



## AGENDA

Meeting of the Board of Trustees

Thursday, March 24, 2022 – 9:00 a.m.

TMRS Office  
2717 Perseverance Drive, Suite 300  
Austin, Texas

Zoom Link for Public:

<https://tmrs.zoom.us/j/92803129403?pwd=K3V6RUE5eVJxWDh1SHU1ZDI1ZFpGdz09>

*The Board may discuss any item on the Agenda at any time during the meeting.*

*Call to Order*

*Invocation*

*Pledge of Allegiance*

### **Consent Agenda**

1. **Consider and Act on Consent Agenda.** *Jesús Garza*
  - a. Approve Minutes from the February 11, 2022 Board of Trustees meeting
  - b. Quarterly Confirmation of Member Retirements
  - c. Quarterly Confirmation of Supplemental Death Benefit Payments and Extended Supplemental Death Benefits Coverage
  - d. Receive Financial Statements as of December 31, 2021
    - i. Statements of Fiduciary Net Position
    - ii. Statements of Changes in Fiduciary Net Positions
    - iii. Expense Fund Balance Sheet
    - iv. Expense Fund Schedule of Operating and Capital Expenditures

### **Board Organization**

2. **Consider and Act on Formation of Ad Hoc Board Committee.** *David Wescoe*

### **Executive Director Reports**

3. [Executive Director's Report](#). *David Wescoe*
4. [Receive Senior Staff Quarterly Reports](#). Chief Administrative Officer (*Sandra Vice*), Chief Legal Officer (*Christine Sweeney*), Chief Service Officer (*Michelle Kranes*), Director of Communications (*Michelle Mellon-Werch*), and Director of Governmental Relations (*Dan Wattles*)
5. **Consider and Act on Matters Concerning the Sale of the TMRS 1200 North Interstate 35 Building.** *David Wescoe and Eddie Schultz*

### **Legal Reports**

6. [Consider and Act on Final Adoption of TMRS Rule Amendments – Chapter 129](#). *Christine Sweeney*
7. [Consider and Act on the State Office of Administrative Hearing Administrative Law Judge's Proposal for Decision in a Member Dispute Matter](#). *Christine Sweeney*

### **Legislative Agenda**

8. [Review and Discuss TMRS Act Review Project and Potential Legislation Topics](#). *Christine Sweeney*

### **Actuarial Services Reports**

9. [Consider and Act on 2021 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account](#). *Leslee Hardy and Joe Newton (GRS)*
10. [Consider and Act on Transfer from the Interest Reserve Account to the General Reserves Account](#). *Leslee Hardy and Joe Newton (GRS)*

### **Internal Audit Reports**

11. [Report on Audit Committee's March 9, 2022 Meeting](#). *David Landis, Bill Philibert, Andi Focht-Williams, and Sandra Vice*
12. [Consider and Act on the 2022 Audit Plan](#). *Andi Focht-Williams*

### **Governmental Relations**

13. [Review, Consider and Act on the Board's Legislative Consultant](#). *Dan Wattles and Ron Lewis*

## **Investment Reports**

14. **Chief Investment Officer Reports.** *David Hunter*
  - a. CIO Report
  - b. Trust Fund Report: Q4 2021
  - c. Receive Quarterly Investment Reports
    - i. Fourth Quarter 2021 Asset Class Reports
    - ii. Fourth Quarter 2021 Data, Performance, and Risk Report
    - iii. 2022 Completed Investments Report
    - iv. Fourth Quarter 2021 Investment Pacing Plan
15. **Receive Fourth Quarter 2021 Investment Compliance Report.** *Nick O’Keefe and Michele Fullon*
16. **General Investment Consultant Quarterly Report.** *Marcia Beard and Spencer Hunter (RVK)*

## **Board Education**

17. **Board Education: Global Equities Asset Class.** *David Hunter*

## **Executive Session**

18. **Executive Session.** *Jesús Garza*
  - a. In accordance with Section 855.007, Texas Government Code, the Board of Trustees may meet in executive session to (i) receive information from or question the employees, consultants, or legal counsel of the System or a third party relating to an investment or a potential investment; (ii) meet with the System’s internal or external auditors to discuss any one or more of the matters set forth in Section 855.007(h); and /or (iii) consider and discuss evaluations or duties of Trustees or Board consultants, and self-evaluations of the Board as a whole, and thereafter may consider appropriate action in open session; and
  - b. In accordance with Section 551.072, Texas Government Code, the Board of Trustees may meet in executive session to deliberate the purchase, exchange, lease, or value of real property if deliberation in an open meeting would have a detrimental effect on the position of the governmental body in negotiations with a third person, and thereafter may consider appropriate action in open session.

***The Board may meet in Executive Session on any item listed above as authorized by the Texas Open Meetings Act or by the Texas Municipal Retirement System Act.***

## **Future Board Agenda Items**

### **19. Call for Future Agenda Items. *Jesús Garza***

#### **Adjournment**

*In accordance with Texas Government Code Section 855.007, the Board may conduct the open and/or closed portions of the meeting by telephone conference call and/or by videoconference. The location of the meeting at which at least one Trustee of the Board will be physically present is the Texas Municipal Retirement System office, 2717 Perseverance Drive, Suite 300, Austin, TX, which will be open and audible to the public during the open portions of the meeting.*



March 15, 2022

**To: Board of Trustees**  
**From: Christine M. Sweeney, Chief Legal Officer** *CS*  
**Re: Agenda Item 1: Consider and Act on Consent Agenda**

The Consent Agenda includes Minutes from the February 11, 2022 Board meeting, quarterly reports on service retirements, disability retirements, death benefits, and financial statements as of December 31, 2021. The Consent Agenda is adopted as one item.

**RECOMMENDATION**

Staff recommends that the Board adopt the Consent Agenda as presented.

**ATTACHMENTS**

- 1 - Minutes from the February 11, 2022 Board meeting
- 2 - Retirement and Supplemental Death Benefit Reports  
(summary report attached; detailed report in Diligent Resource Center due to confidential information)
- 3 - Financial Statements (in Diligent Board Books)



**MINUTES OF THE  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Meeting of the Board of Trustees**

**February 11, 2022 – 9:00 a.m.**

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at the TMRS office, located at 2717 Perseverance, Suite 300, in Austin, Texas, with all Trustees present: Chair Jesús Garza, Vice Chair Bob Scott, Anali Alanis, Johnny Huizar, David Landis, and Bill Philibert.

Staff and consultants present included: David Wescoe (Executive Director), Michelle Kranes (Chief Service Officer), Christine Sweeney (Chief Legal Officer), Sandra Vice (Chief Administrative Officer), David Hunter (Chief Investment Officer), Leslee Hardy (Director of Actuarial Services,) Dan Wattles (Director of Governmental Relations) Marcia Beard (RVK), Spencer Hunter (RVK), and Dr. Anthony Picchioni.

**Consent Agenda**

**1. Consider and Act on Consent Agenda.**

Mr. Scott moved that the Board adopt the Consent Agenda. Mr. Landis seconded the motion, which passed 6-0.

**Board Organization**

**2. Consider and Act on 2022 Board Meeting Dates.**

Ms. Sweeney said that the Board, at its December meeting, decided on six Board meetings and one retreat for 2022 and that meetings occur on Fridays, but did not pick dates. Based on that, Staff identified potential Friday meetings dates on: March 25, May 27, June 24, September 23, October 28 (for a Retreat) and December 9.

Ms. Alanis moved to approve the meeting dates, and Mr. Huizar seconded the motion. Mr. Philibert asked why the Board was considering Fridays for meetings rather than Thursdays because Friday meetings would require some Trustees to travel late Friday or even on Saturday. Trustees discussed whether Thursday meetings would cause conflicts with their city council or other city meetings.

After discussion, Ms. Alanis amended her motion to hold the 2022 Board meetings on the Thursdays one day before the dates proposed by staff, so that the meeting dates would be:

March 24, May 26, June 23, September 22, October 27 (Retreat) and December 8. Mr. Landis seconded the motion, which passed 6-0.

### **Executive Director Reports**

#### **3. Executive Director's Report.**

Mr. Wescoe recognized Mr. Garza for serving in his first meeting as Chair and thanked Mr. Landis for his leadership as Chair in 2021. Mr. Wescoe welcomed new Chief Investment Officer David Hunter. Mr. Wescoe said the 2021 Senior Staff Action Plan was completed successfully and that the Senior Staff recently met off-site and developed another ambitious 2022 Senior Staff Action Plan. Mr. Wescoe reported that the move to the new offices at The Grove was allowing TMRS staff to conduct its business in a more efficient manner. He said that TMRS delivered to its 2021 1099-R forms to retirees by the third week of January. Also, TMRS has enhanced electronic delivery of its redesigned and improved communications.

#### **4. Consider and Act on Resolution to Recognize 2021 Board Chair David Landis.**

Mr. Garza read a resolution recognizing Mr. Landis for serving as Board Chair in 2021 during a year of TMRS achievements that included a new Investments asset allocation, the move to The Grove, the passage of Senate Bill 1105 as the first benefit enhancement legislation for TMRS in almost two decades, and the release of the TMRS mobile app.

Ms. Alanis moved that the Board approve the resolution as presented for Mr. Landis. Mr. Philibert seconded the motion, which passed 6-0.

### **Plan Benefit Design**

#### **5. Consider and Act on Ratification of Ordinances Adopting Updated Service Credit and/or Annuity Increases Effective January 1, 2022 (Received after the December 2021 Board Meeting).**

Ms. Kranes said that the TMRS Act requires the Board to approve ordinances received from cities adopting Updated Service Credit (USC) or Annuity Increases, also known as cost-of-living adjustments (COLAs) to retirement benefit payments. These types of ordinances have a January 1 effective date. At the December Board meeting, as part of the Consent Agenda, the Board approved those ordinances presented at the meeting and such other qualified ordinances as may be received by the System prior to January 1, 2022. Ms. Kranes then presented a list of additional ordinances adopting these changes that were received by TMRS after the December 2021 Board meeting but on or before December 21, 2021.

Mr. Landis moved that the Board ratify the approval of Updated Service Credit and/or Annuity Increase ordinances that were received by TMRS after the December 2021 Board meeting but before the January 1, 2022 effective date. Mr. Philibert seconded the motion, which passed 6-0.

Mr. Scott asked about COLAs based on the consumer price index (CPI) and what the CPI was for 2021. Ms. Hardy said that the 2021 CPI was approximately 7% but that the TMRS COLAs based on the 2021 CPI would take effect in 2023. Ms. Hardy said that COLAs taking effect in 2022 are based on the 2020 CPI of 2.1%. Mr. Scott noted that inflation will also affect actuarial assumptions.

### **Advisory Committee on Benefit Design**

#### **6. Report on Advisory Committee's February 4, 2022 Meeting.**

Mr. Garza reported that the meeting of the Advisory Committee on Benefit Design scheduled for February 4, 2022, was cancelled because of inclement weather, but that prior to the meeting staff had researched and survey cities on two benefit design topics for the Committee. Ms. Kranes presented the research done for the Committee on the two topics.

On the first topic, Ms. Kranes said that under the TMRS Act cities cannot provide COLAs for its retirees without also providing updated service credit (USC) for active employees. Staff sent a survey to all TMRS cities about “delinking” these two benefits so that cities could offer COLAs without USC. Mr. Kranes also reported on the cost for adding both USC and COLAs. Mr. Scott asked about the costs as a percentage of pay, and Ms. Hardy said the cost for COLAs on top of USC was 8.75% on average, and without USC, the cost for COLAs was 7.92% on average. Ms. Hardy said that, in general, the cost for USC was about 4.5%. The combined cost for USC and COLAs, she said, was on average about 13.25% as a percentage of payroll. Ms. Kranes summed up that USC is about one-third of the cost when a city must add both USC and COLAs. Also, she said, the COLAs themselves are more expensive when USC must be layered on top of them. Ms. Kranes said that about 17% of cities responded to staff's survey on this issue, and 66% of those responding supported allowing cities to provide COLAs for retirees without having to provide USC for active employees. She said two employee associations asked about delinking COLAs from USC had no concern with doing so, and a third was researching the question.

On the second topic, staff also studied delinking the retiree Supplemental Death Benefit (SDB) from the Member SDB. Ms. Kranes said staff surveyed cities about this issue too, and of the 17% of cities who responded 56% to them said that they did not support providing a retiree SDB without a Member SDB. She added, however, that comments from cities reflected that they had no concern with allowing flexibility but rather would continue both benefits themselves. Ms. Alanis asked, and Ms. Kranes confirmed, that delinking the two SDBs would only give cities an additional option and not take away an existing option.

Ms. Kranes said that staff concluded that there was majority support from the responding cities for delinking USC from COLAs and that support was split for delinking the retiree SDB from the Member SDB. Mr. Garza posed a question about costs, and Ms. Hardy responded that on average the Member SDB costs 0.1% of payroll and the retiree SDB costs 0.05% of payroll. Mr. Garza said that he heard consistently from the Advisory Committee that it sought ways to make it easier for cities to offer COLAs, so delinking COLAs from USC was one way to do

that. Mr. Garza supported the delinking of these benefit options to allow additional benefit possibilities to cities, and Mr. Philibert agreed with Mr. Garza's comments.

## **Governmental Relations Report**

### **7. Discuss 2022 Legislative Calendar.**

Mr. Wattles gave an update on key dates for the interim legislative period leading up to the 2023 session of the Texas Legislature. After discussion at following meetings and if the Board decides it wants to pursue legislation in 2023, final direction on draft bill language would be requested at the September meeting. Legislation bills may be filed beginning November 7, 2022. Board decisions may be delayed until December, but filing bills earlier is better. Mr. Garza said that administrative and clean-up proposals for legislation considered in prior years should be reviewed again in addition to the benefit enhancement items discussed today and recently with the Advisory Committee.

## **Investment Reports**

### **8. Introduction of New Chief Investment Officer, David Hunter.**

Mr. Wescoe introduced Mr. Hunter, who was hired after a comprehensive national search. Mr. Wescoe provided an overview of Mr. Hunter's academic background and investment experience.

### **9. Chief Investment Officer Reports.**

Mr. Hunter reported a 2021 preliminary net investment return of 12.8%, net of fees. That return beat its benchmark by 61 basis points, which equates to about \$218 million. On a five- and ten-year basis, the returns were 8.94% and 7.69%, both of which were 23 basis points better than the benchmarks. Mr. Garza asked to what the good returns could be attributed, and Mr. Hunter said that private equity and real estate both surpassed their benchmarks by quite a bit. Regarding asset allocations, Mr. Hunter said that all asset classes were within approximately 1% of their targets with exceptions for Public Equity (overweight 2.3%), Private Equity (underweight 2.3%) and Hedge Funds (overweight 3.3%). The most important driver of returns is asset allocation, Mr. Hunter said, and being overweight in Public Equity was offsetting being underweight in Private Equity as TMRS waits for its Private Equity managers to draw on TMRS capital commitments. Mr. Hunter said that reducing TMRS exposure to hedge funds was well underway. Mr. Hunter said that the Staff Investment Committee (SIC) approved a total of ten investments in private market managers totaling \$1.375 billion since November 2021. He discussed the due diligence process used by the SIC for these investments and said that TMRS was doing as good a job in that regard as anyone for whom he had worked in the past. Mr. Hunter said that the Request for Proposals for a General Investment Consultant was published on the TMRS website and sent to the 10 largest investment consulting firms.

**10. RVK Report.**

Ms. Beard reported that the Total Fund returned 3.71%, net of fees, in the 4th quarter and 12.8%, net of fees, over the trailing 12 months (calendar year 2021) based on preliminary market data before auditing. TMRS outperformed its benchmarks in most asset classes, Ms. Beard said. Other Public & Private Markets slightly underperformed but only by four basis points net of fees in a portfolio that has been transitioning. Public Equity underperformed its benchmark, but Ms. Beard said it is hard to outperform an equity index during a strong market. Ms. Beard reviewed allocations within asset classes relative to the Board's strategic target allocations, and said that all asset classes were within their expected ranges at end of the quarter, and TMRS was within its policy benchmarks.

**Executive Session**

**11. Executive Session.**

The Board went into Executive Session at 10:40 a.m. The meeting reconvened in Open Meeting at 2:01 p.m. No action was taken during the Executive Session. All members of the Board who were present before the Executive Session were present.

**Future Board Agenda Items**

**12. Call for Future Agenda Items.**

There were no future agenda items. Mr. Garza adjourned the meeting at 2:01 p.m.

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David B. Wescoe  
Executive Director

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Jesús Garza  
Chair, Board of Trustees



March 15, 2022

**To: Board of Trustees**

**From: Debbie Muñoz, Director of Member Services** *Debbie Muñoz*

**Re: Agenda Item 1 - Consent Agenda – Retirements and Supplemental Death Benefit Payments**

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The Service and Disability Retirements Report and the Supplemental Death Benefits Report are in Diligent. They reflect payments processed by the Member Services department in accordance with the TMRS Act and reviewed and approved by Michelle D. Kranes, Chief Service Officer.

**Texas Municipal Retirement System  
Board Supplemental Death Benefits Report**

**Summary of Supplemental Death Benefit Payments and Applications for Supplemental  
Death Benefits Extended Coverage from November 1, 2021 to February 28, 2022**

<b>Supplemental Death Benefit Payments</b>	
By Beneficiaries of Active Members	50 payments totaling \$2,888,352.93
By Beneficiaries of Retired Members	319 payments totaling \$2,370,000.00
<b>Applications for Supplemental Death Benefits Extended Coverage</b>	
None	

## Board Retirement Report

## Summary of Individual Member Retirements Processed from 10-2021 to 01-2022

<b>Total Number of Retirements by Option</b>	<b>Service</b>	<b>Disability</b>	<b>Total</b>
Retiree Life Only	531	6	537
Retiree Life -- 100% to Survivor	561	3	564
Retiree Life -- 75% to Survivor	118	1	119
Retiree Life -- 50% to Survivor	224	1	225
Retiree Life -- 5 Years Guaranteed	24	0	24
Retiree Life -- 10 Years Guaranteed	39	1	40
Retiree Life -- 15 Years Guaranteed	79	0	79
Cashout of Reserves	17	0	17
<b>Total Number -- All Options</b>	<b>1,593</b>	<b>12</b>	<b>1,605</b>

<b>Total Monthly Benefits (Nearest Dollar)</b>	<b>\$3,686,154</b>	<b>\$7,202</b>	<b>\$3,693,356</b>
<b>Average Monthly Benefit (Nearest Dollar)</b>	<b>\$2,314</b>	<b>\$600</b>	<b>\$2,301</b>
<b>Average Age at Retirement</b>	<b>60</b>	<b>51</b>	<b>60</b>
<b>Average Years of Service at Retirement</b>	<b>21</b>	<b>13</b>	<b>21</b>

<b>Partial Lump Sum Distributions</b>	
<b>No. of Retirements Taking a PLSD</b>	1,142
<b>Total Amount Paid</b>	\$87,303,526
<b>% of PLSD Funds Rolled Over</b>	69%
<b>% of PLSD Funds Not Rolled Over</b>	31%

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**As of December 31, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Cash	\$9,960,043	\$2,866,816
Receivables:		
Contributions	141,968,819	129,194,021
Interest and dividends	22,314,890	40,576,338
Investment trades	360,236,698	622,540,542
Total receivables	524,520,407	792,310,901
Investments, at fair value:		
Short-term investments	727,050,696	1,922,521,232
Derivative contracts	(19,794)	(1,747,099)
Fixed income securities	3,336,959,069	5,596,417,508
Inflation-linked bonds	-	555,552,707
Global public equities	13,974,436,068	11,345,774,032
REITs	53,921,725	325,265,931
Non-core fixed income funds	5,787,465,919	4,747,661,737
Other public & private markets funds	4,071,351,290	2,221,319,526
Hedge funds	3,127,664,474	3,267,288,761
Private equity funds	2,900,381,591	1,523,504,987
Real estate funds	4,136,177,813	3,017,043,281
Total investments	38,115,388,851	34,520,602,603
Total assets	38,649,869,301	35,315,780,320
<b>LIABILITIES</b>		
Investment trades payable	719,338,532	1,001,381,996
Accrued investment management fees	6,612,194	8,273,779
Accounts payable and other accrued liabilities	14,788,023	23,327,409
Total liabilities	740,738,749	1,032,983,184
<b>FIDUCIARY NET POSITION</b>		
Restricted for pensions	37,903,315,069	34,270,205,759
Held in trust for other benefits	5,815,483	12,591,377
Total fiduciary net position	\$37,909,130,552	\$34,282,797,136

NOTE: Financial statements are considered preliminary, due to pending market value adjustments for private investments as of 12/31/2021.

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**  
**For the Twelve Months Ending December 31, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>ADDITIONS</b>		
Contributions:		
Pension plan - cities	\$1,074,589,974	\$1,190,110,045
Pension plan - Members	492,319,722	479,187,524
Supplemental death benefits plan - cities	10,655,161	8,945,812
Total contributions	1,577,564,857	1,678,243,381
Net investment income:		
Net appreciation in fair value of investments	3,337,270,514	2,011,287,939
Interest and dividends	499,024,961	446,821,348
Total investment income	3,836,295,475	2,458,109,287
Less: investment manager fees/transaction costs	(30,656,845)	(32,633,602)
Net investment income	3,805,638,630	2,425,475,685
Other miscellaneous	40,532	43,913
Total additions	5,383,244,019	4,103,762,979
<b>DEDUCTIONS</b>		
Benefit payments:		
Service retirement	1,431,098,965	1,333,621,087
Disability retirement	17,238,392	17,178,148
Supplemental death benefits	17,849,592	11,084,596
Partial lump-sum distributions	194,678,511	191,627,456
Total benefit payments	1,660,865,460	1,553,511,287
Inactive member refunds	62,336,087	56,013,543
Budget transfer and other	33,709,056	34,173,003
Total deductions	1,756,910,603	1,643,697,833
Change in net position	3,626,333,416	2,460,065,146
<b>FIDUCIARY NET POSITION</b>		
Restricted for pensions:		
Beginning of year	34,270,205,759	31,808,658,877
End of year	\$37,903,315,069	\$34,270,205,759
Held in trust for other benefits:		
Beginning of year	12,591,377	14,073,111
End of year	\$5,815,483	\$12,591,377

NOTE: Financial statements are considered preliminary, due to pending market value adjustments for private investments as of 12/31/2021.

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**EXPENSE FUND**  
**Balance Sheet**  
**As of December 31, 2021**

**ASSETS**

Cash	\$ 500
Accounts receivable and other assets	5,797,883
Due from trust fund	14,816,273
Land	254,388
Building and improvements, net	8,021,650
Furniture and equipment, net	<u>1,275,162</u>
 Total assets	 <u><u>\$ 30,165,856</u></u>

**LIABILITIES**

Accounts payable & accrued expenses	\$ 10,768,723
Accrued leave liability	<u>4,499,670</u>
 Total liabilities	 15,268,393

**RESERVES AND FUND BALANCES**

Reserve for administrative expenses	12,687,277
Net receipts over disbursements:	
Revenue	34,243,327
Expenses <sup>1</sup>	<u>(32,033,141)</u>
 Total reserves and fund balances	 <u><u>14,897,463</u></u>
 Total liabilities, reserves and fund balances	 <u><u>\$ 30,165,856</u></u>

<sup>1</sup> Expenses equal total operating expenses of \$31,004,356, depreciation expense of \$592,191, PASMod expenses of \$1,059,544 and GASB pension of (\$622,950).

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**EXPENSE FUND**  
**Schedule of 2021 Operating Expenses**  
**For the Twelve Months Ending December 31, 2021**

	Budget	Actual	Amount (\$)	Percent (%)
			Over / (Under)	
<b>Personnel services:</b>				
Staff salaries	\$14,576,987	\$ 14,300,538	\$ (276,449)	(1.9)
Payroll taxes / unemployment	983,977	974,274	(9,703)	(1.0)
Retirement contributions	2,334,313	2,334,313	-	0.0
Insurance & other benefits	1,546,990	1,254,474	(292,516)	(18.9)
<b>Total Personnel Services</b>	<b>19,442,267</b>	<b>18,863,599</b>	<b>(578,668)</b>	<b>(3.0)</b>
<b>Professional services:</b>				
Consulting & other prof. svcs.	2,366,988	2,081,463	(285,525)	(12.1)
Actuarial services	655,500	588,300	(67,200)	(10.3)
Custodial & Banking services	2,400,000	2,385,220	(14,780)	(0.6)
Legal services	1,120,000	1,099,037	(20,963)	(1.9)
Medical services	50,000	32,970	(17,030)	(34.1)
Audit	256,750	177,150	(79,600)	(31.0)
<b>Total Professional Services</b>	<b>6,849,238</b>	<b>6,364,140</b>	<b>(485,098)</b>	<b>(7.1)</b>
<b>Communication:</b>				
Printing	212,690	189,855	(22,835)	(10.7)
Postage	301,635	265,275	(36,360)	(12.1)
Travel	533,234	41,601	(491,633)	(92.2)
Telephone	94,000	57,613	(36,387)	(38.7)
Member Outreach	226,206	104,514	(121,692)	(53.8)
<b>Total Communication</b>	<b>1,367,765</b>	<b>658,858</b>	<b>(708,907)</b>	<b>(51.8)</b>
<b>Information Services:</b>				
Data processing	783,724	929,046	145,322	18.5 A
Online services	2,080,147	2,023,068	(57,079)	(2.7)
Gartner consulting	139,572	139,572	-	0.0
Office equipment/services	129,150	100,094	(29,056)	(22.5)
Offsite & records storage	168,000	142,142	(25,858)	(15.4)
<b>Total Information Services</b>	<b>3,300,593</b>	<b>3,333,922</b>	<b>33,329</b>	<b>1.0</b>
<b>Miscellaneous:</b>				
Board of Trustees	135,540	58,563	(76,977)	(56.8)
Advisory Committee	15,760	2,993	(12,767)	(81.0)
Insurance & risk management	185,290	197,277	11,987	6.5
Dues (memberships)	52,789	37,145	(15,644)	(29.6)
Subscriptions / publications	116,428	104,100	(12,328)	(10.6)
Training / tuition	279,202	79,223	(199,979)	(71.6)
Utilities	184,000	179,883	(4,117)	(2.2)
Supplies	204,550	315,097	110,547	54.0 B
Bldg / grounds maintenance	218,799	729,656	510,857	233.5 C
Building Security	22,620	18,672	(3,948)	(17.5)
Other administrative expenses	112,150	61,228	(50,922)	(45.4)
<b>Total Miscellaneous</b>	<b>1,527,128</b>	<b>1,783,837</b>	<b>256,709</b>	<b>16.8</b>
<b>Total Operating Expenses</b>	<b>\$ 32,486,991</b>	<b>\$ 31,004,356</b>	<b>(1,482,635)</b>	<b>(4.6)</b>

A - Includes technology and monthly site fees for the new Offsite Data Center, which was not included in the 2021 budget.

B - Includes new computer-related items to expand technology for the Grove and remote work that were not included in the 2021 budget.

C - The Grove rent for October through December (\$615,000) was not included in the 2021 budget.



March 15, 2022

**To:** Board of Trustees  
**From:** David Wescoe, Executive Director   
**Re:** Agenda Item 3: Executive Director's Report

Staff had a great first quarter.

**Audit Committee Meeting.** On March 9, the Audit Committee met virtually, with Bob Scott joining via Zoom. The meeting was organized, efficient, and informative; kudos to Andi Focht-Williams and Sandra Vice. After the Committee approved the Director of Internal Audit job description, the position was posted on TMRS' and other relevant websites. Because of staff's proactive efforts, we already have several individuals in the queue.

**PASMod.** The PASMod Program is on schedule and under budget, and staff is excited about the improvements on the horizon. Most importantly, the city contribution system project is on-track. It will significantly improve city/TMRS contribution processing. For example, cities with delayed payments due to USPS mail times, two signers for checks, or banks that don't support ACH, will have the ability to pay the contributions online.

**TCMA City Management Clinic.** On February 24, I spoke at the Texas City Management Association's City Management Clinic in Granbury, and about 70 TCMA (and TMRS) members attended. During the conference, I had the opportunity to visit with TCMA President Sereniah Breland (the City Manager of Pflugerville) and Kim Pendergraft, a TCMA staffer, to ensure that TMRS' relationship with TCMA remains strong.

**Combined Law Enforcement Association of Texas.** At my invitation, Scott Leeton and Greg Shipley of CLEAT met with Dan Wattles, Michelle Kranes, and me on March 10. It was a pleasant and productive meeting. I offered to speak to CLEAT's Board at any time.

**January Retirement Applications.** The Member Services department processed all of January's completed retirement applications, and benefit payments were made to these new retirees right on time in February. February applications will be processed timely and paid in March.

**1200 N. I-35 Building Sale.** The initial round of offers for 1200 N I-35 are in, and we are pleased with the offers we received. More about this process will be discussed at the Board meeting.

**2022 Annual City Training Conference.** Staff has selected September 13 and 14 for the 2022 Annual City Training Conference, and planning is already underway for what should be an even better event than last year's record breaker.

**907 Participating Cities and Counting.** The City of Tool became our 907<sup>th</sup> participating city on March 1. Now, City Services is proactively contacting other eligible Texas cities so we can continue to add cities.

**Member Services Department Staffing.** Andi Focht-Williams will become Member Services' first-ever Deputy Director responsible for the Member, Retiree and Beneficiary Administration teams. Andi is a talented and experienced manager, and during her time as a TMRS internal auditor, she has had the opportunity to review many Member Services operational processes, which will enable her to hit the ground running.

Tricia Solis has been promoted to manager of the Member Services' Member Benefits Administration team. Tricia has been adding value to TMRS and Member Services in many capacities for years, including project managing the Member Services' pieces of our critical PASM od initiative. Her new assignment will provide her with direct management responsibilities as she continues to take on important duties for the organization.

April Hernandez will replace Chad Nichols as our Member Service Center manager. April knows the job inside out, having been a team lead and supervisor in the group. April joined TMRS in 2008 with great customer service experience. Since moving to the call center in 2012, she has played a key role in providing outstanding service to our Membership.

**Legal Department Staffing.** Nick O'Keefe is now TMRS' first-ever Deputy Chief Legal Officer, Investments. Nick has been providing great service and value to TMRS for almost a decade.

Kelsey Baldwin has been promoted to Senior Investment Attorney. Prior to joining TMRS almost three years ago, Kelsey worked at Paul Weiss in New York City, handling the formation of private equity funds and other private investment matters. She has been an invaluable addition to TMRS.

**Investment Department Staffing.** Tom Masthay became TMRS' Deputy Chief Investment Officer. Tom is a talented investment professional and experienced manager, and he has been an effective leader of the group prior to Dave Hunter's arrival.

Eddie Schulz is now Senior Managing Director of Private Markets, including Other Public and Private Markets (OPPM), Real Estate and Private Credit. Eddie's talents have been recognized since he joined TMRS in 2013 as an Investment Analyst, and he has been progressively promoted to Senior Investment Analyst, Investment Manager and Director, responsible for Real Estate, Real Return and OPPM.

Tim Sweeney is now our Portfolio Director of Public Markets. Tim has exceptional experience in hedge funds and is expanding his role in public equity markets.

Likewise, TJ Moen is now our Portfolio Director of OPPM and Real Estate. Prior to joining TMRS in 2021 as a Senior Investment Analyst, TJ worked for the Henry J. Kaiser Family Foundation and David & Lucile Packard Foundation.

Josh Garcia and Yvonne Huang were promoted to Senior Investment Analysts in Private Equity and OPPM/Real Estate, respectively. Josh previously worked at TCDRS for five years in private markets before joining TMRS in 2020 as an Investment Analyst. Yvonne joined TMRS in 2018 as an Investment Analyst in private real asset investments.

Peter Jeske and Cindy Morse were promoted in the Investment operations group. Peter joined TMRS in 2005 in Member Services and transferred into Investments in 2019, and Cindy joined TMRS in 2008 and has been providing advanced administrative support to senior staff since.

**Dimitry Shishkoff Retires.** Dimitry Shishkoff, our Director of the Investment department's Data, Performance and Risk group, retired on February 25 after more than a decade of TMRS service. Dimitry is a scholar and a gentleman, and we will miss him.

**Employee Appreciation Day.** March 4 was Employee Appreciation Day, and you would have a hard time finding a group of employees more deserving of appreciation than our staff. There is no public pension plan system in the country that has accomplished more in the past 12 months. TMRS' Members and cities are fortunate they can rely on our staff for superior service. Indeed, just this week, thanks to the proactive and compassionate work of Debbie Muñoz and Shelley Ransom, a retiree emailed me with a simple, three-word message: 'God Bless You.'"

**Staff Performance.** With these recent promotions, additional analyst positions in Member Services, ongoing PASMmod enhancements, improved Member and city communications, and other operational improvements, TMRS' is operating at a high level of effectiveness.



March 15, 2021

**To:** Board of Trustees

**From:** Sandra Vice, Chief Administrative Officer *Sandra Vice*

**Re:** Agenda Item 4: First Quarter Administrative Teams Report

1. **Finance.** The Consent Agenda includes unaudited financial information as of December 31, 2021, which indicates we will be 5%, or \$1.5 million, under-budget for 2021. Finance has also worked on the following:

- Financial Reporting and Audits. Bill Early is our new external audit engagement partner following the recent departure of Jason Ostroski from CliftonLarsonAllen (CLA). Per standard procedures, Mr. Early will reach out to Mr. Garza (Board Chair), Mr. Philibert (Audit Committee Chair) and Senior Staff to discuss the financial audit plan. Staff and CLA met virtually on February 16 to review key audit milestones and deliverables, and fieldwork is scheduled for April and May. CLA will continue test-work on the System and Organization Controls (SOC) audit in early April. We have begun drafting the 2021 Annual Comprehensive Financial Report (ACFR), which will be finalized and presented to the Board in June.
- Annual Interest Credit. Finance compiled valuations and estimates for alternative investments as of December 31, 2021, and assisted Actuarial Services determine the interest reserve adequacy and the Interest Credit Allocation recommendation (Agenda Items 9 and 10).
- Investment Accounting. We had 221 investment accounts as of December 31, 2021, up from 207 at the end of the third quarter. During the fourth quarter, we received distributions totaling \$566.3 million, funded capital calls totaling \$1.4 billion and received liquidations totaling \$902.2 million.
- Member Accounts Receivable. The Finance department worked with Member Services and Legal to improve the process for collecting and recording overpayments to Members.

**2. Human Resources.** HR activities this period included:

- Employee Engagement Survey. As in past years, we used CPS HR to survey our employees. The survey was administered in February, and we had an outstanding 96% completion rate and expect results in April.
- Total Compensation Statement. We produced an employer Total Compensation Statement, and for the first time, provided an individualized statement to all employees and received positive feedback on the information. The Statement will also help us in recruiting.
- Organizational Enhancements. We reviewed TMRS' Classification Schedule and updated job titles, partnered with Senior Staff to review departmental structure and staffing levels, and conducted compensation studies to keep TMRS wages competitive in the Austin market.
- Personnel. HR Staffing Metrics are included on the Board Dashboard located in Diligent's Resource Center.
- HR/Facilities continue to oversee completion of The Grove punch-list items.

**3. Information Services.** IS activities this period included:

- Expanded Technology for the Office. IS completed deployment of the following:
  - Laptops and tablets to securely connect to TMRS systems from anywhere on the internet,
  - Web cameras to all desks at the Grove to allow employees to participate in virtual meetings,
  - Printers with scanning capabilities to support electronic document storage, and
  - New copiers replaced the copiers moved from the IH-35 property at a savings of more than \$1,400 per month.
- Implemented IRS' 2022 Form W-4P "Withholding Certificate for Periodic Pension or Annuity Payments." Updated NextGen to allow Member Services to update Member accounts based on IRS' Form W-4P for use beginning January 1, 2022. Given the short notice, the IRS provided a January 1, 2023 implementation deadline; but TMRS chose to implement the new form ahead of this deadline to better support TMRS retirees wishing to use the new form.
- Retiree and Member Statements. Implemented changes to the Retirement Benefit Statements and Member Annual Statements to improve communication.
- Actuarial Data Export. Exported and delivered actuarial valuation data to Gabriel, Roeder, Smith & Company (GRS) to perform the December 31, 2021 actuarial valuation.

#### **4. Internal Audit.**

Audit Committee Meeting. Andi Focht-Williams met with the Audit Committee on March 9 and presented the results of the Confidential 2021 IT Annual Security Assessment, the Internal Audit Quality Review report, and the 2022 Risk Assessment and Audit Plan. The Audit Committee also discussed plans to select Andi's successor.

Promotion Leads to Search. I'm proud to announce that Andi was recently selected to assist Debbie Muñoz as the first-ever Deputy Director of Member Services, with responsibility for the Member, Retiree and Beneficiary Administration teams. Andi brings her prior management experience with call centers and operations, communications and support, and knowledge of Member Services operational processes gleaned during her time in Internal Audit.

The search for the Board's next Director of Internal Audit is already underway. David Wescoe, Andi and I will screen candidates for the Audit Committee to interview, with the goal of recommending finalists to the Board as early as May.

- 5. Records.** From January 3 to March 4, records processed 10,522 faxes; scanned 39,504 pages; and indexed, verified and loaded 14,266 records to our electronic content management system, Perceptive Content.

The Records team worked with the City Services department to establish a more efficient process for new city ordinances and implemented a new process to scan documents with images like driver licenses at a higher resolution to provide better customer service to Member Services analysts.



March 15, 2022

**To:** Board of Trustees  
**From:** Christine M. Sweeney, Chief Legal Officer *CS*  
**Re:** Agenda Item 4: First Quarter Legal Report

**Staff Promotions.** Earlier this month, Nick O’Keefe was promoted to become TMRS’ first-ever Deputy Chief Legal Officer, Investments, and Kelsey Baldwin was promoted to Senior Investment Attorney. Nick has been providing great service and value to TMRS and the Legal and Investment departments for almost a decade. Prior to joining TMRS, Kelsey worked at the Paul Weiss law firm in New York City, handling the formation of private equity funds and other private investment matters. She is a valuable member of our team.

**Investment Compliance.** Board materials for this meeting include the quarterly Investment Compliance Report. Since the December Board meeting, TMRS hired a new Investment Compliance Officer, Michele Fullon. Michele had previously served as a Compliance Specialist at the Texas Teachers Retirement System and with several Wall Street investment firms. Nick O’Keefe and Michele will present the quarterly Investment Compliance Report at the March Board meeting.

**TMRS Legal Work on Investment Matters, Public Information Requests, and Other Matters**

- **Investment Matters.** Below is a summary of the investment allocations that have closed, and the other investment related agreements that have been completed, during the time period noted below.
  - From November 17, 2021 → March 11, 2022
    - 12 investment allocation transactions submitted for signature (not including any additional allocations made through rebalancing)
    - 47 other investment related items submitted for signature
- **Contracts for TMRS’ New Offices.** In addition to his regular workload, Nick O’Keefe has also been handling the contracting process for TMRS’ new offices at The Grove. Since November 17, he has negotiated and submitted three additional agreements for signature.

- **General Contracting and Benefits Matters.** Since November, Legal's benefits attorneys have handled and submitted the following items for signature or approval. Many non-investment matters handled by Legal staff do not require a signature or approval by the Executive Director and those are not included in the numbers below:
  - From November 17, 2021 → March 11, 2022
    - 27 contracts (non-investment related) submitted for signature
    - 4 other benefits administration and non-investment related items submitted for signature or approval
- **Public Information Requests.** Since November 17, Legal staff have received 23 information requests under the Texas Public Information Act.

### **TMRS Administrative Cases**

- **SOAH Case** – My last report described a pending State Office of Administrative Hearings (SOAH) matter relating to a Member's appeal of TMRS' benefit determination regarding the Member's account and request for restricted prior service credit. Since then, the SOAH Administrative Law Judge granted TMRS' Motion for Summary Disposition and issued a Proposal for Decision (PFD) in favor of TMRS. The PFD and a proposed Final Order will be presented to the Board at its March meeting. Additional confidential information concerning this matter is include in my Legal appendix.

### **IRS Matters**

- **IRS Proposed Regulations – Required Minimum Distributions.** On February 24, 2022, the IRS issued Proposed Regulations designed to take into account the major changes made by the SECURE Act (2019) that impact the calculation of required minimum distributions (RMDs) from qualified plans, such as TMRS, and other plans. Staff is reviewing the proposed regulations to determine how they may impact TMRS' operations.

### **Legal Report Appendix**

Please see the Legal Report Appendix, found in the Diligent Resource Center, for certain confidential legal updates and background information, if any, previously provided on some of the items in this Report.



March 15, 2022

**To:** Board of Trustees  
**From:** Michelle D. Kranes, Chief Service Officer *M.D. Kranes*  
**Re:** Agenda Item 4: First Quarter Services Report

This Report includes accomplishments of the Member, City and Actuarial Services departments, as well as an update on the Pension Administration Modernization (PASMd) Project that involves multiple departments.

#### **Pension Administration Modernization Update**

- **City Contribution System.** Development of the new city contribution system remains on schedule and within budget. Cities continue to request the ability to pay their contributions online, and staff looks forward to introducing this functionality later this year. Development and initial testing of the contribution reporting interface was completed in February, and the electronic payment functionality is currently in development.

Jennifer Andrews, City Contributions Manager, took the reins as project manager after the retirement of Jesse Pittman, and is doing a tremendous job given her unique perspective as the business unit owner. TMRS' project vendor, which has designed contribution systems for retirement plans around the nation, recently commented on the excitement and engagement of staff.

- **City Portal Enhancement.** New City Portal user registrations tripled when comparing December 2021 through February 2021 to the same period in 2022. Cities continue to rave about the new City Portal functionality released in November 2021. Staff has received comments that registering for the City Portal is "easier than it's ever been," and the ability to upload and see our document history is "a game changer." One city said, "Using the City Portal reduced our processing times and the use of paper forms to enroll someone in TMRS."
- **Member Retirement Estimates.** Most Members who have a Qualified Domestic Relations Order on file can now generate retirement estimates on MyTMRS. Since this functionality was added in November 2021, Members with QDROs have run 612 estimates. Feedback has been positive, and one Member said, "This is a great enhancement."

## Actuarial Services

**2022 Rate Reminder Email to Cities.** Actuarial Services emailed all participating cities a reminder of the January rate change. That email resulted in 105 calls from city contacts to Leslee Hardy and Kenneth Oliver, who used the opportunity to provide insight and guidance on the cities' actuarial status and to walk them through the information available on the TMRS website. As a result of these conversations, five cities requested studies showing the long-term cost savings associated with contributing a higher rate to pay off their unfunded liabilities sooner. Many other calls resulted in cities getting enrolled in City Portal and receiving other assistance.

**General Obligation Pension Bonds (POBs).** Leslee and Madison Jechow are working with the City of Grand Prairie which is considering issuing POBs to pay off their Unfunded Actuarial Accrued Liability.

## City Services

**907 TMRS Participating Cities.** City Services welcomed Dallas Police & Fire Pension System along with five new cities to TMRS. With the addition of DPF and the cities of Avery, Mustang Ridge, Sandy Oaks, Todd Mission, and Tool, TMRS stands at 907 cities and growing.

**City Plan Changes in 2021.** City Services and Actuarial Services completed 175 plan change studies requested by cities in 2021. Seventy-one cities ultimately made changes to their TMRS plan.

**City Services Outreach.** Since December 1, the Training Team represented TMRS in 20 events and reached 1,410 Members.

**Personnel Changes.** Anna Silva was promoted to Supervisor of the City Contributions team. Anna joined TMRS in 2009 and has worked in several departments including Records, Member Services, and most recently as team lead of the City Contributions team. City Services also welcomed Terraye Whitehead and Kitty Tom to the City Contributions team in February. Terraye joined TMRS in 2020 and was most recently a Member Services Analyst on the Retiree Team. Kitty joined TMRS after a career in teaching.

## Member Services

**Record Retirement Applications.** January retirement applications hit an all-time high at 642. Member Services rose to the challenge (as always!) and got the job done, all the while delivering the superior customer service our Members expect and deserve.

**Personnel Updates.** Andi Focht-Williams is Member Services' first Deputy Director. A talented and experienced manager, Andi is responsible for the Member, Retiree and Beneficiary Administration teams. Prior to joining TMRS, she had management experience with call centers and operations, communications and support, all of which are applicable to her new assignment.

During her time as internal auditor, she has had the opportunity to review many Member Services operational processes, which allows her to hit the ground running.

Tricia Solis was promoted to manager of the Member Services’ Member Benefits Administration team. Tricia has been adding value to TMRS and Member Services in many capacities for years, including project managing the Member Services’ pieces of our critical PASMod initiative. Her new assignment provides her with direct management responsibilities as she continues to take on important duties for the organization.

April Hernandez replaced Chad Nichols as our Member Service Center manager. April knows the job inside out, having been a team lead and supervisor in the group. April joined TMRS in 2008 with great customer service experience. Since moving to the call center in 2012, she has played a key role in providing outstanding service to our Membership.

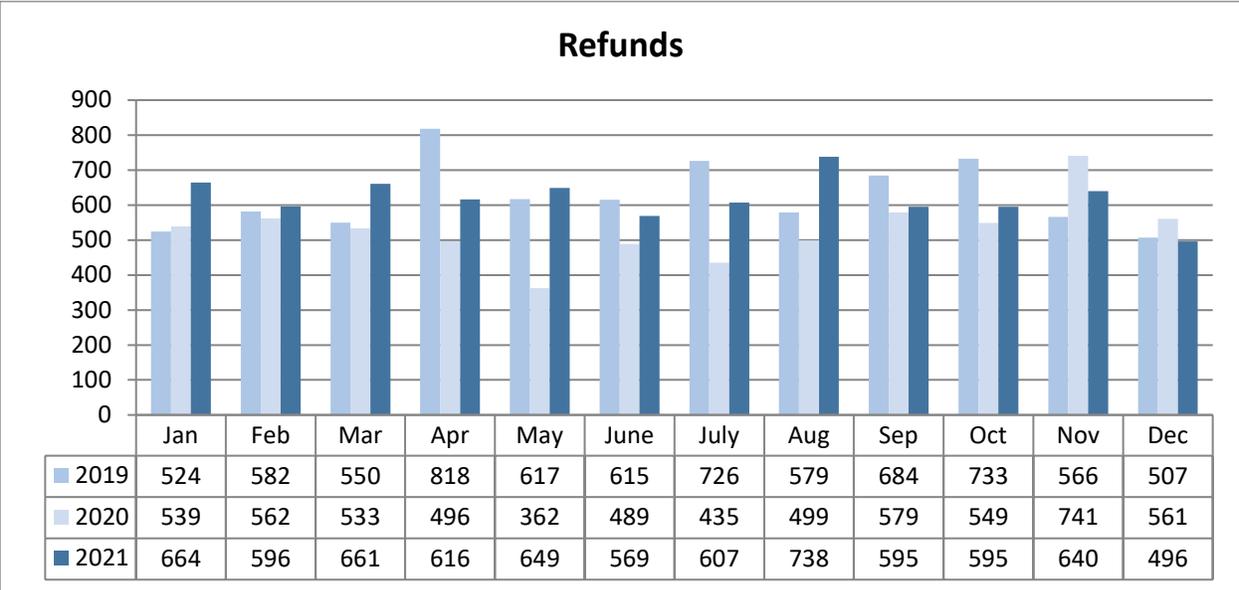
With these additions to the Member Services department’s management team, we are well positioned to continue to be the Nyquist of Member service.

**Federal Withholding.** The IRS published the 2022 W-4P form on January 3. Six weeks later, our pension administration system was programmed to process the redesigned form, including all of the newly required inputs.

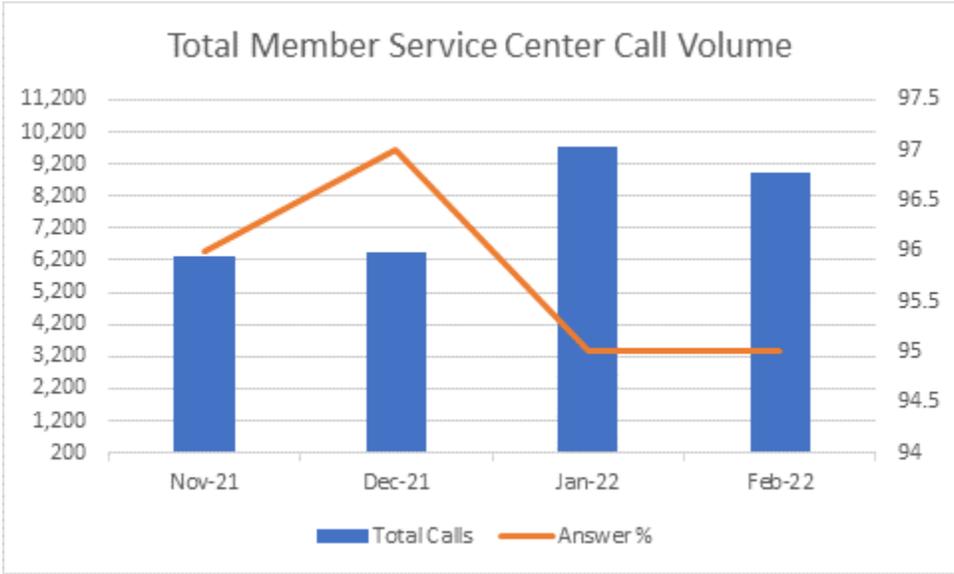
### Department Statistics



The Retiree Administration Team processed 1.44% more retirement applications in 2021 than in 2020.



The Retiree Administration Team processed 17% more refund applications in 2021 compared to 2020.



Between November 2021 and February 2022, the Member Service Center received 31,398 calls. 96% of calls were answered with a median wait time of 30 seconds.



March 15, 2022

**To: Board of Trustees**

**From: Michelle Mellon-Werch, Director of Communications**

A handwritten signature in black ink, appearing to read "mmlw", is written over the name "Michelle Mellon-Werch" in the "From:" field.

**Re: Agenda Item 4: First Quarter Communications Report**

**Annual Retiree and Member Statements.** On February 8, Retiree Benefit Statements were available on MyTMRS, and they were mailed on February 21. On March 21, Member Annual Statements will be mailed and available on MyTMRS. Response to the Statements' updated design and layout of information has been positive.

**Member and Retiree Newsletters.** *TMRS Times*, our Member newsletter, was available on the website and mailed to Members on December 23. *RetirementWise*, TMRS' retiree newsletter, was available on the website and mailed to retirees on January 12.

**TMRS Mobile App.** More than 10,000 Members and retirees have downloaded the mobile app since it went live in October 2021. These users have accessed MyTMRS more than 45,000 times.

**Office Improvements.** The Communications department and City Services' Regional Representatives worked together to gather more beautiful photos of our participating cities and their employees to hang on our office walls. Twenty-eight photos are displayed throughout the office, and we continue to get more in each week.

**Communications Support.** Staff developed presentations for the TCMA City Managers Clinic in Granbury and TCMA Region 1 Meeting in Mission City. Staff also worked with Member and City Services to create flyers on refunds, MyTMRS, beneficiary designations and other topics.

**Website.** Announcements were posted on the website welcoming the new participating cities of Avery, Mustang Ridge and Tool to TMRS. Notices of *TMRS Times*, *RetirementWise*, 2021 Form 1099-Rs, Member Account Statements and Retiree Benefit Statements were also posted. Additionally, Communications continues to work with Senior Staff to improve the website's architecture and content, to make it easier for Members, retirees, and participating cities to find the information they need.



March 15, 2022

**To:** Board of Trustees

**From:** Dan Wattles, Director Governmental Relations *Dan Wattles*

**Re:** Agenda Item 4: First Quarter Governmental Relations Report

**2022 Senior Staff Action Plan.** Item No. 3 in the 2022 Senior Staff Action Plan, “Finalize and Prepare for TMRS’ 2023 Legislative Agenda,” is in progress.

**87<sup>th</sup> Legislative Interim.** The Speaker of the House of Representatives released interim committee charges on March 10. Only one of the five charges issued to the House Pensions, Investments and Financial Services Committee pertains to TMRS. That charge is:

“Review the impact of investments by public retirement systems of their endowment and other trust funds in businesses and funds owned or controlled by the Russian government or Russian nationals, and determine the need for investment restrictions. Consider the impact of any proposed investment restrictions on fund performance.”

Twenty-four Senators sent a letter to the Lt. Governor also requesting an interim charge to study divestment by the statewide retirement systems from holdings in Russia. Senate charges have not been released.

Senator Joan Huffman has been appointed Chair of the Senate Finance Committee.

**Advisory Committee on Benefit Design.** I helped prepare for the February Committee meeting and respond to Committee member inquiries. I also coordinated a meeting with Combined Law Enforcement Association of Texas representatives.

**City Services:** I helped develop a proactive strategy to identify possible new TMRS cities.

**Pension Review Board.** TMRS is currently in compliance with all PRB reporting requirements.



March 15, 2022

**To:** Board of Trustees

**From:** Christine M. Sweeney, Chief Legal Officer *CS*

**Re:** Agenda Item 6: Consider and Act on Final Adoption of Proposed TMRS Rules – Chapter 129

New Chapter 129 of the TMRS Board Rules (“Chapter 129”) is presented for adoption with the repeal of the current Chapter 129. Chapter 129 relates to qualified domestic relations orders. The proposed amendments were approved at the Board’s October 20, 2021 meeting.

The proposed Chapter 129 amendments, along with the preamble required for publication of the proposed rules in the *Texas Register*, were provided to the Governor’s Office for review. The Governor’s Office staff had some non-substantive comments to the documents, and TMRS staff made the requested changes. The *Texas Register’s* staff also had some non-substantive comments to the documents, and TMRS staff also made those requested changes. A copy of the Board-approved Chapter 129 rules, marked to show the Governor’s Office and *Texas Register* requested changes that were made, is included as Attachment 1.

The proposed amendments to Chapter 129 were published in the *Texas Register* on February 11, 2022 at 47 *TexReg* 635. A copy of the *Texas Register* publication is included as Attachment 2.

The comment period for the published proposed Chapter 129 rule changes ended on March 13, 2022. No comments were received.

Included as Attachment 3 is the proposed Final Order to repeal the current Chapter 129 and adopt the new Chapter 129. If adopted by the Board, the repeal and the new Chapter 129 will be filed with the Secretary of State for publication in the *Texas Register* again and will be effective as of July 1, 2022.

**RECOMMENDATION**

Staff recommends that the Board approve and authorize the Board Chair to execute the attached Final Order, adopt the repeal of the current Chapter 129 rules, and adopt the new Chapter 129

rules, to be effective as of July 1, 2022, without changes to the proposed language as shown in Attachment 2.

**ATTACHMENTS**

- 1** – Preamble, Repeal of Chapter 129 and Proposed New Chapter 129 marked to show changes requested by the Governor’s Office and Texas Register
- 2** - Copy of Texas Register Publication
- 3** - Final Order to Repeal Current Chapter 129 and Adopt New Chapter 129

*Marked to show changes made at the request of the Governor's Office of Attorney General (shown in red) and the Texas Register's Office (shown in green) from proposed rules provided at the October 28, 2021 Board Meeting.*

## Attachment 1

### Preamble, Proposed Repeal of Chapter 129 and New Chapter 129

Texas Register Preamble:

The Board of Trustees (Board) of the Texas Municipal Retirement System (TMRS or the System) proposes the repeal of current 34 TAC Chapter 129 (Chapter 129), relating to domestic relations orders. TMRS is also proposing to replace current Chapter 129 with proposed new Chapter 129, also relating to domestic relations orders.

#### REPEAL OF CURRENT CHAPTER 129

TMRS proposes the repeal of current 34 TAC Chapter 129, which includes the following sections: 34 TAC §129.1, Purpose; 34 TAC §129.2, Definitions; 34 TAC §129.3, Notice Regarding Receipt of Order; 34 TAC §129.4, Requirements for Qualified Domestic Relations Orders; 34 TAC §129.5, Contents of Domestic Relations Order; 34 TAC §129.6, Order Should Divide All Benefits; 34 TAC §129.7, Conditional Approval of Order; 34 TAC §129.8, Payments Under Conditionally Approved Order; 34 TAC §129.9, Order Appearing Not to Qualify; 34 TAC §129.10, Procedures for Determination-Contested Order; 34 TAC §129.11, Procedure for Obtaining Formal Hearing; 34 TAC §129.12, Payments to Alternate Payees; 34 TAC §129.13, Form of Qualified Domestic Relations Order; and 34 TAC §129.14, Provisions Incorporated by Reference.

#### PROPOSAL OF NEW CHAPTER 129

As proposed, the new Chapter 129 will address: 34 TAC §129.1, Purpose; 34 TAC §129.2, Definitions; 34 TAC §129.3, Notice Regarding Receipt of Order; 34 TAC §129.4, Requirements for Qualified Domestic Relations Orders; 34 TAC §129.5, Contents of Domestic Relations Order; 34 TAC §129.6, Order Should Divide All Benefits; 34 TAC §129.7, Conditional Approval of Order; 34 TAC §129.8, Payments Under Conditionally Approved Order; 34 TAC §129.9, Order Appearing Not to Qualify; 34 TAC §129.10, Procedures for Determination-Contested Order; 34 TAC §129.11, Procedure for Obtaining Formal Hearing; 34 TAC §129.12, Payments to Alternate Payees; 34 TAC §129.13, Form of Qualified Domestic Relations Order; and 34 TAC §129.14, Provisions Incorporated by Reference.

#### BACKGROUND AND PURPOSE

TMRS proposes to repeal and replace Chapter 129 to update, modernize, and provide clarification to its rules relating to domestic relations orders. Statutes specific to TMRS are found in Title 8, Subtitle G, Chapters 851 through 855, Texas Government Code (the "TMRS Act"). TMRS may promulgate rules it deems necessary to implement the TMRS Act and Texas Government Code Chapter 804 ("Chapter 804") regarding qualified domestic relations orders and spousal consent. In addition, the repeal and replacement of Chapter 129 is being proposed as a result of TMRS's rule review, which was conducted pursuant to Texas Government Code §2001.039.

One provision of the proposed new Chapter 129 rules is unchanged from existing rules; this rule is found in new 34 TAC §129.1, Purpose. Six proposed rules for new Chapter 129 are amended to make clarifying changes to better reflect how the System interprets and administers the rules and how Chapter 804 applies to domestic relations orders and to update references to laws or other TMRS rules that have been

amended; these six rules are found in new 34 TAC §129.2, Definitions; 34 TAC §129.3, Notice Regarding Receipt of Order; 34 TAC §129.8, Payments Under Conditionally Approved Order; 34 TAC §129.11, Procedure for Obtaining Formal Hearing; 34 TAC §129.12, Payments to Alternate Payees; and 34 TAC §129.14, Provisions Incorporated by Reference. Substantive changes, however, are proposed in the seven remaining new rules, which changes are described as follows: adds a provision stating that TMRS has prescribed QDRO forms designed to allow parties to properly divide a Member's benefits under the TMRS Act, and that TMRS may reject a domestic relations order as not qualified that is not based on one of TMRS' forms (in §129.4, Requirements for Qualified Domestic Relations Orders); adds an applicable QDRO requirement pursuant to Chapter 804 (in §129.5, Contents of Domestic Relations Order); adds language to provide that, if a pre-retirement QDRO is not clear how to divide future interest credited on accumulated contributions after the date of divorce until the time benefit payments begin, then the portion of benefits awarded to the alternate payee will be allocated its proportionate share of future interest (in §129.6, Order Should Divide All Benefits); changes the timing for contesting a conditional approval of a QDRO from 2 weeks beginning on the date of mailing of the notice to 2 weeks beginning on the date of the notice (in §129.7, Conditional Approval of Order); clarifies how existing processes work, including possible holds on payments, if a TMRS Member is pre-retirement or post-retirement when TMRS receives an order and determines it does not qualify; and, rearranges the rule's structure and makes non-substantive clarifications (in §129.9, Order Appearing Not to Qualify); adds procedures, including possible holds on payments, for where a party contests TMRS' determination that an order received does meet the QDRO requirement, and shortens the time period after the contest is made for appropriate procedures to begin; and, makes non-substantive clarifications (in §129.10 Procedures for Determination – Contested Order); and, replaces language previously setting out a single pre-approved QDRO form in the rule itself with new language regarding the use of any of TMRS' pre-approved QDRO forms, and makes clarifying non-substantive changes (in §129.13, Form of Qualified Domestic Relations Order).

At a Board meeting on October 28, 2021, the TMRS Board approved the publication for comment of the proposed repeal of current Chapter 129 and the proposed replacement of current Chapter 129 with the new Chapter 129 rules.

#### FISCAL NOTE

Debbie Munoz, TMRS Director of Member Services, has determined that for the first five-year period the proposed new rules are in effect there will be no foreseeable fiscal implications to state or local governments as a result of enforcing or administering the proposed rules.

#### PUBLIC COST/BENEFIT

Christine Sweeney, TMRS Chief Legal Officer, has determined that for each year of the first five years the proposed new rules are in effect, the public benefit of Chapter 129 will be: (i) a clearer and more accurate statement of TMRS' administrative rules regarding the review and qualification of domestic relations orders received by TMRS (the "QDRO Process"); and, (ii) to modernize and conform these administrative rules with the System's interpretation and administration of the TMRS Act and Texas Government Code Chapter 804 provisions.

#### LOCAL EMPLOYMENT IMPACT STATEMENT

TMRS has determined that there will be no adverse economic effects on local economies or local employment because of the proposed new rules, which are proposed for the modernization and

clarification of provisions relating to the QDRO Process under the TMRS Act and Texas Government Code Chapter 804. Therefore, no local employment impact statement is required under Texas Government Code §2001.022 or §2001.024(a)(6).

#### ECONOMIC IMPACT STATEMENT AND REGULATORY FLEXIBILITY ANALYSIS

TMRS has determined that there will be no adverse economic effects on small businesses, micro-businesses, or rural communities because the proposed new rules are proposed for modernization, clarification and implementation of provisions relating to TMRS' internal QDRO Process. Rural communities include municipalities under a certain population, but the proposed rules do not differentiate between municipalities on the basis of population, and the proposed rules relate to the QDRO Process for individual TMRS members. Therefore, neither an economic impact statement nor a regulatory flexibility analysis is required under Texas Government Code §2006.002.

#### GOVERNMENT GROWTH IMPACT STATEMENT

TMRS has determined that for each year of the first five years the proposed new rules are in effect, the proposed rules: will not create or eliminate any TMRS programs; will not require either the creation of or elimination of employee positions; will not require an increase or decrease in future legislative appropriations to TMRS (TMRS does not receive any legislative appropriations); will not require an increase or decrease in fees paid to TMRS; will not create a new regulation (because new Chapter 129 updates and replaces existing Chapter 129); do not expand, limit or repeal an existing regulation (because new Chapter 129 updates and replaces existing Chapter 129); do not increase or decrease the number of individuals subject to the rules' applicability; and, do not affect this state's economy.

#### TAKINGS IMPACT ASSESSMENT

TMRS has determined that there are no private real property interests affected by the proposed new rules, therefore a takings impact assessment is not required under Texas Government Code §2007.043.

#### COSTS TO REGULATED PERSONS

TMRS has determined that Texas Government Code §2001.0045(b) does not apply to the proposed new rules because they do not impose a cost on regulated persons (including another state agency, a special district, or a local government).

#### ENVIRONMENTAL RULE ANALYSIS

The proposed new rules are not a "major environmental rule" as defined by Texas Government Code §2001.0225. The proposed rules are not specifically intended to protect the environment or to reduce risks to human health from environmental exposure. Therefore, a regulatory environmental analysis is not required.

#### COMMENTS

Comments on the proposed rules may be submitted to Christine Sweeney, Chief Legal Officer, TMRS, P.O. Box 149153, Austin, Texas 78714-9153, faxed to (512) 225-3786, or submitted electronically to

[csweeney@tmrs.com](mailto:csweeney@tmrs.com). Written comments must be received by TMRS no later than 30 days after publication of this notice in the Texas Register.

#### STATUTORY AUTHORITY

The repeal of existing Chapter 129 and the new Chapter 129 rules are proposed and implement the authority granted under the following provisions of the TMRS Act or the Texas Government Code: (i) Government Code §855.102, which allows the Board to adopt rules it finds necessary or desirable for the efficient administration of the System; (ii) Government Code §855.201, which allows the Board to delegate to the executive director powers and duties provided to the Board by the TMRS Act; and (iii) Government Code §804.003, which allows the Board to promulgate rules it deems necessary to implement the provisions of that section. In addition, the rule changes are proposed as a result of TMRS's rule review, which was conducted pursuant to Texas Government Code §2001.039.

#### CROSS-REFERENCE TO STATUTES

The proposed rules implement the following sections of the Texas Government Code: §804.003, concerning qualified domestic relations orders; §852.103, concerning the withdrawal of contributions and rollover distributions; §854.006 concerning change of beneficiary or division of benefit for certain persons receiving monthly benefits; §854.501, concerning the return of contributions; §§854.101-854.105, concerning service retirement benefits; §§854.405-854.411, concerning optional occupational disability retirement benefits; §§854.603 - 854.605, concerning supplemental death benefits for members, retirees, and beneficiaries.

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§129.1 Purpose.

§129.2 Definitions.

§129.3 Notice Regarding Receipt of Order.

§129.4 Requirements for Qualified Domestic Relations Orders.

§129.5 Contents of Domestic Relations Order.

§129.6 Order Should Divide All Benefits.

§129.7 Conditional Approval of Order.

§129.8 Payments Under Conditionally Approved Order.

§129.9 Order Appearing Not to Qualify.

§129.10 Procedures for Determination-Contested Order.

§129.11 Procedure for Obtaining Formal Hearing.

§129.12 Payments to Alternate Payees.

§129.13 Form of Qualified Domestic Relations Order.

§129.14 Provisions Incorporated by Reference.

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§129.1. Purpose.

(a) The Texas Municipal Retirement System (the system) receives a substantial number and variety of domestic relations orders as that term is defined in §129.2 of this title (relating to Definitions) which purport to divide the accumulated contributions of members of the system, and/or the retirement benefits of such members, as part of divorce or other domestic relations proceedings.

(b) Many of those orders contain provisions that would require the system to attempt to determine what effect the order is intended to have on accumulated contributions and/or retirement benefits upon the happening of certain events. The board of trustees of the system has therefore adopted the rules and procedures set forth in this chapter, in order to establish a process whereunder it can be determined if a particular domestic relations order clearly divides all benefits that may be payable under the Act, clearly advises the system as to whom benefits are to be paid and in what manner and does not purport to require payments to be made in a manner that would conflict with the Act.

§129.2. Definitions.

The following words and terms, when used in this chapter, shall have the following meanings, unless the context clearly indicates otherwise.

(1) Act--Texas Government Code, Title 8, Subtitle G, as amended.

(2) Alternate payee--A spouse, former spouse, child, or other dependent of a member or retiree who is recognized by a domestic relations order, as having a right to receive all or a portion of the benefits payable by the system with respect to such member or retiree.

(3) Benefits--Any of the payments or benefits described in §129.6(a) and (b) of this title (relating to Order Should Divide All Benefits).

(4) Domestic relations liaison--A person who is acting on behalf of the system and authorized by the director of the system or by way of their position in the system to receive and take action concerning domestic relations orders that are sent or delivered to the system.

(5) Domestic relations order--Any judgment, decree, or order signed by the presiding judge of a court of competent jurisdiction (including one which approves a property settlement agreement) which:

(A) relates to the provision of child support, temporary support, or marital property rights to a spouse, former spouse, child, or other dependent of a member or former member of the system; and

(B) is made pursuant to the [Texas](#) Family Code or any other applicable domestic relations or community property law.

(6) Participant--A member or former member of the system who has sums of money on deposit with the system or who is or may become entitled to receive any benefit from the system based on membership in the system. This may also include a beneficiary who is entitled to receive a benefit payment from the system.

(7) Parties--The participant and all alternate payees named in a domestic relations order.

(8) Pursue action--For purposes of this chapter, a participant or alternate payee pursues action with respect to a domestic relations order by filing with a court of competent jurisdiction a pleading or a written request for a hearing date for the court to consider a proposed domestic relations order based on a system prescribed form or to consider clarification of a similar domestic relations order.

#### §129.3. Notice Regarding Receipt of Order.

Upon receiving a domestic relations order, and subject to ~~§129.7 and §129.9~~ ~~§§129.7 and 129.9~~ of this title (relating to Conditional Approval of Order and Order Appearing Not To Qualify), the domestic relations liaison shall promptly send a notice to those persons listed in paragraphs (1) and (2) of this section, stating that the system has received the domestic relations order and that it will be acted upon by the system in accordance with the procedures set forth in this chapter. The persons who are to receive the notice are:

(1) the participant and/or, if the participant is represented by an attorney (and the system has been provided with the name and address of such attorney in connection with the domestic relations order), such attorney or such other person as may be designated in writing by the participant with regard to the domestic relations order; and

(2) all alternate payees named in the domestic relations order if their names and addresses are provided in the order; and/or, if an alternate payee is represented by an attorney (and the system has been provided with the name and address of such attorney in connection with the domestic relations order), to such attorney or such other person as may be designated in writing by an alternate payee with regard to the domestic relations order.

#### §129.4. Requirements for Qualified Domestic Relations Orders.

(a) A recital in a domestic relations order to the effect that it is a qualified domestic relations order is not sufficient to make it qualified under this chapter. For a domestic relations order to be a qualified domestic relations order under this chapter, the order must be determined, either by the system, or by a court of competent jurisdiction having actual knowledge of the provisions of this chapter, to meet the requirements set forth in §804.003, Texas Government Code, the Act and this chapter. In making that determination, the system may take into account: the order itself; any clarification order entered by a court of competent jurisdiction; and any affidavits or agreements between the parties that were qualified by the system prior to the effective date of this section. In this chapter, references to the requirements of this chapter for qualified domestic relations orders shall be construed in accordance with the provisions and requirements of Chapter 804, Texas Government Code.

(b) The system has prescribed forms that are pre-approved by the system as meeting the requirements of Texas Government Code §804.003 and this chapter for a qualified domestic relations order. The prescribed forms are available on the system's website and upon request. The prescribed forms incorporate by reference the definitions set forth in this chapter and the provisions set forth in §129.14 of this title (relating to Provisions Incorporated by Reference). The system may reject any domestic relations order submitted to the system that does not utilize the applicable prescribed form.

§129.5. Contents of Domestic Relations Order.

(a) A domestic relations order should clearly specify:

(1) the name, taxpayer identification number, and last known address of the participant and of each alternate payee covered by the order, provided that confidential personal information may be provided to the system through alternate methods in accordance with §121.5 of this title (relating to Forms and Applications for Benefits, or Asserting Other Claims);

(2) the amount or percentage of the participant's benefits to be paid by the system to each such alternate payee, or the manner in which such amount or percentage is to be determined;

(3) the number of payments or period of time to which such order applies; and

(4) whether the order applies only to benefits under this system or, if not, to what other plans the order applies, and in what manner.

(b) A domestic relations order does not meet the requirements of this chapter for qualified domestic relations orders if:

(1) it purports to require the system to provide any type or form of benefit, or any option, not otherwise authorized under the Act;

(2) it purports to require the system to provide increased benefits determined on the basis of actuarial value;

(3) it purports to require the system to make any payment of any benefit or portion thereof at a time not otherwise authorized under the Act;

(4) it purports to require the payment of benefits to an alternate payee which are required (or purported to be required) to be paid to another alternate payee under another order previously determined by the system to be a qualified domestic relations order under this chapter (including any such order so determined on an informal basis prior to adoption of this chapter); or

(5) it is worded in a manner that does not advise the system (taking into account the provisions of the Act, the wording of the order, and the provisions of this chapter) in clear and unambiguous language

as to what portion of the benefits that otherwise might be or become payable to the participant (or to the participant's designee or estate) are to be paid to each alternate payee under the order.

§129.6. Order Should Divide All Benefits.

(a) BEFORE RETIREMENT. Under the Act, a participant's accumulated contributions (with interest as allowed thereon under the Act) may become payable to a participant upon terminating municipal employment and membership in the system prior to retirement, as set forth in the Act, §852.103, or may become payable to the participant's designee or estate under the Act, §854.501, in the event of the participant's death prior to retirement. A domestic relations order regarding a participant who has not yet retired should clearly state the basis upon which any portion of such sums should be payable to an alternate payee.

(b) AT AND AFTER RETIREMENT. Under the Act, a service retirement benefit or a disability retirement benefit may become payable to the participant (and, upon the participant's death, to a designee) as set forth in the Act, §§854.101-854.105 and §§854.405-854.411. A domestic relations order regarding a participant should clearly state the basis upon which any portion of such retirement benefit should be payable to an alternate payee.

(c) In the event that a domestic relations order that is signed by the presiding judge after the effective date of this section calls for the division of benefits on the basis of accumulated contributions, but the order does not clearly state how interest allowed on the accumulated contributions after the date of divorce will be divided, then the accumulated contributions under the applicable sections of the Act from which the alternate payee's portion of benefits will be calculated shall include interest thereon as allowed by the plan after the date the divorce was granted.

(d) A supplemental death benefit may become payable under the Act, §854.603 or §854.604, upon the death of a participant who was or had been employed by certain of the municipalities participating in the system. That benefit is not the property of a participant, but rather is a benefit that is paid by the system as a result of the death of a participant. If any portion of such benefit becomes payable to an alternate payee under the express wording of a qualified domestic relations order, it will be so paid upon the death of the participant; however, if the domestic relations order does not specifically provide that some portion of that benefit is to be paid to an alternate payee, then no portion of the supplemental death benefit shall be paid otherwise than as set forth in the Act, §854.605.

§129.7. Conditional Approval of Order.

If, upon receipt of a domestic relations order, the domestic relations liaison is of the opinion that it complies in all ways with the requirements for a qualified domestic relations order hereunder, the domestic relations liaison shall so state in the notice to be sent under §129.3 of this title (relating to Notice Regarding Receipt of Order). In that event, the notice shall also state that the system will thereafter pay the sums payable under the order in the manner set forth in the order, unless any of the parties notifies the system in writing, within two weeks (and such additional time as may be allowed by the [system](#)

System upon good cause being shown) from the date of the notice letter, that they are contesting the order.

§129.8. Payments under Conditionally Approved Order.

(a) If, upon receipt of a domestic relations order, the domestic relations liaison conditionally approves that order, the system may (but shall not be required to) commence making payments pursuant to that order.

(b) If, within the period of time set forth in the notice from the domestic relations liaison, either party notifies the system in writing that they are contesting the order, no payments shall thereafter be made except in accordance with §129.10 of this title (relating to Procedures for Determination--Contested Order).

(c) If conditional approval of an order is given by the domestic relations liaison under this section, and the system does not receive written notice of any contest of that determination within the period specified, the order shall be deemed to be a qualified domestic relations order hereunder, and the system will make payment in accordance therewith.

(d) Neither the system nor any officials or employees of the system shall be liable to any person for making payment pursuant to an order under this section.

§129.9. Order Appearing Not To Qualify.

(a) If, upon receipt of a domestic relations order, the domestic relations liaison is of the opinion that the order does not comply in all ways with the requirements for a qualified domestic relations order under the provisions of this chapter, the domestic relations liaison shall notify the parties that the order does not qualify as a qualified domestic relations order in the notice sent under §129.3 of this title (relating to Notice Regarding Receipt of Order, such notice being hereinafter referred to as "\$129.3 Notice"). Unless the participant or the alternate payee pursues action in a court of competent jurisdiction within 90 days of the date of the §129.3 Notice to bring the order into compliance with the requirements of this chapter relating to qualified domestic relations orders, the system will proceed as if it never had received the non-compliant order. The system may require a certified copy of the filed pleading to pursue action on the order.

(1) BEFORE RETIREMENT. If the order relates to a participant who has not yet begun to receive service retirement or disability retirement benefit payments subject to the order when the system receives the order, the system may delay action on an application by the participant for benefits that would be subject to the order (if the order were to be qualified under this chapter), and the domestic relations liaison may proceed in accordance with the remaining subsections of this section. If the domestic relations liaison has made an initial determination under this section that the order does not appear to qualify, the system nonetheless may (but shall not be required to) pay to the participant all or any portion of any benefits to which the participant appears entitled under the order while interpreting the division of benefits in the light most beneficial to the alternate payee under the domestic relations order and state

law. In determining under this paragraph whether or not to process a benefits application and begin payments to a participant pending pursuit of a qualified domestic relations order, the system may take into consideration the difficulty in dividing the benefits between the parties prior to receipt of, or in re-dividing the benefits after receipt of, a qualified domestic relations order. Any benefits not paid under this paragraph shall be retained by the system until they are paid under one of the remaining subsections of this section.

(2) AFTER RETIREMENT. If the domestic relations order relates to a participant who is receiving service retirement or disability retirement benefit payments subject to the order when the system receives the order, the domestic relations liaison may proceed in accordance with this paragraph (a)(2) and the remaining subsections of this section.

(A) If the order proposes to award the alternate payee a percentage of the then-current monthly benefit payable to participant (commonly referred to as a “carve-out”), the system shall reduce the amount to be paid to the participant to the portion of benefits to which the participant appears entitled under the order while interpreting the division of benefits in the light most beneficial to the alternate payee under the domestic relations order and state law. Any benefits not paid to the participant under this subparagraph shall be retained by the system until they are paid under one of the remaining subsections of this section.

(B) If the domestic relations order proposes to award the alternate payee an interest in the participant’s benefits from the system other than a carve-out (as described in subparagraph (A) of this paragraph ~~(a)(2)(A)~~), the system is not required to reduce the amount to be paid to the participant and retain the amount withheld for the alternate payee until the system receives an order that complies with the requirements of this chapter for qualified domestic relations orders because of the difficulty in dividing the benefits between the parties prior to receipt of, or in re-dividing the benefits after receipt of, a qualified domestic relations order. If a domestic relations order that falls under this subparagraph is subsequently brought into compliance with the requirements of this chapter for qualified domestic relations orders, payments to the alternate payee under the qualified domestic relations order shall be made prospectively only.

(b) If 60 days have elapsed since the date of the §129.3 Notice, and neither party has submitted documentation to the system reflecting that action has been pursued to bring the order into compliance, the domestic relations liaison will send another notice letter to each party by first class mail that reminds the parties that unless documentation has been submitted to the system showing that action has been pursued before the expiration of the 90-day period, the order will be determined not to be a qualified domestic relations order and the system will pay to the participant any sums that have been withheld up to that date, and shall thereafter make payment of benefits as if no order had been received by the system.

(c) If neither party has timely pursued before the expiration of the 90-day period described in subsection (a) of this section, or any applicable extension for good cause granted under this subsection, in accordance with this section or in accordance with §129.11 of this title (relating to Procedure for Obtaining Formal Hearing), the order is not a qualified domestic relations order and the system will pay to the participant

any benefits that have been withheld hereunder after 90 days from the date of the §129.3 Notice unless the system has granted an extension for good cause prior to the expiration of the 90 days. Either party may request extensions for good cause, while pursuing court action to bring an order into compliance with the requirements of this chapter for a qualified domestic relations order, for up to 18 months from the date the domestic relations order was received. Any initial request for any extension for good cause must be received by the system prior to the expiration of 90 days after the date of the §129.3 Notice, and determination of good cause for extensions and the length of any extension shall be made by the system in its sole discretion. Any request for an additional extension must be received by the system prior to the expiration of the then applicable extension period. "Good cause" may include, but shall not be limited to, notice of a hearing before the court with jurisdiction over the domestic relations order.

(d) Upon the expiration of 18 months from the date the domestic relations order was received, if the domestic relations order has not been qualified, the system will pay to the participant all benefits that have been withheld hereunder up to that date and shall thereafter make payment of benefits as if no order had been received by the system.

(e) In the event that, in the **determination opinion** of the domestic relations liaison, the domestic relations order is subsequently brought into compliance with the requirements of this chapter for qualified domestic relations orders, the domestic relations liaison shall so notify the parties in writing, and the system will thereafter pay the sums payable under the order (including any benefits previously retained by the system) in the manner set forth in the order, unless such order is subsequently set aside or modified by a court of competent jurisdiction and such modified order is determined by the system to be qualified in accordance with the requirements of this chapter.

(f) Neither the system nor any officials or employees of the system shall be liable for making any payment under this section.

#### §129.10. Procedures for Determination – Contested Order.

(a) If, in response to a notice sent to the parties under §129.7 of this title (relating to Conditional Approval of Order) written notice of a contest is timely received, the domestic relations liaison shall notify in writing all other parties of the receipt of that contest.

(b) For a period of 30 days following the date of the system's receipt of notice of a contest (unless the contest is sooner withdrawn in writing by the party who gave written notice of contest), the system may proceed in accordance with this section.

(1) BEFORE RETIREMENT. If the order relates to a participant who has not yet begun to receive service retirement or disability retirement benefit payments subject to the order when the system receives the notice of contest, the system may delay action on an application by the participant for benefits that would be subject to the order. Alternatively, the system may (but shall not be required to) process an application by and begin payments to the participant of a refund or of all or any portion of any benefits to which the participant appears entitled under the order while interpreting the division of benefits in the light most beneficial to the alternate payee under the qualified domestic relations order

and state law. In determining under this paragraph whether or not to process an application and begin payments to a participant pending completion of the contest, the system may take into consideration the difficulty in dividing the benefits between the parties prior to receipt of, or in re-dividing the benefits after receipt of, a qualified domestic relations order should the contest to the order be successful. Any benefits not paid under this paragraph shall be retained by the system until they are paid under one of the remaining subsections of this section.

(2) AFTER RETIREMENT. If the order relates to a participant who is receiving service retirement or disability retirement benefit payments when the system receives the notice of contest, and the contested order awards the alternate payee a percentage of the then-current monthly benefit payable to participant (commonly referred to as a “carve-out”), the system shall pay to the participant all or any portion of any benefits to which the participant appears entitled under the order while interpreting the division of benefits in the light most beneficial to the alternate payee under the qualified domestic relations order and state law. If the order awards the alternate payee an interest in the participant’s benefits from the system other than a carve-out, the system is not required to reduce the amount to be paid to the participant until the first to occur of the events listed in subsection (c) [of this section](#).

(3) Any benefits not paid to the participant under this paragraph shall be retained by the system until they are paid under one of the remaining subsections of this section.

(c) Any party desiring to contest the order may, within that 30-day period, pursue action in a court of competent jurisdiction for review and clarification of the order. The system may require a certified copy of the filed pleading to pursue action on the order. In the event the system receives (within such 30-day period) notice of such a pleading or written request, the system will continue to withhold payment of benefits pursuant to subsection (b) [of this section](#) until the first to occur of:

(1) The system's receipt of a certified copy of a subsequent order that the domestic relations liaison determines qualifies under this chapter;

(2) The system’s receipt of a certified copy of an order dismissing or denying the contest; or

(3) The expiration of six months from the date of mailing of the notice of conditional approval under §129.7 of this title [\(relating to Conditional Approval of Order\)](#), unless the party contesting the order shows good cause for an extension beyond the six months. The party contesting the order may request extensions for good cause, while pursuing court action to contest the order, for up to 18 months from the date the domestic relations order was received. Any request for an additional extension must be received by the system prior to the expiration of the then applicable extension period. “Good cause” may include, but shall not be limited to, notice of a hearing before the court with jurisdiction over the domestic relations order. Determination of good cause for extensions and the length of any extension shall be made by the system in its sole discretion.

(d) If, within the periods set forth in subsection (c) or within any system-approved extensions, the system receives a subsequent order that complies with the requirements of this chapter for a qualified domestic relations order, the domestic relations liaison will provide notice under §129.7 of this title [\(relating to](#)

Conditional Approval of Order) and the system will pay all benefits (including any that have been withheld under this chapter) pursuant to that subsequent order. In making a determination hereunder, the domestic relations liaison may (but shall not be required to) rely on the determination of the court in a clarification order meeting the requirements of this chapter for a qualified domestic relations order. If the domestic relations liaison determines and notifies the parties in writing that the subsequent order does not qualify, action on the non-qualifying subsequent order thereafter will be in accordance with the provisions of §129.9 of this title (relating to Order Appearing Not to Qualify).

(e) If the system does not receive, within the 30 days described in subsections (a)-(c) of this section, notice of such a pleading or written request being filed, or if the contest has been withdrawn in writing, then payment will be made under §129.8 of this title (relating to Payments Under Conditionally Approved Order).

(f) Upon the expiration of 18 months from the date the qualified domestic relations order was received by the system, if the contest of the qualified domestic relations order has not been resolved within that period of time, then payment will be made under §129.8 of this title ~~(relating to Payments Under Conditionally Approved Order)~~.

(g) Neither the system nor any officials or employees of the system shall be liable for making any payment under this section.

#### §129.11. Procedure for Obtaining Formal Hearing.

(a) If the domestic relations liaison has determined that an order does not qualify under this chapter, and either party desires to challenge that determination, the party desiring to make such a challenge shall have 30 days from the date of the domestic relations liaison's letter of notification sent under §129.9 of this title (relating to Order Not Appearing to Qualify) within which to file with the director a written demand for a hearing. After receipt of such demand, the director, or the director's designee, shall set the matter for hearing and shall mail written notice to all parties of the date and place of hearing.

(b) All such hearings, and the action thereon, shall be in accordance with §§121.18-121.26 of this title (relating to Conduct of Contested Case Hearings; Proposal for Decisions; Filing of Exceptions to Proposal, Briefs, and Replies; Closing of Hearing; Board Consideration and Action; Board Decisions and Orders; Motions for Rehearing; When Decisions Become Final; and The Record).

#### §129.12. Payments to Alternate Payees.

(a) In the event that the participant terminates membership in the system and applies for a refund of the participant's accumulated deposits and interest, the system will make a lump-sum payment to the alternate payee if the domestic relations order so provides and the order has been determined to be a qualified domestic relations order.

(b) In the event that the participant (or the participant's designated beneficiary or estate) begins receiving an annuity after the date that a qualified domestic relations order is received by the system, and the order

provides for a division of the annuity in that event, the payment to the alternate payee will be a monthly allowance payable during the lifetime of the alternate payee, which payment is the actuarial equivalent of the portion of the participant's benefit that was awarded to the alternate payee under the domestic relations order. For the period from the January 22, 2001, original initial effective date of §123.17 of this title (relating to Actuarial Tables) through December 31, 2014, the mortality assumption for alternate payees for determining the payment to the alternate payee shall be the same as the mortality assumption for the beneficiaries as set forth in §123.17(a) of this title with regard to service retirements and as set forth in §123.17(b) of this title with regard to disability retirements. Effective beginning January 1, 2015, the mortality assumption for alternate payees for determining the payment to the alternate payee shall be the same as the mortality assumption for the beneficiaries as set forth in §123.17(c) of this title with regard to service retirements and with regard to disability retirements and shall take into account the applicable phase in period, if any, that may be adopted by the ~~board~~ ~~Board~~ pursuant to §123.17(d) of this title.

(c) Subsection (b) of this section will apply to all domestic relations orders approved in accordance with this chapter after September 9, 1989, and to such domestic relations orders approved prior to that date as are construed to provide for such an annuity.

(d) In the event that the total reserves upon which an annuity (otherwise payable to an alternate payee under a qualified domestic relations order) would be calculated are \$10,000 or less, then the system is authorized to make a single lump-sum payment to the alternate payee in the amount of those reserves instead of paying an annuity to the alternate payee. No such payment shall be made by the system until such point in time as the system begins paying an annuity to the participant or the participant's designated beneficiary, surviving spouse, or estate.

(e) The suspension of a disability retirement benefit under the Act does not suspend payment of a benefit to an alternate payee under a qualified domestic relations order.

#### §129.13. Form of Qualified Domestic Relations Order.

(a) The system has prescribed forms that are pre-approved by the system as meeting the requirements of Texas Government Code §804.003 and this chapter for a qualified domestic relations order. The prescribed forms are available on the system's website and upon request. The prescribed forms incorporate by reference the definitions set forth in this chapter and the provisions set forth in §129.14 of this title (relating to Provisions Incorporated by Reference). The system may reject any domestic relations order submitted to the system that does not utilize the applicable prescribed form.

(b) It is the responsibility of the parties to insert the correct information in the appropriate form prescribed by the system in the appropriate places and to provide the system with a certified copy of the order after it has been entered by a court of competent jurisdiction.

(c) If "accumulated contributions" is shown in the order to be the basis for division, then the term "community property ratio" as used in the prescribed form shall mean the ratio that contributions and interest deposited to participant's individual account with the system between the dates shown bears to

participant's total contributions and interest at time of retirement or withdrawal of accumulated contributions. Interest (including interest earned after the date of the divorce) will be divided in accordance with §129.6 of this title (relating to Order Should Divide All Benefits).

(d) If “total credited service” is shown in the order to be the basis for division, then the term “community property ratio” as used in the prescribed form shall mean the ratio that participant's credited service between the dates shown bears to participant's total credited service at time of retirement or withdrawal of accumulated contributions.

(e) The order shall not be considered qualified unless it clearly reflects which of the ratios described above, as applicable, is intended to be used in computing the division of benefits.

(f) All required sections of the prescribed form must be completed in order to be qualified.

#### §129.14. Provisions Incorporated by Reference.

An order on a prescribed form pre-approved by the system expressly incorporates all of the following by reference:

(1) The order shall not be interpreted in any way to require the Plan to provide any type or form of benefit or any option not otherwise provided under the Plan.

(2) The order shall not be interpreted in any way to require the Plan to provide increased benefits determined on the basis of actuarial value.

(3) The order shall not be interpreted in any way to require the Plan to pay any benefits to an/any Alternate Payee named in the order which are required to be paid to another ~~Alternate Payee~~ ~~alternate payee~~ under another order previously determined to be a qualified domestic relations order.

(4) The order shall not be interpreted in any way to require the payment of benefits to ~~an/any~~ Alternate Payee before the retirement of Participant, the distribution of a withdrawal of contributions to Participant as authorized by the statutes governing the Plan, or other distribution to Participant required by law.

(5) If the Plan provides for a reduced benefit upon “early retirement”, the order shall be interpreted to require that, in the event of Participant's retirement before normal retirement age, the benefits payable to Alternate Payee shall be reduced in a proportionate amount.

(6) The order shall not be interpreted to require the designation of a particular person as the recipient of benefits in the event of Participant's death, or to require the selection of a particular benefit payment plan or option.

(7) In the event that, after the date of the order, the amount of any benefit otherwise payable to Participant is increased as a result of amendments to the law governing the Plan, Alternate Payee shall

receive a proportionate part of such increase unless such an order would disqualify the order under the rules the Plan has adopted with regard to qualified domestic relations orders.

(8) In the event that, after the date of the order, the amount of any benefit otherwise payable to Participant is reduced by law, the portion of benefits payable to Alternate Payee shall be reduced in a proportionate amount.

(9) If, as a result of Participant's death after the date of the order, a payment is made by the Plan to Participant's estate, surviving spouse, or designated beneficiaries, which payment does not relate in any way to Participant's length of employment or accumulated contributions with the Plan, but rather is purely a death benefit payable as a result of employment or retired status at the time of death, no portion of such payment is community property, and Alternate Payee shall have no interest in such death benefit.

(10) If the board of trustees of the Plan has by rule provided that, in lieu of paying an ~~Alternate Payee alternate payee~~ the interest awarded by a qualified domestic relations order, the Plan may pay the ~~Alternate Payee alternate payee~~ an amount that is the actuarial equivalent of

(A) An annuity payable in equal monthly installments for the life of the ~~Alternate Payee alternate payee~~, or

(B) A lump sum, then and in that event the Plan is authorized to make such a payment under the order.

(11) All payments to Alternate Payee under the order shall terminate upon Alternate Payee's death or at such earlier date as may be required as a result of the retirement option selected by Participant.

(12) All benefits payable under the Plan, other than those payable under ~~the express terms paragraph 4~~ of the order to Alternate Payee, shall be payable to Participant in such manner and form as Participant may elect in his/her sole and undivided discretion, subject only to Plan requirements.

(13) Alternate Payee is ORDERED to report any retirement payments received on any applicable income tax return, and to promptly notify the Plan of any changes in Alternate Payee's mailing address. The Plan is authorized to issue a Form 1099R on any direct payment made to Alternate Payee.

(14) Participant is designated a constructive trustee for receiving any retirement benefits under the Plan that are due to Alternate Payee but paid to Participant. Participant is ORDERED to pay the benefit defined in this paragraph directly to Alternate Payee within three days after receipt by Participant. All payments made directly to Alternate Payee by the Plan shall be a credit against this order.

(15) The Court retains jurisdiction to amend the order so that it will constitute a qualified domestic relations order under the Plan even though all other matters incident to this action or proceeding have been fully and finally adjudicated.

TMRS certifies that legal counsel has reviewed the proposed rules and found them to be within TMRS' legal authority to adopt.

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dar days after notice of the proposal has been published in the *Texas Register* on February 11, 2022. A form for submitting public comments is available on the TEA website at [https://tea.texas.gov/About\\_TEA/Laws\\_and\\_Rules/Commissioner\\_Rules\\_\(TAC\)/Proposed\\_Commissioner\\_of\\_Education\\_Rules/](https://tea.texas.gov/About_TEA/Laws_and_Rules/Commissioner_Rules_(TAC)/Proposed_Commissioner_of_Education_Rules/).

**STATUTORY AUTHORITY.** The amendment is proposed under Texas Education Code, §21.048(a), which requires the commissioner to determine the level of performance considered to be satisfactory on educator certification examinations and further authorizes the commissioner to require a satisfactory level of performance on each core subject covered by an examination.

**CROSS REFERENCE TO STATUTE.** The amendment implements Texas Education Code, §21.048(a).

*§151.1001. Passing Standards.*

(a) As required by the Texas Education Code, §21.048(a), the commissioner of education shall determine the satisfactory level of performance for each educator certification examination and require a satisfactory level of performance on each core subject covered by an examination. The figures in this section identify the passing standards established by the commissioner for educator certification examinations.

(b) The figures in this subsection identify the passing standards established by the commissioner for classroom teacher examinations.

(1) The figure in this paragraph identifies the passing standards for early childhood through Grade 6 examinations.  
Figure: 19 TAC §151.1001(b)(1) (No change.)

(2) The figure in this paragraph identifies the passing standards for Grades 4-8 examinations.  
Figure: 19 TAC §151.1001(b)(2)  
[Figure: 19 TAC §151.1001(b)(2)]

(3) The figure in this paragraph identifies the passing standards for secondary mathematics and science examinations.  
Figure: 19 TAC §151.1001(b)(3) (No change.)

(4) The figure in this paragraph identifies the passing standards for secondary English language arts and social studies examinations.  
Figure: 19 TAC §151.1001(b)(4) (No change.)

(5) The figure in this paragraph identifies the passing standards for speech and journalism examinations.  
Figure: 19 TAC §151.1001(b)(5) (No change.)

(6) The figure in this paragraph identifies the passing standards for fine arts examinations.  
Figure: 19 TAC §151.1001(b)(6) (No change.)

(7) The figure in this paragraph identifies the passing standards for health and physical education examinations.  
Figure: 19 TAC §151.1001(b)(7) (No change.)

(8) The figure in this paragraph identifies the passing standards for computer science and technology applications examinations.  
Figure: 19 TAC §151.1001(b)(8) (No change.)

(9) The figure in this paragraph identifies the passing standards for career and technical education examinations.  
Figure: 19 TAC §151.1001(b)(9) (No change.)

(10) The figure in this paragraph identifies the passing standards for bilingual examinations.  
Figure: 19 TAC §151.1001(b)(10) (No change.)

(11) The figure in this paragraph identifies the passing standards for languages other than English (LOTE) examinations.

Figure: 19 TAC §151.1001(b)(11) (No change.)

(12) The figure in this paragraph identifies the passing standards for special education examinations.  
Figure: 19 TAC §151.1001(b)(12) (No change.)

(13) The figure in this paragraph identifies the passing standards for supplemental examinations.  
Figure: 19 TAC §151.1001(b)(13) (No change.)

(14) The figure in this paragraph identifies the passing standards for pedagogy and professional responsibilities examinations.  
Figure: 19 TAC §151.1001(b)(14)  
[Figure: 19 TAC §151.1001(b)(14)]

(15) The figure in this paragraph identifies the passing standards for content certification examinations.  
Figure: 19 TAC §151.1001(b)(15) (No change.)

(c) The figure in this subsection identifies the passing standards established by the commissioner for student services examinations.  
Figure: 19 TAC §151.1001(c)  
[Figure: 19 TAC §151.1001(e)]

(d) The figure in this subsection identifies the passing standards established by the commissioner for administrator examinations.  
Figure: 19 TAC §151.1001(d) (No change.)

The agency certifies that legal counsel has reviewed the proposal and found it to be within the state agency's legal authority to adopt.

Filed with the Office of the Secretary of State on January 31, 2022.

TRD-202200336

Cristina De La Fuente-Valadez  
Director, Rulemaking  
Texas Education Agency

Earliest possible date of adoption: March 13, 2022  
For further information, please call: (512) 475-1497



## TITLE 34. PUBLIC FINANCE

### PART 6. TEXAS MUNICIPAL RETIREMENT SYSTEM

#### CHAPTER 129. DOMESTIC RELATIONS ORDERS

The Board of Trustees (Board) of the Texas Municipal Retirement System (TMRS or the System) proposes the repeal of current 34 TAC Chapter 129 (Chapter 129), relating to domestic relations orders. TMRS is also proposing to replace current Chapter 129 with proposed new Chapter 129, also relating to domestic relations orders.

#### REPEAL OF CURRENT CHAPTER 129

TMRS proposes the repeal of current 34 TAC Chapter 129, which includes the following sections: 34 TAC §129.1, Purpose; 34 TAC §129.2, Definitions; 34 TAC §129.3, Notice Regarding Receipt of Order; 34 TAC §129.4, Requirements for Qualified Domestic Relations Orders; 34 TAC §129.5, Contents of Domestic Relations Order; 34 TAC §129.6, Order Should Divide

All Benefits; 34 TAC §129.7, Conditional Approval of Order; 34 TAC §129.8, Payments Under Conditionally Approved Order; 34 TAC §129.9, Order Appearing Not to Qualify; 34 TAC §129.10, Procedures for Determination-Contested Order; 34 TAC §129.11, Procedure for Obtaining Formal Hearing; 34 TAC §129.12, Payments to Alternate Payees; 34 TAC §129.13, Form of Qualified Domestic Relations Order; and 34 TAC §129.14, Provisions Incorporated by Reference.

#### PROPOSAL OF NEW CHAPTER 129

As proposed, the new Chapter 129 will address: 34 TAC §129.1, Purpose; 34 TAC §129.2, Definitions; 34 TAC §129.3, Notice Regarding Receipt of Order; 34 TAC §129.4, Requirements for Qualified Domestic Relations Orders; 34 TAC §129.5, Contents of Domestic Relations Order; 34 TAC §129.6, Order Should Divide All Benefits; 34 TAC §129.7, Conditional Approval of Order; 34 TAC §129.8, Payments Under Conditionally Approved Order; 34 TAC §129.9, Order Appearing Not to Qualify; 34 TAC §129.10, Procedures for Determination-Contested Order; 34 TAC §129.11, Procedure for Obtaining Formal Hearing; 34 TAC §129.12, Payments to Alternate Payees; 34 TAC §129.13, Form of Qualified Domestic Relations Order; and 34 TAC §129.14, Provisions Incorporated by Reference.

#### BACKGROUND AND PURPOSE

TMRS proposes to repeal and replace Chapter 129 to update, modernize, and provide clarification to its rules relating to domestic relations orders. Statutes specific to TMRS are found in Title 8, Subtitle G, Chapters 851 through 855, Texas Government Code (the "TMRS Act"). TMRS may promulgate rules it deems necessary to implement the TMRS Act and Texas Government Code Chapter 804 ("Chapter 804") regarding qualified domestic relations orders and spousal consent. In addition, the repeal and replacement of Chapter 129 is being proposed as a result of TMRS's rule review, which was conducted pursuant to Texas Government Code §2001.039.

One provision of the proposed new Chapter 129 rules is unchanged from existing rules; this rule is found in new 34 TAC §129.1, Purpose. Six proposed rules for new Chapter 129 are amended to make clarifying changes to better reflect how the System interprets and administers the rules and how Chapter 804 applies to domestic relations orders and to update references to laws or other TMRS rules that have been amended; these six rules are found in new 34 TAC §129.2, Definitions; 34 TAC §129.3, Notice Regarding Receipt of Order; 34 TAC §129.8, Payments Under Conditionally Approved Order; 34 TAC §129.11, Procedure for Obtaining Formal Hearing; 34 TAC §129.12, Payments to Alternate Payees; and 34 TAC §129.14, Provisions Incorporated by Reference. Substantive changes, however, are proposed in the seven remaining new rules, which changes are described as follows: adds a provision stating that TMRS has prescribed QDRO forms designed to allow parties to properly divide a Member's benefits under the TMRS Act, and that TMRS may reject a domestic relations order as not qualified that is not based on one of TMRS' forms (in §129.4, Requirements for Qualified Domestic Relations Orders); adds an applicable QDRO requirement pursuant to Chapter 804 (in §129.5, Contents of Domestic Relations Order); adds language to provide that, if a pre-retirement QDRO is not clear how to divide future interest credited on accumulated contributions after the date of divorce until the time benefit payments begin, then the portion of benefits awarded to the alternate payee will be allocated its proportionate share of future interest (in §129.6, Order Should Divide All Benefits); changes the timing

for contesting a conditional approval of a QDRO from 2 weeks beginning on the date of mailing of the notice to 2 weeks beginning on the date of the notice (in §129.7, Conditional Approval of Order); clarifies how existing processes work, including possible holds on payments, if a TMRS Member is pre-retirement or post-retirement when TMRS receives an order and determines it does not qualify; and, rearranges the rule's structure and makes non-substantive clarifications (in §129.9, Order Appearing Not to Qualify); adds procedures, including possible holds on payments, for where a party contests TMRS' determination that an order received does meet the QDRO requirement, and shortens the time period after the contest is made for appropriate procedures to begin; and, makes non-substantive clarifications (in §129.10 Procedures for Determination - Contested Order); and, replaces language previously setting out a single pre-approved QDRO form in the rule itself with new language regarding the use of any of TMRS' pre-approved QDRO forms, and makes clarifying non-substantive changes (in §129.13, Form of Qualified Domestic Relations Order).

At a Board meeting on October 28, 2021, the TMRS Board approved the publication for comment of the proposed repeal of current Chapter 129 and the proposed replacement of current Chapter 129 with the new Chapter 129 rules.

#### FISCAL NOTE

Debbie Munoz, TMRS Director of Member Services, has determined that for the first five-year period the proposed new rules are in effect there will be no foreseeable fiscal implications to state or local governments as a result of enforcing or administering the proposed rules.

#### PUBLIC COST/BENEFIT

Christine Sweeney, TMRS Chief Legal Officer, has determined that for each year of the first five years the proposed new rules are in effect, the public benefit of Chapter 129 will be: (i) a clearer and more accurate statement of TMRS' administrative rules regarding the review and qualification of domestic relations orders received by TMRS (the "QDRO Process"); and, (ii) to modernize and conform these administrative rules with the System's interpretation and administration of the TMRS Act and Texas Government Code Chapter 804 provisions.

#### LOCAL EMPLOYMENT IMPACT STATEMENT

TMRS has determined that there will be no adverse economic effects on local economies or local employment because of the proposed new rules, which are proposed for the modernization and clarification of provisions relating to the QDRO Process under the TMRS Act and Texas Government Code Chapter 804. Therefore, no local employment impact statement is required under Texas Government Code §2001.022 or §2001.024(a)(6).

#### ECONOMIC IMPACT STATEMENT AND REGULATORY FLEXIBILITY ANALYSIS

TMRS has determined that there will be no adverse economic effects on small businesses, micro-businesses, or rural communities because the proposed new rules are proposed for modernization, clarification and implementation of provisions relating to TMRS' internal QDRO Process. Rural communities include municipalities under a certain population, but the proposed rules do not differentiate between municipalities on the basis of population, and the proposed rules relate to the QDRO Process for individual TMRS members. Therefore, neither an economic impact statement nor a regulatory flexibility analysis is required under Texas Government Code §2006.002.

## GOVERNMENT GROWTH IMPACT STATEMENT

TMRS has determined that for each year of the first five years the proposed new rules are in effect, the proposed rules: will not create or eliminate any TMRS programs; will not require either the creation of or elimination of employee positions; will not require an increase or decrease in future legislative appropriations to TMRS (TMRS does not receive any legislative appropriations); will not require an increase or decrease in fees paid to TMRS; will not create a new regulation (because new Chapter 129 updates and replaces existing Chapter 129); do not expand, limit or repeal an existing regulation (because new Chapter 129 updates and replaces existing Chapter 129); do not increase or decrease the number of individuals subject to the rules' applicability; and, do not affect this state's economy.

## TAKINGS IMPACT ASSESSMENT

TMRS has determined that there are no private real property interests affected by the proposed new rules, therefore a takings impact assessment is not required under Texas Government Code §2007.043.

## COSTS TO REGULATED PERSONS

TMRS has determined that Texas Government Code §2001.0045(b) does not apply to the proposed new rules because they do not impose a cost on regulated persons (including another state agency, a special district, or a local government).

## ENVIRONMENTAL RULE ANALYSIS

The proposed new rules are not a "major environmental rule" as defined by Texas Government Code §2001.0225. The proposed rules are not specifically intended to protect the environment or to reduce risks to human health from environmental exposure. Therefore, a regulatory environmental analysis is not required.

## COMMENTS

Comments on the proposed rules may be submitted to Christine Sweeney, Chief Legal Officer, TMRS, P.O. Box 149153, Austin, Texas 78714-9153, faxed to (512) 225-3786, or submitted electronically to csweeney@tmrs.com. Written comments must be received by TMRS no later than 30 days after publication of this notice in the *Texas Register*.

## 34 TAC §§129.4 - 129.14

### STATUTORY AUTHORITY

The repeal of existing Chapter 129 is proposed and implements the authority granted under the following provisions of the TMRS Act or the Texas Government Code: (i) Government Code §855.102, which allows the Board to adopt rules it finds necessary or desirable for the efficient administration of the System; (ii) Government Code §855.201, which allows the Board to delegate to the executive director powers and duties provided to the Board by the TMRS Act; and (iii) Government Code §804.003, which allows the Board to promulgate rules it deems necessary to implement the provisions of that section. In addition, the rule changes are proposed as a result of TMRS's rule review, which was conducted pursuant to Texas Government Code §2001.039.

### CROSS-REFERENCE TO STATUTES

The proposal rules implements the following sections of the Texas Government Code: §804.003, concerning qualified domestic relations orders; §852.103, concerning the withdrawal of contributions and rollover distributions; §854.006 concerning

change of beneficiary or division of benefit for certain persons receiving monthly benefits; §854.501, concerning the return of contributions; §§854.101-854.105, concerning service retirement benefits; §§854.405-854.411, concerning optional occupational disability retirement benefits; §§854.603 - 854.605, concerning supplemental death benefits for members, retirees, and beneficiaries.

§129.1. *Purpose.*

§129.2. *Definitions.*

§129.3. *Notice Regarding Receipt of Order.*

§129.4. *Requirements for Qualified Domestic Relations Orders.*

§129.5. *Contents of Domestic Relations Order.*

§129.6. *Order Should Divide All Benefits.*

§129.7. *Conditional Approval of Order.*

§129.8. *Payments under Conditionally Approved Order.*

§129.9. *Order Appearing Not to Qualify.*

§129.10. *Procedures for Determination--Contested Order.*

§129.11. *Procedure for Obtaining Formal Hearing.*

§129.12. *Payments to Alternate Payees.*

§129.13. *Form of Qualified Domestic Relations Order.*

§129.14. *Provisions Incorporated by Reference.*

The agency certifies that legal counsel has reviewed the proposal and found it to be within the state agency's legal authority to adopt.

Filed with the Office of the Secretary of State on January 27, 2022.

TRD-202200296

Christine M. Sweeney

Chief Legal Officer

Texas Municipal Retirement System

Earliest possible date of adoption: March 13, 2022

For further information, please call: (512) 225-3710



## 34 TAC §§129.1 - 129.14

### STATUTORY AUTHORITY

The new Chapter 129 rules are proposed and implement the authority granted under the following provisions of the TMRS Act or the Texas Government Code: (i) Government Code §855.102, which allows the Board to adopt rules it finds necessary or desirable for the efficient administration of the System; (ii) Government Code §855.201, which allows the Board to delegate to the executive director powers and duties provided to the Board by the TMRS Act; and (iii) Government Code §804.003, which allows the Board to promulgate rules it deems necessary to implement the provisions of that section. In addition, the rule changes are proposed as a result of TMRS's rule review, which was conducted pursuant to Texas Government Code §2001.039.

### CROSS-REFERENCE TO STATUTES

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of beneficiary or division of benefit for certain persons receiving monthly benefits; §854.501, concerning the return of contributions; §§854.101-854.105, concerning service retirement benefits; §§854.405-854.411, concerning optional occupational disability retirement benefits; §§854.603 - 854.605, concerning supplemental death benefits for members, retirees, and beneficiaries.

§129.1. Purpose.

(a) The Texas Municipal Retirement System (the system) receives a substantial number and variety of domestic relations orders as that term is defined in §129.2 of this title (relating to Definitions) which purport to divide the accumulated contributions of members of the system, and/or the retirement benefits of such members, as part of divorce or other domestic relations proceedings.

(b) Many of those orders contain provisions that would require the system to attempt to determine what effect the order is intended to have on accumulated contributions and/or retirement benefits upon the happening of certain events. The board of trustees of the system has therefore adopted the rules and procedures set forth in this chapter, in order to establish a process whereunder it can be determined if a particular domestic relations order clearly divides all benefits that may be payable under the Act, clearly advises the system as to whom benefits are to be paid and in what manner and does not purport to require payments to be made in a manner that would conflict with the Act.

§129.2. Definitions.

The following words and terms, when used in this chapter, shall have the following meanings, unless the context clearly indicates otherwise.

(1) Act--Texas Government Code, Title 8, Subtitle G, as amended.

(2) Alternate payee--A spouse, former spouse, child, or other dependent of a member or retiree who is recognized by a domestic relations order, as having a right to receive all or a portion of the benefits payable by the system with respect to such member or retiree.

(3) Benefits--Any of the payments or benefits described in §129.6(a) and (b) of this title (relating to Order Should Divide All Benefits).

(4) Domestic relations liaison--A person who is acting on behalf of the system and authorized by the director of the system or by way of their position in the system to receive and take action concerning domestic relations orders that are sent or delivered to the system.

(5) Domestic relations order--Any judgment, decree, or order signed by the presiding judge of a court of competent jurisdiction (including one which approves a property settlement agreement) which:

(A) relates to the provision of child support, temporary support, or marital property rights to a spouse, former spouse, child, or other dependent of a member or former member of the system; and

(B) is made pursuant to the Texas Family Code or any other applicable domestic relations or community property law.

(6) Participant--A member or former member of the system who has sums of money on deposit with the system or who is or may become entitled to receive any benefit from the system based on membership in the system. This may also include a beneficiary who is entitled to receive a benefit payment from the system.

(7) Parties--The participant and all alternate payees named in a domestic relations order.

(8) Pursue action--For purposes of this chapter, a participant or alternate payee pursues action with respect to a domestic rela-

tions order by filing with a court of competent jurisdiction a pleading or a written request for a hearing date for the court to consider a proposed domestic relations order based on a system prescribed form or to consider clarification of a similar domestic relations order.

§129.3. Notice Regarding Receipt of Order.

Upon receiving a domestic relations order, and subject to §129.7 and §129.9 of this title (relating to Conditional Approval of Order and Order Appearing Not To Qualify), the domestic relations liaison shall promptly send a notice to those persons listed in paragraphs (1) and (2) of this section, stating that the system has received the domestic relations order and that it will be acted upon by the system in accordance with the procedures set forth in this chapter. The persons who are to receive the notice are:

(1) the participant and/or, if the participant is represented by an attorney (and the system has been provided with the name and address of such attorney in connection with the domestic relations order), such attorney or such other person as may be designated in writing by the participant with regard to the domestic relations order; and

(2) all alternate payees named in the domestic relations order if their names and addresses are provided in the order; and/or, if an alternate payee is represented by an attorney (and the system has been provided with the name and address of such attorney in connection with the domestic relations order), to such attorney or such other person as may be designated in writing by an alternate payee with regard to the domestic relations order.

§129.4. Requirements for Qualified Domestic Relations Orders.

(a) A recital in a domestic relations order to the effect that it is a qualified domestic relations order is not sufficient to make it qualified under this chapter. For a domestic relations order to be a qualified domestic relations order under this chapter, the order must be determined, either by the system, or by a court of competent jurisdiction having actual knowledge of the provisions of this chapter, to meet the requirements set forth in §804.003, Texas Government Code, the Act and this chapter. In making that determination, the system may take into account: the order itself; any clarification order entered by a court of competent jurisdiction; and any affidavits or agreements between the parties that were qualified by the system prior to the effective date of this section. In this chapter, references to the requirements of this chapter for qualified domestic relations orders shall be construed in accordance with the provisions and requirements of Chapter 804, Texas Government Code.

(b) The system has prescribed forms that are pre-approved by the system as meeting the requirements of Texas Government Code §804.003 and this chapter for a qualified domestic relations order. The prescribed forms are available on the system's website and upon request. The prescribed forms incorporate by reference the definitions set forth in this chapter and the provisions set forth in §129.14 of this title (relating to Provisions Incorporated by Reference). The system may reject any domestic relations order submitted to the system that does not utilize the applicable prescribed form.

§129.5. Contents of Domestic Relations Order.

(a) A domestic relations order should clearly specify:

(1) the name, taxpayer identification number, and last known address of the participant and of each alternate payee covered by the order, provided that confidential personal information may be provided to the system through alternate methods in accordance with §121.5 of this title (relating to Forms and Applications for Benefits, or Asserting Other Claims);

(2) the amount or percentage of the participant's benefits to be paid by the system to each such alternate payee, or the manner in which such amount or percentage is to be determined;

(3) the number of payments or period of time to which such order applies; and

(4) whether the order applies only to benefits under this system or, if not, to what other plans the order applies, and in what manner.

(b) A domestic relations order does not meet the requirements of this chapter for qualified domestic relations orders if:

(1) it purports to require the system to provide any type or form of benefit, or any option, not otherwise authorized under the Act;

(2) it purports to require the system to provide increased benefits determined on the basis of actuarial value;

(3) it purports to require the system to make any payment of any benefit or portion thereof at a time not otherwise authorized under the Act;

(4) it purports to require the payment of benefits to an alternate payee which are required (or purported to be required) to be paid to another alternate payee under another order previously determined by the system to be a qualified domestic relations order under this chapter (including any such order so determined on an informal basis prior to adoption of this chapter); or

(5) it is worded in a manner that does not advise the system (taking into account the provisions of the Act, the wording of the order, and the provisions of this chapter) in clear and unambiguous language as to what portion of the benefits that otherwise might be or become payable to the participant (or to the participant's designee or estate) are to be paid to each alternate payee under the order.

#### §129.6. Order Should Divide All Benefits.

(a) **BEFORE RETIREMENT.** Under the Act, a participant's accumulated contributions (with interest as allowed thereon under the Act) may become payable to a participant upon terminating municipal employment and membership in the system prior to retirement, as set forth in the Act, §852.103, or may become payable to the participant's designee or estate under the Act, §854.501, in the event of the participant's death prior to retirement. A domestic relations order regarding a participant who has not yet retired should clearly state the basis upon which any portion of such sums should be payable to an alternate payee.

(b) **AT AND AFTER RETIREMENT.** Under the Act, a service retirement benefit or a disability retirement benefit may become payable to the participant (and, upon the participant's death, to a designee) as set forth in the Act, §§854.101-854.105 and §§854.405-854.411. A domestic relations order regarding a participant should clearly state the basis upon which any portion of such retirement benefit should be payable to an alternate payee.

(c) In the event that a domestic relations order that is signed by the presiding judge after the effective date of this section calls for the division of benefits on the basis of accumulated contributions, but the order does not clearly state how interest allowed on the accumulated contributions after the date of divorce will be divided, then the accumulated contributions under the applicable sections of the Act from which the alternate payee's portion of benefits will be calculated shall include interest thereon as allowed by the plan after the date the divorce was granted.

(d) A supplemental death benefit may become payable under the Act, §854.603 or §854.604, upon the death of a participant who was or had been employed by certain of the municipalities participating

in the system. That benefit is not the property of a participant, but rather is a benefit that is paid by the system as a result of the death of a participant. If any portion of such benefit becomes payable to an alternate payee under the express wording of a qualified domestic relations order, it will be so paid upon the death of the participant; however, if the domestic relations order does not specifically provide that some portion of that benefit is to be paid to an alternate payee, then no portion of the supplemental death benefit shall be paid otherwise than as set forth in the Act, §854.605.

#### §129.7. Conditional Approval of Order.

If, upon receipt of a domestic relations order, the domestic relations liaison is of the opinion that it complies in all ways with the requirements for a qualified domestic relations order hereunder, the domestic relations liaison shall so state in the notice to be sent under §129.3 of this title (relating to Notice Regarding Receipt of Order). In that event, the notice shall also state that the system will thereafter pay the sums payable under the order in the manner set forth in the order, unless any of the parties notifies the system in writing, within two weeks (and such additional time as may be allowed by the system upon good cause being shown) from the date of the notice letter, that they are contesting the order.

#### §129.8. Payments Under Conditionally Approved Order.

(a) If, upon receipt of a domestic relations order, the domestic relations liaison conditionally approves that order, the system may (but shall not be required to) commence making payments pursuant to that order.

(b) If, within the period of time set forth in the notice from the domestic relations liaison, either party notifies the system in writing that they are contesting the order, no payments shall thereafter be made except in accordance with §129.10 of this title (relating to Procedures for Determination - Contested Order).

(c) If conditional approval of an order is given by the domestic relations liaison under this section, and the system does not receive written notice of any contest of that determination within the period specified, the order shall be deemed to be a qualified domestic relations order hereunder, and the system will make payment in accordance therewith.

(d) Neither the system nor any officials or employees of the system shall be liable to any person for making payment pursuant to an order under this section.

#### §129.9. Order Appearing Not To Qualify.

(a) If, upon receipt of a domestic relations order, the domestic relations liaison is of the opinion that the order does not comply in all ways with the requirements for a qualified domestic relations order under the provisions of this chapter, the domestic relations liaison shall notify the parties that the order does not qualify as a qualified domestic relations order in the notice sent under §129.3 of this title (relating to Notice Regarding Receipt of Order, such notice being hereinafter referred to as "§129.3 Notice"). Unless the participant or the alternate payee pursues action in a court of competent jurisdiction within 90 days of the date of the §129.3 Notice to bring the order into compliance with the requirements of this chapter relating to qualified domestic relations orders, the system will proceed as if it never had received the non-compliant order. The system may require a certified copy of the filed pleading to pursue action on the order.

(1) **BEFORE RETIREMENT.** If the order relates to a participant who has not yet begun to receive service retirement or disability retirement benefit payments subject to the order when the system receives the order, the system may delay action on an application by the participant for benefits that would be subject to the order (if the order were to be qualified under this chapter), and the domestic relations

liaison may proceed in accordance with the remaining subsections of this section. If the domestic relations liaison has made an initial determination under this section that the order does not appear to qualify, the system nonetheless may (but shall not be required to) pay to the participant all or any portion of any benefits to which the participant appears entitled under the order while interpreting the division of benefits in the light most beneficial to the alternate payee under the domestic relations order and state law. In determining under this paragraph whether or not to process a benefits application and begin payments to a participant pending pursuit of a qualified domestic relations order, the system may take into consideration the difficulty in dividing the benefits between the parties prior to receipt of, or in re-dividing the benefits after receipt of, a qualified domestic relations order. Any benefits not paid under this paragraph shall be retained by the system until they are paid under one of the remaining subsections of this section.

(2) **AFTER RETIREMENT.** If the domestic relations order relates to a participant who is receiving service retirement or disability retirement benefit payments subject to the order when the system receives the order, the domestic relations liaison may proceed in accordance with this paragraph and the remaining subsections of this section.

(A) If the order proposes to award the alternate payee a percentage of the then-current monthly benefit payable to participant (commonly referred to as a "carve-out"), the system shall reduce the amount to be paid to the participant to the portion of benefits to which the participant appears entitled under the order while interpreting the division of benefits in the light most beneficial to the alternate payee under the domestic relations order and state law. Any benefits not paid to the participant under this subparagraph shall be retained by the system until they are paid under one of the remaining subsections of this section.

(B) If the domestic relations order proposes to award the alternate payee an interest in the participant's benefits from the system other than a carve-out (as described in subparagraph (A) of this paragraph), the system is not required to reduce the amount to be paid to the participant and retain the amount withheld for the alternate payee until the system receives an order that complies with the requirements of this chapter for qualified domestic relations orders because of the difficulty in dividing the benefits between the parties prior to receipt of, or in re-dividing the benefits after receipt of, a qualified domestic relations order. If a domestic relations order that falls under this subparagraph is subsequently brought into compliance with the requirements of this chapter for qualified domestic relations orders, payments to the alternate payee under the qualified domestic relations order shall be made prospectively only.

(b) If 60 days have elapsed since the date of the §129.3 Notice, and neither party has submitted documentation to the system reflecting that action has been pursued to bring the order into compliance, the domestic relations liaison will send another notice letter to each party by first class mail that reminds the parties that unless documentation has been submitted to the system showing that action has been pursued before the expiration of the 90-day period, the order will be determined not to be a qualified domestic relations order and the system will pay to the participant any sums that have been withheld up to that date, and shall thereafter make payment of benefits as if no order had been received by the system.

(c) If neither party has timely pursued before the expiration of the 90-day period described in subsection (a) of this section, or any applicable extension for good cause granted under this subsection, in accordance with this section or in accordance with §129.11 of this title (relating to Procedure for Obtaining Formal Hearing), the order is not a qualified domestic relations order and the system will pay to the participant any benefits that have been withheld hereunder after 90 days from

the date of the §129.3 Notice unless the system has granted an extension for good cause prior to the expiration of the 90 days. Either party may request extensions for good cause, while pursuing court action to bring an order into compliance with the requirements of this chapter for a qualified domestic relations order, for up to 18 months from the date the domestic relations order was received. Any initial request for any extension for good cause must be received by the system prior to the expiration of 90 days after the date of the §129.3 Notice, and determination of good cause for extensions and the length of any extension shall be made by the system in its sole discretion. Any request for an additional extension must be received by the system prior to the expiration of the then applicable extension period. "Good Cause" may include, but shall not be limited to, notice of a hearing before the court with jurisdiction over the domestic relations order.

(d) Upon the expiration of 18 months from the date the domestic relations order was received, if the domestic relations order has not been qualified, the system will pay to the participant all benefits that have been withheld hereunder up to that date and shall thereafter make payment of benefits as if no order had been received by the system.

(e) In the event that, in the determination of the domestic relations liaison, the domestic relations order is subsequently brought into compliance with the requirements of this chapter for qualified domestic relations orders, the domestic relations liaison shall so notify the parties in writing, and the system will thereafter pay the sums payable under the order (including any benefits previously retained by the system) in the manner set forth in the order, unless such order is subsequently set aside or modified by a court of competent jurisdiction and such modified order is determined by the system to be qualified in accordance with the requirements of this chapter.

(f) Neither the system nor any officials or employees of the system shall be liable for making any payment under this section.

#### §129.10. Procedures for Determination - Contested Order.

(a) If, in response to a notice sent to the parties under §129.7 of this title (relating to Conditional Approval of Order) written notice of a contest is timely received, the domestic relations liaison shall notify in writing all other parties of the receipt of that contest.

(b) For a period of 30 days following the date of the system's receipt of notice of a contest (unless the contest is sooner withdrawn in writing by the party who gave written notice of contest), the system may proceed in accordance with this section.

(1) **BEFORE RETIREMENT.** If the order relates to a participant who has not yet begun to receive service retirement or disability retirement benefit payments subject to the order when the system receives the notice of contest, the system may delay action on an application by the participant for benefits that would be subject to the order. Alternatively, the system may (but shall not be required to) process an application by and begin payments to the participant of a refund or of all or any portion of any benefits to which the participant appears entitled under the order while interpreting the division of benefits in the light most beneficial to the alternate payee under the qualified domestic relations order and state law. In determining under this paragraph whether or not to process an application and begin payments to a participant pending completion of the contest, the system may take into consideration the difficulty in dividing the benefits between the parties prior to receipt of, or in re-dividing the benefits after receipt of, a qualified domestic relations order should the contest to the order be successful. Any benefits not paid under this paragraph shall be retained by the system until they are paid under one of the remaining subsections of this section.

(2) **AFTER RETIREMENT.** If the order relates to a participant who is receiving service retirement or disability retirement ben-

efit payments when the system receives the notice of contest, and the contested order awards the alternate payee a percentage of the then-current monthly benefit payable to participant (commonly referred to as a "carve-out"), the system shall pay to the participant all or any portion of any benefits to which the participant appears entitled under the order while interpreting the division of benefits in the light most beneficial to the alternate payee under the qualified domestic relations order and state law. If the order awards the alternate payee an interest in the participant's benefits from the system other than a carve-out, the system is not required to reduce the amount to be paid to the participant until the first to occur of the events listed in subsection (c) of this section.

(3) Any benefits not paid to the participant under this paragraph shall be retained by the system until they are paid under one of the remaining subsections of this section.

(c) Any party desiring to contest the order may, within that 30-day period, pursue action in a court of competent jurisdiction for review and clarification of the order. The system may require a certified copy of the filed pleading to pursue action on the order. In the event the system receives (within such 30-day period) notice of such a pleading or written request, the system will continue to withhold payment of benefits pursuant to subsection (b) of this section until the first to occur of:

(1) The system's receipt of a certified copy of a subsequent order that the domestic relations liaison determines qualifies under this chapter;

(2) The system's receipt of a certified copy of an order dismissing or denying the contest; or

(3) The expiration of six months from the date of mailing of the notice of conditional approval under §129.7 of this title, unless the party contesting the order shows good cause for an extension beyond the six months. The party contesting the order may request extensions for good cause, while pursuing court action to contest the order, for up to 18 months from the date the domestic relations order was received. Any request for an additional extension must be received by the system prior to the expiration of the then applicable extension period. "Good cause" may include, but shall not be limited to, notice of a hearing before the court with jurisdiction over the domestic relations order. Determination of good cause for extensions and the length of any extension shall be made by the system in its sole discretion.

(d) If, within the periods set forth in subsection (c) or within any system-approved extensions, the system receives a subsequent order that complies with the requirements of this chapter for a qualified domestic relations order, the domestic relations liaison will provide notice under §129.7 of this title and the system will pay all benefits (including any that have been withheld under this chapter) pursuant to that subsequent order. In making a determination hereunder, the domestic relations liaison may (but shall not be required to) rely on the determination of the court in a clarification order meeting the requirements of this chapter for a qualified domestic relations order. If the domestic relations liaison determines and notifies the parties in writing that the subsequent order does not qualify, action on the non-qualifying subsequent order thereafter will be in accordance with the provisions of §129.9 of this title (relating to Order Appearing Not to Qualify).

(e) If the system does not receive, within the 30 days described in subsections (a) - (c) of this section, notice of such a pleading or written request being filed, or if the contest has been withdrawn in writing, then payment will be made under §129.8 of this title (relating to Payments Under Conditionally Approved Order).

(f) Upon the expiration of 18 months from the date the qualified domestic relations order was received by the system, if the contest

of the qualified domestic relations order has not been resolved within that period of time, then payment will be made under §129.8 of this title.

(g) Neither the system nor any officials or employees of the system shall be liable for making any payment under this section.

#### *§129.11. Procedure for Obtaining Formal Hearing.*

(a) If the domestic relations liaison has determined that an order does not qualify under this chapter, and either party desires to challenge that determination, the party desiring to make such a challenge shall have 30 days from the date of the domestic relations liaison's letter of notification sent under §129.9 of this title (relating to Order Not Appearing to Qualify) within which to file with the director a written demand for a hearing. After receipt of such demand, the director, or the director's designee, shall set the matter for hearing and shall mail written notice to all parties of the date and place of hearing.

(b) All such hearings, and the action thereon, shall be in accordance with §§121.18 - 121.26 of this title (relating to Conduct of Contested Case Hearings; Proposal for Decision; Filing of Exceptions to Proposal, Briefs, and Replies; Closing of Hearing; Board Consideration and Action; Board Decisions and Orders; Motions for Rehearing; When Decisions Become Final; and The Record).

#### *§129.12. Payments to Alternate Payees.*

(a) In the event that the participant terminates membership in the system and applies for a refund of the participant's accumulated deposits and interest, the system will make a lump-sum payment to the alternate payee if the domestic relations order so provides and the order has been determined to be a qualified domestic relations order.

(b) In the event that the participant (or the participant's designated beneficiary or estate) begins receiving an annuity after the date that a qualified domestic relations order is received by the system, and the order provides for a division of the annuity in that event, the payment to the alternate payee will be a monthly allowance payable during the lifetime of the alternate payee, which payment is the actuarial equivalent of the portion of the participant's benefit that was awarded to the alternate payee under the domestic relations order. For the period from the January 22, 2001, original initial effective date of §123.17 of this title (relating to Actuarial Tables) through December 31, 2014, the mortality assumption for alternate payees for determining the payment to the alternate payee shall be the same as the mortality assumption for the beneficiaries as set forth in §123.17(a) of this title with regard to service retirements and as set forth in §123.17(b) of this title with regard to disability retirements. Effective beginning January 1, 2015, the mortality assumption for alternate payees for determining the payment to the alternate payee shall be the same as the mortality assumption for the beneficiaries as set forth in §123.17(c) of this title with regard to service retirements and with regard to disability retirements and shall take into account the applicable phase in period, if any, that may be adopted by the board pursuant to §123.17(d) of this title.

(c) Subsection (b) of this section will apply to all domestic relations orders approved in accordance with this chapter after September 9, 1989, and to such domestic relations orders approved prior to that date as are construed to provide for such an annuity.

(d) In the event that the total reserves upon which an annuity (otherwise payable to an alternate payee under a qualified domestic relations order) would be calculated are \$10,000 or less, then the system is authorized to make a single lump-sum payment to the alternate payee in the amount of those reserves instead of paying an annuity to the alternate payee. No such payment shall be made by the system until such point in time as the system begins paying an annuity to the participant or the participant's designated beneficiary, surviving spouse, or estate.

(e) The suspension of a disability retirement benefit under the Act does not suspend payment of a benefit to an alternate payee under a qualified domestic relations order.

§129.13. Form of Qualified Domestic Relations Order.

(a) The system has prescribed forms that are pre-approved by the system as meeting the requirements of Texas Government Code §804.003 and this chapter for a qualified domestic relations order. The prescribed forms are available on the system's website and upon request. The prescribed forms incorporate by reference the definitions set forth in this chapter and the provisions set forth in §129.14 of this title (relating to Provisions Incorporated by Reference). The system may reject any domestic relations order submitted to the system that does not utilize the applicable prescribed form.

(b) It is the responsibility of the parties to insert the correct information in the appropriate form prescribed by the system in the appropriate places and to provide the system with a certified copy of the order after it has been entered by a court of competent jurisdiction.

(c) If "accumulated contributions" is shown in the order to be the basis for division, then the term "community property ratio" as used in the prescribed form shall mean the ratio that contributions and interest deposited to participant's individual account with the system between the dates shown bears to participant's total contributions and interest at time of retirement or withdrawal of accumulated contributions. Interest (including interest earned after the date of the divorce) will be divided in accordance with §129.6 of this title (relating to Order Should Divide All Benefits).

(d) If "total credited service" is shown in the order to be the basis for division, then the term "community property ratio" as used in the prescribed form shall mean the ratio that participant's credited service between the dates shown bears to participant's total credited service at time of retirement or withdrawal of accumulated contributions.

(e) The order shall not be considered qualified unless it clearly reflects which of the ratios described above, as applicable, is intended to be used in computing the division of benefits.

(f) All required sections of the prescribed form must be completed in order to be qualified.

§129.14. Provisions Incorporated by Reference.

An order on a prescribed form pre-approved by the system expressly incorporates all of the following by reference:

(1) The order shall not be interpreted in any way to require the Plan to provide any type or form of benefit or any option not otherwise provided under the Plan.

(2) The order shall not be interpreted in any way to require the Plan to provide increased benefits determined on the basis of actuarial value.

(3) The order shall not be interpreted in any way to require the Plan to pay any benefits to an/any Alternate Payee named in the order which are required to be paid to another Alternate Payee under another order previously determined to be a qualified domestic relations order.

(4) The order shall not be interpreted in any way to require the payment of benefits to an/any Alternate Payee before the retirement of Participant, the distribution of a withdrawal of contributions to Participant as authorized by the statutes governing the Plan, or other distribution to Participant required by law.

(5) If the Plan provides for a reduced benefit upon "early retirement", the order shall be interpreted to require that, in the event

of Participant's retirement before normal retirement age, the benefits payable to Alternate Payee shall be reduced in a proportionate amount.

(6) The order shall not be interpreted to require the designation of a particular person as the recipient of benefits in the event of Participant's death, or to require the selection of a particular benefit payment plan or option.

(7) In the event that, after the date of the order, the amount of any benefit otherwise payable to Participant is increased as a result of amendments to the law governing the Plan, Alternate Payee shall receive a proportionate part of such increase unless such an order would disqualify the order under the rules the Plan has adopted with regard to qualified domestic relations orders.

(8) In the event that, after the date of the order, the amount of any benefit otherwise payable to Participant is reduced by law, the portion of benefits payable to Alternate Payee shall be reduced in a proportionate amount.

(9) If, as a result of Participant's death after the date of the order, a payment is made by the Plan to Participant's estate, surviving spouse, or designated beneficiaries, which payment does not relate in any way to Participant's length of employment or accumulated contributions with the Plan, but rather is purely a death benefit payable as a result of employment or retired status at the time of death, no portion of such payment is community property, and Alternate Payee shall have no interest in such death benefit.

(10) If the board of trustees of the Plan has by rule provided that, in lieu of paying an Alternate Payee the interest awarded by a qualified domestic relations order, the Plan may pay the Alternate Payee an amount that is the actuarial equivalent of:

(A) An annuity payable in equal monthly installments for the life of the Alternate Payee; or

(B) A lump sum, then and in that event the Plan is authorized to make such a payment under the order.

(11) All payments to Alternate Payee under the order shall terminate upon Alternate Payee's death or at such earlier date as may be required as a result of the retirement option selected by Participant.

(12) All benefits payable under the Plan, other than those payable under the express terms of the order to Alternate Payee, shall be payable to Participant in such manner and form as Participant may elect in his/her sole and undivided discretion, subject only to Plan requirements.

(13) Alternate Payee is ORDERED to report any retirement payments received on any applicable income tax return, and to promptly notify the Plan of any changes in Alternate Payee's mailing address. The Plan is authorized to issue a Form 1099R on any direct payment made to Alternate Payee.

(14) Participant is designated a constructive trustee for receiving any retirement benefits under the Plan that are due to Alternate Payee but paid to Participant. Participant is ORDERED to pay the benefit defined in this paragraph directly to Alternate Payee within three days after receipt by Participant. All payments made directly to Alternate Payee by the Plan shall be a credit against this order.

(15) The Court retains jurisdiction to amend the order so that it will constitute a qualified domestic relations order under the Plan even though all other matters incident to this action or proceeding have been fully and finally adjudicated.

The agency certifies that legal counsel has reviewed the proposal and found it to be within the state agency's legal authority to adopt.

Filed with the Office of the Secretary of State on January 27,  
2022.

TRD-202200297

Christine M. Sweeney

Chief Legal Officer

Texas Municipal Retirement System

Earliest possible date of adoption: March 13, 2022

For further information, please call: (512) 225-3710



Attachment 3



**FINAL ORDER  
REPEALING ADMINISTRATIVE CODE TITLE 34, PART 6, CHAPTER 129  
AND ADOPTING NEW ADMINISTRATIVE CODE TITLE 34, PART 6,  
CHAPTER 129**

The Board of the Trustees of the Texas Municipal Retirement System hereby repeals the current Chapter 129 of Administrative Code Title 34, Part 6 (Chapter 129) and adopts new Chapter 129, relating to domestic relations orders. The proposed repeal of current Chapter 129 and the proposed new Chapter 129 were published in the February 11, 2022 issue of the *Texas Register* at 47 *TexReg* 635. The deadline for comments to the published proposed amendments was March 13, 2022. No comments were received. The repeal of Chapter 129 and new Chapter 129 are adopted without changes to the proposed text as published.

The final text of the repeal of Chapter 129 and new Chapter 129, as published, is attached hereto as Exhibit A and incorporated by reference.

The repeal of Chapter 129 and new Chapter 129 are adopted pursuant to Texas Government Code (“Government Code”) Sections: 804.003, which is part of Title 8, Subtitle A, Provisions Generally Applicable to Public Retirement Systems, 855.102, and 855.201, which are part of the TMRS Act, and Section 2001.039, in the Administrative Procedure Act. Government Code §804.003 sets forth provisions relating to qualified domestic relations orders and allows the Board to promulgate rules it deems necessary to implement the provisions of the section. Government Code §855.102 allows the Board to adopt rules it finds necessary or desirable for the efficient administration of the System. Government Code §855.201 allows the Board to delegate to the executive director powers and duties provided to the Board by the TMRS Act. Government Code §2001.039 authorizes the Board to review and consider for readoption its rules, including an assessment of whether the reasons for initially adopting the rule continue to exist.

TMRS hereby certifies that the repeal of current Chapter 129 and the adoption of new Chapter 129 has been reviewed by legal counsel and found to be a valid exercise of the Board’s legal authority.

NOW, THEREFORE, IT IS ORDERED that the current Chapter 129 is repealed and the new Chapter 129 is adopted without changes to the proposed text as published in the *Texas Register* on February 11, 2022 at 47 *TexReg* 635.

The effective date of the rule changes adopted by this Final Order shall be July 1, 2022.

Entered this 24<sup>th</sup> day of March, 2022.

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Jesus Garza, Chair

Attest:

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David B. Wescoe  
Executive Director

**EXHIBIT A TO FINAL ORDER**

*[ATTACH COPY OF TEXT OF PUBLISHED PROPOSED REPEAL AND  
REPLACEMENT OF CHAPTER 129 RULES]*



March 15, 2022

**To:** Board of Trustees

**From:** Christine M. Sweeney, Chief Legal Officer *CS*

**Re:** **Agenda Item 7: Consider and Act on the State Office of Administrative Hearing Administrative Law Judge's Proposal for Decision in a Member Dispute Matter**

In May 2021, TMRS received a letter from an attorney for a TMRS Member asking TMRS to review the cancellation of the Member's first TMRS account (Account 1), in which the Member never vested, and the denial of Member's application for Restricted Prior Service Credit (RPSC) related to that account. TMRS staff reviewed the information provided by the attorney and the Member's TMRS account records and determined that the cancellation of the Member's Account 1 (after more than 5 years absence from service) and denial of the related RPSC application (received after the Account's cancellation) was proper and in accordance with the terms of the TMRS Act. By letter dated July 20, 2021, TMRS notified the attorney of the determination and the reasons therefore.

Subsequently, the Member notified TMRS that the attorney was no longer representing the Member, and the Member requested an appeal of TMRS' determination. In accordance with TMRS' Rules, TMRS staff submitted the necessary appeal documentation to the State Office of Administrative Hearings (SOAH) to request a hearing, and SOAH set a hearing date for January 11, 2022.

On December 10, 2021, TMRS filed a Motion for Summary Disposition with SOAH, requesting that the Administrative Law Judge (ALJ) decide the issues in the case without a hearing, arguing that there is no genuine issue as to any material fact and TMRS is entitled to a decision in its favor as a matter of law on both issues presented. The Member did not respond to the Motion for Summary Disposition.

On January 5, 2022, the ALJ entered an Order granting our Motion for Summary Disposition, cancelling the hearing, and instructing TMRS to submit proposed findings of fact and conclusions of law. On January 19, 2022, TMRS filed proposed findings of fact and conclusions of law with SOAH.

On February 11, 2022, the ALJ issued his Proposal for Decision on Summary Disposition (Proposal for Decision) with findings of fact and conclusions of law that support TMRS' position on the issues. The Member had until March 3, 2022, to file exceptions to the Proposal for Decision. On March 9, TMRS received written notice from SOAH that the time to file exceptions had expired and neither party filed exceptions.

Pursuant to TMRS Rules §§121.19 and 121.22, the final decision in a contested case shall be made by the Board of Trustees, on the basis of an ALJ's Proposal for Decision, any exceptions to the Proposal for Decision, and briefs supporting and opposing the Proposal for Decision, if any. Rule

§121.22 also provides that the case will be considered by the Board, normally at its next regular meeting after time has expired for the filing of exceptions.

Staff recommends that the Board adopt the ALJ's Proposal for Decision in whole. A proposed Final Order adopting the findings of fact and conclusions of law as set out in the Proposal for Decision is attached to this agenda item as Attachment 1.

### **RECOMMENDATION**

Staff recommends that the Board approve the proposed Final Order, and the Proposal for Decision from SOAH attached to the proposed Final Order as Exhibit A, which is incorporated into the Final Order by reference.

### **ATTACHMENT 1**

Final Order with Exhibit A (Proposal for Decision)



March 15, 2022

**To:** Board of Trustees

**From:** Christine M. Sweeney, Chief Legal Officer *CS*

**Re:** Agenda Item 8: Review and Discuss TMRS Act Review Project and Potential Legislation Topics

The attached summary of possible TMRS Act amendment topics (Summary) for the upcoming 88<sup>th</sup> Legislative Session in 2023 sets out three benefit design topics and seven administrative topics.

The three benefit design topics have been discussed with the Advisory Committee on Benefit Design.

The seven administrative topics included in the Summary have been previously considered and discussed by the Board in 2018 and 2020. From a legal perspective, these possible administrative amendments are not critical to TMRS' operations, and the System can continue to operate well under the existing TMRS Act provisions.

**ATTACHMENT**

- 1 - Summary of Possible TMRS Act Amendment Topics

**Summary of Possible TMRS Act Amendment Topics  
88<sup>th</sup> Legislative Session (2023)**

<b>Benefit Design</b>		
1.	As discussed by the Advisory Committee	<p>Cost of Living Adjustments (COLA):</p> <p>Add 90% as an additional choice to the existing 30%, 50%, and 70% options cities have when adopting an ad-hoc or repeating CPI-based COLA</p>
2.	As discussed by the Advisory Committee	<p>Updated Service Credit (USC) and COLA Coverage:</p> <p>Amend the Act to allow cities to choose to provide retirees with a COLA without being required to provide USC for active employees</p>
3.	As discussed by the Advisory Committee	<p>Supplemental Death Benefits (SDB):</p> <p>Amend the Act to allow cities to provide an SDB for retirees without providing an SDB for active employees</p>
<b>Administrative</b>		
		<b>City-Related</b>
4.	Discussed by the Board in prior years	<p>Payments to formerly participating cities:</p> <p>For participating cities that have no employees who are members of TMRS (i.e., because the city previously elected to discontinue participating in TMRS for individuals hired or rehired after the city’s election to discontinue) and have few remaining liabilities for former employees, retirees, and their beneficiaries, allow for System actuaries to estimate remaining liabilities and a reasonable reserve and allow the System to distribute any excess plan assets to the city before the last beneficiary has died and the remaining liabilities are fully paid out, if warranted.</p>
5.	Discussed by the Board in prior years	<p>Repeal Statutory Maximum Rate of Contribution:</p> <ul style="list-style-type: none"> <li>• Repeal applicable Act provisions relating to the statutory maximum rate of contribution (commonly called the “Stat Max”)</li> <li>• Stat Max is not a limit on the actual cost of a city plan. It is a limit on the maximum rate a city could be required by law to contribute.</li> <li>• As a result, the Act provides that, if a city has adopted either a repeating USC or COLA ordinance and the city’s required employer contribution for the year exceeds its Stat Max rate, then the repeating benefit features are automatically suspended, unless the city passes an ordinance to remove its Stat Max limit.</li> <li>• Since January 1, 2000, the Act provides that new cities joining TMRS are not subject to the Stat Max and cities that are subject to it are allowed to repeal it.</li> </ul>

		<ul style="list-style-type: none"> <li>As of March 10, 2022, 561 of the 907 cities participating in TMRS are not subject to the Stat Max: <ul style="list-style-type: none"> <li>373 cities have elected to remove Stat Max</li> <li>188 new cities are not subject to the provision</li> <li>346 cities continue to be subject to the provision</li> </ul> </li> </ul>
6.	Discussed by the Board in prior years	<p>Interest on late contributions:</p> <ul style="list-style-type: none"> <li>Modify the date used to determine whether a city contribution is late to the date TMRS receives the city contribution, rather than the date the contribution is transmitted by the city or post-marked</li> <li>Specify a fixed rate of interest for late payments, rather than one that fluctuates with the System’s investment return assumption, and</li> <li>Include an administrative fee for late payments</li> </ul>
		<b>Governance</b>
7.	Discussed by the Board in prior years	<p>Clarify Trustee eligibility provisions:</p> <p>Amend TMRS Act to clarify that a Trustee who no longer meets the Act’s eligibility requirements shall vacate the office but can holdover and continue to serve on the Board until a new appointee is sworn in</p>
8.	Discussed by the Board in prior years	<p>Clarify Oath of Office requirement for new Trustees:</p> <p>Make the oath of office requirement consistent with other statutes by removing language requiring certification of the oath of office to be subscribed before the clerk of the city that the Trustee serves</p>
		<b>Other</b>
9.	Discussed by the Board in prior years	<p>Clarify responsibility for certain administrative duties</p> <p>Update the wording in certain provisions of Act to clarify that the System, rather than the Board, is responsible for handling various ministerial and administrative duties. <i>Examples include, but are not limited to, the following:</i></p> <ul style="list-style-type: none"> <li>Provide that notices under the Act be sent to the System, rather than to the Board</li> <li>Provide that the System (instead of the Board) notify cities of the contribution rates that have been approved by the Board</li> <li>Provide that cities certify to the System (instead of the Board) the amounts deducted from their employees’ paychecks and submitted with the monthly payroll reports</li> </ul>
10.	Discussed by the Board in prior years	<p>Repeal obsolete provisions and make other clarifying or “clean-up” changes <i>Examples include, but are not limited to, the following:</i></p> <ul style="list-style-type: none"> <li>Remove obsolete vesting and retirement eligibility provisions</li> <li>Update outdated “voucher” based disbursement terminology</li> <li>Clarify the administration of certain benefit provisions</li> <li>Clarify the effective date, for TMRS’ purposes, of ordinances transmitted to TMRS</li> </ul>

		<ul style="list-style-type: none"><li>• Clarify that Board records may be excepted from disclosure under provisions of the Texas Public Information Act</li><li>• Clarify that if a retiree selects a partial lump sum distribution (PLSD) in addition to an annuity, but dies before the PLSD payment is issued, then the PLSD payment is made to the designated annuity beneficiary</li><li>• Clarify that annuity re-selection regarding a joint and survivor annuity is allowed in certain limited divorce situations</li></ul>
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# **Review and Discuss TMRS Act Review Project and Potential Legislation Topics**

Presented by  
Christine Sweeney, Chief Legal Officer  
March 24, 2022

# Potential Benefit Design Topics

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- Cost of Living Adjustments (COLA)
- Updated Service Credit (USC) and COLA Coverage
- Supplemental Death Benefits (SBD)

# Potential Administrative Topics

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- City-Related
  - Payments to formerly participating cities
  - Repeal statutory maximum rate of contribution (“Stat Max”)
  - Interest on late contributions

# Potential Administrative Topics (con't)

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- Governance
  - Clarify Trustee eligibility provisions
  - Clarify oath of office requirement for new Trustees
- Other
  - Clarify responsibility for certain administrative duties
  - Repeal obsolete provisions and make other clarifying or “clean up” changes

# Questions?





March 15, 2022

**TO: Board of Trustees**

**FROM: Leslee S. Hardy, Director of Actuarial Services** *Leslee S Hardy*

**RE: Agenda Item 9: Consider and Act on 2021 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account**

Each year effective December 31, the TMRS Act requires the Board to make annual interest allocations to four TMRS funds. Two of the allocations are set in the TMRS Act, and two must be determined by the Board annually as either a positive or negative amount, depending on investment gains or losses. Each allocation is recorded in TMRS' financial statements, but all allocated funds remain invested in the Trust Fund.

The first two allocations are made to the **Supplemental Disability Benefits Fund** and the **Supplemental Death Benefits Fund**. The TMRS Act guarantees a 5% interest credit to each fund based on the average amount in the funds during the year. For 2021, the statutory interest credits to these two funds totaled \$432,980.

The third allocation is to the **Interest Reserve Account**, which is the source for TMRS' budgeted administrative expenses and reflects the net investment income for the year available for interest credits. Under the TMRS Act, the Interest Reserve Account cannot have a final December 31 balance less than the required budget transfer for the following calendar year. Specifically, the December 31, 2021 balance cannot be less than \$33.1 million (the 2022 budget transfer). In addition to providing for the budget transfer, the purpose of the reserve is to protect against decreases in private investment values between the estimates used for the interest credit to final valuation as presented in the annual financial statements.

The Board set the target interest reserve amount at \$310 million for December 31, 2019 and maintained that target for December 31, 2020. Maintaining the initial reserve balance at \$310 million for December 31, 2021 will allow for the \$33.1 million budget transfer and an approximate 4% negative variance in the actual versus expected Q4 private investment valuation adjustments. TMRS Investments staff has confirmed that, based on the information currently available, maintaining the Interest Reserve Account balance at \$310 million is an appropriate level of target reserves as of December 31, 2021.

The fourth allocation is to the **Benefit Accumulation Fund (BAF)**, which is used to allocate the amount of interest to credit or charge (debit, if negative) to TMRS participating cities. The BAF interest credit (debit) is allocated to the individual cities based on their beginning of year BAF balance. TMRS staff calculates the amount of income or loss remaining to credit to the BAF after all other obligations have been fulfilled as described above.

For the year ending December 31, 2021, estimated net investment income was \$4,109,308,252. After adjusting for the statutory interest credits and the 2021 budget transfer, as well as targeting an initial \$310 million balance in the Interest Reserve Account, the estimated remaining income available for distribution to the BAF is \$4,149,658,871. This represents an interest credit to the January 1, 2021 BAF balance for each city of approximately 12.26% and will result in an estimated 7.57% smoothed (or actuarial) investment return for 2021. As a result of the investment performance, employer contribution rates will decrease on average by approximately 0.26%.

A preliminary reconciliation of the Interest Reserve Account as of December 31, 2021 is as follows:

12/31/2020 Final Balance	\$ 385,283,599
2021 Budget Transfer	(34,500,000)
Estimated Investment Income including Q4 valuation adjustments	4,109,308,252
Statutory Interest Credits to Supplemental Disability and Death Funds	(432,980)
12/31/2021 BAF Interest Credit	<u>(4,149,658,871)</u>
12/31/2021 \$310M Target Balance	\$ 310,000,000

**RECOMMENDATION:**

Staff and GRS recommend that the Board allocate, effective as of December 31, 2021:

- (i) a credit of 5% interest to each of the Supplemental Disability Benefits Fund and the Supplemental Death Benefits Fund, and
- (ii) a credit of approximately 12.26% interest to the Benefit Accumulation Fund, as well as maintain the initial Interest Reserve Account balance at \$310 million.

We also recommend that the Board approve that any differences in the final versus estimated fourth quarter private investment fund valuation adjustments, as well as any adjustments that may be necessary to finalize net investment income for the year, be reflected in the final Interest Reserve Account balance as of December 31, 2021 and considered in the 2022 BAF interest credit determination.

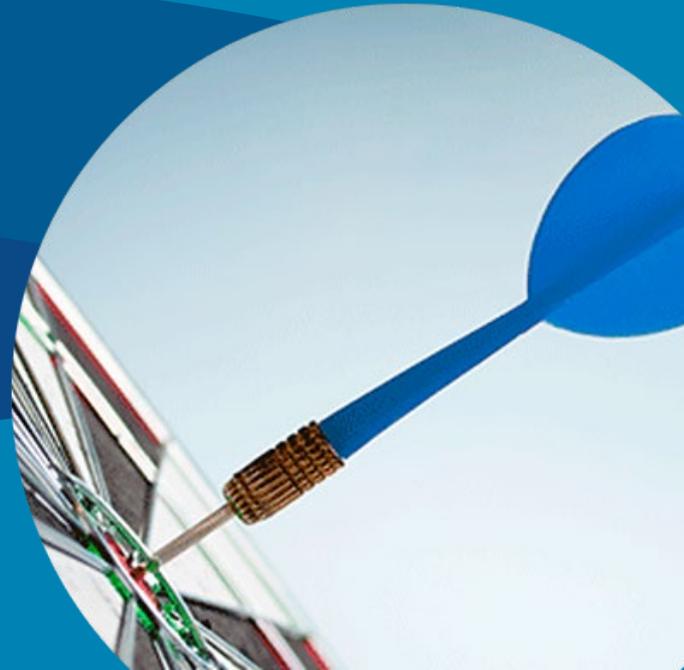
**ATTACHMENTS:**

- 1 GRS' BAF Interest Rate Credit Recommendation for 2021 (Presentation)



# Benefit Accumulation Fund Interest Rate Credit Recommendation for 2021

Joe Newton  
Janie Shaw  
March 24, 2022

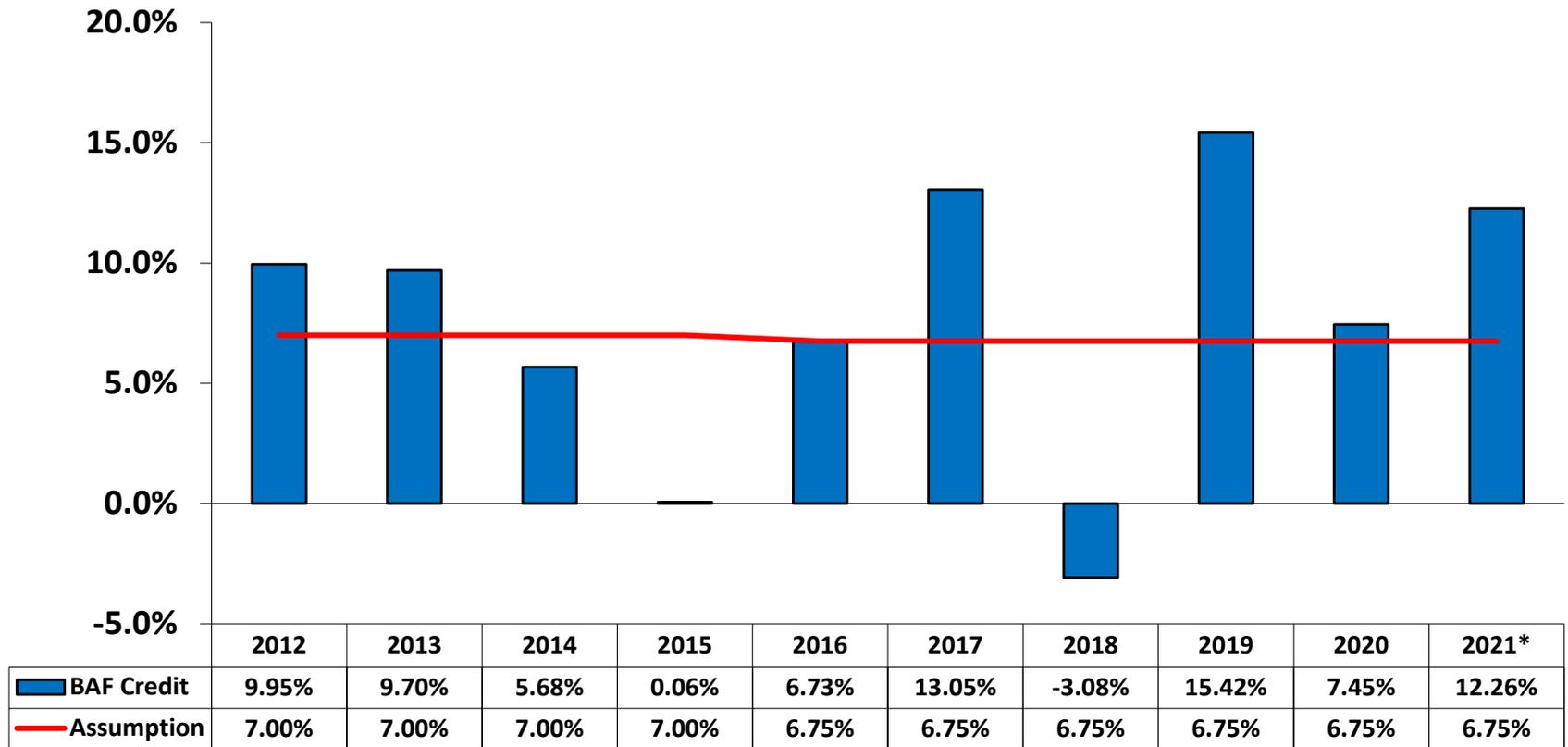


# 2021 BAF Interest Credit

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- GRS recommends crediting the Benefit Accumulation Fund (BAF) interest approximately equal to 12.26%
  - This will be credited based on the beginning of year market value BAF balance for each city
  - This amount was determined after all administrative and investment expenses have been paid and the statutory requirements have been fulfilled
  - This will maintain the initial Interest Reserve Account at \$310M to allow for unanticipated changes in the market values as all investments are finalized

# Historical BAF Interest Credits



7.58% average compound credit over last 10 years

\* Proposed

# GRS' 2021 BAF Interest Credit Recommendation

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- GRS recommends crediting the BAF with an interest credit of approximately 12.26%



March 15, 2022

**TO:** Board of Trustees

**FROM:** Leslee S. Hardy, Director of Actuarial Services *Leslee S Hardy*

**RE:** Agenda Item 10: Consider and Act on Transfer from the Interest Reserve Account to the General Reserves Account

At the December 2021 Board meeting, GRS and I discussed the need for a contingency plan if the assets in the Supplemental Death Benefits (SDB) Fund become depleted due to the higher mortality rates associated with the global pandemic. This would not present an immediate budgetary issue, as statute allows for the transfer of funds to cover claims made after SDB depletion.

TMRS Act Section 855.317(c) allows the Board to transfer money from the Interest Reserve Account to the General Reserves Account after all other interest requirements have been met for the year to maintain adequate reserves for other TMRS funds.

During 2021, the SDB Fund decreased by \$7.2M, from \$12.6M to \$5.8M. Accordingly, GRS and I recommend that \$7.5M be transferred into the General Reserves Account to cover any SDB Fund deficiencies that may occur. The \$7.5M will still be invested as part of the Trust; therefore, the transfer between reserve accounts will have no impact on TMRS' investment earnings.

**RECOMMENDATION:**

Staff and GRS recommend that the Board transfer \$7.5M from the Interest Reserve Account to the General Reserves Account, effective as of December 31, 2021.



March 15, 2022

**To:** Board of Trustees  
**From:** Andi Focht-Williams, Internal Audit Manager *Andi Focht-Williams*  
**Re:** Item 11 – Report on Audit Committee’s March 9, 2022 Meeting

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**Audit Committee Meeting.** Committee members Bill Philibert and David Landis held a virtual Committee meeting on March 9. Trustee Bob Scott also attended virtually. Agenda topics included the following items:

**IT Annual Security Assessment Report.** I presented the results of Securance Consulting’s 2021 annual review of our IT security. The confidential report is uploaded in Diligent under the current Audit Committee book.

**Recently Completed Internal Audit Reports.**

- Internal Audit Quality Assurance Review.  
Annually, Internal Audit standards require an internal quality assurance review of governing documents and audit documentation. With the help of Stacy White, I also solicited feedback from TMRS staff who were audited about their experience, and the results were positive. Based on the documents, audits and staff feedback, I concluded the internal audit function continues to comply with auditing standards.
- 2022 Risk Assessment and Audit Plan.  
I also presented the 2022 risk assessment and an updated audit plan, which I will discuss further under Agenda Item 12.

The reports are in the Resource Center of Diligent under “Internal Audit.”

**Status of the 2019-2020 Audit Plan.** The biennial audit plan is almost complete. I completed the Internal Quality Assessment Review and the 2022 Risk Assessment and Audit Plan. There are two remaining audits left to be completed in 2022.

**Internal Audit Staffing.** We discussed plans for selecting my replacement. The Audit Committee reviewed the job description for the Director of Internal Audit and approved it. Sandra, David and I will screen candidates for the Audit Committee to interview. The Audit Committee’s top candidate(s) will be brought to the Board for their approval.



March 15, 2021

**To:** Board of Trustees  
**From:** Andi Focht-Williams, Internal Audit Manager *Andi Focht-Williams*  
**Re:** Agenda Item 12: Consider and Act on the 2022 Audit Plan

The Audit Committee met on March 9, 2022 to review and provide feedback on the proposed *2022 Audit Plan*.

Internal Audit surveys Senior Staff and members of the Board to identify risk topics that may have surfaced or changed after the first year of the two-year Audit Plan. Based on the results of those discussions, the risk topics are largely unchanged for 2022.

I recommend replacing one audit in the plan, Data Security with Third Party Vendors, with an audit of Investment Due Diligence. Due diligence was a risk concern of the prior Audit Committee Chair, and he requested the audit be added to the Audit Plan. The Audit Committee Charter requires that the Board approve the Audit Plan.

**RECOMMENDATION:**

The Audit Committee recommends the Board approve the 2022 Audit Plan.

**ATTACHMENTS:**

1 - *2022 Risk Assessment and Audit Plan*, TMRS 22-1



March 15, 2022

**To: Board of Trustees**

**From: Dan Wattles, Director of Governmental Relations** *Dan Wattles*

**Re: Agenda Item 13: Review, Consider and Act on the Board's Legislative Consultant**

Ron Lewis and Associates is the Board's legislative consultant and has provided advice, analysis and insight on legislative matters to TMRS since 2004. TMRS' most recent Services Agreement with Mr. Lewis was approved by the Board in June 2020 and expires on July 31, 2022. Under the terms of the Agreement, the Board has the option to renew the contract for an additional two-year term. Considering the contract's upcoming expiration, now is an appropriate time for the Board to evaluate Mr. Lewis' services.

Since the time Mr. Lewis' current agreement was approved by the Board, TMRS has added a new Trustee and Executive Director. During this time, TMRS has continued its positive relationships with the Legislature and Governor's Office.

In addition to its Trustees, staff has demonstrated skills to develop and promote legislation, including preparing draft legislation; preparing and providing testimony; preparing bill analyses, fiscal notes and actuarial impact statements; and identifying bill sponsors, coordinating meetings with legislators and staff, tracking legislation, and responding to legislative requests. Last year, Senate Bill 1105 was passed and became law.

Staff's legislative experience includes: Dan Wattles has been TMRS' Director of Governmental Relations for eleven years and worked in that capacity for three state executive agencies and the State Auditor's Office; Michelle Kranes has worked at the Texas House of Representatives, the Pension Review Board, and the Sunset Advisory Commission; and Caroline Love has worked in governmental relations at two executive state agencies. Since 2010, Christine Sweeney and our legal team have drafted all our legislation and she has worked well with the Legislative Council.



March 15, 2022

To: Board of Trustees

From: David Hunter, Chief Investment Officer

A handwritten signature in blue ink, appearing to read "D Hunter", is written over the name "David Hunter" in the "From:" field.

Re: Agenda Item 14(a): Chief Investment Officer Report

**Trust Fund Performance.** Preliminary returns for the Trust Fund were 12.80%, net of fees, for the year ended December 31, 2021, exceeding RVK's Actual Allocation Benchmark (AAB) by 61 bps. Preliminary returns for the 5- and 10-year periods ended December 31, 2021, were 8.94% and 7.69%, respectively. These exceeded the AAB by 23 bps, net of fees, for both time periods.

The 2021 year-end returns are preliminary because where there are daily market values for public securities, private market returns are lagged by one or three months, depending on the asset class. Final, unlagged, calendar year 2021 returns will be available upon completion of the December 31, 2021 fiscal year end audit in June 2022.

For the month ended January 31, 2022, preliminary net returns for the Trust Fund were -2.30%, trailing the State Street Performance Benchmark by 2 basis points (bps). Actual asset allocation levels were within approved ranges. All preliminary data is unaudited and subject to change.

**Asset Allocation Update.** Since the Board adopted a new target asset allocation effective July 1, 2021, staff has made progress reallocating Trust Fund assets towards the new target allocations. As of December 31, 2021, actual allocations were within approximately 1% of target with exceptions for public equity (overweight 2.3%), private equity (underweight 2.3%) and hedge funds (overweight 3.3%).

**Staff Investment Committee (SIC).** The SIC met on February 22, 2022 and March 10, 2022. Two investments totaling \$275 million were approved.

Four SIC-approved investments were completed since the last Board meeting. I will provide details on them at the meeting.

**Investment Consultant RFP.** We received RFP responses from six of the ten largest, investment consulting firms. We will present at least two finalists to the Board at your May meeting.

**Board Education Checklist.** A menu of investment training topics will be available to Trustees in advance of each Board meeting.

**Private Equity Education.** The Institutional Limited Partners Association (ILPA) is hosting a *Private Equity for the Trustee* program in Austin on May 11-12. You are invited to attend.

**Investment Team Reorganization.** I am pleased to announce that Tom Masthay became TMRS' Deputy Chief Investment Officer, in addition to being responsible for Private Equity, Public Markets and Data Performance and Risk Management teams. Eddie Schulz was promoted to Senior Managing Director of Private Markets, including Other Public and Private Markets (OPPM), Real Estate and Private Credit. Tim Sweeney became Portfolio Director of Public Markets. TJ Moen was promoted to Portfolio Director OPPM and Real Estate. Josh Garcia and Yvonne Huang became Senior Investment Analysts in Private Equity and OPPM/Real Estate, respectively. Peter Jeske and Cindy Morse were promoted to Operations Analyst III and Executive Support Analyst, respectively.

The investment team is doing a great job. This reorganization will continue to promote a collaborative and holistic approach to Trust Fund asset management by focusing on team strengths, optimizing professional resources to their highest, best use, and encouraging open communication. In addition, department expenses will decline by more than \$700,000 annually, without negatively impacting our work.



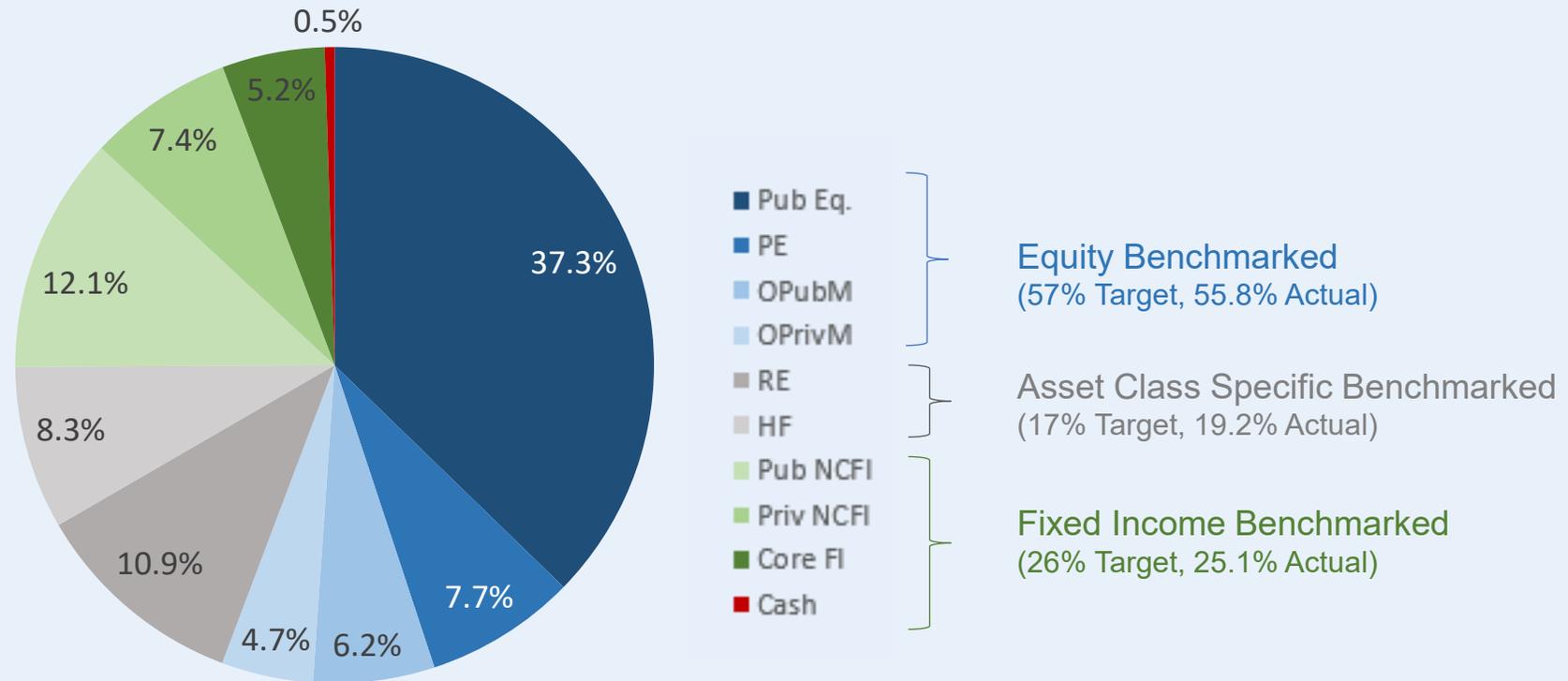
# Trust Fund Report: Q4 2021

Dave Hunter, CIO

Board of Trustees Meeting

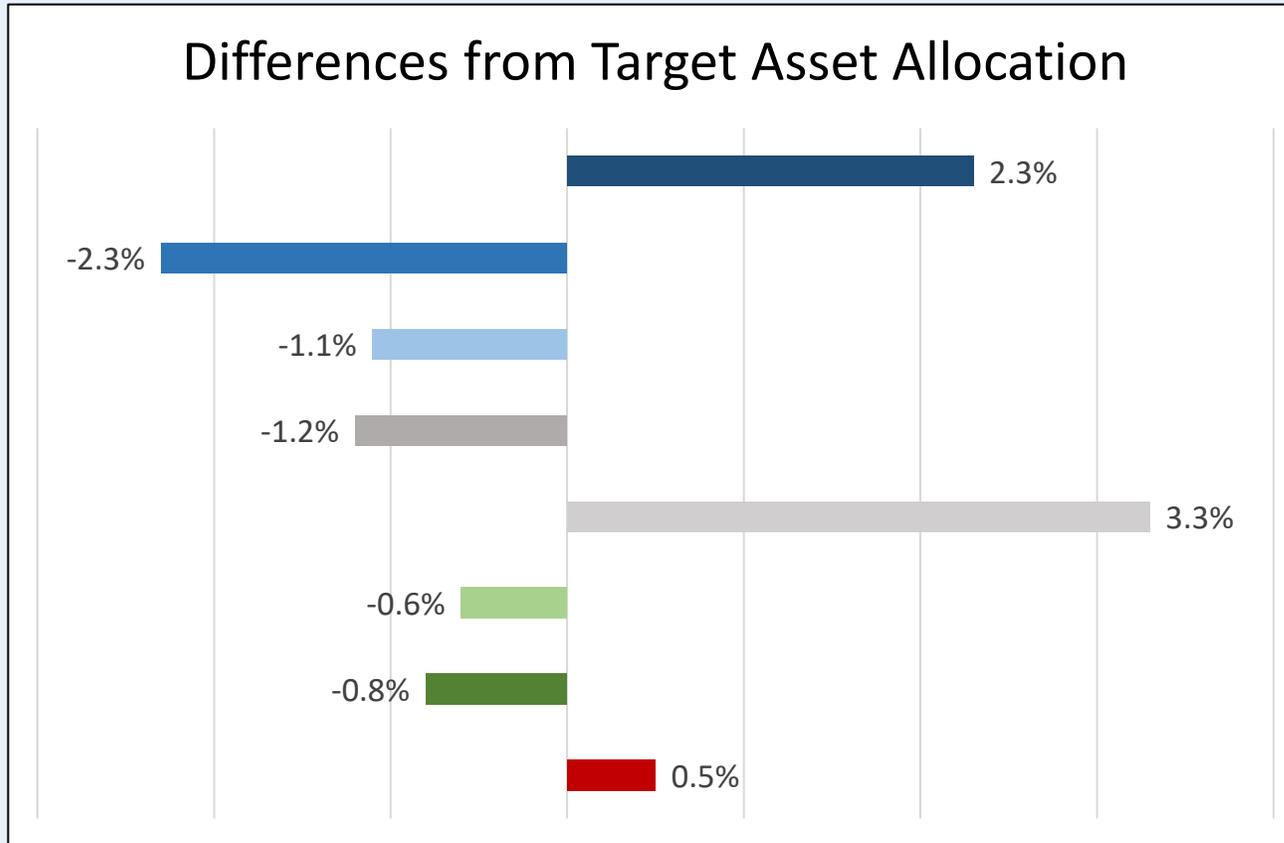
March 24, 2022

# Asset Allocation – As of 12/31/2021

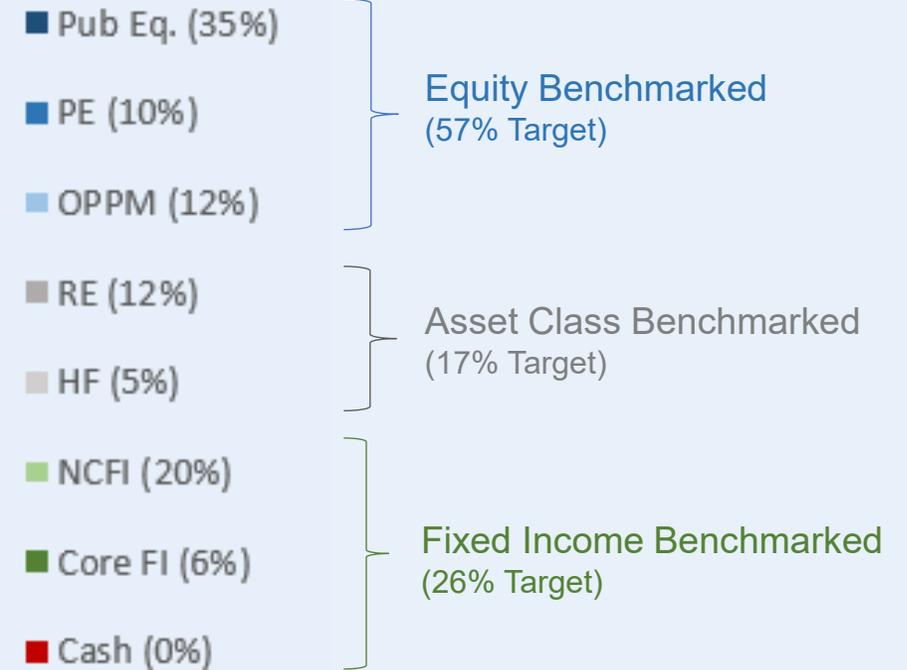


As the Trust Fund approaches its targeted asset allocation, the portfolios are increasingly in-line with broad asset-type categorizations.

# Asset Allocation Deviation – As of 12/31/2021

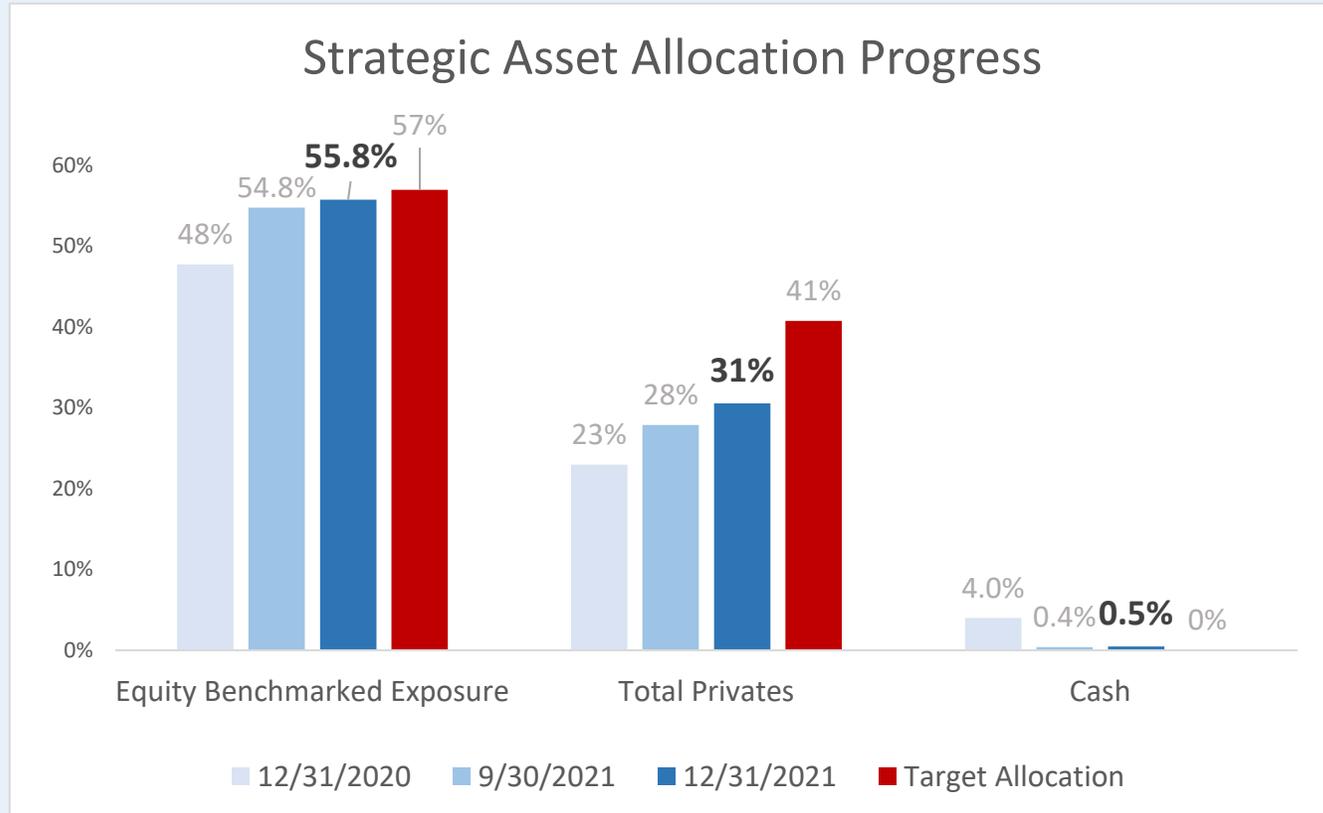


## Asset Class (Target)



The portfolio is continuing its progress toward increasing alignment with the target allocation. Hedge Funds are being reduced toward target. Public Equity overweight offsets the Private Equity underweight.

# Asset Allocation Progress Toward Target



- The total portfolio continued to close in on its strategic allocation, increasing public equity benchmarked assets as a percentage of the Trust Fund from 54.8% (\$20.0 billion) at the beginning of the quarter to 55.8% (\$21.0 billion) at the end.
- Similarly, private market investments increased as a percentage of the Trust and cash holdings stayed steady at low levels.
- Private Markets are under weight in OPPM, PE, and RE.

# Trust Fund Performance – Preliminary 2021

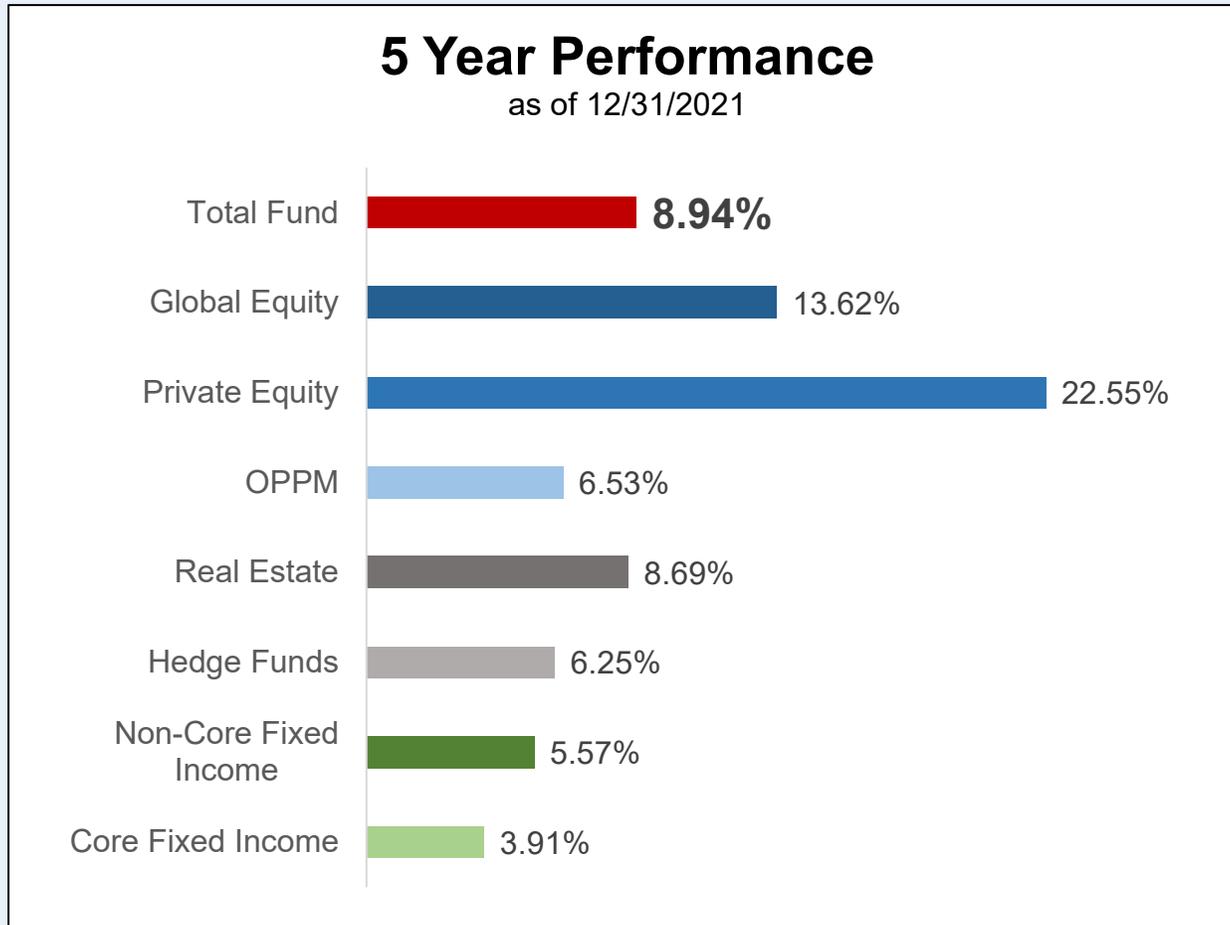
<b>Trust Fund</b>	<b>12.80%</b>	<b>0.56%</b>	<b>8.94%</b>	<b>0.23%</b>
Public Equity	17.7%	-0.5%	13.6%	-0.6%
Private Equity	46.3%	14.4%	22.6%	2.5%
OPPM	13.3%	-0.2%	6.5%	0.0%
Real Estate	16.1%	1.7%	8.7%	1.2%
Hedge Funds	4.4%	-3.0%	6.3%	1.0%
NCFI	6.3%	-0.1%	5.6%	0.6%
Core Fixed Income	-1.4%	0.2%	3.9%	0.4%

Note: These preliminary figures are close, but do not match RVK figures. RVK reports 61bps.

- The Trust Fund outperformed the benchmark in 2021.
- Private Equity and Real Estate have been strong absolute performers and the best relative returning asset classes.

# Performance Attribution – Preliminary 2021

(5 Yr. Absolute Performance)



- Trust Fund Performance exceeded TMRS' 6.75% assumed rate of return over the 5-year time period.
- Global Equity, Private Equity, and Real Estate performance was a key driver of meeting the overall return expectation.
- OPPM, Non-Core Fixed Income, and Hedge funds diversified the portfolio without being highly dilutive to returns.
- Non-Core fixed income allocations were reduced over the time period, serving as a funding source for higher expected returning private market asset classes.

# Asset Class Strategic Initiatives

- *Asset Allocation Changes → Enhance Returns & Reduce Program Costs* – The Board approved asset allocation and benchmarking changes that became effective 7/1/21. The modifications increased allocations to equity benchmarked assets. Additionally, the new asset allocation motivated the reduction of program costs in public market asset classes. Implementation of the strategic asset allocation remains investment staff's top priority.
- *Asset Class Specific Initiatives:*
  - *Public Equity:* Passive Portfolio Research → Cost Reduction, Lessen Benchmark Mismatches
  - *Private Equity:* Scale Co-Invest / Transfer Credit Strategies → Increase Performance, Cost Reduction
  - *OPPM:* Add Private Market Exposure → Increase Performance, Cost Efficiency
  - *Real Estate:* Core Real Estate Manager Reallocation → Increase Performance, Cost Reduction
  - *Hedge Funds:* Reduce Exposure → Increase Performance, Lessen Benchmark Mismatches
  - *NCFI:* Manager Reallocation, Scale Program → Increase Performance
  - *Core Fixed Income:* End state achieved. At target with fee efficient, strong performing manager.

# Risk Expectations: Standard Deviation

- The Trust Fund's standard deviation is similar to Benchmark.
- The Trust Fund's standard deviation is in line with the assumption from the most recent Asset Allocation Study. The study's assumptions assume more return uncertainty going forward.
- The increase in standard deviation of excess return is consistent with the new Benchmark structure adopted as of 7/1/2021. Excess return is Trust Fund return minus the benchmark return.

Standard Deviation Summary Table		
(Risk Model – Forecast)	Q4 2021	Q3 2021
Trust Fund Standard Deviation (Risk Model)	12.1%	12.5%
Benchmark Standard Deviation (Risk Model)	11.1%	11.6%
Asset Allocation Study Standard Deviation Assumption	11.7%	11.7%
Standard Deviation of Excess Return (Risk Model) Excess return is TMRS's Portfolio return minus the Benchmark return	2.2%	2.2%

# Investment Activity: Q4 2021

- Public markets activities were driven by asset allocation changes effective 7/1/21.
  - Hedge Fund redemptions continue due to a reduction of the target allocation for the asset class from 10% to 5%.
- Ten new private market commitments totaling \$1.1 billion were approved in Q4 2021.

	<b>Private Markets</b> <i>(closed commitments)</i>			
	<b>PE</b>	<b>OPPM</b>	<b>RE</b>	<b>NCFI</b>
Mgrs. Hired	6	4	0	0
Amount (\$ millions)	467	600	0	0

# Private Market Pacing Plans: Q4 2021



Asset Class	Target Allocation
Private Equity	10%
Other Public & Private Markets	12%
Real Estate	12%
Non-Core Fixed Income	10% (est.)



March 15, 2022

**To: Board of Trustees**

**From: David J. Hunter, Chief Investment Officer**

A handwritten signature in blue ink, appearing to read "D.J. Hunter", is written over the "From:" line.

**Re: Agenda Item 14(c): Receive Quarterly Investment Reports**

TMRS' staff Quarterly Investment Reports are attached. The Reports should be received and filed by the Board.

**ATTACHMENTS:**

- 1 – Fourth Quarter 2021 Asset Class Reports
- 2 – Fourth Quarter 2021 Data, Performance and Risk Report: Q4 2021
- 3 – 2022 Completed Investments Report
- 4 – Fourth Quarter 2021 Investment Pacing Plan Update



March 15, 2022

**To: Board of Trustees**

**From: David J. Hunter, Chief Investment Officer**

A handwritten signature in blue ink, appearing to read "D. Hunter", is written over the printed name "David J. Hunter, Chief Investment Officer".

**Re: Agenda Item 14(c)(i): Fourth Quarter 2021 Asset Class Reports**

The following Fourth Quarter 2021 Asset Class Reports are attached.

- Global Public Equity
- Private Equity
- Other Public & Private Markets
- Real Estate
- Hedge Funds
- Non-Core Fixed Income
- Core Fixed Income



## Global Public Equity Asset Class Review: Fourth Quarter 2021

### Quarterly Summary of Activity

- *Asset Allocation:* The Global Public Equity portfolio was slightly ahead of its 35% target allocation in Q4 2021, increasing as a percentage of the Trust Fund from 37.1% (\$13.5 billion) to 37.3% (\$14.1 billion). The overweight is intentional as it is offset by an underweight to the Private Equity asset class.
- *New Investment Activity:* Global Public Equity reinvested cash flows from other parts of the portfolio, reducing cash balances.
- *Strategic Initiative – Weighting Adjustments / Fee Reduction:* Investment staff is modeling scenarios to lessen benchmark mismatches and reduce management fees.

### Performance

- *Absolute Performance:* The Global Public Equity portfolio returned 17.7% YTD and 13.6% on a five-year basis, net of fees.

<b>Global Public Equity Performance</b> as of 12/31/21		
	<b>YTD</b>	<b>5 Yr.</b>
Global Public Equity Return	17.7%	13.6%
Benchmark Return	18.2%	14.2%
Benchmark Outperformance	-0.5%	-0.6%

- *Performance Commentary:* On a YTD basis, the Global Public Equity portfolio had positive sector selection impacts from technology, consumer and healthcare stocks that were offset by drags from less energy and financials exposure. Positive geographic selection arose from a slight overweight to U.S. equities within the passive portfolio but was partially offset by exposure to emerging markets. In total, the Global Public Equity portfolio trailed its benchmark by .5% YTD. Longer term underperformance is concentrated in the period of Q2 2020 to Q1 2021 during which significant rebalancing activity occurred that shifted the portfolio from (non-market cap weighted and minimum volatility) active investment strategies toward more common, market cap weighted passive investment strategies. The portfolio as of quarter end was roughly 20% active / 80% passive vs. public pension industry averages that are closer to 50/50 active/passive.



## Private Equity Asset Class Review: Fourth Quarter 2021

### Quarterly Summary of Activity

- *Asset Allocation:* Private Equity worked toward its 10% target allocation in Q4 2021, increasing as a percentage of the Trust Fund from 6.7% (\$2.5 billion) at the beginning of the quarter to 7.7% (\$2.9 billion) at the end.
- *New Investment Activity:* Six new commitments totaling \$475 million were approved in Q4 2021. Contractual terms have been agreed to on all six investments with a total of \$467 million of commitments accepted by TMRS' investment manager partners. The \$8 million reduction was due to capacity constraints/excess demand for one investment fund. See 2021 Annual Approved Allocations Investment Report for more information.
- *Strategic Initiative – Progress towards 10% target allocation:* The Private Equity portfolio made significant progress in 2021 towards its 10% target allocation after beginning the year with an actual allocation of 3.9% and ending the year at 7.7%. The drivers of the ~4% year over year increase were significant new investment activities initiated by staff and strong appreciation across the portfolio.

### Performance

- *Absolute Performance:* The Private Equity portfolio returned 46.3% YTD and 22.6% on a five-year basis, net of fees. Benchmark data is lagged as appropriate to match return information reported by State Street.

<b>Private Equity Performance</b> as of 12/31/21		
	<b>YTD</b>	<b>5 Yr.</b>
Private Equity Return	46.3%	22.6%
Benchmark Return	31.9%	20.0%
Benchmark Outperformance	14.4%	2.5% <sup>1</sup>

- *Relative Performance:* The Private Equity portfolio has continued pursuit of its IPS stated objective of enhancing total fund returns during Q4 2021, outperforming its benchmark during the quarter by ~8% (6.70% Private Equity vs. -1.11% public equity). For calendar year 2021, the Private Equity portfolio was the largest contributor to Trust Fund outperformance with a total contribution of 84 basis points.

<sup>1</sup> Difference in Return and Benchmark Return does not equal Benchmark Outperformance due to rounding.



## Other Public & Private Markets Asset Class Review: Fourth Quarter 2021

### Quarterly Summary of Activity

- *Asset Allocation:* The Other Public & Private Markets (“OPPM”) portfolio continued working toward its 12% target allocation in Q4 2021. As of Q4, OPPM in total comprises 10.8% (\$4.1 billion) of the Trust Fund with private assets making up 4.1% (\$1.5 billion).
- *New Investment Activity:* OPPM intends to be entirely private market assets when the portfolio matures. In Q4, four new private commitments totaling \$600 million were approved. Contractual terms have been agreed to on all three investments. See the 2021 Annual Approved Allocations Investment Report for more information.
- *Strategic Initiative – Increase Private Market Exposure / Reducing Program Costs:* OPPM continues to grow its private market allocations while remaining fee efficient in pursuit of the recently implemented public equity benchmark (MSCI ACWI). The four private market investments in Q4 serve as string diversifiers while targeting public equity like returns.

### Performance

- *Absolute Performance:* The OPPM portfolio returned 13.3% YTD and 6.5% on a five-year basis, net of fees. Benchmark data is lagged as appropriate to match return information reported by State Street.

<b>Other Public &amp; Private Markets Performance</b> as of 12/31/21		
	<b>YTD</b>	<b>5 Yr.</b>
OPPM Return	13.3%	6.5%
Benchmark Return	13.5%	6.5%
Benchmark Outperformance	-0.2%	0%

- *Relative Performance:* Beginning July 1, 2021, OPPM moved to a public equity benchmark (MSCI ACWI). Because the portfolio is moving toward all private assets, there will be variation quarter to quarter, but over five-year periods and longer staff expects the OPPM portfolio to be able to outperform. For the current period, passive public equity had a strong Q4 and the private portion of the portfolio continued strong post pandemic recovery producing a 2% quarterly return versus a -1.1% for the lagged benchmark.



## Real Estate Asset Class Review: Fourth Quarter 2021

### Quarterly Summary of Activity

- *Asset Allocation:* The Real Estate portfolio continued working toward its recently implemented 12% target allocation in Q4 2021, increasing as a percentage of the Trust Fund from 10.1% (\$3.7 billion) at the beginning of the quarter to 10.9% (\$4.1 billion) at the end.
- *New Investment Activity:* While there was no new investment activity in Q4 2021, there was a redemption and reallocation. The complete redemption of \$429 million from a lower performing core real estate manager was submitted and accepted by the manager. The assets will be sent back to TMRS over the course of 2022 where they will be reallocated to three existing TMRS core real estate managers that are higher performing with lower fees. See 2021 Annual Approved Allocations Investment Report and 2021 Annual Redemption & Rebalancing Activity Report for more information.
- *Strategic Initiative – Core Real Estate Rebalance / Reducing Program Costs:* As mentioned above, the redemption and reallocation of assets from a lower performing, higher cost core real estate manager to three higher performing, lower cost managers already within the portfolio will reduce cost of the overall asset class.

### Performance

- *Absolute Performance:* The Real Estate portfolio returned 16.1% YTD and 8.7% on a five-year basis net of fees. Benchmark data is lagged as appropriate to match return information reported by State Street.

<b>Real Estate Performance</b> as of 12/31/21		
	<b>YTD</b>	<b>5 Yr.</b>
Real Estate Return	16.1%	8.7%
Benchmark Return	14.4%	7.5%
Benchmark Outperformance	1.7%	1.2%

- *Performance Commentary:* Returns for the real estate portfolio in the fourth quarter (lagged to Q3) continued to rebound from the pandemic low points. Year to date the portfolio is outperforming the benchmark by 1.7% and outperforming on a five-year basis by 1.2%. Moving forward, an expected upswing in performance should occur when non-core managers begin selling investments in a now healthier real estate market. This is likely in 2022/2023.

## Hedge Fund Asset Class Review: Fourth Quarter 2021

### Quarterly Summary of Activity

- *Asset Allocation:* The Hedge Fund portfolio achieved its interim year-end 2021 asset allocation target of ~8%, decreasing as a percentage of the Trust Fund from 9.3% (\$3.4 billion) at the beginning of the quarter to 8.3% (\$3.1 billion) at the end.
- *New Investment Activity:* In the fourth quarter, staff submitted one full redemption and one partial redemption. For year-end 2021, staff completed five full redemptions and seven partial redemptions to meet the ~8% interim Trust fund target. See 2021 Annual Redemption & Rebalancing Activity Report for more information.
- *Strategic Initiative – Benchmark Alignment:* Effective July 1, 2021, the hedge fund benchmark changed to the HFRI Asset Weighted Composite. While reducing the hedge fund portfolio, staff is strategically aligning the portfolio to better match the composition of the new benchmark.

### Performance

- *Absolute Performance:* The Hedge Fund portfolio returned 4.4% YTD and 6.3% on a five-year basis. Benchmark data is lagged as appropriate to match return information reported by State Street.

<b>Hedge Fund Performance</b> as of 12/31/21		
	<b>YTD</b>	<b>5 Yrs.</b>
Hedge Fund Return	4.4%	6.3%
Benchmark Return	7.4%	5.3%
Benchmark Outperformance	-2.9% <sup>2</sup>	1.0%

- *Performance:* Hedge funds lagged the benchmark by 2.9% YTD but outperformed by 1.0% on a five-year basis. During the fourth quarter hedge funds outperformed the benchmark by 1.4% and returned 0.7%. Staff continues to reduce underperforming managers and weight managers with higher return expectations to better align with the new Hedge Fund benchmark.

<sup>2</sup> Difference in Return and Benchmark Return does not equal Benchmark Outperformance due to rounding.

## Non-Core Fixed Income: Fourth Quarter 2021

### Quarterly Summary of Activity

- *Asset Allocation:* The Non-Core Fixed Income (“NCFI”) portfolio worked toward its 20% target allocation in Q4 2021. NCFI portfolio value increased from \$7.1 billion to \$7.3 billion, yet the percentage it represents of total Trust remained stable at 19.4%. Increases in value were driven by the funding Private Credit investments.
- *New Investment Activity:* No new investment activity took place in Q4.
- *Strategic Initiative – Increase Private Credit Allocation / PE/NCFI Transition:* Staff is working to increase the NCFI exposure to Private Credit. Effective January 1, 2022, five private credit funds historically classified as private equity totaling approximately \$170 million in net asset value were transitioned from the Private Equity portfolio into the NCFI portfolio.

### Performance

- *Absolute Performance:* The NCFI portfolio returned 6.3% YTD, and 5.6% on a five-year basis, net of fees. Benchmark data is lagged as appropriate to match return information reported by State Street.

<b>Non-Core Fixed Income Performance</b>		
as of 12/31/21		
	<b>YTD</b>	<b>5 Yr.</b>
Non-Core Fixed Income Return	6.3%	5.6%
Benchmark Return	6.4%	5.0%
Benchmark Outperformance	-0.1%	0.6%

- *Performance Commentary:* The NCFI portfolio is underperforming its benchmark by 0.1% YTD and outperforming by 0.6% on a five-year basis. Opportunistic Credit, Direct Lending and Structured Credit contributed positively to performance YTD while Emerging Markets Debt underperformance due to dollar strength and raising local rates was the main offsetting factor.

## Core Fixed Income: Fourth Quarter 2021

### Quarterly Summary of Activity

- *Asset Allocation:* The Core Fixed Income portfolio reached its newly implemented 6% target allocation in Q3 2021. As of the end of Q4 2021, Core Fixed Income represents 5.2% (\$2.0 billion) of the total Trust Fund.
- *New Investment Activity:* No new investment activity took place in Q4.
- *Strategic Initiative:* The Core Fixed Income Portfolio reached its target allocation and remains a source of liquidity for funding private asset investment when necessary.

### Performance

- *Absolute Performance:* Core Fixed Income portfolio returned -1.4% YTD and 3.9% on a five-year basis, net of fees.

<b>Core Fixed Income Performance</b>		
as of 12/31/21		
	<b>YTD</b>	<b>5 Yr.</b>
Core Fixed Income Return	-1.4%	3.9%
Benchmark Return	-1.5%	3.6%
Benchmark Outperformance <sup>3</sup>	0.2%	0.4%

- *Performance Commentary:* Core Fixed Income is outperforming its benchmark by 0.2% YTD and 0.3% on a five-year basis. Portfolio and Benchmark performance is negative YTD largely due to rising rates in the U.S.

<sup>3</sup> Difference in Return and Benchmark Return does not equal Benchmark Outperformance due to rounding.



# Q4 2021 Data, Performance and Risk Report

Ryan Conner, Senior Investment Data Analyst  
Aaron Weiner, Investment Data Analyst

Board of Trustees Meeting  
March 24, 2022

# Summary

As of December 31, 2021

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The Data, Performance and Risk Team monitors what investments TMRS owns, how risks from those investments aggregate to the Trust Fund, and how that compares to the risks in our Benchmark.

This monitoring uses the industry standard MSCI BarraOne Risk Model, which models each investment in the Trust Fund and the Benchmark based on recent market behavior.

The Trust Fund's risk measures for Q4 2021 are in line with the risk guidance provided by the Board in the Investment Policy Statement, Benchmarks, and Asset Allocation Study assumptions.

# Risk Expectations: Standard Deviation

- The Trust Fund's standard deviation is similar to Benchmark.
- The Trust Fund's standard deviation is in line with the assumption from the most recent Asset Allocation Study. The study's assumptions assume more return uncertainty going forward.
- The increase in standard deviation of excess return is consistent with the new Benchmark structure adopted as of 7/1/2021. Excess return is Trust Fund return minus the benchmark return.

Standard Deviation Summary Table		
(Risk Model – Forecast)	Q4 2021	Q3 2021
Trust Fund Standard Deviation (Risk Model)	12.1%	12.5%
Benchmark Standard Deviation (Risk Model)	11.1%	11.6%
Asset Allocation Study Standard Deviation Assumption	11.7%	11.7%
Standard Deviation of Excess Return (Risk Model) Excess return is TMRS's Portfolio return minus the Benchmark return	2.2%	2.2%

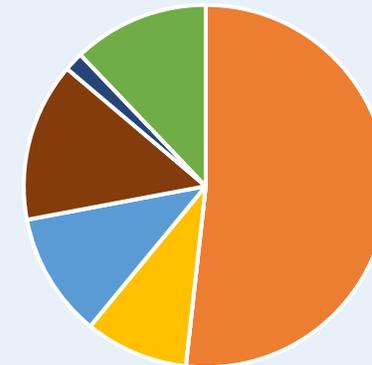
# Contribution to Trust Fund Standard Deviation

As of December 31, 2021

- The Global Equity Index, MSCI ACWI, is 57% of the Trust Fund Benchmark adopted 7/1/2021 and accounts for 85% of the Benchmark Standard Deviation.
- Asset Class Portfolios have been rebalanced internally to better match the return and standard deviation behavior of the new benchmark.
- Going forward, Non-Core Fixed Income has the largest remaining benchmark mismatch.

	TMRS Trust Fund			Policy Benchmark		
	Allocation (%)	Standard Deviation	Contribution to Standard Deviation	Allocation (%)	Standard Deviation	Contribution to Standard Deviation
<b>Total</b>	<b>100.0%</b>	<b>12.1</b>	<b>100.0%</b>	<b>100.0%</b>	<b>11.1</b>	<b>100.0%</b>
Cash Assets	0.5%	0.0	0.0%	0.0%	0.0	0.0%
Global Equity	37.4%	17.1	51.8%	35.0%	16.9	52.4%
Core Fixed Income	5.2%	3.4	0.0%	6.0%	3.5	0.0%
Non-Core Fixed Income	19.4%	6.7	9.2%	20.0%	3.5	0.1%
Real Estate	10.8%	17.2	11.1%	12.0%	17.3	13.6%
Other Public & Private Markets	10.8%	16.5	14.2%	12.0%	16.9	18.0%
Hedge Funds	8.3%	3.7	1.7%	5.0%	3.9	1.0%
Private Equity	7.6%	21.3	12.1%	10.0%	16.9	15.0%

TMRS Trust Fund  
Contribution to Standard Deviation



- Cash Assets
- Global Equity
- Core Fixed Income
- Non-Core Fixed Income
- Real Estate
- Other Public & Private Markets
- Hedge Funds
- Private Equity

# Asset Class Allocation Ranges

As of December 31, 2021

- TMRS maintains Asset Class Allocations within allowed ranges.
- An overweight to Global Equity is maintained while we move towards our target allocation to Private Equity.
- The Hedge Fund allocation is being brought down from 10% to its new target of 5%. Significant progress is expected over the next several quarters.

Asset Class	Policy Benchmark	Trust Fund Allocation (%)	Target Allocation (%)	Allocation Difference (%)	Allowed Range	Within Range?
<b>Total</b>		<b>100.0%</b>	<b>100.0%</b>	--	--	--
Cash Assets	30 Day T-Bill	0.5%	0.0%	0.5%	0-3%	✓ Yes
Global Equity	MSCI ACWI IMI	37.4%	35.0%	2.4%	25-45%	✓ Yes
Core Fixed Income	Barclays US Agg	5.2%	6.0%	-0.8%	1-11%	✓ Yes
Non-Core Fixed Income	Barclays US Agg + 1.5%	19.4%	20.0%	-0.7%	15-25%	✓ Yes
Real Estate	NCREIF ODCE	10.8%	12.0%	-1.2%	7-17%	✓ Yes
Other Public & Private Markets	MSCI ACWI IMI	10.8%	12.0%	-1.2%	7-1%	✓ Yes
Hedge Funds	HFRI Asset Weighted	8.3%	5.0%	3.3%	0-10%	✓ Yes
Private Equity	MSCI ACWI IMI	7.6%	10.0%	-2.4%	5-15%	✓ Yes

# Excess Return Standard Deviations

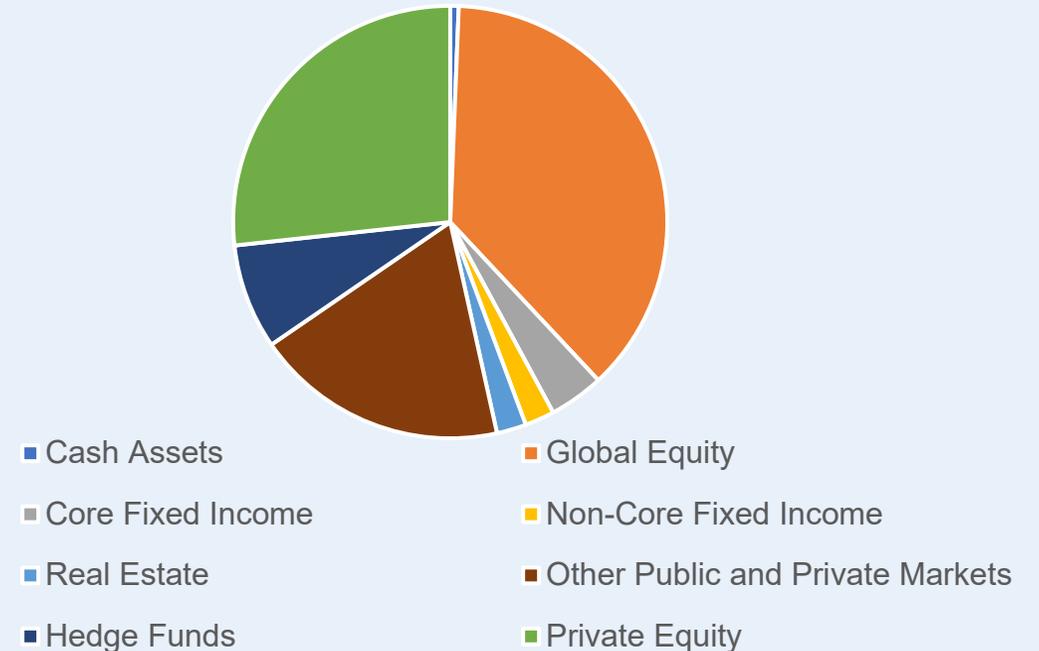
As of December 31, 2021

Excess return is TMRS' Trust Fund return minus the Benchmark return.

The standard deviation of excess return is 2.2%, consistent with an increased difference between Asset Class guidelines and the new Benchmarks adopted as of 7/1/2021.

	<b>Contribution to Standard Deviation of Excess Return (from Risk Model)</b>
<b>Total</b>	<b>2.2</b>
Cash Assets	-0.02
Global Equity	1.19
Core Fixed Income	-0.13
Non-Core Fixed Income	0.07
Real Estate	-0.07
Other Public & Private Markets	0.60
Hedge Funds	-0.25
Private Equity	0.85

Contribution to Standard Deviation of Excess Return



# Historical Standard Deviation vs. Assumptions

As of December 31, 2021

We monitor the historical standard deviation of our Trust Fund and Benchmark returns. They have been very similar to each other but significantly lower than the Asset Allocation Study's long-term assumptions.

For Asset Classes that contain private market investments, historical standard deviations are lower than long-term assumptions due to appraisal-based valuations.

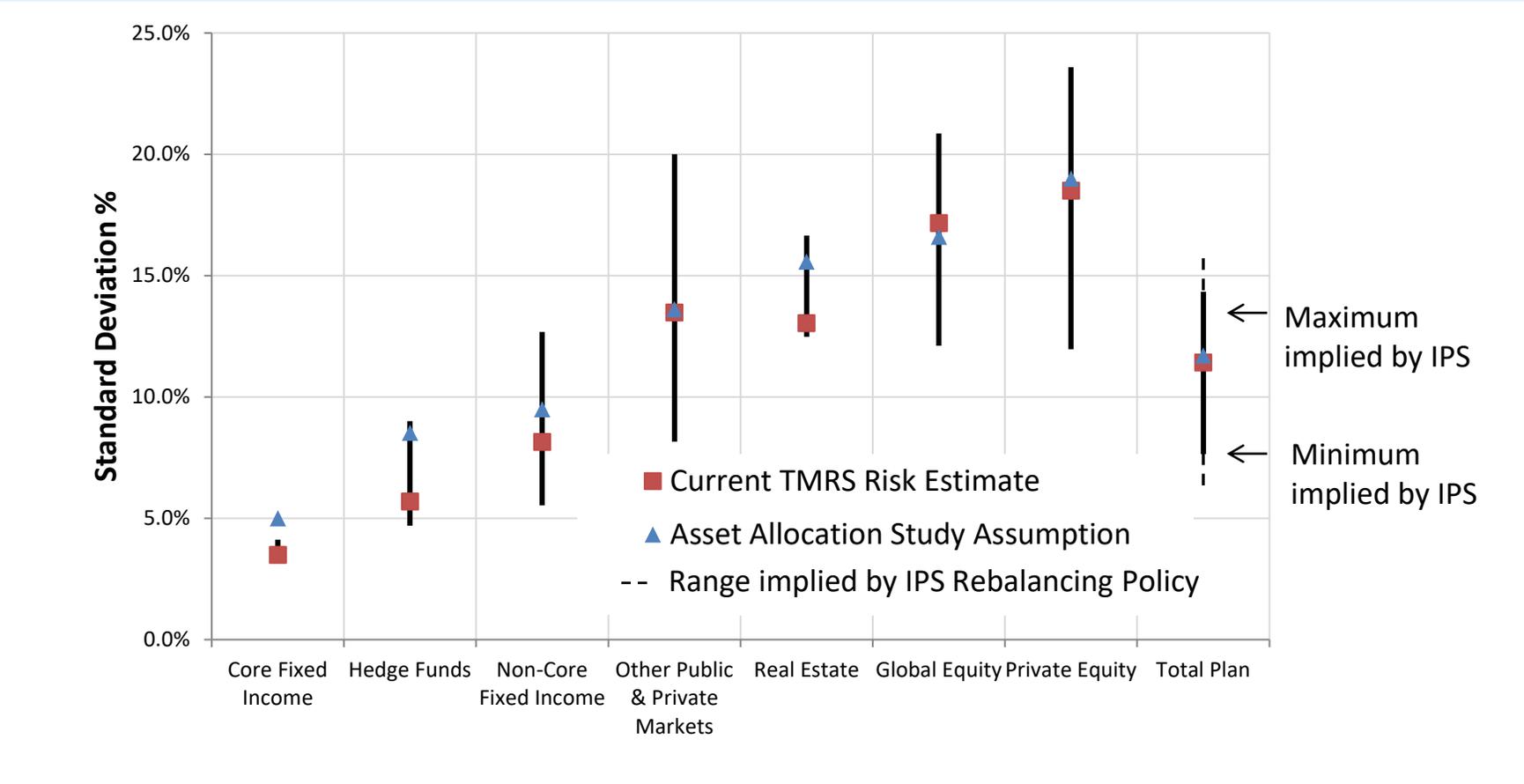
	Experienced 5-Year Standard Deviation of Returns		Asset Allocation Study Standard Deviation Assumption
	Portfolio	Benchmark	(from 2021 Asset Allocation Study)
<b>Total</b>	<b>6.1%</b>	<b>6.1%</b>	<b>11.7</b>
Cash Assets	0.4%	0.3%	2.0
Global Equity	3.2%	3.1%	16.6
Core Fixed Income	16.7%	17.2%	5.0
Non-Core Fixed Income	4.6%	5.8%	9.5
Real Estate	4.4%	4.0%	12.5
Other Public & Private Markets	6.4%	6.0%	12.8
Hedge Funds	15.5%	14.6%	8.5
Private Equity	5.1%	4.4%	19.0

# Allowed Asset Class Standard Deviation Ranges

As of December 31, 2021

The Investment Policy Statement (IPS) Asset Class Guidelines place limits on allocations Staff can make to sub-strategies within an Asset Class. We monitor how Staff’s sub-strategy allocation decisions compare to the choices allowed by the IPS.

✓ All Asset Classes are within the standard deviation ranges implied by the IPS Guidelines.



# Regional Exposures

As of December 31, 2021

We monitor how each Asset Class contributes to the Trust Fund regional exposures.

Asset Class	USA	Developed Europe	Developed Asia & Other	Emerging Americas	Emerging Europe	Emerging Asia & Pacific Rim	Emerging Middle East & Africa	Asset Class Allocation
Cash	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%
Core Fixed Income	4.8%	0.3%	0.0%	0.1%	0.0%	0.1%	0.0%	5.2%
Non-Core Fixed Income	13.9%	2.5%	0.9%	0.6%	0.4%	0.8%	0.3%	19.4%
Global Equity	22.8%	5.4%	4.0%	0.4%	0.3%	4.1%	0.4%	37.3%
Other Public & Private Markets	7.6%	1.2%	1.3%	0.1%	0.0%	0.6%	0.1%	10.8%
Real Estate	9.2%	0.4%	1.3%	0.0%	0.0%	0.0%	0.0%	10.9%
Hedge Funds	6.8%	0.5%	0.2%	0.1%	0.0%	0.6%	0.1%	8.3%
Private Equity	6.1%	0.8%	0.4%	0.1%	0.0%	0.2%	0.0%	7.7%
<b>Grand Total</b>	<b>71.7%</b>	<b>11.0%</b>	<b>8.0%</b>	<b>1.4%</b>	<b>0.8%</b>	<b>6.3%</b>	<b>0.9%</b>	



## 2022 Completed Investments Report

*As of 3/15/2022*

### COMPLETED INVESTMENTS

ASSET CLASS / STRATEGY	COMPLETED DATE	MANAGER NAME / FUND NAME	NEW / EXISTING MANAGER	AMOUNT COMMITTED	PUBLIC / PRIVATE MARKET
<b>Global Equity</b>					
		N/A			
<b>Core Fixed Income</b>					
		N/A			
<b>Non-Core Fixed Income</b>					
		N/A			
<b>Real Estate</b>					
Opportunistic/N. America & Europe	January 28	TPG Real Estate Partners IV, LP	Existing	\$250,000,000	Private
Core Plus	January 7	BentallGreenOak US Core Plus Fund, LP	Existing	\$100,000,000	Private
Enhanced Core	January 1	Virtus Real Estate Enhanced Core, LP	Existing	\$200,000,000	Private
<b>Other Public &amp; Private Markets</b>					
Digital Infrastructure	March 4	SDC Digital Infrastructure Opportunity Fund III	Existing	\$200,000,000	Private
Infrastructure	February 24	Hull Street Energy Partners II, L.P.	Existing	\$50,000,000	Private
Infrastructure	February 16	Pioneer Infrastructure Partners SCSp	Existing	€ 28,859,700	Private
<b>Hedge Fund</b>					
		N/A			
<b>Private Equity</b>					
Venture Capital	March 15	Foundry 2022, L.P.	Existing	\$75,000,000	Private
Venture/Growth/Minority	February 4	Updata Partners VII	Existing	\$100,000,000	Private
Buy-out	January 28	Dunes Point Capital Fund III, LP	Existing	\$75,000,000	Private
Buyout	January 28	Tritium III, L.P.	Existing	\$75,000,000	Private
Growth Equity	January 13	FTV VII, L.P.	Existing	\$100,000,000	Private
<b>TOTAL:</b>				<b><u>\$1,256,575,398</u></b>	

NOTE : Currency exchange rate as of 3/14/2022



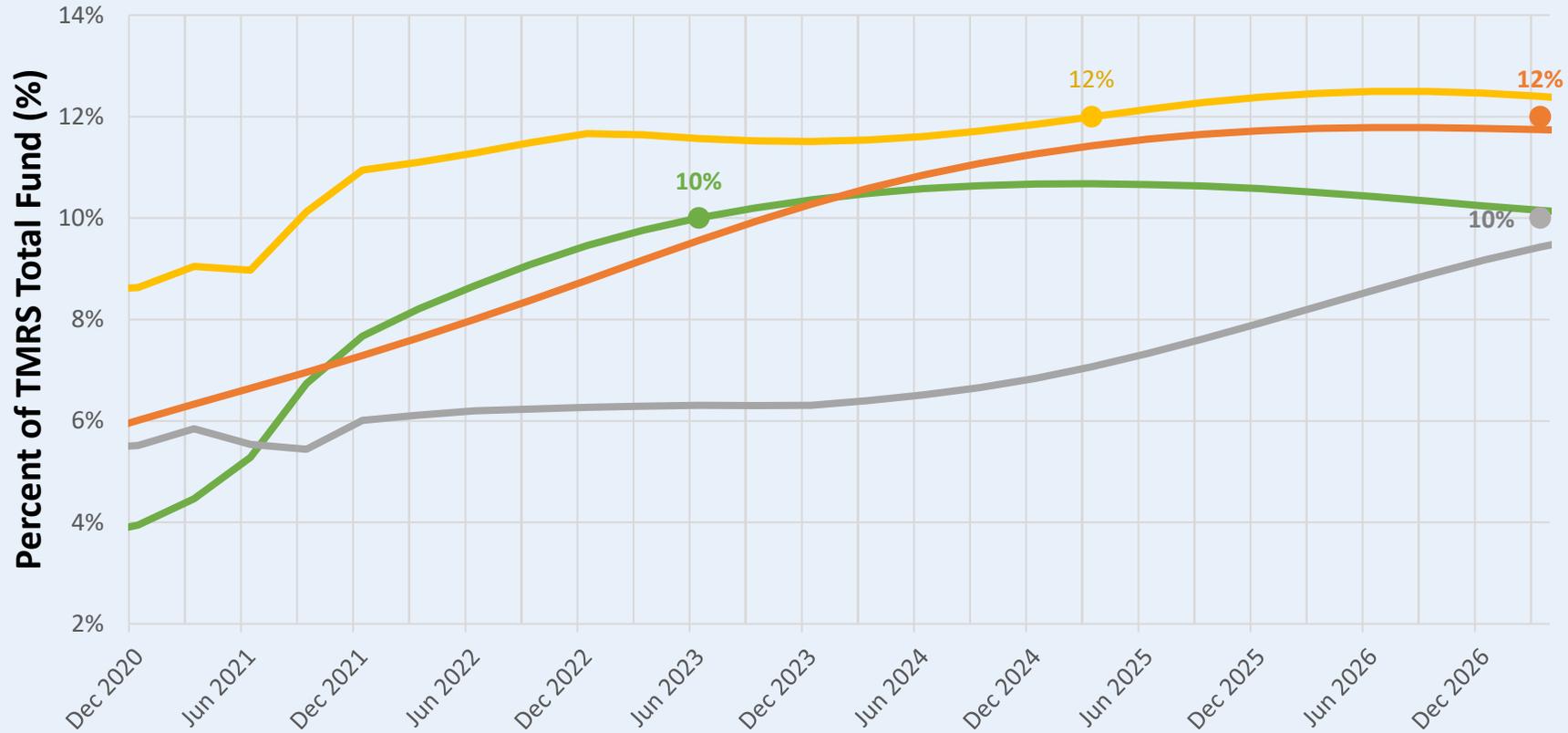
# Fourth Quarter 2021 Investment Pacing Plans

Ryan Conner, Senior Investment Data Analyst  
Aaron Weiner, Investment Data Analyst

Board of Trustees Meeting  
March 24, 2022

# Private Market Projected Allocations

As of December 2021



Asset Class	Target Allocation
Private Equity	10%
Other Public & Private Markets	12%
Private Non-Core Fixed Income	10%
Real Estate	12%

# Private Equity Pacing Plan

Cash Flow Model Projections based on Staff assumptions: As of December 2021

Private Equity Private Markets	Capital Commitments	(a) Beginning of Period Market Value	(b) Capital Calls	(c) Distributions	Quarterly Return (%)	(d) Quarterly Return (\$)	(e = a + b - c + d) End of Period Market Value	(f) Projected Total Fund Market Value	(g = e / f) Percent of Total Fund
3/31/2022	225,000,000	2,898,260,380	268,162,426	87,555,246	2.44%	70,838,613	3,149,706,172	38,378,362,122	8.21%
6/30/2022	225,000,000	3,149,706,172	254,426,691	102,543,691	2.45%	77,017,009	3,378,606,181	38,987,360,902	8.67%
9/30/2022	225,000,000	3,378,606,181	252,362,056	114,572,477	2.45%	82,647,077	3,599,042,837	39,606,023,447	9.09%
12/31/2022	225,000,000	3,599,042,837	244,524,718	126,324,983	2.45%	88,078,385	3,805,320,958	40,234,503,106	9.46%
3/31/2023	225,000,000	3,805,320,958	230,260,164	138,551,067	2.45%	93,170,237	3,990,200,292	40,872,955,660	9.76%
6/30/2023	225,000,000	3,990,200,292	217,381,642	151,872,293	2.45%	97,741,724	4,153,451,365	41,521,539,360	10.00%
9/30/2023	225,000,000	4,153,451,365	212,728,237	166,458,408	2.45%	101,786,581	4,301,507,775	42,180,414,971	10.20%
12/31/2023	225,000,000	4,301,507,775	214,066,244	181,879,147	2.45%	105,464,288	4,439,159,160	42,849,745,808	10.36%
3/31/2024	225,000,000	4,439,159,160	214,816,006	197,858,952	2.45%	108,893,116	4,565,009,329	43,529,697,778	10.49%
6/30/2024	225,000,000	4,565,009,329	215,489,900	214,214,952	2.45%	112,038,691	4,678,322,968	44,220,439,419	10.58%
9/30/2024	320,000,000	4,678,322,968	217,288,181	230,756,096	2.46%	114,882,950	4,779,738,003	44,922,141,945	10.64%
12/31/2024	325,077,851	4,779,738,003	220,024,060	247,275,162	2.46%	117,441,275	4,869,928,176	45,634,979,286	10.67%
3/31/2025	330,236,279	4,869,928,176	223,961,180	263,511,954	2.46%	119,729,372	4,950,106,774	46,359,128,133	10.68%
6/30/2025	335,476,562	4,950,106,774	229,093,407	279,164,982	2.46%	121,775,654	5,021,810,853	47,094,767,981	10.66%
9/30/2025	340,800,000	5,021,810,853	234,253,975	293,941,116	2.46%	123,615,938	5,085,739,649	47,842,081,171	10.63%
12/31/2025	346,207,911	5,085,739,649	238,059,612	307,567,889	2.46%	125,264,857	5,141,496,229	48,601,252,940	10.58%
3/31/2026	351,701,637	5,141,496,229	240,492,972	319,802,293	2.46%	126,709,697	5,188,896,605	49,372,471,462	10.51%
6/30/2026	357,282,539	5,188,896,605	242,989,574	330,480,245	2.47%	127,943,022	5,229,348,956	50,155,927,900	10.43%
9/30/2026	362,952,000	5,229,348,956	246,967,549	339,596,341	2.47%	128,997,096	5,265,717,260	50,951,816,447	10.33%
12/31/2026	368,711,426	5,265,717,260	252,949,376	347,342,095	2.47%	129,940,870	5,301,265,410	51,760,334,381	10.24%
3/31/2027	374,562,244	5,301,265,410	260,650,722	354,067,546	2.47%	130,854,156	5,338,702,742	52,581,682,107	10.15%
6/30/2027	380,505,904	5,338,702,742	269,324,686	360,173,958	2.47%	131,804,156	5,379,657,626	53,416,063,213	10.07%

Private Equity Private Market Cash Flow Projections based on Staff assumptions

As of 12/31/2021

# Other Public And Private Markets: Private Markets Pacing Plan

Cash Flow Model Projections based on Staff assumptions: As of December 2021

Other Private Markets	Capital Commitments	(a) Beginning of Period Market Value	(b) Capital Calls	(c) Distributions	Quarterly Return (%)	(d) Quarterly Return (\$)	(e = a + b - c + d) End of Period Market Value	(f) Projected Total Fund Market Value	(g = e / f) Percent of Total Fund
3/31/2022	375,000,000	1,738,110,485	205,927,231	68,393,549	1.94%	33,765,485	1,909,409,652	38,378,362,122	4.98%
6/30/2022	375,000,000	1,909,409,652	206,446,759	72,233,074	1.94%	37,093,236	2,080,716,574	38,987,360,902	5.34%
9/30/2022	375,000,000	2,080,716,574	209,082,423	79,671,616	1.94%	40,421,138	2,250,548,520	39,606,023,447	5.68%
12/31/2022	375,000,000	2,250,548,520	214,252,682	89,797,080	1.94%	43,720,386	2,418,724,508	40,234,503,106	6.01%
3/31/2023	400,000,000	2,418,724,508	222,488,148	101,215,220	1.94%	46,987,465	2,586,984,901	40,872,955,660	6.33%
6/30/2023	400,000,000	2,586,984,901	233,901,546	112,799,170	1.94%	50,256,184	2,758,343,460	41,521,539,360	6.64%
9/30/2023	400,000,000	2,758,343,460	248,360,904	124,019,434	1.94%	53,585,089	2,936,270,018	42,180,414,971	6.96%
12/31/2023	400,000,000	2,936,270,018	265,371,042	134,783,545	1.94%	57,041,587	3,123,899,102	42,849,745,808	7.29%
3/31/2024	400,000,000	3,123,899,102	284,433,936	145,148,817	1.94%	60,686,572	3,323,870,794	43,529,697,778	7.64%
6/30/2024	406,347,314	3,323,870,794	304,755,930	155,390,287	1.94%	64,571,332	3,537,807,768	44,220,439,419	8.00%
9/30/2024	412,795,349	3,537,807,768	325,001,538	166,086,969	1.94%	68,727,389	3,765,449,726	44,922,141,945	8.38%
12/31/2024	419,345,703	3,765,449,726	343,810,716	177,902,698	1.94%	73,149,686	4,004,507,430	45,634,979,286	8.78%
3/31/2025	426,000,000	4,004,507,430	360,208,626	191,221,063	1.94%	77,793,751	4,251,288,745	46,359,128,133	9.17%
6/30/2025	432,759,889	4,251,288,745	373,484,988	205,894,995	1.94%	82,587,860	4,501,466,598	47,094,767,981	9.56%
9/30/2025	439,627,046	4,501,466,598	382,680,032	221,375,672	1.94%	87,447,952	4,750,218,910	47,842,081,171	9.93%
12/31/2025	446,603,174	4,750,218,910	386,911,407	237,138,260	1.94%	92,280,350	4,992,272,407	48,601,252,940	10.27%
3/31/2026	453,690,000	4,992,272,407	387,053,313	252,952,046	1.94%	96,982,614	5,223,356,287	49,372,471,462	10.58%
6/30/2026	460,889,282	5,223,356,287	384,887,597	268,986,398	1.94%	101,471,776	5,440,729,262	50,155,927,900	10.85%
9/30/2026	468,202,805	5,440,729,262	382,596,995	285,482,160	1.94%	105,694,582	5,643,538,680	50,951,816,447	11.08%
12/31/2026	475,632,380	5,643,538,680	381,937,294	302,727,244	1.94%	109,634,469	5,832,383,198	51,760,334,381	11.27%
3/31/2027	483,179,850	5,832,383,198	383,613,416	320,997,596	1.94%	113,303,066	6,008,302,084	52,581,682,107	11.43%
6/30/2027	490,847,085	6,008,302,084	387,318,247	340,443,394	1.94%	116,720,562	6,171,897,499	53,416,063,213	11.55%

Other Private Market Cash Flow Projections based on Staff assumptions

As of 12/31/2021

# Non-Core Fixed Income: Private Markets Pacing Plan

Cash Flow Model Projections based on Staff assumptions: As of December 2021

Non-core Fixed Income Private Markets	(a) Capital Commitments	(b) Beginning of Period Market Value	(c) Capital Calls	(d) Distributions	(e = a + b - c + d) Quarterly Return (%)	(f) Quarterly Return (\$)	(g = e / f) End of Period Market Value	(h) Projected Total Fund Market Value	(i = h / g) Percent of Total Fund
3/31/2022	304,760,485	2,270,506,257	106,012,898	73,951,952	1.94%	44,108,096	2,346,675,299	38,378,362,122	6.11%
6/30/2022	309,596,512	2,346,675,299	110,875,818	85,386,838	1.94%	45,587,798	2,417,752,076	38,987,360,902	6.20%
9/30/2022	314,509,277	2,417,752,076	101,074,795	97,548,288	1.94%	46,968,574	2,468,247,157	39,606,023,447	6.23%
12/31/2022	319,500,000	2,468,247,157	116,931,540	111,612,042	1.94%	47,949,519	2,521,516,175	40,234,503,106	6.27%
3/31/2023	324,569,917	2,521,516,175	131,715,393	129,584,845	1.94%	48,984,352	2,572,631,075	40,872,955,660	6.29%
6/30/2023	329,720,285	2,572,631,075	147,517,633	151,240,513	1.94%	49,977,338	2,618,885,534	41,521,539,360	6.31%
9/30/2023	334,952,380	2,618,885,534	166,839,472	178,758,105	1.94%	50,875,903	2,657,842,804	42,180,414,971	6.30%
12/31/2023	340,267,500	2,657,842,804	188,621,981	194,805,995	1.94%	51,632,708	2,703,291,499	42,849,745,808	6.31%
3/31/2024	345,666,962	2,703,291,499	208,867,971	177,720,164	1.94%	52,515,619	2,786,954,925	43,529,697,778	6.40%
6/30/2024	351,152,103	2,786,954,925	228,603,832	188,665,286	1.94%	54,140,911	2,881,034,382	44,220,439,419	6.52%
9/30/2024	356,724,285	2,881,034,382	249,866,838	196,286,830	1.94%	55,968,550	2,990,582,940	44,922,141,945	6.66%
12/31/2024	362,384,888	2,990,582,940	272,252,587	199,119,509	1.94%	58,096,700	3,121,812,718	45,634,979,286	6.84%
3/31/2025	368,135,314	3,121,812,718	291,649,746	198,011,167	1.94%	60,646,041	3,276,097,338	46,359,128,133	7.07%
6/30/2025	373,976,990	3,276,097,338	306,480,363	194,393,979	1.94%	63,643,259	3,451,826,981	47,094,767,981	7.33%
9/30/2025	379,911,363	3,451,826,981	316,328,462	189,583,957	1.94%	67,057,079	3,645,628,564	47,842,081,171	7.62%
12/31/2025	385,939,905	3,645,628,564	322,480,634	185,529,877	1.94%	70,821,974	3,853,401,296	48,601,252,940	7.93%
3/31/2026	392,064,110	3,853,401,296	327,305,095	183,807,470	1.94%	74,858,281	4,071,757,203	49,372,471,462	8.25%
6/30/2026	398,285,494	4,071,757,203	331,859,757	185,612,076	1.94%	79,100,182	4,297,105,066	50,155,927,900	8.57%
9/30/2026	404,605,602	4,297,105,066	336,083,729	192,176,335	1.94%	83,477,913	4,524,490,373	50,951,816,447	8.88%
12/31/2026	411,025,999	4,524,490,373	339,947,864	204,791,220	1.94%	87,895,224	4,747,542,241	51,760,334,381	9.17%
3/31/2027	417,548,277	4,747,542,241	343,480,519	223,688,786	1.94%	92,228,352	4,959,562,327	52,581,682,107	9.43%
6/30/2027	424,174,052	4,959,562,327	346,791,423	248,008,378	1.94%	96,347,170	5,154,692,542	53,416,063,213	9.65%

Non-Core Fixed Income Private Market Cash Flow Projections based on Staff assumptions

As of 12/31/2021

# Real Estate Pacing Plan

Cash Flow Model Projections based on Staff assumptions: As of December 2021

Real Estate Private Markets	(a) Capital Commitments	(b) Beginning of Period Market Value	(c) Capital Calls	(d) Distributions	(e = a + b - c + d) Quarterly Return (%)	(f) Quarterly Return (\$)	(g = e / f) End of Period Market Value	(h) Projected Total Fund Market Value	(i) Percent of Total Fund
3/31/2022	250,000,000	4,136,177,750	150,634,410	103,914,837	1.87%	77,201,046	4,260,098,370	38,378,362,122	11.10%
6/30/2022	162,000,000	4,260,098,370	175,658,805	116,105,530	1.88%	79,898,122	4,399,549,767	38,987,360,902	11.28%
9/30/2022	164,570,662	4,399,549,767	194,695,963	127,834,129	1.88%	82,834,828	4,549,246,429	39,606,023,447	11.49%
12/31/2022	167,182,116	4,549,246,429	197,274,620	137,623,133	1.88%	85,748,216	4,694,646,131	40,234,503,106	11.67%
3/31/2023	169,835,010	4,694,646,131	119,932,022	144,556,733	1.88%	88,305,149	4,758,326,569	40,872,955,660	11.64%
6/30/2023	172,530,000	4,758,326,569	104,182,012	148,286,934	1.88%	89,491,009	4,803,712,656	41,521,539,360	11.57%
9/30/2023	175,267,755	4,803,712,656	115,431,942	148,570,136	1.88%	90,233,854	4,860,808,317	42,180,414,971	11.52%
12/31/2023	178,048,954	4,860,808,317	126,886,102	145,626,526	1.88%	91,259,204	4,933,327,097	42,849,745,808	11.51%
3/31/2024	180,874,285	4,933,327,097	138,318,835	140,213,116	1.88%	92,658,692	5,024,091,508	43,529,697,778	11.54%
6/30/2024	183,744,450	5,024,091,508	149,357,478	133,589,363	1.88%	94,502,272	5,134,361,894	44,220,439,419	11.61%
9/30/2024	186,660,159	5,134,361,894	159,392,417	127,293,654	1.89%	96,821,711	5,263,282,369	44,922,141,945	11.72%
12/31/2024	189,622,136	5,263,282,369	167,609,266	122,837,766	1.89%	99,596,944	5,407,650,813	45,634,979,286	11.85%
3/31/2025	192,631,114	5,407,650,813	173,188,072	121,439,915	1.90%	102,750,373	5,562,149,343	46,359,128,133	12.00%
6/30/2025	195,687,839	5,562,149,343	175,668,184	123,881,409	1.91%	106,152,509	5,720,088,626	47,094,767,981	12.15%
9/30/2025	198,793,070	5,720,088,626	175,314,506	130,478,050	1.92%	109,640,209	5,874,565,291	47,842,081,171	12.28%
12/31/2025	201,947,575	5,874,565,291	173,173,655	141,100,661	1.92%	113,044,981	6,019,683,266	48,601,252,940	12.39%
3/31/2026	205,152,136	6,019,683,266	170,621,395	155,196,968	1.93%	116,222,695	6,151,330,388	49,372,471,462	12.46%
6/30/2026	208,407,549	6,151,330,388	168,689,661	171,846,325	1.94%	119,072,328	6,267,246,052	50,155,927,900	12.50%
9/30/2026	211,714,619	6,267,246,052	167,817,311	189,864,286	1.94%	121,537,432	6,366,736,509	50,951,816,447	12.50%
12/31/2026	215,074,167	6,366,736,509	168,107,101	207,964,205	1.94%	123,599,153	6,450,478,559	51,760,334,381	12.46%
3/31/2027	218,487,025	6,450,478,559	169,440,969	224,937,915	1.94%	125,271,592	6,520,253,205	52,581,682,107	12.40%
6/30/2027	221,954,039	6,520,253,205	171,536,367	239,775,908	1.94%	126,595,623	6,578,609,287	53,416,063,213	12.32%

Real Estate Private Market Cash Flow Projections based on Staff assumptions

As of 12/31/2021



March 15, 2022

**To:** Board of Trustees

**From:** Nick O’Keefe, Deputy Chief Legal Officer, Investments   
Michele Fullon, Investment Compliance Officer

**Re:** Agenda Item 15: Fourth Quarter 2021 Investment Compliance Report

**New Investment Compliance Officer:** TMRS hired Michele Fullon as our new Investment Compliance Officer. Michele brings a great deal of experience to TMRS, having served as a Compliance Specialist at the Texas Teacher Retirement System after many years as a compliance specialist with several Wall Street investment firms.

**Investment Manager Compliance:** State Street Bank completed 2,366 automated tests to determine whether TMRS’ investment managers adhered to their investment guidelines. The automated tests confirmed that the managers were in compliance with the guidelines during the quarter.

**Investment Policy Statement (IPS) Compliance:** We completed fourth quarter IPS compliance testing, testing on all testable parameters within the IPS, and confirmed that TMRS was in compliance with the IPS during the fourth quarter.

**Implementation of New Compliance Procedure.** We started working directly with the Investment department’s Data, Performance and Risk group to provide an independent check on TMRS’ asset classes.

**Pre-Investment Matters:** We are reviewing areas where we can add value to TMRS’ pre-investment process. Current projects include: (a) creating a simplified report to summarize relevant background check information, and (b) creating a pre-signature checklist confirming no material changes to investment fund or its manager since approval by the Staff Investment Committee.



March 15, 2022

**To: Board of Trustees**

**From: David J. Hunter, Chief Investment Officer**

A handwritten signature in blue ink, appearing to read "D. J. Hunter", is written over the printed name in the "From:" field.

**Re: Agenda Item 16: General Investment Consultant Quarterly Report**

RVK's 2021 Fourth Quarter Executive Summary Presentation and Quarterly Board Report are attached.

Their Quarterly Investment Performance Analysis is available in the Diligent Resource Center in the tab titled "March 24, 2022 Board Meeting."

**ATTACHMENTS:**

- 1 – RVK Executive Summary Presentation
- 2 – RVK Quarterly Board Presentation



# Quarterly Board Executive Summary Presentation

Texas Municipal Retirement System  
Period Ended: December 31, 2021



# Total Fund Performance

## How Did TMRS Perform Relative to Investment Policy Benchmarks?

	Performance (%)						
	QTD	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years
<b>Total Fund</b>	<b>3.71</b>	<b>12.80</b>	<b>12.80</b>	<b>11.43</b>	<b>8.94</b>	<b>7.36</b>	<b>7.69</b>
Actual Allocation Benchmark	3.18	12.19	12.19	11.24	8.71	7.11	7.46
Difference	0.53	0.61	0.61	0.19	0.23	0.25	0.23

The Total Fund returned 3.71% net of fees in the fourth quarter and 12.80% over the trailing 12 months.

- Fourth Quarter – TMRS outperformed the Actual Allocation Benchmark (3.18%) by 53 basis points.
  - Outperformance for the quarter was driven primarily by Private Equity and Hedge Funds, which beat their custom benchmarks by 781 and 141 basis points, respectively.
- Trailing year – TMRS outperformed the Actual Allocation Benchmark (12.19%) by 61 basis points.
  - Private Equity and Real Estate drove relative performance over the trailing 12-months as the asset classes outpaced their custom benchmarks by 1443 and 193 basis points, respectively.
  - Hedge Funds and Total Equity detracted from relative performance as they trailed their custom benchmarks by 309 and 54 basis points, respectively.

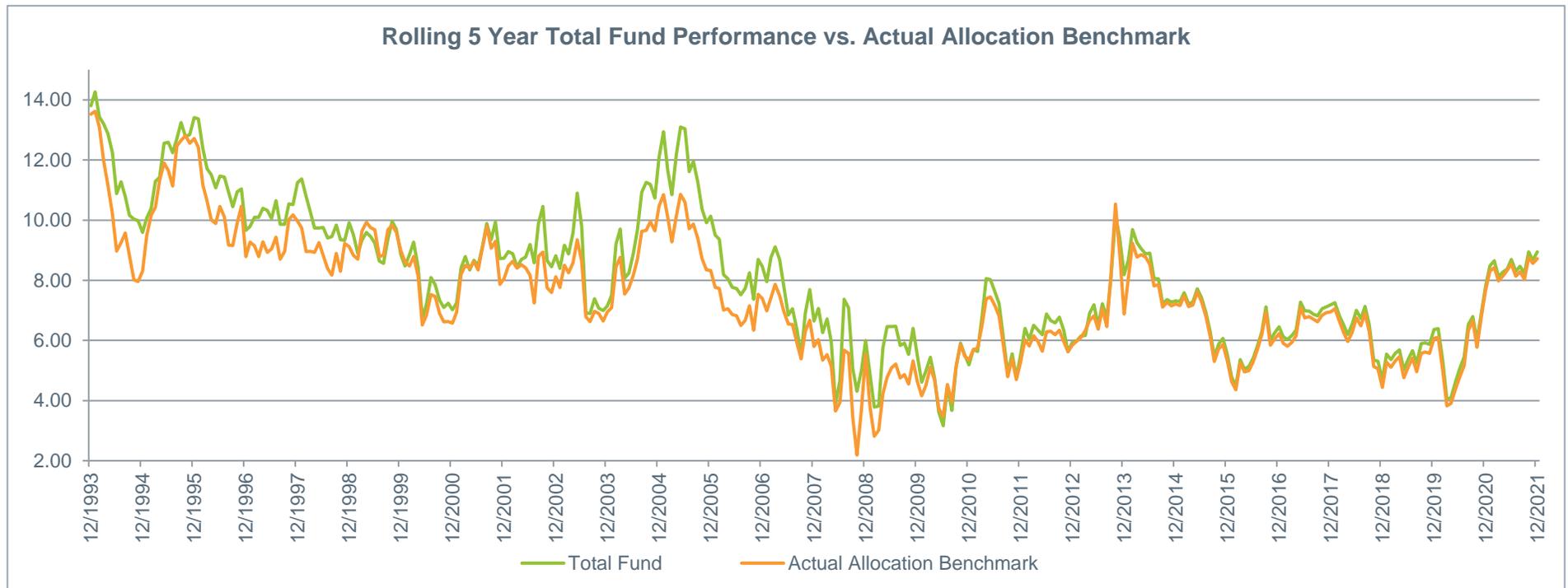
The Total Fund outperformed the Actual Allocation Benchmark net of fees over all trailing time periods ended December 31, 2021.

# Total Fund Performance

## How Did TMRS Perform Relative to Investment Policy Benchmarks?

The Total Fund performance expectation, as stated in the Investment Policy Statement, is to exceed the Actual Allocation Benchmark over rolling five-year periods.

- Five-year – TMRS outperformed the Actual Allocation Benchmark by 23 basis points, net of fees.
- The chart below shows that TMRS has beaten the five-year rolling performance expectation 93% of time since 1993, and 97% over the last ten years.



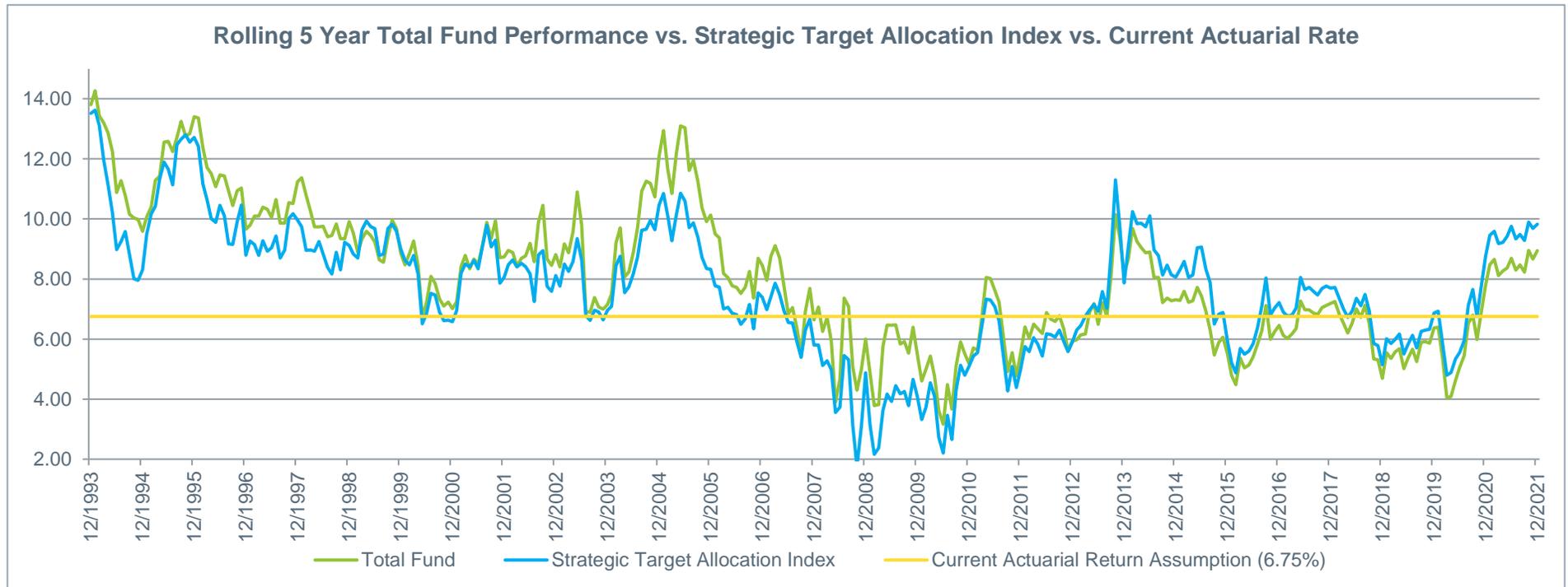
Performance shown is net of fees. Please see the Addendum for custom benchmark definitions.

# Total Fund Performance

## How Did TMRS Perform Relative to Investment Policy Benchmarks?

TMRS exceeded the Board's Assumed Long-Term Rate of Return of 6.75% for the five-year period.

- Although not fully implemented to the Strategic Target Allocation, the chart below illustrates TMRS' rolling five-year returns relative to the Strategic Target Allocation Index as a gauge for the effectiveness of the Board-approved Strategic Target Allocation, which was designed to meet or exceed the actuarial return assumption of 6.75%. The five-year return for the Strategic Target Allocation Index was 9.83%.



Performance shown is net of fees. Please see the Addendum for custom benchmark definitions.

# Asset Class Performance

## How Did TMRS' Asset Classes Perform Relative to Their Respective Benchmarks?

As shown on page 12 of the Quarterly Board Presentation, TMRS' Asset Class relative performance was mixed for the fourth quarter of 2021.

- Relative Outperformers – Four of the seven Asset Classes matched or exceeded their benchmarks, net of fees, in the quarter. Private Equity and Hedge Funds were the top relative performers, beating their custom benchmarks by 781 and 141 basis points, respectively, for the quarter.
- Relative Underperformers – Real Estate was the primary detractor in the fourth quarter, trailing its custom index by 99 basis points. Total Equity and Non-Core Fixed also modestly underperformed their benchmarks for the quarter.

**The Investment Policy Statement performance expectations for each Asset Class performance is to meet or exceed their respective benchmarks over rolling five-year periods. As shown below, five of the seven asset classes outperformed their respective benchmarks for the 5-year period. Total Equity trailed its custom benchmark by 58 basis points and Other Public & Private Markets trailed its custom benchmark by 4 basis points.**

TMRS Composite Objectives - Policy Benchmarks				
<b>Objective:</b>	Meet or exceed its policy benchmark performance net of fees over rolling five year periods.			
TMRS Composites	Benchmark	5 Year Composite Return	5 Year Benchmark Return	Meets Objective
Total Equity	Total Equity Benchmark	13.62	14.20	No
Core Fixed Income	Bloomberg US Agg Bond Index	3.91	3.57	Yes
Non-Core Fixed Income	Non-Core Fixed Income Benchmark	5.57	5.03	Yes
Other Public & Private Markets	OPPM Benchmark	6.53	6.57	No
Real Estate	NCREIF ODCE Index	8.69	7.41	Yes
Hedge Funds	Hedge Funds Benchmark	6.25	5.31	Yes
Private Equity	Private Equity Benchmark	22.55	20.03	Yes

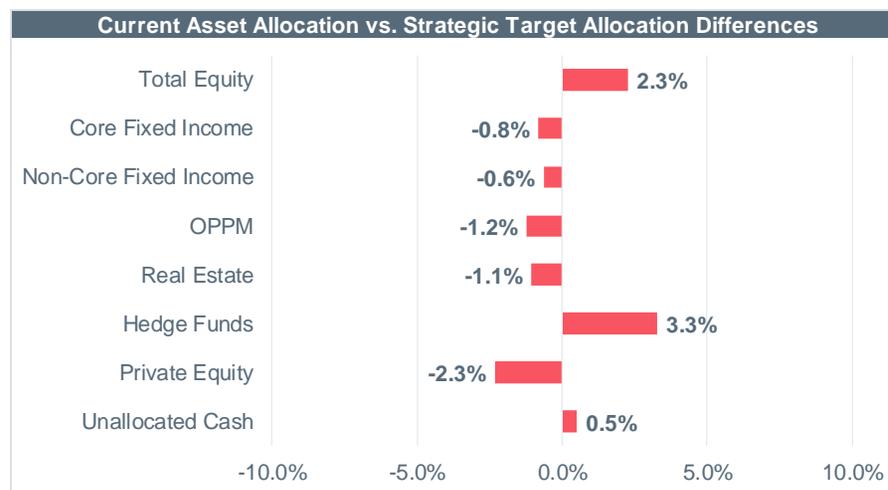
Performance shown is net of fees. Please see the Addendum for custom benchmark definitions.

# Asset Allocation Relative to Target

## How Is TMRS Positioned Relative to the Board's Strategic Target Allocation?

The Total Fund market value was \$37.8 billion as of December 31, 2021, an increase of nearly \$4.1 billion over the calendar year. All asset classes were within their respective Strategic Target Asset Allocation ranges as of quarter-end.

Current Asset Allocation vs. Strategic Target Allocation					
	Market Value (\$)	Current (%)	Target (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	37,778,876,154	100.0	100.0	-	-
Total Equity	14,075,362,947	37.3	35.0	25.0	45.0
Core Fixed Income	1,956,298,610	5.2	6.0	1.0	11.0
Non-Core Fixed Income	7,315,060,266	19.4	20.0	15.0	25.0
OPPM	4,072,765,847	10.8	12.0	7.0	17.0
Real Estate	4,136,177,750	11.0	12.0	7.0	17.0
Hedge Funds	3,127,664,474	8.3	5.0	0.0	10.0
Private Equity	2,900,381,457	7.7	10.0	5.0	15.0
Unallocated Cash	195,164,802	0.5	0.0	0.0	3.0



# Asset Class Performance

	Allocation		Performance (%)									
	Market Value (\$)	%	Quarter	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Incep.	Inception Date
<b>Total Fund</b>	<b>37,778,876,154</b>	<b>100.00</b>	<b>3.71</b>	<b>12.80</b>	<b>12.80</b>	<b>11.43</b>	<b>8.94</b>	<b>7.36</b>	<b>7.69</b>	<b>6.96</b>	<b>8.54</b>	<b>01/01/1989</b>
Actual Allocation Benchmark			3.18	12.19	12.19	11.24	8.71	7.11	7.46	6.73	8.01	
Difference			0.53	0.61	0.61	0.19	0.23	0.25	0.23	0.23	0.53	
<b>Total Equity</b>	<b>14,075,362,947</b>	<b>37.26</b>	<b>5.83</b>	<b>17.68</b>	<b>17.68</b>	<b>19.41</b>	<b>13.62</b>	<b>10.73</b>	<b>12.10</b>	<b>N/A</b>	<b>7.64</b>	<b>02/01/2008</b>
Total Equity Benchmark			6.10	18.22	18.22	20.20	14.20	11.15	12.35	N/A	7.79	
Difference			-0.27	-0.54	-0.54	-0.79	-0.58	-0.42	-0.25	N/A	-0.15	
<b>Core Fixed Income</b>	<b>1,956,298,610</b>	<b>5.18</b>	<b>0.06</b>	<b>-1.38</b>	<b>-1.38</b>	<b>5.27</b>	<b>3.91</b>	<b>3.31</b>	<b>3.15</b>	<b>4.13</b>	<b>7.22</b>	<b>01/01/1989</b>
Fixed Income Benchmark			0.01	-1.55	-1.55	4.79	3.57	3.00	2.90	3.89	6.70	
Difference			0.05	0.17	0.17	0.48	0.34	0.31	0.25	0.24	0.52	
<b>Non-Core Fixed Income</b>	<b>7,315,060,266</b>	<b>19.36</b>	<b>-0.20</b>	<b>6.28</b>	<b>6.28</b>	<b>6.02</b>	<b>5.57</b>	<b>4.82</b>	<b>N/A</b>	<b>N/A</b>	<b>4.75</b>	<b>10/01/2014</b>
Non-Core Fixed Income Benchmark			0.08	6.42	6.42	5.63	5.03	4.20	N/A	N/A	4.16	
Difference			-0.28	-0.14	-0.14	0.39	0.54	0.62	N/A	N/A	0.59	
<b>OPPM</b>	<b>4,072,765,847</b>	<b>10.78</b>	<b>4.33</b>	<b>13.29</b>	<b>13.29</b>	<b>9.67</b>	<b>6.53</b>	<b>4.76</b>	<b>4.35</b>	<b>N/A</b>	<b>4.61</b>	<b>02/01/2011</b>
OPPM Benchmark			3.30	13.72	13.72	9.25	6.57	4.98	4.06	4.76	4.62	
Difference			1.03	-0.43	-0.43	0.42	-0.04	-0.22	0.29	N/A	-0.01	
<b>Real Estate</b>	<b>4,136,177,750</b>	<b>10.95</b>	<b>5.42</b>	<b>16.07</b>	<b>16.07</b>	<b>7.45</b>	<b>8.69</b>	<b>9.81</b>	<b>10.20</b>	<b>N/A</b>	<b>10.20</b>	<b>01/01/2012</b>
Real Estate Benchmark			6.41	14.14	14.14	6.91	7.41	8.83	9.87	6.48	9.87	
Difference			-0.99	1.93	1.93	0.54	1.28	0.98	0.33	N/A	0.33	
<b>Hedge Funds</b>	<b>3,127,664,474</b>	<b>8.28</b>	<b>0.72</b>	<b>4.43</b>	<b>4.43</b>	<b>6.09</b>	<b>6.25</b>	<b>4.95</b>	<b>N/A</b>	<b>N/A</b>	<b>4.77</b>	<b>08/01/2014</b>
Hedge Funds Benchmark			-0.69	7.52	7.52	6.88	5.31	3.68	4.22	2.74	3.63	
Difference			1.41	-3.09	-3.09	-0.79	0.94	1.27	N/A	N/A	1.14	
<b>Private Equity</b>	<b>2,900,381,457</b>	<b>7.68</b>	<b>6.70</b>	<b>46.31</b>	<b>46.31</b>	<b>25.07</b>	<b>22.55</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>18.63</b>	<b>01/01/2016</b>
Private Equity Benchmark			-1.11	31.88	31.88	20.81	20.03	N/A	N/A	N/A	16.60	
Difference			7.81	14.43	14.43	4.26	2.52	N/A	N/A	N/A	2.03	
<b>TMRS Unallocated Cash</b>	<b>195,164,802</b>	<b>0.52</b>	<b>0.00</b>	<b>0.05</b>	<b>0.05</b>	<b>0.91</b>	<b>1.02</b>	<b>0.93</b>	<b>0.69</b>	<b>N/A</b>	<b>0.60</b>	<b>06/01/2008</b>
FTSE 30 Day T-Bill Index			0.02	0.04	0.04	0.89	1.06	0.79	0.56	0.78	0.47	
Difference			-0.02	0.01	0.01	0.02	-0.04	0.14	0.13	N/A	0.13	

Performance shown is net of fees. Please see the Addendum for custom benchmark definitions.

# Addendum

## Composite Benchmark Comments

The **Actual Allocation Benchmark** is calculated monthly using beginning of month asset class weights applied to each corresponding benchmark return and currently consists of the following:

- Total Equity Benchmark
- Fixed Income Benchmark
- Non-Core Fixed Income Benchmark
- OPPM Benchmark
- Real Estate Benchmark
- Hedge Funds Benchmark
- Private Equity Benchmark
- FTSE 30 Day T-Bill Index

The **Strategic Target Allocation Index** represents asset allocation targets adopted historically and currently consists of the following:

- 35.0% Total Equity Benchmark
- 6.0% Fixed Income Benchmark
- 20.0% Non-Core Fixed Income Benchmark
- 12.0% OPPM Benchmark
- 12.0% Real Estate Benchmark
- 5.0% Hedge Funds Benchmark
- 10.0% Private Equity Benchmark

## Asset Class Composite Benchmarks:

The **Total Equity Benchmark** is calculated monthly and consists of 50% Russell 3000 Index and 50% MSCI EAFE Index (USD) (Net) through 07/31/2010; a blend of the Russell 3000 Index, MSCI ACW Ex US IM Index (USD) (Net) and MSCI EAFE Index (USD) (Net) at beginning of month investment weights through 11/30/2012; and a blend of the Russell 3000 Index and MSCI ACW Ex US IM Index (USD) (Net) at beginning of the month weights through 12/31/2018; and MSCI ACW IM Index (USD) (Net) thereafter.

The **Fixed Income Benchmark** is calculated monthly and consists of the Bloomberg US Gov't Crdt Lng Trm Bond Index through 06/30/2009; Bloomberg US Agg Bond Index thereafter.

The **Non-Core Fixed Income Benchmark** is calculated monthly using beginning of the month sub-asset class weights within the Non-Core Fixed Income Composite applied to each sub-asset class primary benchmark return through 6/30/2021, and the Bloomberg US Agg Bond Index + 1.5% on an unlagged, month lagged, or quarter lagged basis in proportion of the managers in the composite on an unlagged, month lagged, or quarter lagged basis.

The **OPPM Benchmark** is calculated monthly using beginning of the month sub-asset class weights within the OPPM Composite applied to each sub-asset class primary benchmark return through 6/30/2021, and the MSCI ACW IM Index (USD) (Net) on an unlagged, month lagged, or quarter lagged basis in proportion of the managers in the composite on an unlagged, month lagged, or quarter lagged basis.

The **Real Estate Benchmark** is the NCREIF ODCE Index (Gross), one quarter lag through 06/30/2021, and NCREIF ODCE Index (Net), one quarter lag thereafter.

The **Hedge Funds Benchmark** is calculated monthly and consists of the HFRI FOF: Dvf'd Index (1 Mo Lag) through 6/30/2021, and HFRI Asset Weighted Composite Index (1 Mo Lag) thereafter.

The **Private Equity Benchmark** is set equal to the Composite return through 6/30/2021, and MSCI ACW IM Index (USD) (Net), one quarter lag thereafter.

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March 15, 2022

**To: Board of Trustees**

**From: David J. Hunter, Chief Investment Officer**

A handwritten signature in blue ink, appearing to read "D. J. Hunter", is written over the "From:" line.

**Re: Agenda Item 17: Board Education: Global Equities Asset Class**

In accordance with the TMRS Investment Policy Statement, comprehensive asset class reviews are conducted at least annually. At the March Board meeting, Frank Atkins and I will present the Annual Global Equities review. The presentation material is available in the Diligent Resource Center in the tab titled "March 24, 2022 Board meeting."



# **Board Education: Global Public Equities**

Dave Hunter, CIO

Frank Atkins, Senior Investment Analyst

Board of Trustees Meeting

March 24, 2022

# What is Global Public Equity?

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- Global Public Equity (GPE) includes publicly-traded stocks, including:
  - Geography – United States, International Developed Markets, Emerging Markets
  - Company size (Large Cap, Mid Cap and Small Capitalization companies)
  - Industry sector (Technology, Healthcare, Consumer, Industrials, etc.)
  - Quantitative factor exposure (Value, Momentum, Minimum Volatility, Quality, etc.)
  - Implementation strategy (Core or Satellite)
- The portfolio is benchmarked to the MSCI ACWI IMI
  - Morgan Stanley Capital International All Country World Index, Investible Market Index (MSCI ACWI IMI)

# Benchmark Overview

- Of the ~8,500 stocks in MSCI ACWI IMI:

- The largest ~600 stocks make up about 65% of total (Large and Mega Capitalization equities)
  - Well known companies such as Disney, Microsoft, Apple in the U.S. and international large caps such as Nestle, Samsung, Alibaba – very liquid. Makes up about 2/3 of the \$67 Trillion total.
- The remaining 7,900 make up about 35% (Mid Cap and Small Capitalization Stocks under \$15B)
  - Less well known, less liquidity, but drive much of the innovation and growth of global economies.

	Benchmark Breakdown	Number of Stocks in MSCI ACWI IMI
Equity Sub-class	MSCI ACWI IMI Weight	
U.S. Mega Cap	21.1%	31
U.S. Large Cap	26.3%	357
U.S. Midcap	7.8%	791
U.S. Small Cap	1.9%	1,141
<b>Total U.S.</b>	<b>57.1%</b>	<b>2,320</b>
Int'l Developed Large and Mega	18.7%	266
Int'l Developed SMID	11.3%	2,935
Emerging Markets Excl. China	8.0%	1,992
China	4.7%	945
<b>Total Ex U.S.</b>	<b>42.7%</b>	<b>6,138</b>
<b>Total</b>	<b>100%</b>	<b>8,458</b>

Source: MSCI Indexes and MSCI Barra Risk Analytics

# 2021 Global Public Equity Performance - Preliminary

Comparative Performance													
	1 Quarter	CYTD	1 Year	3 Years	5 Years	10 Years	2020	2019	2018	2017	2016	Since Incep.	Inception Date
Total Equity	5.83	17.68	17.68	19.41	13.62	12.10	14.46	26.41	-10.28	23.97	9.39	7.64	02/01/2008
Total Equity Benchmark	6.10	18.22	18.22	20.20	14.20	12.35	16.25	26.35	-9.69	23.84	9.54	7.79	
Difference	-0.27	-0.54	-0.54	-0.79	-0.58	-0.25	-1.79	0.06	-0.59	0.13	-0.15	-0.15	



- Global Public Equity (GPE) is TMRS's largest target allocation at 35% with the second highest, long-term expected return at 7% (behind Private Equity at 9%).
- As of December 31, 2021, TMRS GPE is overweight its 35% target allocation by 2.3% which offsets a 2.3% underweight to Private Equity.
- The objective of the GPE portfolio is to exceed the stated IPS benchmark (MSCI ACWI IMI) over rolling five-year periods, net of fees.
- GPE returns have trailed the MSCI ACWI IMI benchmark by 54, 58 and 25 basis points (bps) for the 1, 5 and 10 years ended December 31, 2021, respectively.

# Global Public Equity Manager Performance

- TMRS public equity portfolio is approximately 80% passive and 20% active as of December 31, 2021.
- Current TMRS passive public equity strategies have outperformed approved benchmarks since inception including the MSCI ACWI IMI related strategies.
- Current TMRS active public equity managers have also exceeded strategy specific benchmarks since inception and for the 3 and 5 years ended December 31, 2021, but not the MSCI ACWI IMI benchmark.

Global Equity Active Manager Relative Performance						
	As of 12/31/2021				As of 1/31/22	
Manager Strategy	1 Yr.	3 Yr.	5 Yr.	ITD	Jan-22	ITD
Champlain <i>USA Mid-Cap</i>	2.71	4.19	5.85	5.26	-2.93	4.62
Wellington <i>US Small Cap</i>	-1.38	0.84	3.19	2.27	1.95	2.59
Wellington Int'l Horizons <i>Int'l-Dev Small Cap</i>	2.09	4.45	1.87	2.57	-1.77	2.26
Wasatch <i>Int'l-Dev Small Cap Growth</i>	-1.02	6.18	4.84	1.94	-8.48	0.18
William Blair <i>Emerging Markets</i>	-2.82	5.05	3.37	1.97	-3.11	1.38
Acadian <i>Emerging Markets</i>	11.06	1.94	1.56	1.44	0.97	1.59

# Global Public Equity Portfolio Tilts

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**TMRS active strategies contain significant portfolio tilts, including:**

- 1. Underweight U.S. Mega/Large Cap and International Mega/Large Cap**
  - 64% weighting for TMRS vs. MSCI ACWI IMI at approximately 72%
- 2. Overweight Emerging Markets, China and International Small**
  - EM and China make up 14% of TMRS vs. MSCI ACWI IMI at 11%
- 3. Overweight to U.S. Mid Cap and U.S. Small Cap**
  - TMRS is approximately 13% versus the MSCI ACWI IMI at 8%

**Next Steps:** SIC, RVK and Northern Trust are discussing strategies to improve net returns versus the MSCI ACWI IMI benchmark by reducing tracking error and fees.