



**Minutes
October 17, 2019**

1. Meeting called to order (0:06)

The third meeting of 2019 of the Texas Pension Review Board (PRB) began on Thursday, October 17, 2019, at 8:10 a.m. in the Capitol Extension, Committee Room E1.012, 1100 N. Congress Avenue, Austin, Texas 78701.

2. Roll call of Board members (0:12)

Board Members Present

Chair Stephanie Leibe
Vice Chair Keith Brainard
Marcia Dush

Rossy Fariña-Strauss
Shari Shivers

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

3. Discuss and consider Board administrative matters, including the following items – Chair Leibe (0:28)

A. Approval of the June 27, 2019 Board meeting minutes (0:30)

Chair Leibe held a motion to suspend the reading of the minutes of the June 27, 2019 PRB meeting and approve them as circulated.

The motion was made by Mr. Brainard and seconded by Ms. Dush.

The motion passed unanimously.

B. Consider excusing the absence of Board members from the June 27, 2019 Board meeting (1:29)

Chair Leibe held a motion to excuse Ms. Fariña-Strauss from the June 27th Board meeting.

The motion was made by Ms. Dush and seconded by Mr. Brainard.

The motion passed unanimously.

C. Recognition of outgoing board member (2:00)

Tabled for the November Board meeting.

D. Introduction of new board member (2:17)

Chair Leibe introduced the new board member, Shari Shivers, and Ms. Shivers gave a brief description of her background.

4. Legislative Committee – Discuss and consider the following items – Chair Leibe (4:09)

A. Informal guidance for conducting Investment Practices and Performance Evaluations (SB 322) (4:21)

Mr. Herbold briefed the Board on the comments received from the public on the draft informal Guidance for Investment Practices and Performance Evaluations since the PRB's Actuarial Committee Meeting on September 19 and 20. Mr. Herbold discussed and the changes made to the draft, including those received from the public during and after the Actuarial Committee Meeting, as well as two options for board discussion that staff developed to clarify the definition of indirectly managing investments.

Chair Leibe opened the floor for public comment.

Mr. David Stacy, Midland Fire, stated that many funds have an existing relationship with an investment consulting firm and intended to utilize the firm to conduct the Investment Practices and Performance Evaluations.

Mr. Josh Yager, Anodos Investment Governance Advisors, offered his observations on the definition of independence of an investment consulting firm. He stated that it would be inappropriate for the existing investment consultant to conduct the Investment Practices and Performance Evaluation because they would be put in the position of critiquing their own work.

Ms. Kumar stated that the legislature permitted systems to use existing consultants to perform the evaluations so long as the consulting firms are not directly or indirectly managing assets of the system.

The Board discussed which of the two options they wanted to adopt and agreed to amend the language to read: A firm is considered to be directly or indirectly managing investments if the firm, a subsidiary, or its parent company, has assets of the system under management, or is solely responsible for selecting or terminating investment managers.

Mr. Brainard made a motion to adopt Option B as amended. The motion was seconded by Ms. Shivers.

The motion passed unanimously.

B. Informal guidance for developing a Funding Policy (SB 2224) (48:02)

Ms. Miller gave a brief background of the bill and updated the Board on the informal guidance, noting that a section on negative amortization was added by request from a board member.

Ms. Kumar informed the Board that staff was working to provide a template as part of the informal guidance and help notify plan sponsors of the funding policy requirement.

Mr. Brainard stated that he was concerned about using the words "runs contrary to the pension prefunding concept" when referring to negative amortization and provided examples of when negative amortization was not problematic.

Ms. Dush explained that the actuarial community has begun discussing the use of negative amortization and may soon discourage its use.

Mr. Brainard stated that it was not his intention to get ahead of the actuarial community but to instead urge systems to be cautious in their use of negative amortization.

Mr. Brainard motioned to adopt the informal Guidance for Developing a Funding Policy, striking the words “runs contrary to the pension prefunding concept,” and adding in its place “Plans should be careful in their use of negative amortization.” The motion was seconded by Ms. Dush.

The motion passed unanimously.

C. Rulemaking relating to fee disclosures (SB 322) (1:00:44)

Ms. Rendon provided a brief summary of the document staff prepared regarding the content of the proposed fee disclosure rules. She stated that investment management fees and commissions should be broken down by asset class, which should be included in the system’s Comprehensive Annual Financial Report (CAFR). Ms. Dush asked that the box labeled “Equity” be labeled “Public Equity” and that private debt be included with corporate bonds under “Fixed Income.”

Ms. Rendon presented recommendations for a reporting structure on how systems could report investment fees and what that level of reporting could look like in practice. The first recommendation was to distinguish between fees paid from the trust fund and fees netted from returns. The second recommendation was to require plans to report performance fees.

Ms. Rendon continued with the final recommendation, which would require plans to report brokerage commissions in a separate table, broken down by asset class.

Ms. Kumar informed the Board that this is the framework for the proposed rules and that staff will bring the draft rules to the Board at the November board meeting. Ms. Kumar assured the Board that staff will take into account any public comment before the final rules are presented to the Board early next year.

Mr. Brainard motioned to direct staff to draft rules on fee disclosures and incorporate the comments of the Board into the rules that will be presented at the November meeting. The motion was seconded by Ms. Dush.

The motion passed unanimously.

D. PRB rule review – Texas Administrative Code, Title 40, Part 17, Chapters 601, 603, 604, 605, and 607 (1:18:17)

Chair Leibe tabled this item until the November PRB meeting.

E. Retirement systems with board qualifications in statute (1:19:02)

Ms. Rendon presented staff’s research on the public retirement system board qualifications in statute. Staff found that only a small number of public retirement systems’ statutes contain education or experience qualifications for board members.

Mr. Brainard noted the lack of required qualifications for board members currently in statute and implored citizens and plans to encourage the legislature to develop a more cohesive framework for public pension plans.

Chair Leibe excused herself from the meeting and Vice Chair Brainard continued the agenda in her stead.

5. Actuarial Committee – Discuss and consider the following matters – Keith Brainard (1:23:00)
A. Intensive actuarial reviews of the following systems (1:23:10)

Mr. Brainard invited Mr. Bryan Burnham and Mr. Kenny Herbold to present on the intensive actuarial reviews of Odessa Firemen’s Relief & Retirement Fund and Paris Firefighter’s Relief & Retirement Fund.

i. Odessa Firemen’s Relief & Retirement Fund (1:23:32)

Mr. Burnham presented a brief summary of the finalized intensive review, including recommendations made to the fund.

Ms. Dush commented on the value of benefits upon reaching full retirement eligibility and stated that employees and the City of Odessa contribute a sizable portion to Social Security and to the pension fund compared to peer systems.

Mr. Burnham provided an overview of the additions to the report that were based on information provided by the fund’s actuary in September. Due to the anticipated construction of a new fire station, the fund’s actuary projected increases in contributions as a result of an assumed increase in members in the fund.

Ms. Dush shared her concerns about the assumption of economic stability despite the likelihood of changing economic conditions in the region.

Mr. Brainard added that cities have been reporting in their CAFRs that they are paying the full actuarially determined contribution (ADC), when in reality they are not, which is a problem that ought to be addressed. He commended the City of Odessa for engaging in the review and implored the City to pay the full ADC.

ii. Paris Firefighter’s Relief & Retirement Fund (1:39:33)

Mr. Herbold summarized the finalized review and noted that negative cash flow and investment returns were of key concern, as well as the importance of educating the Paris Fire trustees in fund management. Mr. Herbold also summarized the recommendations made to the plan.

Ms. Dush stated that she had concerns about the fiduciary responsibility of board members and the prudence of investment managers in recommending investments, further stating that returns ought to be based upon realistic expectations.

Mr. Brainard stated that the members of the Actuarial Committee expressed concern that most members of the Paris Fire’s board have not completed their required MET training and encouraged them to challenge their investment consultants’ and actuaries’

performance. He added that Paris Fire's member contributions were disproportionate to the fund's normal cost, raised a concern about the negative cashflow that the plan has been facing for the last several years, and stated that current investment return assumptions are aggressive. Mr. Brainard further stated that he would like to see the statutory references regarding fiduciary responsibility added to Paris Fire's intensive review.

Mr. Brainard entertained a motion to adopt the Odessa Fire and Paris Fire intensive reviews in the PRB's biennial report to the legislature, incorporating any changes made by the Board and technical changes.

The motion was made by Ms. Shivers and seconded by Ms. Dush.

The motion passed unanimously.

B. Actuarial Valuation Report (1:56:40)

Mr. Herbold noted an increase in the total unfunded accrued liability with a large part due to the inclusion of the December 31, 2018 and January 1, 2019 actuarial valuations received since the prior meeting. He added that amortization periods have remained relatively stable and that there are no longer any systems with a discount rate above 8%. Mr. Herbold explained that there was a new column added into the supplemental report, which noted the expected depletion date for systems.

C. Public retirement system reporting and compliance, including noncompliant retirement systems under Section 801.209 of the Texas Government Code (2:01:12)

Mr. Burnham presented the noncompliance report and assured the Board that staff was communicating with noncompliant systems to get reports in as soon as possible.

D. Update on the retirement systems subject to the Funding Soundness Restoration Plan (FSRP) requirement, including compliance (2:03:36)

Mr. Herbold provided an update on FSRPs submitted since the prior PRB meeting and apprised the board on systems that are subject to the revised FSRP requirement.

Ms. Dush noted that nearly 85% of the plans that have already submitted an FSRP, were now subject to submitting a revised FSRP or were now at risk of having to formulate an FSRP were Texas Local Fire Fighters Retirement Act (TLFFRA) plans and sought clarification on how those plans got to that point. Ms. Kumar assured Ms. Dush that PRB staff would be willing to help with any research questions or data that she may need.

E. Retirement systems that require contributions based on the ADC (2:10:56)

Mr. Herbold presented a list of systems that are currently paying the full ADC, as well as a list of plans that contribute based on an ADC calculation but may not necessarily pay a full ADC each year. Mr. Herbold noted that most of the plans that are currently paying the ADC are governed by Chapter 810.

Mr. Brainard noted that very few plans required payment of the full ADC and stressed that payment of the ADC ought to be the goal of every plan and sponsor in the state.

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 Texas Government Code, including the following – Chair Leibe (2:15:00)

A. Receive update on MET compliance reporting (2:15:00)

Ms. Kranes reported the number of noncompliant plans and informed the members that most of those plans were less than 30 days noncompliant, since the forms were due October 1.

Mr. Brainard asked staff to include the MET course evaluation results in MET board presentations from time to time, as he appreciated the evaluations and the qualitative comments that participants provided.

B. Receive report on retirement systems that provide in-house training (2:16:30)

Ms. Kranes reported on the systems that were accredited by the PRB to provide MET Core and Continuing Education (CE) training to trustees. Ms. Kranes explained that the Teacher Retirement System and the Employees Retirement System discontinued their Core accreditation because they were now utilizing the PRB's free online courses to provide Core training to their new board members.

7. Review and discuss report from the Executive Director on the following matters – Anumeha Kumar (2:18:12)

A. 2019 TEXPERS Summer Educational Forum (2:18:18)

Ms. Kumar provided an overview of the presentation on legislative changes regarding funding policy guidance and rulemaking that she and Chair Leibe made at the 2019 TEXPERS Summer Educational Forum.

B. 2019 TLFFRA Conference (2:19:05)

Ms. Kumar provided an overview of the presentation that Mr. Brainard and staff made during the 2019 TLFFRA Conference.

C. Updated Fiscal Year 2020 Operating Budget (2:21:13)

Ms. Kumar stated that the PRB is operating well within its current operating budget.

D. 2019 Attorney General's Government Law & Liability Conference (2:21:42)

Ms. Kumar provided details about the Attorney General's Government Law & Liability Conference on December 12 – 13.

Mr. Brainard motioned to approve attendance of interested Board members at the Conference. The motion was made by Ms. Shivers and seconded by Ms. Dush.

The motion passed unanimously.

E. Staff update (2:22:42)

Ms. Kumar stated that the PRB had begun the hiring process for the Actuarial Analyst, Investment Analyst, and Office Manager positions and hoped to fill those vacancies soon.

8. Call for future PRB agenda items – Chair Leibe (2:23:31)

There was no discussion of this item.

9. Data and location of next PRB meeting – TBD (2:23:40)

Mr. Brainard stated that the next Board meeting would be held Friday, November 15, 2019.

10. Invitation for public comment (2:23:55)

Mr. Tyler Grossman, El Paso Fire & Police, commented on the fee disclosure requirement by asset class. Mr. Grossman noted that the recommendation to include alternative fees individually in a separate table may be difficult to accomplish and suggested that alternative fees be listed in aggregate.

Mr. David Stacy, Midland Fire, remarked on Ms. Dush's previous comments regarding how TLFRA systems got into the position that they are currently in, stating that the 2008 recession was particularly difficult for TLFRA systems to recover from. He offered to discuss the matter further after the meeting.

11. Adjournment (2:28:29)

Mr. Brainard adjourned the meeting at 10:39 AM.

In Attendance:

PRB Staff Present

Anumeha Kumar
Westley Allen
Bryan Burnham
Kenny Herbold

Michelle Kranes
Ashley Rendon
Mariah Miller
Benjamin Warden

Guests Present

Josh Yager – Anodos
Shanna Wadsworth – CPS Energy
Robert Nathan – CPS Energy
Steve Waas – HMEPS
Ariana Whaley – ERS
James Marts – Odessa Fire
Eddie Solis – TEXPERS
Alva Littlejohn – Lubbock Fire
Paul Brown – TEXPERS
Michael Trainer – San Antonio Fire & Police
Joe Gimenez – TEXPERS

Jill Jones – Odessa Fire
Erin Brown – Odessa Fire
Kenneth Oliver – TMRS
Warren Schott – San Antonio Fire & Police
Wayne Oberhoff – TESRS
Tom Harrison – TCDRS
Robert Hulme – Fort Worth Employees
Retirement System
Tyler Grossman – El Paso Fire & Police
Ralph Marsh – Houston Fire

Art Alfaro – TEXPERS
Pattie Featherston – Austin Police
Premal Amin – Austin Fire
Clint Smith – HPOPS, HMEPS, and Dallas Police
& Fire

David Keller – Self
Andrew Poreda – Sage Advisory
James Perry – Maples Group
Pat Franey – HPOPS


Chair Stephanie Leibe