

Pension Review Board
June 27, 2019
Minutes

1. Meeting called to order (0:06)

The second meeting of 2019 of the Pension Review Board began on Thursday, June 27th, 2019, at 10:02 am in the Capitol Extension, Committee Room E1.012, 1400 N. Congress Avenue, Austin, Texas 78701.

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

2. Roll call of Board members (0:16)

Board Members Present

Chair Stephanie Leibe
Keith Brainard
Andrew Cable
Marcia Dush
Josh McGee
Ernest Richards

3. Discuss and consider Board administrative matters, including the following items – Chair Leibe (0:32)

A. Board Chair's introductory remarks – Chair Leibe (0:35)

Chair Leibe stated that it was an honor to have been named Chair of the Pension Review Board. She expressed that she was grateful for the guidance and leadership Mr. McGee provided the Board. Going forward, she would like to see a future that looks very much like the recent past. She stated that she thought the intensive reviews have provided valuable guidance to both the funds that were reviewed as well as other funds that could benefit from the information that has come out of the reviews. She stated that she looked forward to a cooperative relationship between the Board and plans to implement the new legislation coming from the most recent legislative session. Chair Leibe acknowledged and congratulated the staff on their work.

B. Recognition of outgoing Chair – Chair Leibe (3:45)

Chair Leibe read a resolution and presented a plaque to Mr. McGee, recognizing him for his service as Board Chair from 2015-2019.

Mr. Brainard thanked Mr. McGee for his work and leadership on the Board.

Ms. Kumar thanked Mr. McGee on behalf of the staff.

Mr. Richards thanked Mr. McGee and wished him the best.

C. Comments from outgoing Chair – Josh McGee (7:02)

Mr. McGee stated that he appreciated the comments from the Board members and staff. He acknowledged that the legislature and their staff had been fantastic in working with the PRB and using the PRB as a resource. Additionally, he thanked the PRB staff for providing support to plans and the legislature. He stated the PRB staff showed a high quality of work and dedication. He added that he was very impressed with the engagement of the plans and their desire to improve. He stated that he appreciated the

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Governor giving him the opportunity to serve as chair and that he intended to continue to follow the PRB's activities.

D. Discuss and consider approval of the January 24, 2019 Board meeting minutes – Chair Leibe (8:59)

Chair Leibe entertained a motion to suspend the reading of the minutes of the PRB meeting held January 24, 2019, and to approve them as circulated.

Motion made by Ms. Dush and seconded by Mr. Richards.

Motion Approved Unanimously

E. Updated committee assignments – Chair Leibe (9:50)

Chair Leibe appointed herself to fill the vacancy left by Mr. McGee on the Actuarial Committee. She added that Mr. Brainard would remain chair of the committee and Ms. Dush would remain as the third member.

4. Legislative Committee – Receive reports on the following items – Chair Leibe (10:48)

A. Pension legislation passed during the 86th Regular Session, including the following – Ashley Rendon and Mariah Miller (11:08)

Ms. Miller, Research Specialist, stated that the PRB followed about 120 pension bills that were filed between November 2018 and mid-March 2019. She stated that during session, staff posted a pension bill report to the PRB website weekly that included the history and status of each bill, and added that 17 of those bills were passed.

i. SB 2224 (relating to requiring a public retirement system to adopt a written funding policy)

Ms. Miller stated that SB 2224, authored by Senator Huffman, was recommended by the Board through its interim study, and passed both chambers unanimously. She stated that the bill was signed on June 4, 2019 and would become effective on September 1, 2019. Ms. Miller explained that the bill required Texas public retirement systems to adopt a funding policy by January 1, 2020 that lays out the system's plan to achieve a funded ratio of 100% or greater. The systems will have 31 days from the date the funding policy is adopted or revised to submit the policy to the PRB and their sponsors.

ii. SB 322 (relating to the evaluation and reporting of investment practices and performance of certain public retirement systems)

Ms. Miller stated that SB 322, also authored by Senator Huffman, was signed on June 10, 2019, and became effective immediately. She stated that the bill had two components: investment fee disclosures and an investment performance evaluation.

Ms. Miller further explained the bill and stated that the first evaluation must be filed with the sponsor by May 1, 2020, and then the system has 31 days to submit the report to the PRB.

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Ms. Kumar clarified that if systems have an independent in-house consultant, they would be able to use that consultant if the consultant does not currently manage the plan's assets.

iii. SB 12 (relating to the contributions to and benefits under the Teacher Retirement System of Texas)

Ms. Rendon stated that SB 12, by Senator Huffman, was signed by the Governor on June 10 and became effective immediately. She noted that the bill had two pieces: phased-in contribution increases for members, employers, and employers who do not contribute to Social Security; and a 13th check provided to certain annuitants with a cap of \$2,000.

iv. HB 2763 (relating to the police pension fund in certain municipalities)

Ms. Rendon stated that HB 2763, authored by Representative Flynn, concerned the Galveston Employees Retirement Plan for Police. She noted that it was signed by the Governor on June 14 and became effective immediately. Ms. Rendon reminded the Board that the PRB reviewed the plan during its first round of 2018 intensive actuarial reviews. She explained that the bill contained many elements of PRB intensive review recommendations, such as a funding policy with a closed layered 30-year amortization period. She stated that the city contribution increased, representation on the plan's board would be split 50/50 between the members and the city's appointees and that the bill established qualifications for trustees.

Mr. Brainard asked if any other boards in Texas define qualifications for their trustees. Ms. Kumar responded that the Dallas Police and Fire Pension System's Board has qualification requirements for its trustees as well as training and background retirements. She stated that staff could provide that information at the next meeting after further research.

Mr. Brainard also asked staff to provide a list of other plans that require the actual contribution rate to be made pursuant to the actuarially determined rate.

B. PRB budget appropriation for Fiscal Years 2020 and 2021 under General Appropriations Act, 86th Legislature (H.B. 1) – Anumeha Kumar (23:37)

Ms. Kumar stated that the PRB was very appreciative of the additional appropriation the agency received in the 86th Session. She mentioned that the PRB received all the requested exceptional items. She noted that there was also a contingency rider for SB 322, which appropriated funds for the agency to hire an investment analyst to implement the new requirements under the bill.

C. Revised Government Code – Anumeha Kumar (25:45)

Ms. Kumar stated that the PRB would be updating its Government Code booklet to include the new legislation. She added that the booklets would be published in-house.

D. PRB rule review – Texas Administrative Code, Title 40, Part 17, Chapters 601, 603, 604, 605 and 607 – Anumeha Kumar (26:29)

Ms. Kumar stated that under the Government Code, state agencies are required to review their administrative rules at least once every four years and they are also

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required to adopt a plan for reviewing rules. She explained to the Board members the process for reviewing and adopting rules. She stated that staff would analyze the rules to see if any rules need to be readopted, revised or repealed, and will come back to the October meeting with the draft rule review posting and proposed rule amendments.

Mr. Brainard asked for clarification on whether the PRB was revising current rules or crafting new ones. Ms. Kumar stated that staff will be reviewing and revising the existing rules if need be. She stated that the PRB currently has MET rules that were adopted in 2013 and we will be reviewing them on the same schedule.

Ms. Kumar described the timeline for the rule review. The proposed rule changes would be posted to the Texas Register after the October PRB meeting, during which time the PRB will receive public comments. The comments would be presented at the following PRB meeting, likely in January 2020. At that time, the rules would be presented to be finalized and again be posted in the Texas Register.

Melissa Juarez, Assistant Attorney General and PRB General Counsel, clarified that during the current meeting, the Board was reviewing the rule review plan. She further stated that if the Board adopted the rule review plan, it would set in motion the schedule the PRB would follow for rule revisions. She stated that at the time that the PRB adopted the rule review, rule changes may be proposed concurrently that could affect any of the rules within the PRB's rule chapters.

Mr. McGee asked if there was a plan to adopt rules for SB 322 and SB 2224.

Ms. Kumar responded that the following agenda item would address Mr. McGee's question.

Mr. Brainard motioned for the Board to adopt the revised review plan as presented and authorized staff to publish the revised plan in the Texas Register.

Judge Cable seconded the motion.

Motion Approved Unanimously

E. Need for additional rules and/or guidance to implement the statute, including new reporting requirements enacted by 86th Legislature – Anumeha Kumar (30:56)

Ms. Kumar stated that because the new legislation had imminent deadlines, particularly the funding policy legislation, staff proposed that the Board direct staff to work with the Actuarial Committee to provide informal guidance with regards to the funding policy requirement as well as the investment performance evaluation requirements in SB 322. Staff recommended to the Board that the PRB engage in rulemaking to clarify what type of fee information retirement systems will have to include in CAFRs.

She stated that staff would work with the Actuarial Committee and then return to the full Board at the October meeting to present the guidance for final adoption.

Ms. Dush recommended that the staff provide both rules on fee disclosure and informal guidance on the investment reviews. She added that she would personally like to see that the guidance focuses on how systems choose their consultants and the tools they need to do appropriate work for asset allocation. She also stated that she would like to see guidance on setting benchmarks by asset class and talk about how plans evaluate

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their manager selection. Ms. Kumar stated that the staff would work with the Actuarial Committee to ensure those criteria are met.

Ms. Dush motioned for staff to be directed to work with the Actuarial Committee to provide both proposed rules and guidance associated with any of the new laws passed by the legislature.

Mr. Richards seconded the motion.

Motion Approved Unanimously

Chair Leibe reopened agenda item 4E (1:33:35) and Ms. Kumar added that staff was conducting research in preparation for the September committee meeting so that the Board may consider proposals. She noted that staff would be reaching out to retirement systems during the research process. Additionally, she noted that the PRB staff would be available to the systems for technical assistance.

5. Actuarial Committee – Discuss and consider the following matters – Keith Brainard (39:09)

A. Actuarial Valuation Report – Kenny Herbold (39:23)

Mr. Herbold stated that there were approximately 13 new valuations since the January board meeting, but that their results did not significantly change from the numbers in the January report. He noted that the numbers in the report did not reflect any changes that were made in the recent legislative session and that the changes to TRS will have a significant impact once the PRB receives their next report. He mentioned that the report did not reflect changes to the Galveston Employees Retirement Plan for Police. He added that Fort Worth Employees Retirement Fund made some changes locally instead of going to the legislature for changes and the most recent valuation did not reflect the changes they've made.

Mr. McGee stated he was impressed with how much the liability-weighted median assumed return decreased with the TRS change. He stated that he thought it was reflective of how important the system's changes are for the fiscal health of their plan. He attributed TRS's increased funding in part due to those changes.

Mr. Brainard asked for the resulting amortization period for TRS based on the legislation. Ms. Kumar stated that she believed it was projected to go under 30 years. Mr. Herbold added that he believed the intent of the legislation was to make the system actuarially sound, which would mean an amortization period below 31 years.

Mr. McGee acknowledged that going from an amortization period of 87 years down to less than 30 at a much lower discount rate was a very positive change.

Mr. Brainard stated that the difference in the actuarial valuation report demonstrates how large TRS is compared to other plans.

B. Public retirement system reporting and compliance, including noncompliant retirement systems under Section 801.209 of the Texas Government Code – Bryan Burnham (43:39)

Bryan Burnham, Financial Analyst, stated that the PRB currently oversees 99 plans and of those 99 plans, 91 were currently compliant. He noted that staff was working diligently to get all plans' reports in.

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Mr. Burnham stated that the total net assets experienced an increase of roughly \$90 million since the last board meeting and the amortization period movement had been very slight. He added that there was one more plan with an infinite amortization period since the last PRB meeting.

Mr. Burnham mentioned that the Nacogdoches County Hospital District Retirement Plan and Northeast Medical Center Hospital Retirement Plan (Northeast Medical) were the two plans on the 60-day non-compliant list. He noted that Northeast Medical had been on the non-compliant list multiple times in the past. He stated that both plans provided the PRB with sponsor audits, but the law required each plan to complete an independent audit of the retirement plan itself. He stated that PRB staff was working with the plans to receive the reports.

Ms. Dush asked, considering the new legislation, how many plans were above \$100 million in total net assets, how many were between \$30 million and \$100 million, and how many were below \$30 million. Mr. Burnham stated that roughly 2/3rds of the plans will be required to conduct the evaluations as outlined in SB 322.

C. Update on the retirement systems subject to the Funding Soundness Restoration Plan (FSRP) requirement, including compliance – Reece Freeman (48:06)

Mr. Freeman discussed the contribution increases and benefit changes made by the Fort Worth Employees' Retirement Fund. He noted that there was an automatic risk-sharing plan included in the changes should the fund not achieve their target amortization period by 2022.

Mr. Freeman reported on plans that are immediately subject to the FSRP formulation requirement, including plans that have past-due FSRPs. Mr. Brainard asked Mr. Freeman to clarify if Fort Worth had made significant changes to their plan but still needed to continue to work on changes to get them under the threshold. Mr. Freeman responded that the plan had a risk-sharing plan which stated that if by 2022 they do not have an amortization period of 27 years, they would increase contributions to the ADC rate. He added that if the maximum contribution allowed did not meet the requirements, they would consider benefit changes.

Mr. McGee noted that there appeared to be a trend where plans and their sponsors were being more transparent about their goals and what specifically would happen if they did not meet their goals. He added that this comes directly from the recommendations of the PRB. He encouraged the PRB staff and board to continue to recommend that plans be very explicit in defining their actions for scenarios where they do not meet their goal.

Mr. Freeman noted that in the packet there was a summary of the Fort Worth Employees' plan changes detailing the contribution increases and risk-sharing plan adopted by the system, which followed their FSRP letter.

Mr. Brainard asked if there was legislation this session that would have changed the threshold for the FSRP. Ms. Kumar noted that this was correct and that the bill by Representative Flynn would have brought the FSRP standard down to a 30-year amortization period; however, the bill did not pass out of committee. Mr. Brainard

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asked if there was any opposition to that bill, to which Ms. Kumar responded there was no opposition that she was aware of.

D. Update on Texas Public Pension Data Center – Anumeha Kumar (55:41)

Ms. Kumar updated the board that the data center was published in February and was very well received by the legislature. She noted that staff was currently looking into bringing more information to the board regarding data center traffic statistics.

Mr. Brainard commended staff for making the data very accessible and user-friendly.

E. System Intensive Reviews – Kenny Herbold (58:25)

Mr. Herbold explained that the metrics established a couple of years ago provided the initial look at plans when staff decided to begin intensive reviews. He stated that on April 29th, the staff held a meeting to determine what plans would be considered for review.

Mr. Herbold explained that staff decided to review two plans: Odessa Firemen's Relief and Retirement Fund and Paris Fire Fighters' Relief and Retirement Fund. He added that the plans were notified and had sent information to the PRB. He stated that the reviews would be presented at the next Actuarial Committee meeting.

Ms. Dush commented that she found the non-investment cash flow as a percentage of fiduciary net position section interesting. She stated that her interpretation of the column was that any plan with a negative number in that column had more money going out than coming in, which Mr. Herbold confirmed. She noted that almost all the plans had negative non-investment cash flow, so those plans must have investment returns in order to meet benefit payments. She noted this was very important to understand when considering asset allocation.

Mr. Herbold agreed with Ms. Dush's statement and added that it was particularly important when a plan was not fully funded and was trying to cover unfunded accrued liabilities.

6. Education and Research Committee – Discuss and consider the Minimum Educational Training (MET) Program for trustees and system administrators pursuant to Section 801.211 of the Texas Government Code, including the following – Judge Cable (1:03:06)

A. Receive update on MET compliance reporting – Joey Evans (1:03:20)

Mr. Evans explained that the MET compliance report showed there were 86 compliant plans and 2 non-compliant plans. He noted that both non-compliant plans were over the 60-day threshold and that since the publishing of the Board meeting packet, Greenville Firemen's Relief and Retirement Fund had submitted its PRB-2000 and was compliant.

B. Receive report on PRB online training utilization in comparison to other MET sponsors and approved courses – Joey Evans (1:04:14)

Mr. Evans noted that at the January Board meeting, the Board requested that staff determine the percentage of participants utilizing the PRB's online training courses as opposed to attending other MET sponsors' courses. He noted that the staff used the time frame from 2017 to the present.

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He stated that a majority of participants received training from the PRB for core training, while a large majority of participants received continuing education from sponsors other than the PRB.

Mr. Brainard asked Mr. Evans which retirement systems were offering training in-house. Mr. Evans stated that he would get that information.

7. Review and discuss report from the Executive Director on the following matters – Anumeha Kumar (1:27:43)

A. 2019 Evaluation of PRB Educational Services (1:27:45)

Ms. Kumar explained that the survey was performed as a part of the PRB's report to the Legislative Budget Board to evaluate how satisfied the PRB's constituents were with the educational services provided by the PRB. She noted that nearly 90% of respondents indicated they were satisfied and that a common comment received was that there was a desire for continuing education training similar to the core training offered through MET. Ms. Kumar noted that this was something staff had been looking into and would like to provide.

B. 2019 TEXPERS Summer Educational Forum (1:30:17)

Ms. Kumar announced that the 2019 TEXPERS Summer Educational Forum was coming up in August, located in Frisco, Texas. She noted that she and Chair Leibe would be presenting at the conference. She let the Board know that if they were interested in attending, staff would arrange for them to attend.

Chair Leibe entertained a motion to approve the attendance of interested members to the TEXPERS Forum.

Motion made by Mr. Brainard and seconded by Ms. Dush.

Motion approved unanimously.

C. Updated Fiscal Year 2019 Operating Budget (1:31:40)

Ms. Kumar reported that the PRB is on track with its 2019 budget.

D. Approval of Fiscal Year 2020 Operating Budget (1:32:08)

Ms. Kumar noted there was a motion for the Board to approve the 2020 fiscal year budget. She added that the budget mirrored the General Appropriations Act approved by the Legislature.

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

Motion approved unanimously.

8. Personnel matters, including the evaluation, compensation, and performance of the Executive Director – Chair Leibe (1:07:00)

Chair Leibe called for a closed session at 11:09 AM. Upon reconvening at 11:28 AM, she noted that the Board was very happy with Ms. Kumar's performance as the Executive Director and entertained a motion to increase the Executive Director salary as of September 1, 2020.

Motion made by Mr. McGee and seconded by Ms. Dush.

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Motion approved unanimously.

Ms. Kumar thanked the Board for their recognition and ensured the Board that she and the staff would continue to work hard to uphold the quality of work that both the Board and the legislature have come to expect.

9. Call for future PRB agenda items – Chair Leibe (1:34:50)

There was no discussion on this item.

10. Date and location of next PRB meeting – Thursday, October 17, 2019 (1:35:21)

Chair Leibe stated that the next PRB meeting would be held Thursday, October 17, 2019, and the location was to be determined.

She noted that there would be two Actuarial Committee meetings in the fall, tentatively set for September and November 2019. Chair Leibe added that the September meeting may be split into two days, and if so, the first meeting would begin in the afternoon and the second would begin in the morning.

11. Invitation for public comment (1:36:43)

Mr. Andrew Poreda from Sage Advisory commented on SB 322. He stated that the bill was a great opportunity for plans to receive a real evaluation and recommended that plans use an outside, independent firm to conduct the evaluations. He stated that he hoped the Board would take that into consideration when documenting rules.

12. Adjournment (1:38:30)

Chair Leibe adjourned the meeting at 11:41 AM.

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In Attendance

PRB Staff

Wes Allen
Eusebio Arizpe
Bryan Burnham
Reece Freeman
Kenny Herbold
Michelle Downie Kranes
Anumeha Kumar
Mariah Miller
Ashley Rendon
Benjamin Warden

Guests

Michael Trainer – San Antonio Police Pensioners Association
Kelly Gottschalk – Dallas Police and Fire Pension System
Shanna Wadsworth – CPS Energy
Robert Nathan – CPS Energy
Brian Hebert – Beaumont Fireman’s Relief and Retirement Fund
Carl Whitehead – Beaumont Fireman’s Relief and Retirement Fund
Ross Clary - River and Mercantile
Andrew Poreda – Sage Advisory
Steve Waas – Houston Municipal Employees Pension System
Dan Wattles – TMRS
Leslee Hardy – TMRS
Ariana Whaley – ERS
Lois Emerson – CPS Energy
Ashley Mann – House Appropriations
Paul Brown – TEXPERS
Warren Schott – San Antonio Fire and Police Pension
Jim Smith – San Antonio Fire and Police Pension
Amanda Lopez – Office of the Speaker
Katy Fallon-Brown – LBB
Pat Haggerty – El Paso Fire and Police Pension Fund
David Stacy – Midland FRRF
Rebecca Morris – Rudd and Wisdom
William Gates – Lufkin Firemen’s Relief and Retirement
Terry Bratton – Houston Police Pension
Eddie Solis – TEXPERS
Janis Reinken – Austin Police Retirement System
Joe Gimenez - TEXPERS



Chair Stephanie Leibe