

TEXAS MUNICIPAL RETIREMENT SYSTEM
JOINT MEETING OF THE BOARD OF TRUSTEES
AND THE
ADVISORY COMMITTEE ON RETIREMENT MATTERS

TMRS Headquarters
1200 North IH 35
Austin, Texas

May 20, 2011

On May 20, 2011, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a joint meeting of the Board and the Advisory Committee on Retirement Matters 9:00 a.m. at the Texas Municipal Retirement System Headquarters, 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

April Nixon, Chair
Frank Simpson, Vice Chair
Ben Gorzell, Jr.
Julie Oakley
Jim Parrish
Roel ("Roy") Rodriguez

Advisory Committee on Retirement Matters

Keith Brainard, National Assoc. of State Retirement Administrators (NASRA)
Allan Bogard, City of Sugar Land
Ron Cox, Retired Member
Randle Meadows, Arlington Police Association
Dean Frigo, City of Amarillo
Jim Moore, Mesquite Fire Fighters
David Crow, Arlington Fire Fighters
Kevin Lawrence, Texas Municipal Police Assoc. (TMPA)
Scott Kerr, Texas State Assoc. of Fire Fighters (TSAFF)
Nikki Ramos, City of San Antonio
Jerry Gonzalez, Service Employees Int'l Union – San Antonio (SEIU)
Don Byrne, Texas Municipal Human Resources Assoc. (TMHRA)
Mike Perez, Texas City Management Assoc. (TCMA)
Michael Staff, Combined Law Enforcement Assoc. of Texas (CLEAT)
Monty Wynn, Texas Municipal League (TML)

Present also were:

David Gavia, Executive Director
Ian Allan, Director of Internal Audit
Rhonda Covarrubias, Director of Finance
Eric Davis, Deputy Executive Director

Bernie Eldridge, Director of Human Resources
Nancy Goerdel, Chief Investment Officer
Leslee Hardy, Staff Actuary
Cindy Morse, Executive Assistant
Debbie Munoz, Director of Member Services
Christine Sweeney, General Counsel
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Scott Willrich, Director of Information Resources
Mark Randall, Gabriel Roeder Smith & Company
Joe Newton, Gabriel Roeder Smith & Company
Robert Klausner, Klausner & Kaufman, P. A.
Marcia Beard, R. V. Kuhns & Associates, Inc.

Guests:

George Kaufman, City of Garland
Glenn Johnson, Garland Fire Fighters
Michelle Mellon-Werch, Associate General Counsel
Lorraine Moreno, Regional Manager, City Services
Candace Nolte, Controller
Kristin Qualls, Assistant Director of Equities
Pete Krnavek, Manager of Information Services
David Rodriguez, Regional Manager, City Services
Melanie Thomas, Editor

The meeting was called to order at 9:01 a.m., and the invocation was given by Julie Oakley.

1. Consider and Act on Adoption of Minutes from the March 24-25, 2011 Regular Meeting of the Board of Trustees

Ms. Nixon introduced this item and noted one revision to the Minutes. On page 1 of the Minutes to the March 24 meeting, the meeting should be shown as starting at 8:30 a.m., rather than 1:30 p.m. Ms. Nixon asked the Board if there were any questions or any further revisions to the Minutes. As there were none, Mr. Parrish moved that the Minutes be adopted as revised. Mr. Simpson seconded the motion, which passed unanimously.

2. Legislative Update and Overview of 82nd Legislative Session, Including Discussion on Status of TMRS Legislation (HB 997 and SB 350) and Other Filed and Proposed Legislation and Filed Federal Legislation

Mr. Gavia introduced this item and mentioned that Ron Lewis would not be present today to provide his portion of the legislative update. Mr. Gavia introduced Dan Wattles to make the full presentation. Mr. Wattles began by advising the Board that there are ten days left in the Session. He discussed the budget deliberations and the possibility of a special session. He discussed the procedural deadlines that have passed and the ramifications on bill passage. He mentioned that SB 350 has been placed on a calendar for second reading. The deadline for the second reading is Tuesday, May 23; the deadline for the third reading is Wednesday,

May 24. Mr. Wattles then moved to the list of bills affecting TMRS. He discussed the alternate COLA bill (SB 642) and return to work bills (HB 159/SB 812).

Mr. Wattles thanked the Advisory Committee members for all of their hard work on TMRS' bill. Ms. Nixon echoed the Board's thanks to all who have worked on the bill.

3. Presentation on National Trends for Public Pension Plans

Mr. Gavia introduced Keith Brainard, Research Director with the National Association of State Retirement Administrators (NASRA) to present an overview of public pension plans and national trends. Mr. Brainard began his presentation by comparing, at a high level, the differences between private sector and public sector benefits. He next highlighted the distinguishing elements of public pension plans, which included: mandatory participation; employee/employer cost sharing; benefits relative to tenure and salary; pooled, professionally managed investing; and a benefit that cannot be outlived. He then highlighted several of the national statistics including nearly \$3 trillion held in assets, the amount of benefits distributed and aggregate funding level. He moved to the key Texas statistics and charted the actuarial funding levels for 126 plans. He mentioned that the one constant for poorly funded plans is failure of the employer to make the required contributions. He compared employee and employer rates to TMRS and highlighted the unique features of TMRS. The issue of the investment return assumption was discussed, and it was pointed out that TMRS' 7.00% is the lowest in the nation.

Mr. Brainard then shifted to key reasons for the opposition to public pensions, including the very large gap between public and private sector benefits. Although pension plans are often cited as being a reason for the "impending pension crisis," Mr. Brainard believes that these sentiments are not borne out by the facts.

Mr. Brainard closed his presentation by stating that TMRS is reasonably well-funded, provides competitive benefits and continues to head in the right direction, as fund restructuring will produce more efficient funding and somewhat lower costs. He added that the problem(s) facing public pension plans in many states are absent or less pronounced in Texas.

4. Presentation of Preliminary Aggregate Valuation Results and Consider and Act on Adoption of New Actuarial Assumption Set and Redistribution of Current Service Annuity Reserve Fund (Agenda Item No. 4); and Consider and Act on Redistribution of Reserves (Agenda Item No. 5)

Mr. Gavia introduced Mark Randall and Joe Newton from GRS and stated that GRS' presentation will cover two separate agenda items: Agenda Item No. 4 (preliminary valuation results and action on the adoption of new actuarial assumption set and redistribution of the CSARF) and Agenda Item No. 5 (redistribution of reserves). He also mentioned that each agenda item will have its own motion at the end of the presentation.

Mr. Randall began his presentation by updating the Board on the experience study schedule. He discussed the purpose of the experience study, and stated that it is critical to ensure that the actuarial assumptions track actual experience. He discussed the funding equation for a

pension plan, and where the assumptions affect the components of this equation. He stated that the optimal assumption set should lean to the conservative side; however, the current assumption set leans to the aggressive side. Mr. Rodriguez asked how previous discussions regarding the mortality assumptions played into this study. Mr. Randall explained that the mortality assumptions being discussed today are for valuation purposes only and not for the purpose of calculating benefits. Mr. Randall indicated that separate work may need to be done on the issue, but it is not part of this study. There was further discussion on how the mortality assumptions for calculating benefits should be studied. The discussion centered on the need to have a plan to address this issue.

Mr. Randall then discussed GRS' recommendations for the assumption set, highlighting the recommendations that were neutral, positive (lowered cost) and negative (increased costs). He stated that these recommendations are contingent upon the passage of the fund restructuring legislation (SB 350). He indicated that the recommended assumptions will lean more to the conservative side.

Mr. Newton discussed the application of these assumptions. He mentioned the creation of the Benefit Accumulation Fund (BAF) and discussed how the Current Service Annuity Reserve Fund (CSARF) will be redistributed back to each city's BAF. He then discussed the Asset Smoothing and Reserve Policy, comparing the average system to TMRS' current structure and TMRS' proposed structure. Because the proposed structure would have an expected annual contribution volatility of +/- 0.40%, which is less than our peers, Mr. Newton stated that he would be comfortable with reducing the reserve target and redistributing reserves back to city accounts. He outlined arguments for and against the reserve redistribution. He stated that there are several options with regard to the reserve; however, GRS' recommendation is to release all but \$100 million of the reserves. Redistributing the reserve results in an average rate reduction of about 12 basis points per city, eliminates inequity in the return of reserves, and creates deferred gains for cities.

Mr. Crow asked how gain-sharing would be revisited in the future. Mr. Newton clarified that this recommendation eliminates the Board's need to decide how much to reserve each year. A brief discussion on gain-sharing ensued.

Mr. Newton then discussed the impact of restructuring and new assumptions, without redistribution of the reserves. He presented results in the aggregate and then broke the impact down by groups. In the aggregate, he showed the increase in the funded ratio, the reduction in contribution rates, and estimated contribution savings and said that this will put TMRS in a very favorable position. Mr. Newton showed the impact on a selection of large cities, and the distribution of contribution rate reductions. He then showed the numerical changes for cities by group. Mr. Newton explained the impact of restructuring on phase-in rates: 204 cities will eliminate phase-in; 203 cities will have a smaller amount to phase-in; and 43 cities will maintain their minimum phase-in rate.

Mr. Randall then highlighted GRS' recommendation which calls for a full distribution of CSARF assets to the post-restructured BAF accounts and the adoption of the assumptions

recommended in the draft experience study report for use with the 12/31/2010 actuarial valuation.

Mr. Simpson pointed out that he was uncomfortable making a decision regarding the redistribution of reserves after just one presentation. Mr. Rodriguez mentioned that he was interested in seeing the reserves distributed to the three groups: cities, employers and retirees. The Advisory Committee members offered differing opinions ranging from being in favor of redistribution to not redistributing at this time, but having further discussion regarding the reserve in the future.

Regarding Agenda Item No. 4, Mr. Simpson moved to accept the recommended actuarial assumption set for implementation with the preparation of the December 31, 2010 actuarial valuation with Restructuring, including full redistribution of CSARF assets to city trust accounts in the BAF, contingent on passage of SB 350. Mr. Rodriguez seconded the motion, which passed unanimously.

Regarding Agenda Item No. 5, Mr. Parrish moved that the Board adopt the recommendation to distribute the majority of the Reserve to city trust accounts in the BAF as a 2010 interest credit on the post-restructured BAF balances effective as of December 31, 2010, maintaining \$100 million for future administrative expenses and unforeseen contingencies, and that future build up of the Reserve will be at the Board's discretion, contingent on passage of SB 350. Ms. Oakley seconded the motion. The motion passed five to one, with Mr. Simpson opposing.

The Board took a break from 11:24 a.m. to 11:36 am.

6. Investment Update

Mr. Gavia introduced Nancy Goerdel and Marcia Beard, R. V. Kuhns, to provide the Investment update. Ms. Goerdel stated that the key highlight is that the Real Return allocation is now fully funded. She reported that assets are approaching \$19 billion and then highlighted performance month-to-date and year-to-date.

7. Consider and Act on New Appointments to the Advisory Committee on Retirement Matters

Mr. Gavia began by explaining that at the March 24, 2011 meeting of the Board, Ms. Nixon appointed a subcommittee of the Board to gather applications from interested parties for the vacant positions on the Advisory Committee, review those applications, interview and score the applicants, and bring a recommendation to the Board. Mr. Gavia reported that this subcommittee was made up of Ms. Oakley and Mr. Parrish. Mr. Gavia stated that at the March Board meeting, Randle Meadows was reappointed to the Advisory Committee, which leaves two positions yet to be filled. Since that meeting, he noted that two additional vacancies have occurred. Suzanne Levan is no longer with the City of San Antonio, so there is a vacancy on the Group Class membership. The City of San Antonio has appointed a replacement for Ms. Levan and the Board will be asked to ratify that appointment later in this meeting. Mr. Gavia also reported that Mr. Steven Segal lost his election bid for Mayor for

the City of West University Place, so he will be leaving the Advisory Committee at the end of May. A replacement for Mr. Segal will be handled at a future meeting.

Ms. Nixon introduced Ms. Oakley to present the report on the subcommittee's activities. Ms. Oakley reviewed the entire process that she and Mr. Parrish went through, along with Mr. Gavia. She explained that the process created by this Subcommittee will be used in the future for selection of Advisory Committee members.

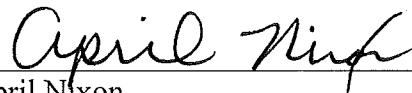
Mr. Parrish moved that the Board appoint Michael Dane (City of San Angelo) to replace Jim Moore and Victor Hernandez (City of Lubbock) to replace John Lewis. Mr. Gorzell seconded the motion, which passed unanimously. Mr. Simpson moved that the Board ratify the appointment of Nikki Ramos as the representative for the City of San Antonio. Mr. Parrish seconded the motion, which passed unanimously.

8. Call For Future Agenda Items

Ms. Nixon asked the Board if there were any future agenda items to be discussed. Mr. Parrish asked that the Board allocate some resources to review the issue of gain-sharing at a future meeting. Ms. Nixon asked if there was any other business. As there was no further business, the meeting adjourned at 11:45 a.m.



David Gavia
Executive Director



April Nixon
Chair, Board of Trustees