



TEXAS PENSION REVIEW BOARD

ACTUARIAL COMMITTEE
MEETING

July 27, 2023

(512) 463-1736

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**TEXAS PENSION REVIEW BOARD
ACTUARIAL COMMITTEE MEETING AGENDA**

Thursday, July 27, 2023 – 10:00 AM

William P. Clements Building, Fourth Floor, Room 402

300 W. 15th Street, Austin, TX, 78701

Committee members may attend this meeting by videoconference pursuant to Texas Government Code §551.127. One or more committee members, including the presiding officer, will be physically present at the physical location of the meeting listed above. The meeting will be accessible to the public at the physical location listed above. The public may access the meeting virtually by joining via the Zoom link: <https://us02web.zoom.us/j/85415851734>. A livestream of this meeting, agenda materials of the meeting, and a recording of the meeting will be made available at www.prb.texas.gov.

The Committee may discuss or take action regarding any of the items on this agenda. A quorum of the Administrative Committee will be present during the Actuarial Committee meeting, but no Administrative Committee matters will be discussed.

1. Meeting called to order
2. Roll call of committee members
3. Administrative matters
 - a. Consideration and possible action to approve November 3, 2022, meeting minutes
4. Invitation for public comment
5. Request for proposal for independent actuary to perform the actuarial analysis of Dallas Police & Fire Pension System required by Section 2.025, Article 6243a-1, Vernon's Texas Civil Statutes
6. Preliminary summary of systems authorized under Texas Government Code Chapter 810 that offer 100 percent lump sum options
7. Future meetings: Agenda items, dates, locations, and related matters
8. Adjournment

NOTE: The Committee may go into closed session concerning any item on this agenda as authorized under the Texas Open Meetings Act, Government Code, Chapter 551. Persons with disabilities who plan to attend this meeting and who may need special assistance are requested to contact Lindsay Seymour at (800) 213-9425/ (512) 463-1736 as far in advance as possible, but

no less than three business days prior to the meeting date so that appropriate arrangements can be made.

How to provide public comment: Members of the public who wish to provide public comment to the committee may attend the meeting in person at the address above or register for the meeting using the Zoom link provided above. If you wish to provide comment remotely by Zoom, you must contact Lindsay Seymour (lindsay.seymour@prb.texas.gov) no later than Wednesday, July 26. Note that public comments will be limited to no more than three minutes.

Item 3. Administrative matters

- a. Consideration and possible action to approve November 3, 2022, meeting minutes
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Actuarial Committee Meeting Minutes
November 3, 2022

1. Meeting called to order (0:10)

The third meeting of 2022 of the Actuarial Committee was called to order Thursday, November 3, 2022, at 10 a.m. in capitol extension room E2.026, 1100 Congress Avenue, Austin, Texas, 78701.

2. Roll call of committee members (0:20)

Committee members present:

Chair Keith Brainard
Marcia Dush
Stephanie Leibe

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

3. Committee administrative matters (0:37)

a. May 18, 2022, meeting minutes

Chair Brainard entertained a motion to suspend the reading of minutes of the May 18, 2022, meeting and approve them as circulated.

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

The motion passed unanimously.

4. Invitation for public comment (1:13)

There were no public comments.

5. Continuing education: Updates to Actuarial Standard of Practice 4 – Measuring Pension Obligations and Determining Pension Plan Costs or Contributions (1:54)

Chair Brainard noted that the item would count for 3/4 of a credit hour for continuing education and provided instructions for participants.

Mr. Fee provided a brief overview of Actuarial Standard of Practice 4, then updated the committee on key changes effective for reports with measurement dates after February 15, 2023, concerning:

- Reasonable actuarially determined contribution
- Low-Default-Risk Obligation Measure
- Disclosures

6. Update from City of Austin Employees Retirement System on potential plan changes

(1:12:33)

Chair Brainard asked Lewis Ward, with GRS and consulting actuary for the City of Austin Employees Retirement System (COAERS), for his opinion on the proposed plan changes. Mr. Ward replied that moving to an actuarial determined contribution funding model and increasing member and city contributions would be beneficial to the system. Mr. Ward noted that the proposed plan changes were like the City of Houston and Austin Police system reforms, but that COAERS would potentially adopt a shorter amortization period.

Chris Hanson, Executive Director of COAERS, and Belinda Weaver, Treasurer for the City of Austin, presented a summary of the system's proposed funding changes. These changes included a new, lower discount rate, higher contributions, and working with the city to lower the system's amortization period. Mr. Hanson stated that key funding risks were liability growth, ability to meet capital market assumptions, and the lack of additional investment gains. He discussed funding issues the plan had faced in the past and acknowledged that the plan would likely trigger a Funding Soundness Restoration Plan in the future.

Mr. Hanson stated that legislative action would be needed to enact the proposed changes. The committee discussed current and future normal cost rates with Mr. Ward, and Mr. Hanson discussed further administrative and benefit changes COAERS would like to make.

Ms. Weaver spoke on the collaborative efforts that COAERS and the city have invested in the proposed plan changes.

7. Future meetings: Agenda items, dates, locations, and related matters (1:42:36)

Chair Brainard stated the next committee meeting was TBD. He noted the next PRB meeting would take place on December 8, 2022, in capitol extension room E2.028.

8. Adjournment (1:43:05)

The meeting was adjourned at 11:43 a.m.

Public in attendance:

Eddie Solis - COAERS	Art Alfaro - TEXPERS	Belinda Weaver - City of Austin
Lewis Ward - COAERS	Ariana Whaley - ERS	Chris Hanson - COAERS

PRB staff in attendance:

Amy Cardona	Wes Allen	Bryan Burnham	John Goodell	David Fee
Madilyn Jarman	Mariah Miller	Robert Munter	Ashley Rendon	Lindsay Seymour

Chair Keith Brainard

Item 5: Request for proposal for independent actuary to perform the actuarial analysis of Dallas Police & Fire Pension System

Tamara Aronstein and David Fee



Summary

- Goal for presentation
- Amendment to MOU
- Selection update and recommendation
- Next steps



Amendment to MOU

- Executed amendment to MOU with Dallas Police & Fire Pension System (DPFP) to make the following changes:
 - Extend MOU to 6/2/2025 (Last day of 89th legislative session, anticipated end date of contract per the RFP).
 - Incorporate reporting/planning responsibilities required by statute.
 - Specify role of both the PRB and DPFP to collaborate to complete reports and assist Legislature on potential DPFP legislation during next session.



Selection Update and Recommendation

- Received two proposals.
- Committee members read and scored proposals independently, then discussed scoring totals and merits of the proposals.
- Committee determined respondent interviews were not needed.
- Selection committee recommendation is based on:
 - Strength of proposal
 - Understanding of work contemplated
 - Qualifications of the firm and proposed team
 - Experience with Texas pension systems



Next Steps

- Finalize selection by July 31, 2023.
- Contract negotiation and execution (no PRB involvement anticipated).
- 2022 AV replication, analysis, and draft report/recommendations expected to be completed in October 2023 with presentation to DPFP board November 9, 2023.
- 2023 AV replication, analysis, and draft report/recommendations expected to be completed in January/February 2024 with presentation to DPFP board February 8, 2024.
- PRB may invite DPFP and the independent actuary to present at future board or committee meetings.
- PRB report due to the Legislature by December 1, 2024.



Item 6: Preliminary Research on District/Supplemental Plan Lump Sum Assumptions

David Fee



Summary

- Methodology
- List of systems that offer complete cashouts
- Actuarial equivalence basics
- Actuarial equivalence used for lump sums
- Actuarial valuation assumptions
- Lump sum vs actuarial valuation comparisons
- Sample lump sum calculations
- Next steps



Methodology

- Reviewed latest plan documents received from each special purpose district plan
- Identified key plan provisions
 - When are lump sums offered?
 - What interest rate is used to calculate lump sums?
 - What mortality table is used to calculate lump sums?



Systems That Offer Complete Cashouts

System	Full Lump Sums Offered	
	Pre-Retirement	Retirement
Citizens Medical Center	Y	Y
Colorado River Municipal Water District	Y	Y
CPS Energy	Y	N
Houston MTA Non-Union	Y	Y
Irving Supplemental	Y	Y
JPS Tarrant County Hospital District	Y	Y
Lower Colorado River Authority	Y	Y
Lower Neches Valley Authority	Y	Y
Nacogdoches County Hospital District	Y	Y
Refugio County Memorial Hospital District	Y	Y
Sweeny Community Hospital	Y	Y
University Health System	Y	Y

12 out of 34 district/supplemental plans offer full lump sum options

Actuarial Equivalence Basics

- Two components
 - Interest Rate
 - Mortality Table
- Interest Rate
 - Works like a mortgage
 - \$3,000 monthly payment buys a more expensive house with a lower interest rate.
 - \$3,000 monthly payment results in a higher lump sum with a lower interest rate.
- Mortality Table
 - In general, more recent mortality tables reflect longer expected retiree lifetimes and generate higher lump sums.



Actuarial Equivalence for Lump Sums

System	Lump Sum Assumptions		
	Interest Rate	Mortality Table Year	Mortality Table Description
Citizens Medical Center	8.0%	1984	UP Unisex
Colorado River Municipal Water District	30-year Treasuries	1994	GAR Unisex
CPS Energy	8.5%	1984	UP Unisex set forward one year
Houston MTA Non-Union	7.0%	1971	GAM Female
Irving Supplemental	7.0%	1984	UP Unisex
JPS Tarrant County Hospital District	8.0%	1984	UP Unisex
Lower Colorado River Authority	8% unless 30-year Treasuries are below 5%	2000	RP Unisex
Lower Neches Valley Authority	Not available	Not available	Not available
Nacogdoches County Hospital District	7.5%	1983	GAM Unisex
Refugio County Memorial Hospital District	7.0%	1994	GAR Unisex
Sweeny Community Hospital	8.0%	1984	UP Unisex
University Health System	8.0%	1994	GAM Unisex



Actuarial Valuation Assumptions

	Actuarial Valuation Assumptions		
System	Interest Rate	Mortality Table Year	Mortality Table Description
Citizens Medical Center	7.0%	2012	Pri-2012 with projected improvements
Colorado River Municipal Water District	5.5%	2012	Pri-2012 Blue collar with projected improvements
CPS Energy	6.3%	2010	PubG-2010 with projected improvements
Houston MTA Non-Union	7.0%	2010	PubG-2010 with projected improvements
Irving Supplemental	7.3%	2014	RP-2014 with projected improvements
JPS Tarrant County Hospital District	6.0%	2012	Pri-2012 with projected improvements
Lower Colorado River Authority	7.0%	2010	PubG-2010 with projected improvements
Lower Neches Valley Authority	6.8%	2012	Pri-2012 with projected improvements
Nacogdoches County Hospital District	5.8%	2012	Pri-2012 with projected improvements
Refugio County Memorial Hospital District	6.8%	2012	Pri-2012 with projected improvements
Sweeny Community Hospital	6.5%	2010	PubG-2010 with projected improvements
University Health System	7.3%	2010	PubG-2010 with projected improvements

Lump Sum vs Actuarial Valuation Interest Rate Comparison

System	Interest Rates	
	Valuation Interest Rate	Lump Sum Interest Rate
Citizens Medical Center	7.0%	8.00%
Colorado River Municipal Water District	5.5%	30-year Treasuries
CPS Energy	6.3%	8.50%
Houston MTA Non-Union	7.0%	7.00%
Irving Supplemental	7.3%	7.00%
JPS Tarrant County Hospital District	6.0%	8.00%
Lower Colorado River Authority	7.0%	8% unless 30-year Treasuries are below 5%
Lower Neches Valley Authority	6.8%	Not available
Nacogdoches County Hospital District	5.8%	7.50%
Refugio County Memorial Hospital District	6.8%	7.00%
Sweeny Community Hospital	6.5%	8.00%
University Health System	7.3%	8.00%



Lump Sum vs Actuarial Valuation Mortality Table Year Comparison

System	Mortality Table Year	
	Valuation Mortality Table Year ¹	Lump Sum Mortality Table Year ²
Citizens Medical Center	2012	1984
Colorado River Municipal Water District	2012	1994
CPS Energy	2010	1984
Houston MTA Non-Union	2010	1971
Irving Supplemental	2014	1984
JPS Tarrant County Hospital District	2012	1984
Lower Colorado River Authority	2010	2000
Lower Neches Valley Authority	2012	Not available
Nacogdoches County Hospital District	2012	1983
Refugio County Memorial Hospital District	2012	1994
Sweeny Community Hospital	2010	1984
University Health System	2010	1994

¹ All include projected mortality improvements

² None include projected mortality improvements

Sample Lump Sum Calculations

Calculations at Age 65 Retirement			
Mortality Table Description	Interest Rate	Monthly Annuity	Resulting Lump Sum
UP 1984 Unisex	7.90%	\$3,000	\$296,719
PubG-2010 with projected improvements	6.62%	\$3,000	\$405,623

Calculations at Age 45 Termination			
Mortality Table Description	Interest Rate	Monthly Annuity	Resulting Lump Sum
UP 1984 Unisex	7.90%	\$500	\$8,874
PubG-2010 with projected improvements	6.62%	\$500	\$18,770

7.90 percent is the average lump sum interest rate for the six systems using UP 1984 lump sum mortality
 6.62 percent is the average valuation interest rate for the six systems using UP 1984 lump sum mortality

Next Steps

- Confirm any plan provision changes with district/supplemental systems.
- Summarize research with finalized assumption data.

