

**Actuarial Committee Meeting Minutes
May 7, 2020**

1. Meeting called to order (0:01)

The first meeting of 2020 of the Pension Review Board (PRB) Actuarial Committee began on Thursday, May 7, 2020, at 11:00 AM by teleconference.

2. Roll call of Board members (0:55)

Board members present:

Chair Keith Brainard
Marcia Dush
Stephanie Leibe

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

3. Roll call of members of the public (1:20)

Pre-registered members of the public present:

David Stacy

4. September 19-20, 2019 Committee meeting minutes (1:46)

Chair Brainard entertained a motion to suspend the reading of the minutes of the September 19-20, 2019 meeting and approve them as circulated.

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

The motion passed unanimously.

5. Actuarial Standard of Practice 4 Second Exposure Draft Presentation (2:39)

Kenny Herbold discussed the ASOP 4 Second Exposure Draft, noting items within it were still likely to change. He noted that the ASOP defined reasonable actuarially determined contribution (ADC) as well as a reasonable amortization method. Each amortization base must have payments that fully amortize the amortization base within a reasonable time period or reduce the outstanding balance by a reasonable amount each year. He stated there was an additional requirement to identify whether negative amortization occurred and when it would be resolved.

Mr. Herbold stated that the updated ASOP 4 would require a gain/loss analysis, but most plans in Texas already perform this analysis. Further, actuaries will now be required to positively affirm that plan assumptions are reasonable for the purpose of the measurement. This places more responsibility on the actuaries and assumption selection. Additionally, the ASOP 4 Second Exposure Draft includes enhanced documentation requirements such that another actuary could easily take over the assignment if necessary. He added that the enhanced documentation

requirement would be helpful to the PRB because it meant additional information that previously may have been considered too costly to obtain may be more readily available.

Mr. Herbold stated, barring any major revisions, the ASOP 4 Second Exposure Draft was anticipated to be adopted early in 2021 with implementation occurring 12 months after the adoption date

6. Funding policies received as required by Government Code Section 802.2011 (SB 2224) (11:25)

Michelle Downie Kranes summarized the initial analysis of funding policies submitted under Senate Bill 2224. Ms. Downie Kranes acknowledged the plans receiving a contribution based on the ADC for their strong funding policies, many of which have been on a clear path to full funding for years. Ms. Downie Kranes also highlighted plans that had developed the funding policy in collaboration with the sponsor, such as Denton Fire, whose funding policy was adopted through a meet and confer agreement with the city and commits to contributing the ADC (or higher).

Chair Brainard mentioned he believed a funding policy to be a necessity for every plan, and that plan sponsors should be involved with the development and approval of funding policies. He stated his hope that, before the end of 2020, the PRB would recommend that the Legislature consider amending the statute to require plan sponsors to participate in the development of their pension plan's funding policies.

Ms. Downie Kranes explained that for plans not receiving an ADC-based contribution, a majority of funding policies utilized ADC benchmarking to compare actual contributions to an ADC on a regular basis, as well as specifying the conditions that would require action. She noted a small number of plans whose ADC benchmarks were based on rolling, or open, amortization periods.

Ms. Dush noted that rolling amortization periods were not designed to achieve 100% funding, and therefore she did not believe those plans met the statutory requirement of developing a funding policy that targeted 100% funding. Mr. Herbold agreed that rolling benchmarks were not designed to achieve 100% funding. He further discussed that while low rolling amortization periods would not have negative amortization, high rolling amortization periods would experience negative amortization. He added that if a plan's valuation showed an actual amortization period of 30-40 years on a rolling basis, staff would report an effective amortization period of infinite in the PRB actuarial valuation report based on the assumption that the plan would never be fully funded. Mr. Herbold reiterated that the revised ASOP 4 would likely indicate that rolling amortization periods were not reasonable.

Chair Brainard suggested that staff contact these plans to alert them that their rolling amortization period benchmarks may not comply with state law.

Anumeha Kumar stated staff could reach out to the systems to request additional clarification on their policies and how they plan to achieve the required target of 100% funding, as the staff would be reporting this information to the Legislature.

Ms. Dush noted that one of the actions in the funding policies was to develop a 20-year plan to achieve a 30-year amortization period. She stated that this was effectively the same as creating a 50-year plan, which she felt was not the intended purpose of the legislation and did not seem to comply with funding policy requirements.

Chair Brainard encouraged the members of the Committee to spend time reviewing the report and asked staff to provide suggestions for the Committee's consideration on how to improve and strengthen the funding policy statute.

Ms. Dush requested staff to ask for clarification from plans with rolling benchmarks or no ADC benchmarking on how they complied with the law which required them to target 100% funding.

Chair Brainard entertained a motion to direct staff to develop a legislative recommendation to include the plan sponsors in the funding policy requirement to present to the full Board for consideration.

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

The motion passed unanimously.

7. Review of Funding Soundness Restoration Plan (FSRP) requirements under Sections 802.2015 and 802.2016 of the Government Code (39:45)

Ms. Kumar provided a timeline of legislation relating to the funding soundness restoration plan (FSRP) and funding policy requirements and updates to the PRB *Pension Funding Guidelines*, pointing out the 40-year amortization period threshold in the FSRP statute and the 100% funding goal of funding policies. She mentioned last session, there were some bills filed which would have brought the threshold for an FSRP closer to the PRB Guidelines, but those bills did not pass.

Ms. Kumar stated the amortization period threshold in the current FSRP requirement was expected to become outdated and no longer recommended due to the ASOP Exposure Drafts.

Chair Brainard noted that statute required the FSRP to be formulated after two to three valuations, depending on the plan's valuation schedule. He further discussed whether the time period between the first valuation not meeting the 40-year threshold and when the FSRP is required was too lengthy. Mr. Brainard asked staff to recommend, either to the Actuarial Committee or the full Board, a shortened time period from when the first problematic valuation occurred to when a plan must submit a FSRP.

Chair Brainard asked the Committee to consider replacing the current 40-year amortization period trigger with a 25-year amortization period to match the upper end of the target range in the *PRB Funding Guidelines*. Ms. Dush noted that recommending a 25-year amortization period threshold could help plans avoid negative amortization but would also dramatically increase the number of plans that would be required to submit an FSRP. Ms. Kumar stated staff could examine the impact of a 25- or 30-year trigger, in addition to options for updating the FSRP requirements. Chair Brainard stated that the recommendation should focus on what is considered sound criteria for pension funding, not the number of systems that could become subject to the requirement. He encouraged the Committee and Board to request legislation establishing more stringent statutes.

Chair Brainard entertained a motion to direct staff to prepare a report on issues concerning the implementation of the FSRP, including the amortization period threshold, to present to the full Board for consideration at its June meeting.

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

The motion passed unanimously.

8. Date and location of next Actuarial Committee Meeting (59:30)

Chair Brainard stated the date and location of the next Actuarial Committee meeting was not yet determined.

9. Invitation for public comment (1:01:44)

David Stacy from Midland Firemen's Relief and Retirement Fund discussed the PRB's funding policy summary, noting that he had serious reservations about the PRB making recommendations to the legislature on overall funding policy appropriateness without discussing meaningful net benefits to the employees.

Kelly Gottschalk, Executive Director of the Dallas Police and Fire Pension System (DPFPS), discussed the PRB's funding policy summary and asked staff to consider complex pension systems when providing summaries to the Legislature.

10. Adjournment (1:07:40)

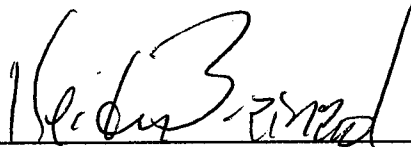
Chair Brainard adjourned the meeting at 12:08 PM.

PRB Staff in Attendance:

Anumeha Kumar
Michelle Downie Kranes
Kenny Herbold
Ashley Rendon

Wes Allen
Robert Munter
Bryan Burnham
Mariah Miller

James King
Benjamin Warden
Lindsay Seymour



Chair Keith Brainard