately, they would be immediately rolled into another two-year continuing education cycle.

Section 607.120 establishes standards to govern training activities offered by educational sponsors under the Minimum Educational Training Program. These are basic standards that would provide guidance and structure for standards that the training must meet in order to be acceptable to the PRB.

Section 607.122 establishes the requirement to compute a training credit hour on net actual instruction time and provides other related guidance on credit hour computation for online and in-person trainings.

Section 607.124 establishes requirements for the sponsor accreditation process, including the application process; benefits of accreditation; renewal; complaints; review and audit; and revocation and reinstatement. The rules would state that accredited sponsors would not be required to submit each individual course for Board approval. This section would additionally outline provisions allowing the PRB to audit and review the educational offerings of accredited sponsors, handle complaints, and if necessary go through a process to revoke and possibly reinstate a provider found to be not meeting the standards of the Board.

- Working Group Recommendation: Accredited sponsors would be reviewed for renewal after an initial two-year period and again after each subsequent four-year period, or at such other times as the Board deems reasonable.

Section 607.126 establishes requirements relating to the obligations of a Board-accredited sponsor, including recordkeeping; issuing certificates of completion; and conducting course evaluations.

- Working Group Recommendation: The PRB would require any accredited sponsor to maintain participation records and other documentation for a period of five years, subject to audit anytime by the Board.

Section 607.128 establishes requirements for individual course approvals. The process would require sponsors or systems to submit requests to the Board for individual course approval at least 30 days in advance of taking the course, with certain exceptions.

Mr. Hanson noted that staff researched other rules in place, and this seems to be the standard approach. The aim is to provide the Board with as much discretion as possible as the program rolls out.

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Section 607.130 establishes requirements for trainings provided by retirement systems in-house. Retirement systems would be allowed to choose whether they wanted to apply to become accredited sponsors, thereby having all their training approved without having to submit individual courses, or they could apply for individual courses.

Ms. Kranes stated that in an attempt to provide further guidance on the courses that may be taken in each content area, a document has been drafted entitled Curriculum Guide for Minimum Educational Training.

**Board Action:** Chair Braden stated that the Board has indicated approval of the proposed rules, including each of the staff and working group recommendations, with one modification: to provide clarification on the language in section 607.110 in reference to the continuing education requirement for any term of service that is less than two years.

**C. Consider approval to publish the rules proposed in Texas Administrative Code, Title 40, Part 17, Chapter 607, relating to Public Retirement System Minimum Educational Training Program, in the *Texas Register* for public comment, including:**

- i. Texas Administrative Code, Title 40, Part 17, Chapter 607, Subchapter A, relating to General Provisions;
- ii. Texas Administrative Code, Title 40, Part 17, Chapter 607, Subchapter B, relating to Minimum Educational Training Requirements for Trustees and System Administrators; and
- iii. Texas Administrative Code, Title 40, Part 17, Chapter 607, Subchapter C, relating to Minimum Educational Training Program Sponsors.

Chair Braden entertained a motion to authorize the Executive Director to publish the rules, after incorporating comments from the Board, proposed in Texas Administrative Code, Title 40, Part 17, Chapter 607, relating to Public Retirement System Minimum Educational Training Program, in the *Texas Register* for public comment, pending final approval by the assistant attorney general, the Board Chair, and Judge Cable.

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

**MOTION CARRIED UNANIMOUSLY**

**D. Receive update on the development of PRB training.**

Mr. Hanson stated that as a part of the legislation from last session, the PRB has been directed to make the educational training program available online. Staff is in the process of evaluating various learning management systems and online course authoring tools that are available and within budget. Further information will be available at the August Board meeting.

**5. Discuss and consider 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> Legislature), including the following items – Robert May 51:00**

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**A. Receive report on April 22, 2014 Actuarial Committee meeting – Chris Hanson.**

Staff presented a report on the financial health of public retirement systems in Texas at the Actuarial Committee meeting held on April 22, 2014. The report has since been amended to reflect comments of the Committee members and members of the audience. Mr. Hanson reviewed the highlights of the report including the current amortization periods of all public retirement systems, the total net assets of systems between 2007 and 2012, the funded ratio comparison between year 2000 and 2013, a financial history review including gross and net rates-of-return for systems reviewed, the percent of the ARC funded, and the average annual contribution shortfall.

In reviewing benefit plan provisions and demographic information, staff has found the active/retired ratio is declining.

The report also included a preliminary analysis based on the 42 systems reviewed, and the causes of system underfunding including insufficient contribution levels, the variance of investment performance over the last ten years, non-investment cash flow, and plan liabilities having grown significantly faster than plan assets since the year 2000.

**B. Receive report on the following – Chris Hanson:**

- i. **May 2014 Actuarial Valuations; and**
- ii. **PRB Projected 30 year contribution shortfalls.**

Mr. Hanson noted that the recommendation is to provide a perspective of what the shortfall amount means to the total scope of the budget. The totals are projected and are based on current information reported by the systems. Updated information from the systems will be included at the time the final report is due.

**C. Discuss recommendations on how a public retirement system may mitigate its risk of not meeting its long-term financial obligations – Chris Hanson 1:19:00**

Mr. Hanson reviewed recommendations on how a public retirement system may mitigate its risk of not meeting its long-term financial obligations including establishing an adequate contribution policy between the plan and plan sponsor, creating a reserve fund, conducting experience studies and actuarial audits, stress testing and solvency analysis, and actuarially valuing benefit improvements prior to adoption and properly funding after adoption.

**6. Receive report on 39<sup>th</sup> Enrolled Actuaries Meeting – Bob May.**

Mr. May noted there has been an increase in the number of public sector actuaries versus private sector over the years. He mentioned he was on a panel with the president of the Academy of Actuaries who discussed his personal opinion regarding public plans and how he believes the employers need to contribute what the actuaries are recommending. He stated that the president also commented that he would like to see the Actuarial Standards Board develop a position on funding.

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

Mr. Hanson stated that all systems are currently compliant with annual financial and membership reports.

In reference to PRB form 1000, Investment Returns and Assumptions Report, added by HB 13, directing all systems to submit their financial and membership information to the PRB, there have been 25 reports received. The remaining reports are expected to be received by the end of the summer.

- 8. Discuss and consider strategic planning for fiscal years 2015-2019, including – Chris Hanson**

- A. Receive report on current draft of the Strategic Plan 2015 – 2019, including 2014 Customer Service Survey and Performance Measures;**

Mr. Hanson noted that the final draft of the Strategic Plan is due on June 23<sup>rd</sup>.

- B. Discuss and consider Agency Action Plan**

Mr. Hanson noted that the agency action plans are not required to be included as part of the Strategic Plan; however, technology resource planning is required to be included.

Mr. Roberts noted there is a significant lack of flexibility in regards to what the PRB can do in reference to the Strategic Plan as it links to the state budget. He noted that when the budget instructions are sent, there is also a leadership letter sent instructing agencies that they cannot request more than 95% of what they had the previous biennium, thereby obviating the value of the strategic plan.

Items for the Boards consideration on agency action plans include the Financial Health Study, the implementation of the Minimum Educational Training Program, exploring the use of social media platforms, developing an online dashboard with a searchable database containing financial and actuarial information submitted by systems, providing actuarial services to smaller plans, developing PRB online training, developing a new educational training database to track compliance with the new training requirements, continuing to improve the accessibility of the agency website, and exploring the use of social media to enhance agency communication.

- C. Discuss and consider Technology Resource Planning.**

Chair Braden entertained a motion to approve the agency's submission of the Strategic Plan for fiscal years 2015 – 2019 along with a final approval by the chair of the legislative committee and the board chair.

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

**Motion carried unanimously**

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**9. Discuss and consider fiscal years 2015 – 2016 Legislative Appropriations Request – Chris Hanson.**

Mr. Hanson stated that staff has outlined items for the board's consideration that are evaluated based on the PRB's budgetary needs.

The first item reflects a request in the fiscal note from HB 13 where the PRB received additional funding. In fiscal year 2015, a portion of that general revenue request was funded through fee revenue and there is \$30,000 less in fiscal year 2015 than in the current fiscal year. Mr. Hanson stated that the PRB would like to request a restoration in general revenue funding for each fiscal year.

The second item reflects the costs of the legislative staff salary increases in fiscal years 2014 and 2015. The legislature approved a one and a two percent increase for classified salary positions for fiscal years 2014 and 2015. The funds are deposited in the PRB budget, but are not part of the baseline budget, and it has been calculated that if the increasing of staff salaries is not added to budget in the next biennium, the PRB would be short for staff salaries.

The third item reflects the 1 percent health care deduction. In the last budget cycle, the PRB received additional funding to offset the 1 percent healthcare reduction. Two new staff positions were received and the request did not cover their salaries. Additionally, the legislature passed in the budget a half percent assessment of salaries to fund ERS.

The fourth item reflects the funding to cover staff salary increases.

Chair Braden suggested that the Board review and request to increase the Executive Director's salary.

The fifth item references the development and creation of an online PRB database dashboard. This is an estimate received from the database programmer and will be a one-time request, and is not in addition to the baseline.

Chair Braden entertained a motion to approve the agency's submission of the Legislative Appropriations Request, including the change with respect to the Executive Director's possible salary increase, pending final approval by the chair of the Legislative Committee and the board chair.

Motion made by Mr. Brainard, and seconded by Mr. Roberts.

**Motion carried unanimously**

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

**A. Consider approval of updated Fiscal Year 2014 Operating Budget.**

Mr. Hanson reviewed the proposed budget noting that funds were shifted in order to address the hardware and software needs for the next three months. A final budget will be presented at the August meeting.

Chair Braden entertained a motion to adopt the updated fiscal year 2014 operating budget as presented.

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

**Motion carried unanimously**

**B. Report on 2014 annual TEXpers Conference.**

Mr. Hanson mentioned that he presented an update on current PRB activities at the 2014 annual TEXpers Conference. He stated that he recently provided a similar presentation at the TLFRA peer review training in Austin, and is scheduled to speak at the annual TLFRA Conference in Lufkin, September, 2014.

**C. Report on Agency Website.**

No comments.

**D. Report on 83<sup>rd</sup> Legislative Interim Hearings.**

Mr. Hanson stated that the House Pensions Interim Hearings will take place July 8 – 10, 2014. He met with house pensions staff on April 16<sup>th</sup> and provided an update on the PRB, specifically an update on the implementation of HB 13 and Senate Bill 200.

**11. Discuss and consider Board approval to attend the 2014 TEXpers Summer Conference.**

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

Motion made by Mr. Brainard, and seconded by Ms. Greco-Pool.

**Motion carried unanimously**

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

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

**13. Date and location of the next PRB meeting – Thursday, August 28, 2014, Austin, Texas – Chair Braden.**

Chair Braden stated the next PRB meeting will be held on August 28<sup>th</sup>.

**14. Invitation for public comment**

No public comment.

**15. Adjournment**

With the business of the Board completed, Chair Braden adjourned the meeting at 2:55pm.

**In Attendance:**

**PRB Staff Present**

Anumeha  
John Perryman  
Ashley Rendon  
Steve Crone  
Michelle Kranes

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Chris Hanson  
Daniel Moore  
Bryan Burnham  
Reece Freeman  
Jamie Kings  
Anne Benites

**Guests Present**

John Lawson, Houston Police Officers' Pension System  
Steve Waas, Houston Employees Municipal Pension System  
Michelle Jordan, Texas Emergency Services Retirement System  
Lon Craft, Texas Municipal Police Association  
Mark Clark, Houston Police Officers' Union  
Dan Wattles, Texas Municipal Retirement System  
Jason McElvaney, Texas County & District Retirement System  
Chuck Campbell, Jackson Walker L.L.P.  
Ann McGeehan, Texas County & District Retirement System  
Steve Edmonds, City of Austin Employees Retirement System  
Meredyth Fowler, Texas House of Representatives – Speaker Joe Straus  
Tyler Grossman, El Paso Firemen & Policemen's Pension Fund  
Max Patterson, Texas Association of Public Employee Retirement Systems  
Eddie Solis, Texas Association of Public Employee Retirement Systems  
David Stacy, Midland Firemen's Relief & Retirement Fund  
Pattie Featherston, Legislative Budget Board  
Katy Fallon, Legislative Budget Board

A handwritten signature in black ink, appearing to read "Paul A. Braden". The signature is written in a cursive style with a long horizontal line extending to the right from the end of the name.

Chair Paul A. Braden