Trustees present

Aaron Zalis, Chair
Jason Hoffman, Vice-Chair
Chuck Bryant
Yvonne Heath
Beth Knes
Jason Steliga

Absent: Scott Hunt

BUDGET AND AUDIT COMMITTEE MEETING

Prior to the meeting of the Board of Trustees, the Budget and Audit Committee met to review and approve the Annual Banking Resolution that allows the administrators of the system to work with Central Bank without requiring further Board action of the details of each action.

Dearld Snider reviewed the Board of Trustees' Strategic Plan Policy and highlighted the budgeting portion of the plan.

Anita Brand presented the detailed FY 2020 budget proposal, and the Board approved the budget. The budget includes investment expenses and administrative expenses. Total expenditures are budgeted to increase by 3.1% based on an expected 3.1% increase in benefit payment to members. Investment expenses will increase by 5.4% as the Systems continue to increase investment in more labor-intensive private risk assets. Administrative expenses are expected to decrease by 5.4%, due to completion of several significant projects including implementation of the financial and human resource system.

Jeff Hyman presented the annual internal audit report and the internal audit plan for FY 2020.

SYSTEM OPERATIONS

The Board meeting started at 10:15 a.m. The Board approved the minutes from the April 15, 2019 meeting and established the order of business.

INVESTMENTS

Investment Performance Report - Craig Husting reviewed the March 31, 2019 investment status. Calendar year 2018 was a low investment performance year in nearly all market sectors, but the first quarter of calendar 2019 has shown considerable rebound in most market segments, and the Systems’ investment earnings stand at 3.3% as of March 31, 2019. The Systems have outperformed benchmarks in non-U.S. equities and private risk over the last three months, while showing lower growth in the expanding U.S. equities market.
Comparing the Plans’ actual investments to the performance if the Systems’ assets were allocated precisely at the policy targets for each asset class, actual performance has exceeded performance of the policy targets for longer periods but lagged somewhat behind during the high growth of the last three months.

MANAGEMENT REPORT

Meeting Dates – The Board approved its meeting dates for FY 2020:

August 26, 2019
October 28, 2019
December 9, 2019
February 10, 2020
April 6, 2020
June 8 & 9, 2020
August 31, 2020

Banking Resolution - The Board approved the Annual Banking Resolution that allows the administrators of the system (Steve Yoakum, Dearld Snider and Craig Husting) to work with Central Bank to make needed changes to their banking relationship without requiring further Board action of the details of each action. Examples of this activity include approval of online user access capabilities.

Strategic Plan - The Board reviewed the Strategic Plan process, particularly regarding budgeting and departmental tactics in support of the plan.

Budget approval – The Board approved the FY 2020 budget recommended earlier by the Budget and Audit Committee. The budget includes investment expenses and administrative expenses. Total expenditures are budgeted to increase by 3.1% based on an expected 3.1% increase in benefit payment to members. Investment expenses will increase by 5.4% as the Systems continue to increase investment in more labor-intensive private risk assets. Administrative expenses are expected to decrease by 5.4%, due to complete of several significant projects including implementation of the financial and human resource system.

Facility Renovation – Dearld Snider presented an update on the Systems’ facility renovation project. The update reviewed the renovation timeline. The design process is completing this month. Construction documents will be completed during June to August 2019, and construction will begin in the Fall of 2019 and continue for two years. The Board reviewed Bid Package 1, pertaining to auxiliary work to prepare the site. This project includes geothermal bore fields, geothermal pipe installation, demolition of the ‘jiffy lube’, construction of a three lane south exit, and construction of the new west parking lot. The Board also reviewed the renovation timeline for the transition of the Systems’ various departments to their new locations during the renovation. All staff will remain in the building during the renovation.

Member services – Nicole Hamler and Nichole Williams presented an update on the Information Center. The Center responds to an annual average of 86,000 phone calls and 8,000 emails. The Center includes several automated processes, including call recordings linked to member accounts, automatic contact evaluations and routing of overflow calls. Planned features for the Center include online chat options
for members and telecommuting for staff. Susan Wood presented an update on the refresh of the Systems' website. The new website will go live in July of this year.

Administrative Rule Review – State law requires all agencies to review their rules at least every five years and report whether any reviewed rules are obsolete, unneeded for could be revised to be less restrictive or reduced regulatory burdens. For PSRS/PEERS, the review process began July 1, 2018 (next review will begin July 1, 2023). No comments were received on any PSRS/PEERS regulations. The Systems’ Report was completed by the legal staff, with input from other staff. The report finds that four current rules appear to be obsolete in their entirety, while five rules could be modified to remove obsolete language or otherwise updated.

The Rules Report will be filed by June 30, 2019 and added to website. Legal staff will investigate rescission or amendment of rules identified as obsolete or in need of modification, and those changes will be brought to the Board for consideration and approval.

Legislative Report – Maria Walden gave the report. Walden mentioned the Systems’ current resolutions in support of maintaining a defined benefit (DB) pension plan, avoiding any benefit increases until the unfunded liability is eliminated and the contribution rate stabilizes, and urging the legislature not to impose any restrictions on the Board’s ability to invest the Systems’ assets in the best possible way. The Board also reviewed the current policy regarding setting the Cost of Living Adjustment (COLA) under the flexibility allowed in the current law.

 Truly Agreed To Bills: Walden discussed several bills that were enacted by the legislature and affect the Systems:

HB 77 (Black) and SB 17 (Romine) were both approved, and both bills allow PSRS retirees who return to work for community colleges to be covered under the 550 hour and 50% salary limits for such employment, rather than the $15,000 cap with no hourly limit. HB 77 was approved first by the legislature and signed into law by Governor Parson, effective April 16, 2019.

CCS/SB 17 also includes the language of HB 723 (Pike) to revise the survivor popup option for a divorce under certain criteria and would allow options for divorces prior Sept. 1, 2017. The provisions may require a revised divorce decree to show spouse waives rights to the pension.

SS#2/SCS/HCS/HB 604 (Henderson) includes the language of HB 462 (Shields) regarding teacher externships. The bill provides a definition for “teacher externship” and requires DED and DESE shall adopt requirements for teacher externships along with an equivalency schedule to allow externship hours to be considered for increases similar to graduate level coursework on the salary schedule for districts before July 1, 2020. The Systems’ are making note of the bill primarily because it could have some impact on teacher salaries and thus contributions from and payments to members.

Other Bills Related to the Systems that did not pass:

Ms. Walden also mentioned several other bills that would affect the Systems but were not enacted.

HB 69 (Dinkins) would have reinstated the 2.55% multiplier for 31+ years of service. The cost study shows a savings to the system and reduction of contribution rate of 0.21%.
HB 201 (Kendrick) would have required all public pension plans to provide certain information to members of the plan. This bill would not have imposed any requirements not already met by the Systems.

HB 362 (Roeber) would have increased the WAR limit from 550 hours to 700 hours. The actuary estimates indicated significant cost to the system, ranging from $18M to $227M for PSRS and from $5M to $69M for PEERS.

HB 864 (Taylor) would have allowed all teachers to make an irrevocable choice to select a DC plan option rather than current DB plan. This option would have saved little for participants, provided less retirement income and security for those choosing a DC option and bankrupted the current DB system. The bill made no legislative progress and did not pass.

HB 1011 (Rehder) would have created requirements that public entities not enter into contracts with companies that boycott Israel or its territories.

Ms. Walden also mentioned several other bills relating to retirement and savings that would not affect the Systems, school districts or members of the Systems. In addition, Walden mentioned several issues likely to be seen in future legislative activity: extending the divorce pop-up provision to same sex marriages prior to June 2015, salary disclosure for employees of PSRS/PEERS and refund of community college employer contributions under the WAR provisions of SB 892 (2018).

CPI update/COLA review – The Board reviewed the COLA policy. The year to date FY 2019 CPI-U figure is +1.4124%. Under current policy, when the CPI-U is between 0.0% and 2.0%, the Board will make a COLA for eligible retirees of 2.0% when the cumulative CPI-U growth reaches 2.0%.

Public Comment – None.

The public meeting adjourned, and the Board went into closed session at 1 p.m.