



TEXAS PENSION REVIEW BOARD

ACTUARIAL COMMITTEE MEETING
NOVEMBER 3, 2022

TEXAS PENSION REVIEW BOARD

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

Thursday, November 3, 2022 – 10:00 AM

Capitol Extension Room E2.026

1100 Congress Avenue, Austin, TX, 78701

Committee members may attend this meeting by videoconference pursuant to Texas Government Code §551.127. The officer presiding over the meeting will be physically present at the physical location of the meeting listed above and will preside over the meeting at that location. 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/89581858919>. 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
3. Committee administrative matters
 - a. May 18, 2022, meeting minutes
4. Invitation for public comment
5. Continuing education: Updates to Actuarial Standard of Practice 4 - Measuring Pension Obligations and Determining Pension Plan Costs or Contributions
6. Update from City of Austin Employees Retirement System on potential plan changes
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 if authorized under the Texas Open Meetings Act, Government Code, Code Ch. 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 three to five (3-5) working days prior to the meeting date so that appropriate arrangements can be made.

Item 3a. May 18, 2022, Actuarial Committee meeting minutes



Actuarial Committee Meeting Minutes

May 18, 2022

1. Meeting called to order (0:10)

The second meeting of 2022 of the Actuarial Committee was called to order Wednesday, May 18, 2022, at 10 a.m. in the Reagan Building, room 120, 1400 Congress Avenue, Austin, Texas, 78701.

2. Roll call (0:18)

Committee members present:

Chair Keith Brainard
Marcia Dush
Stephanie Leibe

A quorum being present, the meeting was called to order by Chair Brainard. He welcomed Amy Cardona, the new executive director for the Pension Review Board.

3. Committee administrative matters (1:04)

a. January 28, 2022, meeting minutes

Chair Brainard entertained a motion to suspend the reading of minutes of the January 28, 2021, meeting and approve them as circulated.

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

The motion passed unanimously.

4. Rulemaking relating to the updated Funding Soundness Restoration Plan (FSRP) requirements under Texas Government Code Sections 802.2015 and 802.2016, including: (1:41)

a. Preliminary draft of proposed rules

Madilyn Jarman compared updated rule concepts based on stakeholder feedback to the draft rules. The updated rules:

- Clarified how the PRB will determine whether a system with a Legacy FSRP (L-FSRP) is adhering to its plan to restore funding.
- Set the threshold for completing, or graduating, an L-FSRP to the earliest of either the L-FSRP's target date or the date the system completes an AV reflecting a funding period below 30 years.
- Resolved the ambiguity about the effective date of a statutory provision exempting certain systems from the new revised FSRP requirement, which, if left unaddressed, could prevent some systems from continuing to follow their L-FSRPs as intended.

- Adopted a method that the PRB will use to determine if a system has fulfilled the requirements of an FSRP or revised FSRP (R-FSRP).
- Clarified how progress updates should be submitted, such as in writing or by report at a PRB meeting.
- Adopted methods to determine when a system qualifies for the revision exemptions, including potential options for voluntary submission of FSRPs from systems that are not currently subject to the requirement.
- Interpreted the existing statutory plan member communication requirements on inadequate funding arrangements to also apply to triggering the FSRP requirement, which is a direct result of inadequate funding.

The committee discussed and clarified how compliance corridors would be applied to the various FSRP groups, including FSRPs submitted before September 1, 2025.

b. Proposed updated *Policy for Determination of System Actuarial Review*

Ms. Jarman noted that the updated policy, the *Policy for Determining and Promoting Compliance with Funding Soundness Restoration Plan Requirements*, would completely replace the *Policy for Determination of System Actuarial Review*, which is a procedure that predates the current intensive review process. The updated policy would include the various notices systems would receive regarding FSRPs and some aspects of the compliance corridors. Ms. Jarman noted the language may change depending on what would need to be required in rule versus the policy.

She noted drafts of the rules and policy would be sent out again after the meeting to incorporate any further feedback before posting the proposed rules into the Texas Register.

The Chair entertained a motion to direct staff to finalize the draft rules for funding soundness restoration plans, incorporating technical changes and changes based on input from stakeholders and the committee, for recommendation to the full board for approval to post in the *Texas Register* at its July 14th meeting.

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

The motion passed unanimously.

5. Future meetings: Agenda items, dates, locations, and related matters (1:21:28)

Mr. Brainard noted the next Actuarial Committee meeting is TBD, and next board meeting is July 14, 2022, in the same room. Ms. Dush asked for staff provide at a future meeting an overview of updates to Actuarial Standard of Practice 4.

6. Invitation for public comment (1:07:38)

Items 5 and 6 were taken out of order.

Ryan Falls, Actuary for Fort Worth Employees Retirement Fund, requested that the language for L-FSRP compliance corridors clearly define that the baseline is 40 years, and that the rules do not disincentivize a plan with an L-FSRP from making assumption changes.

Dan Buckley from the City of Galveston commented that the PRB rules fall short on addressing the requirement of a joint development of a plan's funding policy, since it only addresses systems with an FSRP.

Retired Detective Joe Thompson spoke regarding the Dallas Police and Fire Pension System and various investigations regarding the system.

7. Adjournment (1:21:00)

The meeting was adjourned at 11:21 a.m.

Guests Present:

D. Trey Coleman – Houston Police Officers' Pension System

Benita Harper – Fort Worth Employees Retirement Fund

Lloyd Cook – Fort Worth Employees Retirement Fund

Ryan Falls – Fort Worth Employees Retirement Fund

Terry Bratton – Houston Police Officers Pension System

Joe Thompson – Dallas Police and Fire Retirees

Dwanye Ready – Houston Police Officers' Pension System

Paul Brown – TEXPERS & Big Spring Firefighters Relief and Retirement Fund

Jason McElvaney – TCDRS and Fort Worth Employees Retirement Fund

Sean Sullivan – City of Plano Retirement Security Plan

Ariana Whaley – ERS of Texas

Tyler Grossman – El Paso Firemen and Policemen's Pension System

Art Alfaro – TEXPERS

Eddie Solis - TEXPERS

PRB staff in attendance:

Amy Cardona

Wes Allen

Bryan Burnham

David Fee

Madilyn Jarman

Mariah Miller

Robert Munter

Ashley Rendon

Lindsay Seymour

Chair Keith Brainard

Item 4. Invitation for Public Comment

Item 5. Continuing education

Updates on Actuarial Standard of Practice 4 Measuring Pension Obligations and Determining Pension Plan Costs or Contributions

David Fee



Summary

- Overview of Actuarial Standards of Practice
 - Precept 3 of the Code of Professional Conduct
 - Actuarial Standards of Practice specific to pension systems
 - Additional Actuarial Standards of Practice applicable to public pension systems
- Overview of ASOP 4
 - ASOP 4 primary concerns
 - Key changes to ASOP 4
- ASOP 4 Details
 - Amortization method for reasonable actuarially determined contribution (ADC)
 - Low-Default-Risk Obligation Measure (LDROM)
 - Required disclosures



Overview of Actuarial Standards of Practice (ASOPs)



Precept 3 of the Code of Professional Conduct

- An actuary shall ensure that actuarial services performed by and under the direction of the actuary satisfy applicable standards of practice.
 - It is the professional responsibility of an actuary to observe applicable standards of practice that have been promulgated by a **Recognized Actuarial Organization** for the jurisdictions in which the actuary renders actuarial services, and to keep current regarding changes in these standards.



Actuarial Standards of Practice Specific to Pension Systems

ASOP	Description	Latest Revision
4	Measuring Pension Obligations and Determining Pension Plan Costs or Contributions	2021
27	Selection of Economic Assumptions for Measuring Pension Obligations	2020
35	Selection of Demographic and Other Noneconomic Assumptions for Measuring Pension Obligations	2020
44	Selection and Use of Asset Valuation Methods for Pension Valuations	2011
51	Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions	2017



Additional Actuarial Standards of Practice Applicable to Public Pension Systems

ASOP	Description	Latest Revision
12	Risk Classification	2005
23	Data Quality	2016
25	Credibility Procedures	2013
41	Actuarial Communications	2010
56	Modeling	2019





Overview of ASOP 4



ASOP 4 Primary Concerns

- Calculation of Actuarial Accrued Liability (AAL)
 - Actuarial cost method
- Funding Policy
 - Actuarially determined contribution (ADC)
 - Amortization method
 - Pattern of reducing unfunded actuarial accrued liability (UAAL)
- Related Disclosures



Key Changes to ASOP 4

Changes effective for reports with measurement dates after February 15, 2023

- **Reasonable Actuarially Determined Contribution**
 - No rolling negative amortization
 - No ultimate entry age normal
 - Must fully amortize the unfunded liability within a reasonable time period or reduce the unfunded liability by a reasonable amount within a sufficiently short time period
- **Low-Default-Risk Obligation Measure (LDRM)**
 - Liability if invested in low-default-risk securities
- **Disclosures**
 - Estimate time until funding policy contribution will exceed the normal cost plus interest on the unfunded liability





ASOP 4 Details



Amortization Method for Reasonable ADC

Requirement:

Must fully amortize the unfunded liability within a reasonable time period or reduce the unfunded liability by a reasonable amount within a sufficiently short time period.

Key considerations

Open or closed amortization period

Length of time until amortization payments exceed interest on UAAL

Average remaining service lifetime of active plan participants



Amortization Method for Reasonable ADC (cont.)

With a 4% payroll growth assumption and a 30-year ADC, the first 21 years would include negative amortization (the unfunded liability will not begin to decrease below the initial unfunded amount until the 21st year). The reasonable ADC would have to use 18 years or less to avoid negative amortization.

Options to consider

Fixed vs layered

For layered:
Source of gain or loss

Reduce or eliminate payroll growth assumption

You may notice the actuarially determined contribution being determined over a **significantly shorter length of time** and over a **closed period**.

Impact on ADC				
System	System 1	System 2	System 3	System 4
Discount Rate	7.50%	7.50%	7.50%	7.50%
Payroll Growth Rate	1.20%	2.50%	3.50%	4.00%
Unfunded Liability	\$20M	\$20M	\$20M	\$20M
Maximum Years to Avoid Negative Amortization	30	23	20	18
Payment Range During Reasonable Amortization Period	\$1.5M – \$2.1M	\$1.5M - \$2.6M	\$1.5M - \$2.9M	\$1.5M - \$3.0M
Payment Range During 30-Year ADC	\$1.5M - \$2.1M	\$1.3M - \$2.7M	\$1.1M - \$3.2M	\$1.1M - \$3.5M

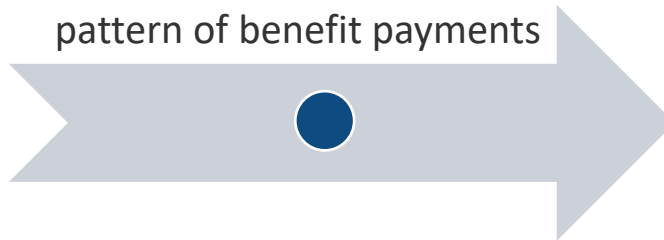


Low-Default-Risk Obligation Measure

LDROM

Discount rate derived from low-default-risk fixed income securities

Cash flows are reasonably consistent with expected pattern of benefit payments



Examples

US Treasury yields

Insurance company annuity purchase rates

Highest quality corporate or municipal bond rates

Difference between LDROM and AAL

- Reduction in liability from investing in diversified portfolio
- May also ignore future pay increases in LDROM calculation

May include changes in other assumptions if other assumptions such as inflation are inconsistent with new discount rate



Low-Default-Risk Obligation Measure

Required Disclosures

Discount rate used
and rationale for
selection

Assumptions,
methods and/or
procedures that
differ from rest of
funding valuation
results

Commentary
regarding
significance of
LDROM with respect
to funded status,
contributions, and
security of member
benefits



Required Disclosures

- **Plan Provisions**
 - Omission of any significant plan provisions
- **Implications of Funding Policy**
 - Estimate time until unfunded liability is fully amortized
 - Assessment of funding policy on plan's expected future contributions and funded status
 - Assess whether funding policy is inconsistent with fund accumulating assets adequate to make benefit payments when due
 - Estimate time until assets are depleted
 - Estimate time until funding policy contribution will exceed the normal cost plus interest on the unfunded liability
- **Assessment of Assumptions Not Selected by Actuary**
 - Disclose assumptions that actuary believes are not reasonable
- **Statement That Combined Assumptions Have No Significant Bias**
 - Not significantly optimistic or pessimistic



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

Item 7. Future meetings: Agenda items, dates, locations, and related matters
