

**State Pension Review Board
Minutes of August 28, 2014**

1. Meeting called to order

The third meeting of 2014 of the State Pension Review Board (PRB) was called to order by Chair Paul Braden on Thursday, August 28, 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
Leslie Greco-Pool
Robert Massengale
Robert May
Wayne Roberts

A quorum being present, the meeting was called to order by Vice Chair, Mr. Massengale.

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

A. Consider approval of the May 14, 2014 Board meeting minutes.

Mr. Massengale entertained a motion to suspend the reading of the minutes of the PRB meeting held May 14, 2014 and to approve them as circulated.

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

MOTION CARRIED UNANIMOUSLY

B. Consider excusing the absence of board members from the May 14, 2014 Board meeting.

Mr. Massengale entertained a motion to excuse himself and Mr. Cable from the May 14, 2014 meeting.

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

MOTION CARRIED UNANIMOUSLY

4. Discuss and consider the following items relating to the Minimum Educational Training Program for trustees and system administrators pursuant to Section 801.211 of the Texas Government Code – Andrew Cable:

A. Review and consider public comments received on proposed Minimum Educational Training Program rules and staff recommendations – Michelle Kranes.

The draft rules on the Minimum Educational Training Program (MET) were published in the *Texas Register* for 31 days for public comment. Ms. Kranes reviewed the comments received as well as staff recommendations.

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Mr. Massengale recognized Chair Braden's arrival to the meeting at 10:00am.

B. Consider modifications to and final adoption of the rules proposed in Texas Administrative Code, Title 40, Part 17, Chapter 607, relating to the Public Retirement System Minimum Educational Training Program, including – Michelle Kranes:

- 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 adopt the rules as presented with staff-recommended modifications in the Texas Administrative Code, Title 40, Part 17, Chapter 607 relating to the Public Retirement System Minimum Educational Training Program and authorize the staff to post the final rule adoption notice in the *Texas Register* with the preamble to be approved by the assistant attorney general counsel.

Motion made by Mr. Cable and seconded by Ms. Greco-Pool.

MOTION CARRIED UNANIMOUSLY

C. Review and consider approval of the *Curriculum Guide for Minimum Educational Training* to provide further guidance on the core and non-core content areas of the Minimum Educational Training Program – Michelle Kranes.

Ms. Kranes noted that the *Curriculum Guide for Minimum Educational Training* is designed to provide guidance for trustees and administrators of Texas public retirement systems as well as educational sponsors in meeting the core and non-core education requirements.

Mr. Hanson noted that the *Guide* is intended as a supplemental document. It is referenced in the rules, but is not a part of the rules.

Mr. Brainard motioned to approve the *Curriculum Guide for Minimum Educational Training* to provide further guidance on the core and non-core content areas of the Minimum Educational Training Program. Motion seconded by Mr. Roberts.

MOTION CARRIED UNANIMOUSLY

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D. Review and consider approval of the following forms relating to the Minimum Educational Training Program – Michelle Kranes:

i. Sponsor Accreditation Application Form.

Ms. Kranes explained that the Sponsor Accreditation Application Form is the form that education providers would complete for accredited sponsor status. To become accredited, the sponsor must complete the form and return it along with any required supporting materials to the Board. The Board will then review each application and notify the sponsor of its acceptance or rejection.

ii. Individual Course Approval Application Form.

Ms. Kranes explained that the Individual Course Approval Application Form is the form that sponsors or public retirement systems, on behalf of their trustee or administrator course participants, would submit to apply for approval for an individual course.

Chair Braden entertained a motion to approve both the Sponsor Accreditation Application Form and the Individual Course Approval Application Form relating to the MET program as presented.

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

MOTION CARRIED UNANIMOUSLY

E. Receive report on the development of proposed draft of PRB rules, Chapter 607, Subchapter D, relating to Compliance with the Minimum Training Requirements – Michelle Kranes.

Ms. Kranes noted that the draft rules relating to public retirement systems' compliance with training requirements include a section on reporting and a section on record-keeping. In regards to reporting, the rules establish two reporting dates per year for systems to report their trustees' and administrator's training hours to the PRB. Systems must report their trustees' and administrator's training hours in February and September of each year, starting on February 1, 2016. Systems can report completed hours before then, but they are not required to.

To allow the PRB to track training compliance, plans will be required to keep the PRB updated of any changes to trustees or administrators or their terms.

Ms. Kranes explained the draft rules require systems to retain training activity attendance records for a period of five years for each trustee and administrator, and those records would be subject to review at the request of the board.

Mr. Hanson stated that the Working Group focused on the months of February and September because the reporting fiscal year ends on August 31st. For the purpose of the

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Legislative Budget Board's performance measures and the Biennial Report (where the prior year's compliance is reported), the two dates worked out best.

Mr. Brainard asked if the PRB was appropriated resources to comply with the program.

Mr. Hanson responded the PRB was appropriated resources that were requested for the development of the database and for staff. There was a decision in the budget for the upcoming fiscal year to fund a portion of the requested funding through appropriated receipts, and that is part of the legislative appropriations request.

- F. Consider approval to publish the rules proposed in Texas Administrative Code, Title 40, Part 17, Chapter 607, Subchapter D, relating to Compliance with the Minimum Training Requirements in the *Texas Register* for public comment – Michelle Kranes.**

There being no further questions or comments, Chair Braden entertained a motion to authorize the Executive Director to publish the rules as presented which are proposed in the Texas Administrative Code, Title 40, Part 17, Chapter 607, Subchapter D relating to compliance with the minimum training requirements in the *Texas Register* for public comment pending final approval by the assistant attorney general counsel, working group chair, and board chair.

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

MOTION CARRIED UNANIMOUSLY

- 5. Receive update from staff on the following – Michelle Kranes:**

- i. Development of Minimum Educational Training Program compliance database.**

Ms. Kranes noted that staff along with the database administrator has established the feasibility of an online system for tracking systems' compliance with required training hours. Staff is currently in the development phase and is working with the database administrator to design the system

- ii. Development of PRB training**

Ms. Kranes noted that the PRB is planning to offer online training in the core content areas. Staff has purchased a course authoring tool which will allow for the building of those courses to begin.

Mr. Hanson noted that the providing of online training was included in House Bill 13, and was a recommendation of the Sunset Commission. Mr. Hanson stated that the PRB has the technology to create video and was able to acquire an affordable video camera to create online training courses and add quizzes.

Mr. May asked if TLFFRA was considering organizing any training.

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Mr. Hanson noted that part of the Sunset process directed the PRB to provide additional training, and stated that staff is working with the TLFFRA plans. TLFFRA had representation on the Working Group, and staff is working with those funds to make sure that everything is synced.

6. Receive report from the Actuarial Committee on the following meetings – Bob May:

i. June 17, 2014 Actuarial Committee meeting – Chris Hanson.

Mr. Hanson summarized the June 17, 2014 Actuarial Committee meeting. He mentioned the committee covered a wide range of topics including using the Guidelines as a standard for the Study, as well as updating reports that are typically presented to the board, specifically the Actuarial Valuations report. Mr. Hanson stated there are systems in the state that are referred to as closed or frozen, meaning they have either entirely shut down their plan or they have closed that plan to any new employees. The funding requirements for closed or frozen systems are different than the funding requirements for an active open system, and the numbers as they are presented need to be interpreted differently. The meeting included a discussion of preliminary findings of the historical research staff had done and there was public comment from members of the audience.

ii. August 14, 2014 Actuarial Committee meeting – Chris Hanson.

Mr. Hanson noted that the information presented at the August 14, 2014 Actuarial Committee meeting included significant information from the Texas County and District Retirement System (TCDRS) and the Texas Municipal Retirement System (TMRS).

At the request of the committee members, staff reviewed the recommendations on how a public retirement may mitigate its risk of not meeting its long-term obligations. Staff included those recommendations where there was consensus and included additional recommendations for the full Board to review. Additionally, staff included comments from the committee members and highlighted the key findings.

7. Discuss and consider study of the financial health of public retirement systems in the state as required by section 7 of House Bill 13 (83rd Legislature), including the following items – Bob May:

A. Receive report on the following:

i. Study of the financial health of public retirement systems in the state, including each system's ability to meet its long-term obligations.

The 83rd Texas Legislature asked the PRB 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 taking into account the contributions made to, benefits paid by, and investments made by the public retirement system. The PRB was additionally

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asked to include findings and recommendations on how a system may mitigate its risk of not meeting its long-term obligations.

Mr. Hanson reviewed each section of the Preliminary Report.

Executive Summary: The preliminary report begins with an Executive Summary outlining the key findings and key recommendations.

Introduction: Discusses the uniqueness of public retirement systems in Texas.

Pension Funding: Discusses in detail the equation, $C + I = B + E$, or Contributions (C) + Income (I) = Benefits (B) + Expenses (E). Under this funding equation, employers and employees contribute to a retirement system in regular intervals. The system invests these contributions and earns a return on that investment.

Economic Impact on Public Retirement Systems: Discusses the impact the economy has on public retirement systems and the impact that member and employer contributions have on public retirement systems, investment earnings, employer contributions, member contributions and other factors.

Public Retirement System Financial and Demographic Information: Provides an aggregate overview of information for the public retirement systems covered in the preliminary report. Also reflected are the rebounded total assets since the 2008 – 2009 down turn as well as the most current aggregate information for public retirement systems.

PRB Guidelines for Actuarial Soundness: Discusses the Guidelines for Actuarial Soundness and how they are used as the litmus for whether or not a system is in a position to meet its long-term financial obligations. This section discusses why using the amortization period (as outlined in the Guidelines) is an appropriate measure for this study.

Key Findings: Mr. Hanson noted that as the report leads into the key findings, a larger percentage of public retirements systems were above the minimum 40 year amortization period standard. PRB staff looked back historically to identify the factors that led to the significant shift in reported amortization periods. The key findings include the following: the need for adequate contributions; systems are facing higher funding requirements now than in 2000; the funded ratio of most public retirement systems has declined since 2000; systems with higher asset to liability growth are in a better position to meet their long-term obligations than systems with lower asset to liability growth; systems with higher non-investment cash flow are generally in a better position to meet their long-term obligations than systems with lower non-investment cash flow; regardless of the level of benefit enhancements, the most important factor for a system to meet its long-term obligations is properly funding any benefit enhancements; the impact of fewer active members per retired can be significant as fewer member contributions are available to the system; and finally, consistent and adequate contributions play a greater role

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than strong investment performance in determining a system's ability to meet its long-term obligations

As part of the study, the PRB has been directed to include recommendations regarding how a system may mitigate its risk of not meeting its long-term obligations. Mr. Hanson reviewed the PRB's recommendations.

Mr. Hanson outlined the various appendices included in the report. The data included in the appendices represents the best information available to the PRB at the time of the study.

- Appendix A contains the current actuarial valuation information for all systems, including their current amortization period as well as their prior actuarial report they have on file with the PRB.
- Appendix B provides information that walks through contribution and benefit decision making for Texas Public Retirement Systems.
- Appendix C contains additional financial information for each individual system of TCDRS.
- Appendix D contains additional financial information for TMRS.
- Appendix E contains contribution information for each of the 93 public retirement systems.
- Appendix F includes a historical analysis which includes information charts discussed in the core of the report.
- Appendix G includes a correlation analysis of retirement systems.
- Appendix H provides information for systems that have amortization periods over 30 years, including the projected additional contributions necessary to achieve various amortization periods.
- Appendix I provides financial information on the sponsors of those systems.
- Appendix J discusses actuarial assumptions and methods used by the public retirement systems across the state, including their investment rate of return, inflation assumption, actuarial cost methods, asset methods, amortization methods, and payroll growth assumption.
- Appendix K contains a glossary of actuarial terms.
- Appendix L contains the legislation requiring the PRB to conduct the Financial Health Study.

ii. Recommendations on how a public retirement system may mitigate its risk of not meeting its long-term obligations.

Mr. Hanson stated the most significant recommendation made by the PRB is that both the retirement system sponsor and the system should work together to establish an adequate funding policy. The recommendation as it is drafted in the report focuses specifically on establishing an actuarially determined contribution (ADC) rate to maintain a minimum amortization period in accordance with the PRB *Guidelines*. The recommendation states that systems should notify the sponsor if the system receives an actuarial valuation that does not meet the minimum amortization period within the PRB *Guidelines*. If a system receives three consecutive valuations

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indicating that it is not within the minimum amortization period, the sponsor and the system should develop a corrective action plan. The corrective action plan should include steps to ensure that the system receives adequate funding to amortize the UAAL in accordance with the PRB *Guidelines*.

The second part to this recommendation focuses on a law passed in Tennessee that requires the political subdivisions that provide independent defined benefit plans in Tennessee to adopt a funding policy, requiring them to fully fund the ADC. Staff included modifications to the provision relating to the adoption of a funding policy to make it better suited to Texas public retirement systems.

Mr. Brainard noted that his understanding of the Tennessee State Law is that if a city or other political subdivision chronically fails to pay its required contribution, the state has the authority to divert monies that would have otherwise gone directly to the pension fund.

Mr. Hanson noted Texas law does not have a mechanism allowing for that which is why the language is not included in the text of the recommendation.

Mr. Hanson stated that the only requirement in Texas state law is that the systems notify its own members if it does not have a sufficient amortization period.

After discussion, the Board agreed to include additional language in the draft report expressing that systems should notify the governing body of their sponsor if they receive a valuation that does not meet the minimum standard.

Mr. May suggested that staff provide the Board with the procedures that have already been established which would trigger them to conduct individual reviews with individual plans that have an inadequate financing arrangement for the benefit of the newer board members.

Mr. Roberts suggested using different language other than "corrective action plan" noting that it has a negative connotation.

Mr. Brainard suggested changing the term "corrective action plan" to state "a plan of measures needed to restore the plan".

Mr. Hanson stated that staff would edit the language in the first recommendation and present the updated language to the Chair of the Actuarial Committee and the Chair of the PRB with the goal of having it finalized August 29, 2014.

The second recommendation focuses on disclosure and reporting, and highlights how the new GASB standards require the disclosure of DROP balances.

The third recommendation focuses on stress testing and solvency analysis.

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The Board agreed to include both the second and third recommendations in the report.

The fourth recommendation focuses on pooled or grouped trust funds. The Board agreed to include a few changes to the language in the fourth recommendation.

The final recommendation focuses on reserve funds and surplus management, and the committee agreed to include this recommendation in the report.

- B. Review and consider approval of the report containing the findings of the study of the financial health of public retirement systems in the state including the recommendations on how a public retirement system may mitigate its risk of not meeting its long-term financial obligations as required by Section 7 of House Bill 13 (83rd Legislature) – Chris Hanson**

Chair Braden entertained a motion to approve the preliminary report after incorporating the comments from the board that were discussed containing the findings of the study of the financial health of public retirement systems in the state including the recommendations agreed to on how a public retirement system may mitigate its risk of not meeting its long term financial obligations as required of Section 7 of House Bill 13 of the 83rd Legislature.

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

MOTION CARRIED UNANIMOUSLY

- C. Establish a comment period for public retirement systems to submit a response to the Board as required by section 7 (e) of House Bill 13 (83rd Legislature) – Chris Hanson**

Mr. Hanson mentioned that staff identified the dates of October 15th or November 1st as possible end dates for the Board to consider providing systems with a reasonable opportunity to comment on the preliminary report of the financial health study. The committee agreed on the date of October 15th.

Chair Braden entertained a motion to provide public retirement systems until October 15th to provide a response to the Board on the preliminary report of the financial health study as required by section 7(e) of House Bill 13.

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

MOTION CARRIED UNANIMOUSLY

- 8. Receive report from the Legislative Committee on the following items – Wayne Roberts:**
- i. July 9, 2014 House Pensions Committee Interim Hearing – Chris Hanson**

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Mr. Hanson stated two charges were heard at the July 9, 2014 House Pensions Committee Interim Hearing. The first charge related to examining the new reporting requirements proposed by GASB. Mr. Hanson presented at the hearing and discussed what the PRB has been working on over the last year. The second charge reviewed the agencies and programs under the committee's jurisdiction, and Mr. Hanson provided an update on the implementation of relevant legislation passed by the 83rd Legislature.

ii. Legislative Appropriations Request and August 12, 2014 Joint Budget Hearing – Chris Hanson

No discussion.

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

A. Report on end of Fiscal Year 2014 Budget.

Mr. Hanson reviewed the final projections for the FY 2014 budget and noted that the PRB was able to fulfil the requirements of House Bill 13.

B. Consider approval of Fiscal Year 2015 Operating Budget.

Chair Braden entertained a motion to approve the FY 2015 operating budget as presented.

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

MOTION CARRIED UNANIMOUSLY

C. Agency organizational structure and staffing.

Mr. Hanson noted there will be a few upcoming changes to the PRB organizational structure which he will forward to the Board once finalized.

D. 2014 Annual TLFRA Conference.

Mr. Hanson noted he will be attending the annual TLFRA Conference September 7 – 9, 2014 in Lufkin, Texas and will present an update on the PRB.

10. Call for future PRB agenda items – Chair Braden

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

11. Date and location of the next PRB meeting – December 17, 2014, Austin, Texas – Chair Braden.

Chair Braden stated the next PRB meeting will be held on December 17, 2014 in Austin, Texas.

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12. Invitation for public comment

Mr. Jim Smith on behalf of the San Antonio Fire and Police Pension Fund (SAFPPF) suggested including language in regards to the rainy day fund, and noted as an example that when the SAFPPF funding level gets higher, they generally try to ratchet down their assumed rate of return to remove the risk from their fund.

Mr. Max Patterson on behalf of the Texas Association of Public Employee Retirement Systems (TEXpers) commended the PRB staff and the Board for their hard work put towards both the Minimum Educational Training Program and the Financial Health Study.

13. Adjournment

With the business of the Board completed, Chair Braden entertained a motion to adjourn the meeting at 12:05pm.

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

MOTION CARRIED UNANIMOUSLY

In Attendance:

PRB Staff Present

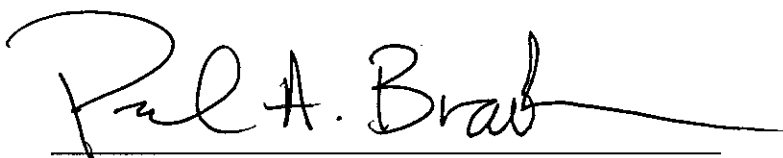
Chris Hanson
Anumeha
John Perryman
Ashley Rendon
Michelle Kranes
Daniel Moore
Bryan Burnham
Reece Freeman
Jamie Kings
Anne Benites

Guests Present

Steve Waas, Houston Employees Municipal Pension System
Dan Wattles, Texas Municipal Retirement System
Jason McElvaney, Texas County & District Retirement System
Ann McGeehan, Texas County & District Retirement System
Meredyth Fowler, Texas House of Representatives – Speaker Joe Straus
Max Patterson, Texas Association of Public Employee Retirement Systems
David Stacy, Midland Firemen’s Relief & Retirement Fund
Katy Fallon, Legislative Budget Board
Eddie Solis, Texas Association of Public Employee Retirement Systems
Michael Trainer, San Antonio Fire and Police Pensioners Association
Dean Pearson, San Antonio Fire and Police Pension Fund
J.T. Trevino, San Antonio Fire and Police Pension Fund

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Jim Smith, Texas Association of Public Employee Retirement Systems
Tom Harrison, Texas County and District Retirement System
Eloise Raphael, Houston Firefighters' Relief and Retirement Fund
Lisa Hughes, El Paso Firemen and Policemen's Pension Fund

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

Chair Paul A. Braden