



TEXAS PENSION
REVIEW BOARD

Board Meeting Minutes

July 1, 2021

1. Meeting called to order (1:06)

The first 2021 meeting of the Pension Review Board (PRB) began on Thursday, July 1, 2021, at 10:01 a.m. by video- and teleconference.

2. Roll call of board members (1:42)

Board members present:

Chair Stephanie Leibe
Vice Chair Keith Brainard
Marcia Dush
Rossy Fariña-Strauss
Christopher "Chris" Gonzalez
Robert "Rob" Ries
Christopher Zook

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

3. Roll call of members of the public (2:35)

Pre-registered members of the public:

David Stacy, Midland Firemen's Relief & Retirement Fund
Shera Crow, Midland Firemen's Relief & Retirement Fund

4. Board administrative matters (2:46)

a. November 12, 2020, meeting minutes (2:56)

Chair Leibe entertained a motion to suspend the reading of minutes of the November 12, 2020, meeting and approve them as circulated.

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

The motion passed unanimously.

b. Recognition of outgoing Board member (4:06)

Chair Leibe recognized outgoing board member Earnest Richards for his service as a board member.

Mr. Richards gave a farewell statement, and board members provided personal thanks for his service.

c. Introduction of new board members (10:03)

Chair Leibe introduced the new board members, Robert Ries and Christopher "Chris" Gonzalez, who both offered introductory remarks.

d. Election of Vice Chair for 2021 (14:25)

Chair Leibe recognized Vice Chair Brainard for his service in the role during the previous year.

Mr. Zook nominated Mr. Brainard to continue serving as vice chair. There were no objections, other nominations, or discussion.

Mr. Brainard was elected as vice chair for 2021.

5. Actuarial Committee (16:02)

a. Public retirement system reporting and compliance, including noncompliant retirement systems under Section 801.209 of the Texas Government Code (16:26)

Bryan Burnham provided an update on public retirement system reporting and compliance, highlighting those that were non-compliant for more than 60 days.

Mr. Burnham answered questions from board members about the status of the non-compliant reports.

b. Actuarial Valuation Report (21:55)

Kenny Herbold described notable information and trends from the most recent actuarial valuations (AVs) received. He pointed out that the AVs did not yet reflect statutory changes made during the 87th Legislative Session since they were submitted before session ended. He stated that staff will provide an update on the status of systems that have or are receiving an intensive review at the next Actuarial Committee meeting, per request.

Ms. Dush requested that future Actuarial Valuation Reports include any qualifications from the system actuaries regarding investment return assumptions. At Ms. Dush's request, Mr. Herbold explained recently updated Actuarial Standards of Practice that require actuaries to affirm they believe actuarial assumptions are reasonable or, if not, provide comments and include projections based on reasonable assumptions.

The board discussed the supplemental table that includes expected depletion dates and requested staff reorganize the table in the future to include any systems with depletion dates at the top ordered by date.

The board discussed issues surrounding actuarially determined contributions (ADC) and interest on existing unfunded liabilities. They pointed out that repeatedly failing to pay the ADC increases the size of unfunded liabilities over time because of compounding interest costs, like only paying the minimum payment on a credit card. This eventually puts systems and sponsors in a position where they must make large reforms to a pension plan to solve problems that could have been addressed with smaller changes made earlier.

The board discussed the funded ratios of Texas plans compared both within the state and with national averages. Mr. Herbold stated that the Teachers Retirement System of Texas greatly impacts the aggregate state averages since it is so much larger than other plans, which can obscure conditions for individual systems. Mr. Zook requested adding additional summary statistics such as a median funded ratio to the Assets and Liabilities table. Ms. Dush recommended a range of funded ratios would also be helpful to identify

systems that may need to be prioritized for future intensive reviews. Mr. Zook suggested additional color-coding in the Actuarial Valuation Report table to make it easier to keep track of systems with concerning funded ratios.

The board discussed discount rates for Texas systems compared to national averages. Mr. Herbold stated that staff could also include a table comparing discount rates to national averages in future actuarial reports and that most plan data is available in the PRB online data center.

The board discussed the role of auditors in verifying the reasonableness of a system's discount rate assumptions.

c. Systems subject to the Funding Soundness Restoration Plan (FSRP) requirement, including compliance (51:09)

Mr. Herbold updated the board on the systems that are currently subject to Funding Soundness Restoration Plan (FSRP) requirements. The board discussed the systems that are subject to the current requirements and the updates from the 87th Legislature. Ms. Dush stated that she hoped that the systems that are currently subject to an FSRP but have not yet completed one are able to do so in time to take advantage of the grandfathering provisions in HB 3898. Vice Chair Brainard requested that the description of plan changes in the FSRP summary include the previous information as well as the change, so the board can more easily see the extent of the changes.

The board discussed the systems that were at risk of becoming subject to the FSRP requirements, including systems that have been subject to the requirement before, and factors that may influence a plan becoming subject to an FSRP. Sweetwater Fireman's Relief and Retirement Fund was discussed as an example since the amortization period currently recorded was not yet reflecting changes to the system's assumptions, which means the amortization period should be higher after the next AV is completed, causing them to become subject to the FSRP requirement. Vice Chair Brainard stated that trends around the country suggest the necessity of reducing investment return assumptions but cautioned that systems and sponsors should be aware of the potential for secondary effects such as becoming subject to an FSRP.

d. Intensive actuarial review of Midland Firemen's Relief & Retirement Fund (1:04:47)

Mr. Herbold explained the spreadsheet used to select systems for intensive actuarial review. Mr. Herbold and Ms. Dush presented the context for why Midland Firemen's Relief & Retirement Fund (MFRRF) was selected for intensive actuarial review. The board also discussed the general effects of payroll growth assumptions on unfunded liabilities.

Mr. Herbold answered questions from board members about what information staff has requested from MFRRF since April and stated that staff has not yet received all the information. He stated that staff expect to present a final report on the intensive review at a committee meeting in October or the December board meeting.

Anumeha Kumar stated that staff was working with the system and sponsor to explore options to minimize costs to the system. She stated that as far as staff knew, the system and city were making an agreement to provide the documents requested for the intensive review. However, staff was not advised on the status of that agreement, which

was affecting the expected timeline. The city told staff that once an agreement has been reached, the materials are expected to be provided to the PRB within 30 days. She continued that staff would follow up with the system and city.

Mr. Gonzalez requested clarification on if alternative materials were available, such as quarterly or monthly reports typically produced by consultants or the trust fund custody bank. Mr. Herbold explained that staff's data request to MFRRF included asking for quarterly or annual reports used by the MFRRF board or investment committee to perform investment analysis. He also stated that staff had been told that information was not available.

The board discussed the information requested so far and what options were available to ensure the records are provided, such as issuing a subpoena or Open Record request. The board asked Melissa Juarez, attorney general counsel, for more information about what people or records would be subject to a subpoena.

Chair Leibe stated that she would prefer that systems provide materials voluntarily and that the board's requests be made in the least formal way possible, but, if the board is not getting a response, it may be necessary to take more formal action. She requested staff monitor the situation and update the board about any response. Vice Chair Brainard stated he agreed with Chair Leibe and encouraged staff to set reasonable deadlines for the system and make the board's expectations clear. Ms. Kumar stated that staff would keep the board updated.

6. Investment Committee (1:37:31)

a. Investment Practices and Performance Evaluations (IPPE) received as required by Government Code Section 802.109, including compliance (1:37:50)

Mr. Herbold explained the report that staff prepared for the legislature. He explained which systems were not compliant with the Investment Practices and Performance Evaluation (IPPE) requirement and their responses to staff inquiries.

The board discussed the IPPE for MFRRF and previous follow-up actions from the Investment Committee and staff. Mr. Gonzales asked if the MFRRF board was compliant with MET requirements. Ms. Krane reported that the last training compliance report to the legislature showed that three MFRRF board members and the system administrator were compliant with MET training requirements, two members were in progress towards meeting them, and two were not compliant, for a total compliance rate of 75 percent. The board also discussed general reporting best practices and trustee education requirements.

b. Preliminary investment expense reporting as required by Texas Government Code Section 802.103(a)(3) and Chapter 609, Texas Administrative Code (2:06:47)

Robert Munter explained that investment expense reporting was a new requirement for most systems, and the new rules about this requirement adopted by the board went into effect in March 2020. He outlined the actions staff has taken to assist systems in complying with these new requirements. He explained the graphs being developed to eventually display the new data in the online data center.

The board discussed the new graphs and other information that could potentially improve the data center in the future. Ms. Dush asked about the possibility of eventually expanding the examination of investment fees to public defined contribution plans. Ms. Kumar stated that the PRB mandate regarding defined contribution plans is limited, but staff could conduct a voluntary survey if directed by the board.

7. Education and Research Committee

a. MET online course review (2:41:36)

Ashley Rendon explained when the courses were initially developed and the current efforts to update existing courses and make improvements based on stakeholder feedback and changes in industry standards.

b. 2021 Evaluation of PRB Educational Services (2:44:02)

Michelle Downie Kranes provided an overview of the survey process and notable results and feedback.

Ms. Dush stated that she was a proponent of defined benefit pension plans and emphasized the importance of improving the funding status of existing defined benefit plans to help ensure their continued viability. She requested an Education Committee meeting to consider stakeholder feedback and evaluate options to expand training.

Mr. Gonzales stated that he was a proponent of both defined benefit and defined contribution plans. He emphasized that he understands the complexities of managing retirement funds; he considers his role to assist plans in finding solutions, training, and resources to make improvements when necessary.

Mr. Brainard stated that he shares the views of Ms. Dush and Mr. Gonzales. He stated that he recognized that developing educational materials is resource intensive and that requesting additional resources to provide educational content could be a priority for the next legislative session.

Chair Leibe requested that the Education Committee consider low-cost and near-term options to expand the online courses for system trustees and administrators.

8. 87th Regular Session (2:58:20)

a. Legislation passed, including the following: (2:58:25)

Ms. Kranes explained that a list of all the pension-related legislation that passed was included in the board packet. She also highlighted three bills that were likely to have large impacts on funding and benefits for one or more systems.

i. HB 3898 (relating to the funding of public retirement systems) (2:59:09)

Ms. Kranes explained that this bill included the board recommendations regarding funding policies and updates to FSRP requirements as well as most of the board recommendations to improve the IPPE requirements. She emphasized that retirement systems could still use their existing investment consultants to perform IPPEs.

Ms. Kranes pointed out the preliminary materials to help plans understand the new requirements that were included in the packet. She stated that staff would

be soliciting stakeholder feedback during the rulemaking process and would reach out to systems that are currently subject to FSRP requirements to help guide them through the transition.

ii. SB 321 (relating to contributions to, benefits from, and the administration of the Employees Retirement System of Texas) (3:04:06)

Ms. Kranes briefly described the bill provisions, including paying off the unfunded actuarial accrued liability, establishing a cash balance plan for new employees, and the guaranteed interest credit and gain sharing mechanisms.

Ms. Dush offered clarifying comments to explain how cash balance plans are a type of defined benefit plan.

iii. HB 4368 (relating to the administration of certain municipal police retirement systems) (3:07:10)

Ms. Kranes briefly explained the bill provisions, which made plan design and funding changes to the Austin Police Retirement System.

The board discussed the statutory changes that have taken place in the recent legislative sessions, acknowledged the work of staff in supporting the board's legislative recommendations, and acknowledged the emphasis legislators have placed on pension soundness. The board also discussed the importance of focusing on supporting retirement systems and establishing rules as these changes are implemented so stakeholders understand new requirements and to ensure the long-term health of pension funds.

b. PRB budget appropriation for Fiscal Years 2022 and 2023 under General Appropriations Act, 87th Legislature (SB 1) (3:16:02)

Ms. Kumar presented the budget comparison for FY 2021 and FY 2022-23. She stated that the legislature granted both of the agency's exceptional item requests. She explained the first request was to restore the five percent of the agency's operating budget that was required to be cut due to COVID-related budget constraints, and the second was a one-time funding request to pay for technology projects to update the PRB internal database and create a self-service reporting portal for retirement systems.

c. Revised Government Code publication, Title 8, Subtitle A (3:20:19)

Ms. Kumar stated that staff was currently updating the pamphlet to include the 87th Legislature's changes to the Government Code and would distribute copies at the next meeting.

d. Need for additional rules to implement statute, including changes to reporting requirements enacted by the 87th Legislature (3:20:45)

Ms. Kumar stated that staff would soon begin preparing materials for the board and committees to begin rulemaking. She stated that staff planned to begin with the FSRP and funding policy rules and prepare IPPE rules after, given that the next round of IPPEs will not be due for several years.

9. Amendments to the Board Bylaws, including changes to standing committees of the Board (2:37:25)

This item was taken up prior to items 7 and 8.

Chair Leibe entertained a motion to approve the changes to the Board by-laws, including changes the standing committees of the Board pending final approval by the Assistant Attorney General Counsel.

Ms. Kumar described the proposed changes. There was no discussion of the proposed changes.

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

The motion passed unanimously.

10. Committee assignments for 2021 (2:40:02)

This item was taken up prior to items 7 and 8.

Chair Leibe presented the committee assignments for 2021. There were no changes for the Actuarial Committee. The Investment Committee will be chaired by Mr. Zook, and Mr. Gonzales and Mr. Ries will serve as members. The Education Committee will be Chaired by Ms. Dush with Ms. Fariña-Strauss and Mr. Ries serving as members. There were no changes to the Administrative Committee.

11. Executive Director's Report (3:21:45)

a. 2021 Texas Workforce Commission, Civil Rights Division Review of Personnel Policies and Procedures (3:21:50)

Ms. Kumar stated that the Texas Workforce Commission certified that agency policies were compliant with the requirements.

Chair Leibe acknowledged the work of administrative staff and offered congratulations on being recognized by TWC for their work.

b. Updated Fiscal Year 2021 Operating Budget (3:24:20)

Ms. Kumar stated the agency was on track with the FY 2021 operating budget, even accounting for the required five percent cut.

c. Approval of Fiscal Year 2022 Operating Budget (3:24:43)

Ms. Kumar stated that the 2022 budget mirrored the Legislative Appropriations Request.

Chair Leibe entertained a motion to approve the Fiscal Year 2022 Operating Budget as presented.

The motion was made by Ms. Zook and seconded by Ms. Dush. There was no discussion.

The motion passed unanimously.

Chair Leibe left the meeting after this item. Vice Chair Brainard presided over the remainder of the meeting. (3:25:55)

d. Staff update (3:26:25)

Ms. Kumar provided an update on FTE changes, including hiring a new staff member at the beginning of session, one staff member leaving the agency for a new opportunity in the private sector, and that the agency has three vacant positions staff will be working to fill.

e. Update on virtual meetings (3:27:51)

Ms. Kumar stated that legislation proposing changes to virtual open meetings did not pass, but that Governor Abbott's disaster declaration facilitating fully remote virtual open meetings was still in place for the time being. She said staff would update the board if that changed and if the September board meeting would be virtual or in person.

f. Update on Texas Public Pension Data Center (3:28:43)

Ms. Kumar gave a brief overview of the updated online data center and the information that was available to compare retirement system data. She requested any input to improve the data center.

g. 2021 TEXPERS Summer Educational Forum (3:20:18)

Ms. Kumar explained that the TEXPERS Summer Educational Forum is planned for August 29-31 in San Antonio. She said that board members could alert staff if they are interested in attending the forum.

12. Call for future PRB agenda items (3:30:57)

Ms. Dush requested an Educational Committee report at the next board meeting to address the stakeholder concerns raised in the Educational Services Survey.

13. Date and location of next PRB meeting –Thursday, September 16, 2021 (3:31:34)

Vice Chair Brainard stated the next board meeting will be Thursday, September 16, with the location still to be determined.

14. Invitation for public comment (3:32:19)

Vice Chair Brainard opened the floor to public comments.

Shera Crow (Midland Fire Relief & Retirement Fund) noted that David Stacy could not attend the meeting, so he asked her to put on record that the system's most recent request from Mr. James King dated May 7th was not included in this board packet for the PRB meeting and Midland Fire Relief & Retirement Fund has responded to all of the items, with the exception of item seven which will take some time to pull and submit. She stated the system is working on that, but the system is currently in the middle of an audit to meet the July 29th reporting deadline. She stated that Mr. Herbold responded back to system stating the PRB will be reviewing the information and will get back with the system as soon as possible. She stated that the PRB has been given permission to speak with the system's third-party actuary and financial analyst with the caveat that at least one of the board members would be included in all communication, verbally or written, in whichever form the PRB chooses to reach out to them.

There were no additional public comments.

15. Adjournment (3:35:29)

Vice Chair Brainard entertained a motion to adjourn.

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

The meeting was adjourned at 1:36 p.m.

In Attendance:

PRB Staff Present

Anumeha Kumar
Michelle Downie Kranes
Kenneth J. Herbold
Bryan Burnham
Robert Munter
Ashley Rendon
Mariah Miller
Madilyn Jarman
Lindsay Seymour
Wes Allen



Chair Stephanie Leibe