



**Actuarial Committee Meeting Minutes  
September 19-20, 2019**

**1. Meeting called to order (0:05)**

The Pension Review Board (PRB) Actuarial Committee was called to order by Chair Keith Brainard on Thursday, September 19, 2019 at 1:00 PM at Capitol Extension, Committee Room E1.012, 1100 N. Congress Avenue, Austin, Texas 78701.

**2. Roll call of Committee members (0:17)**

**Board Members Present:**

Chair Keith Brainard  
Marcia Dush  
Stephanie Leibe

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

**3. Approval of the September 13, 2018 Committee meeting minutes (0:47)**

Chair Brainard entertained a motion to suspend the reading of the minutes of the Actuarial Committee meeting held September 13, 2018, and to approve them as circulated.

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

**Motion Approved Unanimously**

**4. Intensive actuarial reviews of the following: (1:14)**

**a. Odessa Firemen's Relief & Retirement Fund (1:53)**

Kenny Herbold, Staff Actuary, stated that the Odessa Firemen's Relief and Retirement Fund (Odessa Fire or the Fund) intensive review was unique because the City requested the review; however, he noted that PRB staff likely would have selected the Fund for a review regardless of the request, based on the metrics staff used to select plans for review. Mr. Herbold noted that Odessa Fire previously submitted a funding soundness restoration plan (FSRP) and made several benefit changes for active members and new hires, as well as increased employee and employer contributions.

Mr. Herbold stated that the Fund was projected to run out of money within 25 years. He further noted that Odessa Fire's unfunded actuarially accrued liability had been increasing while assets remained relatively stagnant.

Mr. Herbold provided staff's recommendations, including: for Odessa Fire to adopt a funding policy that would achieve full funding and for the Fund and the City to go beyond the revised FSRP changes by implementing a cash infusion to help mitigate the rapidly approaching fund exhaustion.

Travis Jones, Chairman for the Fund, stated that Odessa Fire anticipated adding new members to the Fund after they build a new fire station. He stated that the actuary conducted a study to calculate the impact of the new employees, and the result was that the amortization period would fall below 40 years by 2026, which was the FSRP goal year.

Brad Heinrichs, Odessa Fire's Actuary from Foster and Foster, noted that in his initial evaluation of the fund, he found that the Fund's rate of return and payroll growth assumptions were not in line with what the Fund experienced. He stated that the payroll growth assumption was recently updated to reflect the anticipated new hires in connection to the new fire station.

Ms. Dush raised a concern that the high assumed rate of return could cause problems in the future due to not meeting new assumptions. Mr. Heinrichs noted that the Fund had intentions of performing an asset allocation study in the future.

Jeff Swanson, Odessa Fire's Investment Consultant, noted that there was a performance issue with the past investments, and since starting as the new investment consultant in 2014, the Fund has begun moving to a less risky asset allocation to mitigate volatility. He stated that they intended to conduct an asset allocation study in the first quarter of the following year.

Cindy Muncy, City of Odessa representative, noted that the City was very concerned about the Fund. She stated that she would take feedback to the City Council and they would do what they needed to do to help improve the Fund. She stated that the City was working to improve the firefighter hiring issues.

Ms. Dush stated that the firefighters contributing nearly a quarter of their salary to the Fund was negatively affecting the City's ability to hire new firefighters.

Chair Brainard noted that Odessa's economy was thriving, and that the City needed to fulfill their commitment to Fund by paying the actuarially determined contribution (ADC). Ms. Dush agreed and cautioned against including negative amortization in the ADC calculation.

Chair Brainard entertained a motion to direct staff to finalize the draft intensive review of the Odessa Firemen's Relief and Retirement Fund, incorporating changes agreed upon by the committee and any technical changes, to present to the full Board for a final review at its October 17th meeting.

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

**Motion Approved Unanimously**

**b. Paris Firemen's Relief & Retirement Fund (58:27)**

Mr. Herbold provided a summary of the Paris Firemen's Relief and Retirement Fund (Paris Fire or the Fund) intensive review. He noted that there were many similarities between Paris Fire and Odessa Fire, but particularly notable for Paris Fire was that assets were decreasing over time despite positive investment returns. He added that contributions were not sufficient to cover the benefits being paid out of the Fund.

He explained that the Fund has had an amortization period of less than 30 years throughout its history, which could generally indicate a healthier plan; however, trends indicated that the Fund had funding issues.

Mr. Herbold noted that given the flat benefit design of the Fund, it would be difficult for Paris Fire to make any benefit changes because benefits were not based on changes in salary.

Mr. Herbold provided staff's recommendations, including: that the City and the Fund work together to develop a funding policy to evaluate their short- and long-term funding plan, to consider the PRB's Guidance on Investment Practices and Performance Evaluations, to reevaluate the asset allocation in their investment portfolio, and for trustees of the fund to complete their required Minimum Educational Training (MET). He noted that based on the available data, Paris Fire's investment returns for previous fiscal years consistently fell short of their benchmarks.

David Kent, Paris Fire's Actuary from RHI, noted that the contribution rates for both the City and the employees increased in the previous year. Mr. Kent noted that long term, there did not appear to be major issues with the Fund despite experiencing short-term problems. He cited the positive working relationship between the City and the Fund for mitigating future long-term problems.

Chair Brainard noted that the Fund's investment performance consistently fell short of its benchmarks. Kim Calhoun of Westwood Wealth Management (Westwood), the Investment Consultant and Manager for the Fund, acknowledged there were periods of underperformance but that overall, she believed the Fund's investment performance was positive.

Bob Rast, Chairman of the Fund, gave an overview of a typical board meeting with regards to the investment management process and stated that the Fund had not issued any requests for proposals (RFPs) for investment consultants for at least the past two years. He stated that the board did not question Westwood's ability to invest on behalf of the board.

Mr. Rast also acknowledged that most of the Fund's board was not compliant with the PRB's MET requirements due to system administrator turnover. Chair Brainard encouraged the Fund's members to complete the required training.

Ms. Dush encouraged the Fund to evaluate asset allocations considering the negative cash flow. She also encouraged Mr. Kent to reconsider the Fund's assumed rate of return.

Ms. Dush stated that Paris Fire could benefit from considering asset pooling with other public pension funds to achieve better investment returns after expenses.

Mr. Kent stated that he intended to do both short-term and long-term modeling of the Fund to consider the investment return assumption.

Ms. Calhoun stated that the intensive review overstated Westwood's fees, since Westwood provided several services to the Fund. Ms. Dush asked Mr. Herbold if those fees would still be higher than the peer group after Ms. Calhoun's clarification. Mr. Herbold stated that he was unsure about the peer group comparison but that based on

the most recent investment report, the Fund's net returns were still lower than the benchmark.

Chair Brainard entertained a motion to direct staff to finalize the draft intensive review of Paris Firemen's Relief & Retirement Fund, incorporating changes agreed upon by the Committee and any technical changes, to present to the full Board for final review at its October 17th meeting.

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

**Motion Approved Unanimously**

**5. Informal guidance for developing a Funding Policy (SB 2224) (1:32:14)**

Michelle Downie Kranes addressed the Board regarding the status of the Draft Guidance for Developing a Funding Policy. Ms. Kranes stated staff intended to provide systems and their sponsors practical guidance showing how funding policies could be implemented, even for fixed-rate plans. She covered highlights of the draft policy and emphasized that the law required systems to target a funded ratio that is equal to or greater than 100%.

Ms. Dush requested the addition of language discouraging systems from utilizing negative amortization. Chair Brainard stated that there might be instances where negative amortization may be appropriate and asked if Ms. Dush would be amenable to language that cautioned systems against the use of negative amortization while encouraging adequate transparency in its usage. Ms. Dush stated that she was comfortable with cautioning against negative amortization at this time.

Ms. Kumar stated that the bill allowed the Board the option of formalizing the informal guidance into rules and added that staff intended to post the draft guidance for public comment following the meeting.

Ms. Kranes stated that staff would be available for assistance to any plans regarding this requirement.

Chair Brainard opened the discussion to public comment.

Chuck Campbell, a public pension attorney with Jackson Walker, noted that many systems' governing boards were limited in their ability to adjust benefits or contributions because their statute may require them to hold an election or obtain city approval to adjust benefits and/or contributions. Chair Brainard acknowledged the difficulty that some systems may have and encouraged systems to work with their sponsors when developing funding policies.

Chair Brainard entertained a motion to direct staff to finalize the Guidance for Developing a Funding Policy, incorporating changes agreed upon by the Committee and any technical changes, for recommendation to the full Board for final review at its October 17th meeting.

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

**Motion Approved Unanimously**

**6. Invitation for audience participation**

Chair Brainard allowed for audience participation throughout the meeting.

Chair Brainard recessed the meeting at 2:50 PM, until 9:30 AM Friday, September 20, 2019.

**In Attendance:**

**PRB Staff**

Anumeha Kumar  
Bryan Burnham  
Joey Evans

Benjamin Warden  
Kenny Herbold  
Michelle Downie Kranes  
Mariah Miller  
Ashley Rendon

**Guests:**

Jeff Swanson – Odessa Fire  
Jill Jones – Odessa Fire  
Cindy Muncy – Odessa Fire  
Seth Boles – Odessa Fire  
Brad Heinrichs – Foster & Foster  
Charles Hodge – Milliman  
Bradley Reese – Odessa Fire  
Wayne Oberhoff – TESRS  
Paul Brown – TEXPERS  
James Marts – Odessa Fire  
John Alvarez – Odessa Fire  
Dan Jones – Odessa Fire  
James Perry – Maples Group  
Josh Yager – Anodos  
Art Alfaro – TEXPERS  
Benita Harper – Fort Worth Employees'  
Retirement Fund  
Jason McElvaney – Fort Worth Employees'  
Retirement Fund & TCDRS  
Steve Waas – HMEPS  
Travis Jones – Odessa Fire  
Dan Wattles – TMRS

Jeff Patterson – Wilshire Associates  
Kim Calhoun – Westwood  
David Kent – RHI  
Sandy Collard – City of Paris  
Bob Rast – City of Paris  
Leslee Hardy – TMRS  
Eddie Solis – TEXPERS  
Lisa Hughes – El Paso Fire & Police  
Shanna Wadsworth – CPS Energy  
Robert Nathan – CPS Energy  
Jerry Villanueva – El Paso Fire & Police  
Amanda Lopez – Speaker Bonnen's Office  
Ariana Whaley – ERS of Texas  
Pat Haggerty  
Andrew Poreda – Sage Advisory  
Bob Smith – Sage Advisory  
David Keller  
Joe Gimenez – TEXPERS  
Kelly Gottschalk – Dallas Police & Fire Pension  
System  
Alyca Riley – Jackson Walker

On Friday, September 20, 2019, the PRB Actuarial Committee reconvened for a meeting at 9:32 AM at Capitol Extension, Committee Room E1.012, 1100 N. Congress Avenue, Austin, Texas 78701.

**The following members were present:**

Chair Keith Brainard  
Marcia Dush  
Stephanie Leibe

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

**7. Update on revised Funding Soundness Restoration Plan from City of Irving and Irving Firemen's Relief & Retirement Fund (0:38)**

Ms. Kumar gave a brief background of Irving Firemen's Relief and Retirement Fund (Irving Fire or the Fund). She stated that the City and the Fund increased their contributions and began hiring new firefighters, which lowered their amortization period. However, the Fund also lowered their investment return and payroll growth assumptions, and as a result, their amortization period increased to infinite. Ms. Kumar reminded the Board of Irving Fire's Intensive Review and stated that one of the biggest concerns was the Fund's deferred retirement option program (DROP). She stated that the Irving Fire's recent actuarial experience study recommended to further decrease the investment return assumption and adopt a revised mortality table.

Chair Brainard invited the representatives of the City of Irving and the Irving Firemen's Relief & Retirement Fund to provide testimony.

Jeff Litchfield, Chief Financial Officer for the City of Irving and Trustee of the Fund, informed the Board that the Fund recently hired a new actuary and an investment advisor with the expectation of lowering the investment return assumption within the next 15 years.

Chair Brainard requested clarification on the time period. Mr. Litchfield replied that they have not consulted with their actuary about lowering their investment return assumption yet because they are tied up with the FSRP and that the change in assumption would impact payroll growth.

Ms. Dush asked for clarification on the City's contributions. Mr. Litchfield stated that the City was currently contributing less than the ADC due to a charter cap that limited total contributions to all City-sponsored pension plans but the City Council would hold a vote in November to lift the cap to allow for an increase in their contributions to target an ADC.

Mr. Litchfield noted that some of the other changes that the Fund was considering included an adjustment in the assumptions for salary increases, including payroll growth assumptions. He explained that the Fund was targeting a 30-year amortization period and planned to amend the DROP to be more financially reasonable.

Ms. Leibe asked when the FSRP would be submitted to the Board.

Micah Johnson, Vice-Chairman of the Fund, stated that they were waiting for the November vote to finalize the FSRP, and added that the charter cap had been an obstacle for the Fund. Mr.

Litchfield added that the Fund's board would meet after the election to address options going forward based on the results. He explained that the Fund would then need approximately four months to submit the FSRP. Chair Brainard mentioned that the Fund's DROP was similar to the Dallas Fire & Police Pension System DROP. Mr. Johnson stated that the Fund waited for the Supreme Court's decision before implementing changes to the DROP's guaranteed interest rate.

Mr. Litchfield added that interest rate adjustments would be made to current and future retirees, not to the accrued benefits.

Chair Brainard stated that cities have been reporting in their comprehensive annual financial report (CAFR) that they are paying the ADC, when in reality they are not, which he stated was a problem that ought to be resolved. Mr. Litchfield agreed that the City was not paying the ADC.

Chair Brainard asked why it would take 15 years for the Fund to lower the investment return assumption. Mr. Litchfield explained that the Fund was looking to lower its assumed rate of return to be more realistic. He stated that they must lower the risk associated with the Fund's asset allocation before lowering the return assumption.

Mr. Johnson added that the board was currently discussing reducing the amount of risk involved in their portfolio.

Chair Brainard stated that the Fund should not require an extended time frame to lower their assumed rate of return. He asked the Fund to clarify when to expect a completed FSRP. Mr. Litchfield replied that it would be finalized in roughly four to six months.

Ms. Dush stated that actuaries were required by law to document if they were uncomfortable with assumptions in the transmission of the results. She advised that the Fund and City contribute the ADC, calculated with a fixed period and a layered amortization component. She cautioned against the use of negative amortization and urged the Fund to work with the investment consultant to consider amending the DROP.

Mr. Litchfield assured the Board that the Fund was looking to develop a long-term plan that would address future contributions and any adjustments as they arise.

Chair Brainard thanked the representatives from the City and the Fund and asked that they keep the Board updated with the results of the vote.

#### **8. Informal guidance for conducting Investment Practices and Performance Evaluations (31:39)**

Mr. Herbold gave a brief overview of SB 322 and provided an update on the PRB's Informal Guidance for Investment Practices and Performance Evaluations. He stated that the Guidance was intended to inform stakeholders of the basic elements of the evaluations as required by statute.

Mr. Herbold stated that the deadline for completing the report was May 1 and that those reports would be due to the PRB 31 days later. He advised that it may be beneficial for plans that are exempt from the requirement to perform a self-evaluation of their investments, even though they are not required to do so.

Mr. Herbold provided two options for board discussion as different interpretations of the definition of "indirectly managing assets," which were intended to clarify ambiguity in statute.

Chair Brainard opened the discussion for public comment.

David Stacy, Midland Firemen's Relief & Retirement Fund, voiced his concern about the qualifications of an independent firm and stated that several funds may already use the same company to manage their assets as they do for advisement on their asset allocations. Mr. Stacy provided an example where a fund used an investment consultant to conduct an Investment Practices and Performance Evaluation and the consultant's company manages assets and advises the Fund. He asked whether this example would constitute as directly managing the assets of the fund.

Mr. Herbold responded that it was not uncommon for investment consulting firms to have different divisions, where one division may be making investment recommendations and the other might only be performing research or analysis. He stated that the Securities Exchange Commission restricts business interactions between divisions in those cases to keep information separate.

Ms. Kumar added that statute allows a retirement system to use an existing consultant to perform the evaluation; however, that firm cannot be directly or indirectly involved in managing the assets of the system. One of the proposed alternatives to the options would be a fee-based investment consultant. Because of this ambiguity, the PRB intended to define and clarify what "directly or indirectly managing assets" meant. She further stated that it was the PRB staff's belief that the legislature sought to prohibit a parent company that manages assets and advises clients from conducting the evaluations if they were already under contract with that system.

Ms. Kumar recommended that the PRB post the draft guidance on the agency's website to give systems the opportunity to provide written comments so that staff could provide the Board with comments from the systems at its October meeting.

Lisa Ivy Miller, from Southwest Money Management, requested a distinction between a registered investment advisor and a broker-dealer, and the acceptable relationship between the two entities. She further stated that the evaluation ought to remain simple and cost efficient for the plans.

Mr. Josh Yager, Anodos Investment Governance Advisors, raised a concern about the word "independent," when referring exclusively to the management of a fund's assets. He added that the word "independent" in the financial community did not exclusively pertain to the management of assets and that "independence" referred to the freedom of influence when conducting an evaluation.

Chair Brainard commented on the balance that the Board was charged with striking, between getting complete information from systems and keeping the process sufficiently simple.

Mr. Campbell recommended clarifying in the guidance that the sample questions were optional.

Chair Brainard encouraged systems and their sponsors to reach out to PRB staff in the coming weeks with comments and concerns regarding the guidance.

Chair Brainard made a motion to direct staff to finalize the guidance for conducting investment performance evaluations, incorporating the changes that the Board has agreed to, and bring comments received from the public to the Board meeting in October.

Motion was made by Ms. Dush and seconded by Ms. Leibe.

**Motion Approved Unanimously**

**9. Rulemaking relating to fee disclosures (SB 322) (1:06:32)**

Ashley Rendon provided a brief background of the investment fee disclosures required under SB 322. She explained that this section of the bill required systems to include in their CAFRs a listing by asset class of all direct and indirect investment management fees paid by the system during the previous fiscal year. She added that the bill authorized the PRB to adopt rules to implement this requirement.

Ms. Kumar reminded the Committee that the report was the potential content to be considered for formal rulemaking and staff would include input from systems before presenting the rules to the full Board in October.

Ms. Dush asked for staff to consider fees from companies that provide several investment-related services as well as how to report fees for funds containing multiple asset classes.

Chair Brainard sought clarification on whether investment consulting, custodial services, investment related legal services, and investment research would be individually reported or if those fees would be intermingled. Ms. Rendon and Ms. Kranes confirmed those fees should be individually reported.

Chair Brainard opened the discussion to public comment.

Mr. Campbell emphasized that systems categorize assets differently. He added that profit-sharing and/or carried interest fees might be difficult for some plans to report.

Mr. Yager urged the Board to clarify how funds should report performance fees that are realized at the end of a transaction and noted the potential for a discrepancy in reporting those fees. He further stated that it was the trustees' duty to know the investment data and they had an obligation to be able to explain investment selections to their constituents.

Ms. Dush added that it was important for systems to be aware of what they were invested in, especially concerning high-risk investments, and that those fees should be reported. Mr. Yager stated that trustees had a great responsibility to maintain the financial soundness of their respective retirement systems.

Mary Kathryn Campion, with Intelligent Fiduciary Excellence, urged systems to compare the fees stated in the investment contract to the fees actually being paid by the system. She noted that there was often a disparity between what the contract said the system would pay and what the system actually pays. Ms. Dush asked if that would fall under the auditor's responsibility. Ms.

Campion affirmed and urged that the agreements ought to be looked at a little bit more closely by the systems and investment consultants.

Chair Brainard urged the speakers to reach out to staff in the coming weeks to provide feedback and the staff would consider that feedback when drafting the rules related to fee disclosures.

Chair Brainard entertained a motion to direct staff to draft rules on fee disclosures, incorporate recommendations agreed upon by the committee, and separate the asset classes into an appendix.

Motion was moved by Ms. Dush and seconded by Ms. Leibe.

**Motion Approved Unanimously**

**7. Adjournment (1:36:45)**

Chair Brainard adjourned the meeting at 11:08 AM.

**In Attendance:**

**PRB Staff:**

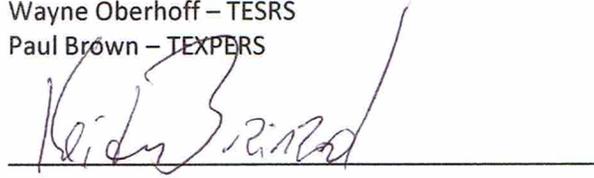
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Art Alfaro – TEXPERS  
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Steve Madden – TCDRS  
Jill Jones – Odessa Fire  
James Perry – Maples Group  
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Andrew Poreda – Sage Advisory  
Joe Gimenez – TEXPERS  
Pat Franey – HPOPS  
Kelly Gottschalk – Dallas Police & Fire Pension  
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