

**TEXAS PENSION REVIEW BOARD**  
**Thursday, April 10, 2008**

**MINUTES**

**1. MEETING CALLED TO ORDER (0:01)**

Chair Rowe called the first meeting of 2008 of the Texas Pension Review Board (PRB) to order, Thursday, April 10, 2008, at 1:01 P.M. in Committee Room E1.012 of the Capitol Extension.

**2. ROLL CALL OF BOARD MEMBERS (:16)**

Ms. Baker called the roll of Board members.

**Board Members Present:**

Chair Frederick Rowe  
Vice Chair Shari Shivers  
Paul Braden  
Ralph Cantu  
Roy Casanova  
Norman Parrish

**3. APPROVAL OF MINUTES OF DECEMBER 6, 2007 MEETING – (1:04)**

Chair Rowe entertained a motion to adopt the Minutes of the PRB meeting held December 6, 2007.

Motion made by Mr. Casanova, seconded by Vice Chair Shivers, and carried unanimously that the Board approve the Minutes of its meeting held December 6, 2007.

**MOTION CARRIED UNANIMOUSLY**

**4. CHAIRMAN'S REMARKS (1:09)**

Chair Rowe discussed current economic problems and the need to grow our way out from economic problems, not by looking backwards, but by finding opportunities. Deficits and problems have created financial problems; additionally, emerging countries have produced a huge demographic shift, bigger than the industrial revolution. Chair Rowe stated the way out is for the big companies to capitalize on our competitors rather than squandering assets. He emphasized the importance of those individuals who serve on boards of pension funds to assert their rights, by insisting on accountability and exercising their proxy votes at annual meetings and by holding those in management accountable for their actions. Chair Rowe closed by stressing the importance of those who advise investors of never forgetting one very important concept—the long-term economic well being of future retirees while making their investment strategies.

**5. EXECUTIVE DIRECTOR'S REPORT – Paul Nicholson (10:30)**

**A. Report and Discussion on the Changes to the PRB**

**1. Organizational and Staff Changes**

Mr. Nicholson reported that within the last year, the PRB had received funding for new staff and pointed out the new organizational chart reflects the increase in staff. The 12 full-time employees are assigned to the following divisions: administrative, including research; accounting and human resources; data and policy analyses; and actuarial analysis.

**2. Outlook Moving Forward and Current Conditions (Strategic Plan)**

Mr. Nicholson stated the ongoing problems with the database means that until improved, all data and IT reports must be in order before anything resembling salient reports can be sent to the plans. He noted staff is working on a plan to correct this issue. Mr. Nicholson stated that the Strategic Plan was undergoing revision.

**3. Board Structure and Meetings**

Mr. Nicholson encouraged more interactivity and involvement in issues from the board members, with more informal board meetings and telephone conversations with staff.

**4. Report and Discussion on Legislative Issues**

Mr. Nicholson reported PRB staff also introduced five papers that addressed legislative issues based both on requests from legislators and internal policies. Follow through will be completed after the committee reports are heard before the next legislative session begins.

**6. REPORT AND DISCUSSION ON ACTUARIAL SOUNDNESS - Norman Parrish (14:37)**

Mr. Parrish briefly discussed actuarial soundness and guidelines that have been in place including rules on amortizing unfunded accrued liabilities. These rules have the advantage of simplicity; the disadvantage is that they do not always recognize findings because of this simplicity. The Board and staff will be looking at new ways to assess actuarial soundness. Mr. Parrish reiterated that this is not simple and asked for help. He emphasized the PRB is not looking to draw a line in the sand but rather to encourage collaboration for thoughts that would serve as a basis for discussion, and not in a unilateral way. Mr. Parrish stated the plans are a powerful, intellectual resource and the PRB should use those resources. Chair Rowe agreed with this point and noted the Legislature had mandated a review of actuarial methodology in order to mitigate any potential crisis to public pension plans under PRB's purview.

**A. Introduction to the Case Study (18:04)**

Mr. Martin McCaulay, Deputy Executive Director, PRB, gave an overview of the concepts described in the papers from February 15, 2008, and April 1, 2008, that were presented to the Pensions and Investments Committee regarding actuarial issues and retirement contributions. He discussed the paper prepared for the Board entitled Case Study of Actuarial Review of Retirement Fund, which was presented in draft form and the paper entitled Minimum Contributions in Public Defined Benefit Plans. He stated that the case study showed the current PRB guidelines including the requirement for a 40-year amortization payment and the current rules from GASB for calculating the Annual Required Contribution (ARC) were not sufficient to make a plan actuarially sound. The plan in the Case Study was in compliance with the PRB guidelines and GASB, but a projection of the assets and liabilities showed a deteriorating funded ratio. He suggested the PRB guidelines for actuarial soundness be revised to include looking at current and projected funded ratios as a measure of actuarial soundness. Plans over 80% funded would generally be considered actuarially sound, plans under 60% funded would not be considered actuarially sound, and plans between 60% and 80% would be subject to more testing. Mr. McCaulay suggested using a formula for testing the sufficiency of a plan's contributions to avoid a contribution schedule that results in a deterioration of a plan's funded ratio. The proposed formula for the Overriding Minimum Contribution (OMC) was independent of the asset smoothing method and amortization method. The OMC would be based on the sum of the normal cost and a fraction of the benefit payments. Plan X, or the Case Study, was chosen in order to utilize certain analytical methods such as regression analysis in order to better spot trends.

**B. Suggested Remedial Measures (25:30)**

Mr. Christopher Hanson, Senior Policy Analyst, spoke on the seeming effectiveness of guidelines, pointing out that in the case of San Diego, the trends for solvency in this city would not have been identified in advance as problematic, for example. For the study, the PRB chose and examined plans that reflected at least a 60% unfunded rate. Mr. Hanson explained the Case Study/Plan X was randomly selected. He noted that subsequent staff discussions regarding the plan suggested problems with Plan X. In addition to the various actuarial issues, the plan hired five different actuarial firms throughout a 25-year period, signaling inconsistency of long-term stability. To continue, the question as to how to bring these concerns to plans and to interested parties, the PRB suggested measures to use in order to alert plans and open dialogue regarding funding problems. Mr. Hanson pointed out internal discussions with the members of a plan, the city, and legislative members from the district in which the plan is located would be initiated before any public discussion and/or appearance before the PRB.

**7. REPORT AND DISCUSSION ON STAFF RECOMMENDATIONS REGARDING ACTUARIAL ASSUMPTIONS - Norman Parrish (31:11)**

**A. Report and Discussion on Staff Recommendations Regarding Actuarial Assumptions**

Mr. McCaulay discussed actuarial assumptions of minimum contributions by public defined plans and the development of a formula to examine whether traditional measures were sufficient, and resetting the

amortization period that could result in a perpetual negative amortization period and an unfunded liability that grows to infinity, which is currently allowable under GASB and the American Academy of Actuarial Standards. Mr. McCaulay requested changes from both agencies regarding these methods, as they are not reflective of sound fiscal management of pension funds

Chair Rowe inquired as to discussing these matters with the plans, with Mr. Parrish pointing out that it was not clear whether the PRB was ready to utilize or endorse the assumption ranges. Mr. Parrish noted there are pros and cons to both. Mr. Parrish explained that the advantages to having these assumptions for people who are not technically involved are an ability to see whether certain assumptions fall within a certain range and to determine reasonableness.

Mr. Parrish explained the process is one that the PRB is trying to develop and one that needs study. He noted the PRB needs input from the plans, their professional staff and consultants, with the assurance that what the PRB is doing is productive and not disruptive. Mr. Parrish stated no policy recommendations would be made at this time before input from the constituency and the process can be reviewed. He noted comments would be aggressively sought from other consultants as well and the PRB plans to move slowly in this process to try to determine what may be inadequacies in existing standards.

**8. WORK OF THE ACTUARIAL COMMITTEE – Norman Parrish, Chair (40:42)**

**A. Changes in Actuarial Methods**

Motion made by Mr. Parrish, seconded by Mr. Casanova, and carried unanimously that the Board approve further study by the Actuarial Committee, including informal staff discussions with interested parties regarding the development of policy recommendations for better actuarial methods.

**MOTION CARRIED UNANIMOUSLY**

**B. Actuarial Analysis and New Guidelines (41:05)**

Motion made by Mr. Parrish, seconded by Mr. Casanova, and carried unanimously that the Board approve further study by the Actuarial Committee, including informal staff discussion with interested parties regarding the actuarial analysis to be employed in identifying plans that are experiencing issues with actuarial soundness.

**MOTION CARRIED UNANIMOUSLY**

Mr. Parrish explained that the motions are to implement what was discussed earlier in the meeting.

**C. Report and Discussion on Staff Recommendations Regarding Actuarial Assumptions ( 41:51)**

Mr. Parrish stated that recommendations on reasonable ranges of actuarial assumptions should be open to discussion and he expressed the opinion that no action will be taken at this time. After a brief discussion by the Board, it was decided that no action would be taken.

**9. WORK OF THE ADMINISTRATIVE AND LEGISLATIVE COMMITTEE – Shari Shivers, Chair (42:27)**

**A. Staff Recommendations for Contacting Plans**

Vice Chair Shivers reiterated that the Administrative and Legislative Committee and the entire PRB want to work in a collaborative manner. She noted Mr. Hanson discussed possible recommendations on how best to contact plans with funding issues. Vice Chair Shivers explained these are recommendations and the Board wants to solicit opinions and recommendations from the public pension fund community. She stated one of the goals of the PRB is to receive input from the pension community in developing an internal policy for contacting plans with funding issues.

Motions made by Vice Chair Shivers, seconded by Mr. Cantu, and carried unanimously that the Board approve further study by the Administrative and Legislative Committee, including informal staff discussions with interested parties regarding the development of an internal policy for how to best contact plans with funding issues.

**MOTION CARRIED UNANIMOUSLY**

**B. Report and Discussion on Proposed Response to American Academy of Actuaries (43:59)**

Mr. Robert May with Rudd & Wisdom, representing the Public Plans Subcommittee (PPS) of the American Academy of Actuaries, spoke at the invitation of Paul Nicholson. The Academy was considering issuing a public statement that would require disclosure of the market value of liabilities (MVL) for public pension plans, a position that is popular with proponents of Financial Economics (FE), but not popular with the overwhelming majority of actuaries who work on public plans. This topic was discussed at a roundtable sponsored by the Academy in New York that both Mr. May and Mr. Parrish attended. MVL calculations would result in much higher liabilities than those currently calculated. This topic will be debated at the PRB's annual seminar on June 23, 2008, with Paul Angelo taking the position against disclosure of MVL and Gordon Latter speaking for disclosure. Mr. May believes that the support and approval of the majority of the PPS actuaries on any AAA pension public statements is important. Mr. May offered to help should the PRB want to communicate with the Academy on this issue.

Mr. Parrish pointed out that this issue has been driven from the private sector, actuaries that represent the private pensions and corporations; these funds are not under the same constraints as those in the public sector, particularly in terms of when a plan is shut down, which may not be possible in the public sector. Mr. Parrish concluded by stating that he will work with staff in drafting a letter stating the Board's concerns.

Motion made by Vice Chair Shivers, seconded by Mr. Cantu, and carried unanimously that staff work with Mr. Parrish to draft a letter stating the Board's concern regarding this process and signed by the PRB chair.

**MOTION CARRIED UNANIMOUSLY**

**10. WORK OF THE RESEARCH COMMITTEE – Richard McElreath, Chair (58:77)**

**A. Transparency Involving Alternative Investments**

In Mr. McElreath's absence, Chair Rowe said staff would undertake the issues of transparency involving alternative investments.

**B. Financial Analysis**

Chair Rowe stated that in the matter of financial analysis, staff would address this issue.

**C. Report and Discussion on PRB Seminars**

There was no discussion and no action was taken on this item.

**D. Report and Discussion on PRB Newsletter**

Chair Rowe pointed out that a sample of the PRB newsletter was in the same location in the PRB notes.

Motion made by Chair Rowe, seconded by Vice-Chair Shivers and carried unanimously that staff would undertake the matters of transparency and time series analyses on funding, and approved the PRB newsletter.

**MOTION CARRIED UNANIMOUSLY**

**11. INVITATION FOR AUDIENCE PARTICIPATION (59:35)**

Mr. Robert May urged caution regarding changes--among several issues--in accounting rules in GASB 25 and 27, and noted the presence of PRB staff at national actuarial meetings and other conferences would aid the national debate over these issues.

**12. ADJOURNMENT (01:05)**

With the business of the Board completed, Chair Rowe entertained a motion to adjourn.

Motion was made by Mr. Cantu, seconded by Mr. Parrish, and carried unanimously that the Board adjourn at 2:05 PM.

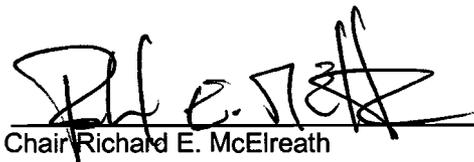
**MOTION CARRIED UNANIMOUSLY**

**IN ATTENDANCE:**  
**PRB STAFF:**

Ben Armendariz  
Lynda Baker  
Dunya Bean  
Jolena Close  
Joey Evans  
Daniel Gunter  
Chris Hanson  
Martin McCaulay  
Ashley Narvaez  
Paul Nicholson  
Kimberly Rhodes

**GUESTS:**

Kevin Brolan, Houston Firefighters  
Stephen Edmonds, City of Austin ERS  
Mark Fenlaw, Rudd and Wisdom  
Natalie Foerster, Office of the Governor  
Ron Hagan, Roland/Criss - CEFER  
Demetrio Hernandez, Legislative Budget Board  
Sampson K. Jordan, Austin Police Retirement System  
John Lawson, Houston Police Officers Pension System  
Wade McDonald, Legislative Budget Board  
Jason McElvaney, Texas County & District Retirement System  
Robert May, Rudd & Wisdom, Inc.  
Yuniedth Midence, Locke, Lord, Bissell & Liddell  
Lisa Ivie Miller, Fire Fighters Pension Commission  
Robert Miller, Locke, Lord, Bissell & Liddell  
Sherry Mose, Houston Municipal Employees Pension System  
Max Patterson, TEXPERS  
Blake Rocap, House Pensions & Investments Committee  
Clint Smith, TEXPERS  
Rhonda Smith, Houston Municipal Employees Pension System  
Arlene Truong, TEXPERS  
Eddie Solis, Texas Municipal Retirement System  
Randy Stalnaker, TEXPERS  
Robert Stanton, El Paso Fire and Police  
Wanda Valentine, Employees Retirement Fund, Fort Worth  
Lara Wendler, Senator Whitmire's Office



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Chair Richard E. McElreath