

**State Pension Review Board  
Actuarial Committee Meeting  
Minutes**

**January 29, 2014**

Presented for review and approval April 22, 2014

**1. Meeting called to order (00:00)**

The first meeting of 2014 of the State Pension Review Board (PRB) Actuarial Committee was called to order by Chair Bob May on Wednesday, January 29, 2014, at 1:15 p.m. in the William P. Clements Building, Room 103, in Austin, Texas.

**2. Roll call of Committee members. (00:40)**

**Board Members Present:**

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

**3. Approval of the November 12, 2013 Committee meeting minutes (01:00)**

Chair May entertained a motion to suspend the reading of the Minutes of the PRB Actuarial Committee meeting held November 12, 2013.

Motion made by Mr. Andrew Cable, seconded by Mr. Robert Massengale that the PRB Actuarial Committee suspend the reading of the Minutes of its meeting held November 12, 2013.

**MOTION CARRIED UNANIMOUSLY**

**4. Discuss and consider the 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) (01:25)**

Mr. Hanson stated that Section 7 of House Bill 13, as passed by the 83<sup>rd</sup> Texas Legislature, directs the PRB to conduct a study of the financial health of public retirement systems in the state of Texas, including each system's ability to meet its long-term obligations. The Bill requests the PRB to prepare a draft of the study by September 1, 2014. Any system covered in the report will be provided with an opportunity to review the recommendations, and submit their comments to the PRB. The final report is due to the Legislature on December 31, 2014. Staff prepared a summary indicating where public retirement systems' actuarial soundness, financial health, and amortization period currently stands based on the PRB *Guidelines for Actuarial Soundness*. Mr. Hanson reviewed the summary, and stated that there are currently 25 systems with an amortization period of greater than 40 years, with 40 years being the minimum standard established by the Guidelines. There are 39 systems whose amortization period is between 25 and 40 years which is above the recommended range and 29 systems that are within or better than the recommended range. Mr. Hanson stated that staff would like to examine what some of the underlying factors were that impacted retirement systems to where they are no longer meeting the guidelines. Additionally, staff would like to examine what steps have been taken that have allowed the systems that were meeting the guidelines in the late 1990's - 2000 to continue meeting them; what are best practices, and what are things the PRB could make recommendations on that would help a system maintain sound funding.

Mr. Hanson reviewed an outline of the Study of the Financial Health of Public Retirement Systems. Section one would include the executive summary, followed by section two which would include the introduction. Section three would include the financial health or current actuarial soundness of retirement systems, and in this section a determination would be made of whether systems are in a position to meet their long-term obligations. Section four would include items that factor into this determination, with the first item being investment experience. This section would discuss what the PRB has examined over the last 15 years, and determine whether a system's investment experience is a primary reason why systems are not meeting the guidelines. For systems that are meeting the guidelines, staff would examine what their investment performance was versus the systems that are not meeting the guidelines. Section five would include additional factors that may or may not have contributed to a system's financial health. These factors include

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policy decisions including plan design changes, and benefit decisions that might have impacted plans. Another item under policy would pertain to contribution rates, including whether ARC payments were made, whether the payments were sufficient, whether the full ARCs were funded, and the levels of contributions that were received. Additionally, the policy section would include actuarial methods and assumptions and examine any issues of not having the appropriate retirement rate, or issues where possibly an actuary made a poor recommendation. Lastly, the policy side would include material regulatory and policy changes such as the closing of the social security loophole for teachers, as well as changes that the Legislature may impose on the Employees Retirement System of Texas (ERS) or the Teachers Retirement System of Texas (TRS). Mr. Hanson further discussed that another area to identify is the factors that may indicate issues for public retirement systems, including cash flow, solvency, actuarial points, payroll growth, and plan demographics—active to retired populations and retirement rates. Section six, the last item in the outline, would cover best practices; including plans reserve funds, surplus management, and their approach to managing their actuarial assumptions and policy decisions.

Mr. May stated that in addition to examining the financial condition of the systems, the Legislature is asking the PRB to discuss things that can be done to improve the overall condition of the plan. Mr. May mentioned that a very important point is to determine whether the systems are regularly contributing the ARC, and what kind of gap there is between what the ARC was and what systems contributed. Mr. May stated that another important item to note is the demographic experience.

Mr. Massengale mentioned that he did not see the term smoothing noted in the summary.

Mr. May noted that the smoothing he hears about most often is the smoothing of assets. He stated that he was aware of a plan that did not smooth in the late 1990's and gave a large increase in benefits, and they have been on the infinite amortization period for several years as a result. He commented that there are many potentially discussable issues and stated that the defined benefit world is complex. He noted that as the Legislature knows the most about ERS and TRS, it would be a good idea to study them both carefully. He stated that currently there is a difference in the way they have been funded through the Legislature through recent change.

Mr. Hanson stated that in terms of the ARC examination, one of the reasons for not typically smoothing is so the required contribution does not fluctuate so much from year to year, making it easier for budgeting purposes. He stated that one of the areas staff would examine include things leading to funding issues.

Mr. Cable stated that the creation of this document could create legislation.

Mr. Hanson stated that staff would like to research things that might be problematic to contribution rates as well as things that are favorable.

Mr. Hanson further noted that at the last board meeting of ERS, there was a presentation that covered significant changes that TRS made to their benefit design in 2005 whereas ERS did not, and as a result, TRS started to improve. When ERS made changes this last session, it was to new hires as opposed to existing members so both are examples of what can happen if you take one route versus another.

**5. Invitation for audience participation (42:40)**

Erin Perales, General Council, Houston Municipal Employees Pension System noted that the term "Soundness" in the PRB *Guidelines for Actuarial Soundness* may have a negative connotation, and that the term "Financial Health" may be preferable.

Mark Fenlaw, Actuary, Rudd and Wisdom noted that the amortization period should be analyzed when reviewing the financial health of public retirement systems. He stated that PRB could ask the system's to provide what sort of increase in employer contribution rate would be necessary to have a 25 year amortization period. This would provide the PRB with a quantitative number of how far short they are of having a 25 year amortization period. He also mentioned that he likes the idea of changing the name of PRB *Guidelines for Actuarial Soundness*, noting that there are some downsides to the term.

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**6. Next steps / Future meeting schedule**

No discussion

**7. Adjournment (01:01:00)**

Chair May thanked the Committee and the audience for their participation at the meeting. With the business of the Committee completed, Chair May adjourned the meeting at 2:15 pm.

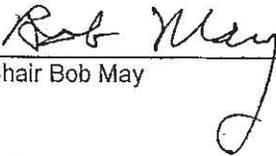
**In Attendance:**

**Staff:**

Chris Hanson  
Nick Ballard  
Daniel Moore  
Bryan Burnham  
Reece Freeman  
Anne Benites

**Guests:**

Mike Ewins, Employees Retirement System of Texas  
Leslee Hardy, Texas Municipal Retirement System  
Eddie Solis, Texas Association of Public Employee Retirement Systems  
Max Patterson, Texas Association of Public Employee Retirement Systems  
Paul Brown, Texas Association of Public Employee Retirement Systems  
Eloise Raphael, Houston Firefighters' Relief and Retirement Fund  
Yuniedth Steen, Locke Lord LLP  
Meredyth Fowler, Texas House of Representatives – Speaker Joe Straus  
Erin Perales, Houston Municipal Employees Pension System  
Kyle Mauro, HillCo

  
Chair Bob May