



TEXAS PENSION
REVIEW BOARD

**Board Meeting Minutes
February 6, 2020**

1. Meeting called to order (0:10)

The first meeting of 2020 of the Pension Review Board (PRB) began on Thursday, February 6, 2020, at 10:00 AM in the Capitol Extension, Committee Room E2.026, 1100 N. Congress Avenue, Austin, Texas 78701.

2. Roll call of Board members (0:17)

Board members present:

Chair Stephanie Leibe	Keith Brainard
Marcia Dush	Rossy Farina-Strauss
Ernest Richards	Christopher Zook

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

3. Board administrative Matters – Chair Leibe (0:38)

A. November 15, 2019 meeting minutes (0:39)

Chair Leibe entertained a motion to suspend the reading of the minutes of the November 15, 2019 meeting and approve them as circulated.

The motion was made by Mr. Zook and seconded by Mr. Brainard.

The motion passed unanimously.

B. Introduction of new board member (1:28)

Chair Leibe provided a brief background on the new board member, Mr. Christopher Zook. Mr. Zook thanked the Board and stated that he appreciated the opportunity to participate.

C. Committee appointments (2:39)

Chair Leibe assigned Board members to the Administrative and Education & Research Committees of the Board, making no changes to the Actuarial or Legislative Committees.

D. Election of Vice Chair for 2020 (3:32)

Chair Leibe recognized Keith Brainard for serving as Vice Chair in 2019. She called for nominations for the Vice Chair position for 2020. Mr. Richards nominated Mr. Brainard for continuation.

Mr. Brainard was elected PRB Vice Chair for 2020.

4. Legislative Committee Matters – Chair Leibe (4:52)

A. Public Retirement System Investment Expense Reporting rules recently published for 40 Texas Administrative Code, new chapter 609, including public comment, staff recommendations, modifications, and possible adoption (5:11)

Ashley Rendon provided an update on the Public Retirement System Investment Expense Reporting rules and noted that the proposed rules were published in the December 26, 2019 issue of the *Texas Register*. She stated that the PRB received two comments during the comment period, and that based on one of the comments, staff recommended to change the proposed rules to clarify that the investment fee disclosures should be included within the annual financial report, rather than specifically in the notes to the financial statement.

Chair Leibe entertained a motion to adopt the rules with changes.

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

The motion passed unanimously.

B. 2020 Asset Class Categorization Guide to provide further guidance on the asset classes to be used for investment expense reporting (8:53)

Mariah Miller provided a summary of the *2020 Asset Class Categorization Guide (ACC Guide)*, stating that the purpose of the ACC Guide was to clarify the asset classes for investment fee reporting purposes.

She stated that there were five classes in the ACC Guide: Cash, Fixed Income, Public Equity, Real Assets, and Alternative/Other.

Chair Leibe entertained a motion to approve the 2020 ACC Guide to provide further guidance on the asset classes to be used for investment expense reporting.

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

The motion passed unanimously.

C. Template to assist public retirement systems with reporting investment expenses (12:00)

Ms. Miller stated that a Board member requested staff to provide a template for investment expense reporting. She noted that staff included a blank template as well as an example of how the template could be filled in.

Mr. Zook asked whether plans should list the investment managers under the Alternative/Other table. Ms. Kumar stated that it would be up to the systems to determine the level of reporting for that table.

Mr. Zook encouraged as much transparency as possible from systems and asked staff to change Alternative/Other in the template to “List of Alternative/Other Investments,” with a note to attach a schedule if necessary.

Mr. Brainard commented that the Governmental Accounting Standards Board (GASB) has begun researching investment expense reporting, and that in the next few years there may be some guidance on how to report investment expenses. He added that the Government Finance Officers Association has also begun updating their standards for

reporting, noting that soon there may be additional best practices to help with investment expense reporting.

D. Adoption of PRB rule review - Texas Administrative Code, Title 40, Part 17, Chapter 601, General Provisions; Chapter 603, Officers and Meetings; Chapter 604, Historically Underutilized Business Program; Chapter 605, Standardized Form; and Chapter 607, Public Retirement System Minimum Educational Training Program (17:05)

Ms. Rendon provided a summary of the rule review, noting that staff reviewed all current rules, excluding the newly adopted Chapter 609, and asked the Board to readopt those rules.

Ms. Kumar noted that there were no comments on this posting. Melissa Juarez, Assistant Attorney General, clarified that the Board would need to adopt the rule review and readopt the rules under review.

Chair Leibe entertained a motion to adopt the rule review and readopt the rules contained under Chapter 601, 603, 604, 605, and 607, Title 40, Part 17 of the Texas Administrative Code, as published in the December 27, 2019 issue of the *Texas Register*.

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

The motion passed unanimously.

E. Adoption of the amendments to the rules proposed for Texas Administrative Code, Title 40, Part 17, Sections 601.1, 604.1, 605.3, 607.111 and 607.140 (19:38)

Ms. Rendon provided a summary of the amendments to Chapters 601, 604, 605 and 607. She noted that the most significant change was to Section 607.111, which changed the MET reporting schedule from twice annually (March and October) to September 1 of each year going forward. She stated that no comments were received on the proposed amendments.

Chair Leibe entertained a motion to adopt amendments to rules for Chapters 601, 604, 605, and 607, Title 40, Part 17 of the Texas Administrative Code, and as published in the December 27, 2019 issue of the *Texas Register*.

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

The motion passed unanimously.

5. Actuarial Committee Matters – Keith Brainard (22:36)

A. Actuarial Valuation Report, including the distribution of investment return assumptions among Texas plans. Summary of key statistics. (22:46)

Kenny Herbold provided a summary of the Actuarial Valuation Report, noting that the tables – Actuarial Valuation Report, Supplemental Report, and Contribution Report – are standard and provided at every meeting. He added that staff provided additional information on investment return assumptions as a part of this agenda item, as requested by the Board from the previous meeting.

Mr. Herbold explained that since the October PRB meeting, the agency had received 30 new actuarial valuations, which did not significantly impact the average funded ratio. He

added that since the October meeting, the overall increase in the unfunded actuarial accrued liability was over \$3 billion.

He stated that 13 of 30 valuations showed a decrease in discount rate from the prior valuation and added that most Texas plans are decreasing discount rates.

Ms. Dush noted that it was interesting to see very little difference between the October and February meetings, given the 30 new valuations. She cautioned that many of the plans were likely using an asset smoothing method that spreads losses over several years, so the valuation may not show the true effect of the asset loss that occurred in 2018.

Mr. Herbold agreed that many plans use five-year smoothing, so it amounted to about \$7 billion in deferred losses to be recognized over the next five years.

Ms. Dush noted that investment return assumptions may be calculated net or gross of investment fees, and the inconsistencies in investment return assumption calculations should be recognized as staff completes more in-depth studies.

Mr. Herbold explained that Supplemental Report contained an additional metric from previous reports: the expected depletion date. He stated that it was a very specific calculation, but that it provided a quick indication of a plan's condition and could be used in intensive reviews.

Chair Leibe asked whether the calculation was a standard calculation, or if there were different approaches.

Mr. Herbold stated that GASB provided extensive examples and descriptions, but the metric only accounted for current employees.

Ms. Leibe requested staff to include a footnote on the table to assist systems with the metric.

Mr. Herbold summarized the Contribution Report and stated that most plans have a fixed-rate contribution.

Mr. Brainard requested that staff sort the Contribution Report by percentage of recommended contribution paid, rather than alphabetically, so the board could quickly reference which plans were paying the full recommended contribution.

Mr. Herbold summarized the Texas Discount Rates graphs and stated that the graphs depicted current Texas public retirement system discount rates.

Mr. Brainard noted that the information was completed as a request from a Board member. He stated that the appendix at the end of the graphs was a helpful reference and noted that the highest average investment return assumption was held by systems under the Texas Local Firefighters Retirement Act (TLFFRA). He added that many of the plans with higher return assumptions were quite small, and he reminded plan trustees that overstating expected returns understates the cost and may threaten the funding of the plan.

Ms. Dush stated that the proposed amendment to the Actuarial Standard of Practice No. 4 asked for considerably more documentation regarding how assumptions were set. She encouraged staff to request documentation during intensive reviews on how plans' actuaries are setting economic assumptions.

Mr. Zook encouraged realistic assumptions, as assuming consistent higher returns over the next decade or two could be difficult to justify. He stated that assumptions must be more realistic in order to protect the employees of the plans.

Mr. Richards thanked the staff for the report and stated that Texas was in line with the national average. He asked why the special districts appeared much lower than the national average.

Mr. Herbold stated that one district plan had a 5% discount rate and there were several others below 7%. He added that those plans had very different governing structures, generally managed within the organization, which lends more flexibility.

Mr. Zook noted that the national average was declining at a rapid rate and stated that he expected it will continue to decline.

Ms. Dush stated that she was concerned that future payroll growth was overstated by systems, which distorted what was reported as the amortization period.

B. Updated Summary of Reporting Requirements for Texas Public Retirement Systems (47:47)

Bryan Burnham updated the Board on the Summary of Reporting Requirements for Texas Public Retirement Systems and stated that it combined two previous documents – the *Summary of Reporting Requirements for Texas Public Retirement Systems* and the *Calendar for Reporting Due Dates*. He stated that the updated *Summary* provided an overview of all the reporting required by statute to be used by system administrators for easy reference.

Mr. Brainard thanked the staff and noted that the summary shows the large volume of information that staff reviews and analyzes.

C. Public retirement system reporting and compliance, including noncompliant retirement systems under Section 801.209 of the Texas Government Code (50:36)

Mr. Burnham provided an update on the plans included on the PRB's Non-Compliant Plans Over 60 Days list.

Mr. Richards inquired as to what happened if a plan continued to be non-compliant. Mr. Burnham explained that the agency would send a letter to the sponsor, and various steps followed afterward, according to the PRB's non-compliance policy. Ms. Kumar added that plans were generally punctual with reporting, and staff usually was able to work with plans to get the required information.

Mr. Richards asked whether non-compliance could signal underlying problems with the plans on the list.

Mr. Burnham stated that often administrative issues, such as turnover with the administrator or auditors, cause reports to be submitted later than usual.

Ms. Dush stated that some of the plans on the list seemed to be well funded and very small, which was not as concerning.

D. Updates on the intensive actuarial reviews of the Odessa Firemen's Relief & Retirement Fund and Paris Firefighters' Relief & Retirement Fund (58:13)

Mr. Burnham provided an update on Odessa Firemen's Relief and Retirement Fund (Odessa Fire) and Paris Firefighters' Relief & Retirement Fund (Paris Fire) since their intensive actuarial reviews in late 2019.

In his update of Odessa Fire, Mr. Burnham stated the City increased contributions and plan members voted to decrease contributions, amounting to an overall 4% increase in total contributions. In addition, Odessa Fire lowered the investment rate of return assumption from 7.75% to 7.5% and added a new fire station, which increased active membership. He stated that both the City and Odessa Fire planned to continue to monitor contribution changes.

Ms. Dush commended Odessa for implementing some of the intensive review recommendations, adding that she was not sure if they had done enough despite the positive changes they made. She stated that PRB staff should continue to monitor the plan.

Mr. Burnham provided an update on Paris Fire, noting that there were no contribution or benefit changes made to the plan since the intensive review. Since trustee non-compliance with MET was addressed in the review, he provided an update to the Board. Mr. Burnham stated that since the review, two additional trustees completed MET Core training, which meant that three of the seven board members were compliant with MET requirements and four trustees were still non-compliant. Of the four trustees, three still had not completed the initial Core training.

Ms. Dush noted that there did not seem to be any response to the intensive review by Paris Fire or the City. She asked what should be done next, as Paris Fire was at risk of becoming insolvent very quickly and inquired as to what would happen if the plan became insolvent. She further asked whether the City was obligated to pay benefits. She stated that members should be outraged that the board was not demonstrating competence at running their pension fund.

Ms. Kumar stated that staff would reach out to Paris Fire and the City and continue to work with them and make sure to keep their legislative representatives involved.

Mr. Brainard stated that the PRB corresponded with Paris Fire and the City during the intensive review, so they should know the risks for the current and future members, as well as of continuing to make no changes.

Mr. Richards asked whether the plan's inability to pay for benefits affects the State.

Mr. Brainard stated that the Attorney General has opined that the State was not obligated to pay plan benefits if a city cannot.

E. Update on the retirement systems subject to the Funding Soundness Restoration Plan (FSRP) requirement, including compliance (1:08:50)

Reece Freeman provided an update on the Funding Soundness Restoration Plans (FSRPs) recently received by the PRB.

Mr. Freeman noted that the PRB most recently received FSRPs from Odessa Fire and Wichita Falls Firemen's Relief & Retirement Fund (Wichita Falls Fire). He stated that Wichita Falls Fire's plan lowered benefits for all members and added contingency plans

to lower the amortization period below 40 years if future valuations show periods greater than 40.

He stated that there were three systems' Revised FSRPs that were past due: University Park Fire, Irving Fire, and Midland Fire.

Mr. Freeman pointed out that Orange Firemen's Relief & Retirement Fund was the first plan to be subject to a third FSRP, as they are now required to develop a second revised plan after again not moving in the direction of the original FSRP.

Ms. Dush stated that Odessa Fire's amortization period after changes was listed on the FSRP report as "less than 48 years," so she was unsure as to whether they would be able to reach a 40-year amortization period by the 2026 goal year.

Mr. Herbold clarified that since the valuation date was 2018, they should be able to get to a 40-year amortization period by the goal year. He stated that the system had not completed a full analysis of impact of the increase from new employees and other recent changes to the plan, so based on the PRB's internal analysis of the changes, the system should be within the necessary amortization period.

Ms. Dush asked whether Wichita Falls Fire was in a similar situation as Odessa Fire, as it was listed as "less than 47." Mr. Herbold stated that it was.

Mr. Freeman reviewed the FSRP status of several other plans.

F. Update on funding policies received from public retirement systems in accordance with Senate Bill 2224 (86R - 2019) (1:16:58)

Ms. Kumar provided an update to the Board, stating that the first funding policy was due to the PRB on February 1, 2020. She noted that 70 systems submitted funding policies so far, and some systems have notified staff that they will have approval soon. She stated that staff would provide a more thorough update and initial analysis of funding policies received at the next Actuarial Committee meeting. She stated that so far, many systems had utilized a benchmark ADC, which the PRB had recommended.

G. Texas Public Pension Data Center (1:18:25)

Ms. Kumar stated that the Public Pension Data Center was recently updated, which meant that 2018 information was now available. She stated that suggestions for improvement were always welcome.

6. Investment Practices and Performance Evaluations, including the formation of a special committee (1:19:23)

Chair Leibe stated it would be beneficial to form a special committee of the Board that was dedicated to investment issues, due to the new legislation concerning Investment Practices and Performance Evaluations and the PRB's informal guidance related to the new law.

Chair Leibe entertained a motion to form a Special Investments Committee of the Board to review investment-related matters, including the Investment Practices and Performance Evaluations and make recommendations to the full Board.

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

The motion passed unanimously.

Chair Leibe appointed Mr. Zook as Chair of the Investments Committee, with additional members including Ms. Shivers and Mr. Brainard.

7. Education and Research Committee Matters – Chair Leibe (1:21:16)

A. MET compliance reporting (1:21:23)

Benjamin Warden provided the MET compliance reporting update to the Board and stated that the number of non-compliant systems had declined significantly since the October meeting.

B. PRB online course review (1:22:38)

Ms. Miller provided a brief overview of the online course review and stated that staff would be reviewing and making changes to update and enhance the courses. She stated that the courses should be updated before the end of the year.

8. 2020 TLFRA Pension Report – Anumeha Kumar (1:23:17)

Ms. Kumar stated that every non-session year, the agency published a compendium of pension plan data for TLFRA systems. She stated that staff anticipated completing the report by the beginning of March, and that staff recently sent a draft of the report to the TLFRA systems for their feedback or changes.

Chair Leibe entertained a motion to approve and publish the TLFRA Report on the PRB website upon final completion.

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

The motion passed unanimously.

9. Executive Director's Report – Anumeha Kumar (1:24:52)

A. 2021 – 2025 Strategic Plan (1:24:58)

Ms. Kumar informed the Board that the agency would soon begin working on the Strategic Plan, which was a long-term forward-looking plan that begins the budget process for all state agencies. She noted that the report would be due June 1st and that staff would be working with the Board Chair as the report was finalized.

B. 2020 Customer Service Survey (1:25:53)

Ms. Kumar stated that staff would also soon begin the Customer Service Survey process, which was a part of the agency's Strategic Plan and a requirement for all state agencies. She stated that staff appreciated any suggestions or input that stakeholders had that would help the agency continue improving the quality of customer service.

C. Staff update (1:26:35)

Ms. Kumar introduced the two newest PRB staff members, Lindsay Seymore, Office Manager, and Robert Munter, Investment Analyst.

D. Updated Fiscal Year 2020 Operating Budget (1:27:41)

Ms. Kumar stated that the agency was well within appropriated amounts for the year.

10. Call for future PRB agenda items (1:28:10)

There was no discussion on this item.

11. Date and location of future PRB meetings – including June 30, 2020 (1:28:26)

Chair Leibe stated that the 2020 meetings of the full board would be held June 30, 2020 and November 12, 2020.

12. Invitation for public comment (1:28:42)

There were no comments from the public.

13. Adjournment (1:29:00)

Chair Leibe adjourned the meeting at 11:29 AM.

In Attendance:

PRB Staff Present

Westley Allen	Bryan Burnham
Reece Freeman	Kenny Herbold
James King	Michelle Downie Kranes
Anumeha Kumar	Mariah Miller
Robert Munter	Ashley Rendon
Lindsay Seymour	Benjamin Warden

Guests Present

Steve Waas – HMEPS	Dan Wattles – TMRS
Leslee Hardy – TMRS	Angela Hall – Dehab Associates
Jason McElvaney – TCDRS/FWERF	Paul Brown – TEXPERS
Joe Gimenez – G3 Public Relations	Pat Franey – HPOPS
Trey Coleman – HPOPS	Ralph Marsh – Houston Fire
Brett Besselman – Houston Fire	David Keller
Eddie Solis – TEXPERS	Andrew Poreda – Sage Advisory
Bob Smith – Sage Advisory	Jae Song – Sage Advisory
Shannon Albert – CPS Energy	Shanna Wadsworth – CPS Energy
Pat Haggerty – El Paso Fire & Police	Louellen Lowe – LBB
Tom Harrison – TCDRS	Art Alfaro – TEXPERS
Terry Bratton – HPOPS	David Etheridge – Dallas ERF
Ariana Whaley – ERS	Ryan Falls – GRS
Tyler Grossman – El Paso Firemen & Policemen’s Pension Fund	
Michael Trainer – San Antonio Fire & Police Pensioners Association	

Chair Stephanie Leibe