

**THIS ISSUE: February 20 Board Meeting, Pre-Retirement Regionals,
Seminar Overview, Lump Sum Direct Deposits, Legislative Update**

February 20 Board Meeting Summary

The TMRS Board of Trustees met in Austin on February 20, 2009. The Board:

- Heard a presentation on the TMRS legislative agenda from consultant Ron Lewis and TMRS Government Relations Director Eddie Solis. The Board reiterated its support for HB360/SB908, containing the recommendations of the Legislative Stakeholder Group and the Board, and its neutrality with regard to other proposals, including alternative COLA structures, a statutory Advisory Committee, and any other bills that may be filed.
- Heard a presentation and recommendation from the System's consulting actuary (GRS) on an amortization policy for ad hoc benefit increases (COLAs and Updated Service Credit). GRS recommends funding these benefits as "standalone" financial arrangements, amortized over 15 years on a level dollar basis, which will increase the annual contribution requirement for such benefits. The Board voted to continue consideration of the policy at a later meeting.
- Heard a presentation and recommendation from GRS on an amortization policy for city plans in any city that chooses to close its TMRS plan to future employees. The recommended policy would amortize the unfunded accrued actuarial liabilities for a closed plan on a level dollar basis over a 20-year period, with specific funding criteria established. In certain circumstances, the period could be extended to a maximum of 30 years or shortened below 20 years if cash flow analysis indicates that variations from the standard 20-year period would result in annually decreasing funding levels. The Board voted to continue consideration of the policy at a later meeting.
- Heard a presentation from GRS on the expectations for the 12/31/08 actuarial valuation that will be presented to the Board in April. Preliminary results show that city contribution rates will be affected by three factors: 1) the one-year "lag" between the date of the 12/31/07 valuation and the beginning of the 2009 plan year; 2) credits to the Municipality Accumulation Funds at a rate of 5% instead of the assumed rate of 7%; and 3) the adoption of new actuarial assumptions in December 2008. The effect of these changes will vary widely among cities, but cities with a 2:1 match and automatically repeating benefits are likely to see contribution rate increases above 2008 rates. Cities that are currently paying a phase-in rate may continue to phase-in the higher contribution rates. More details on the actuarial valuation will be available in April.
- Approved the appointments of several members of the Advisory Committee who were named by their respective organizations since the last Board meeting: Scott Kerr,

representing the Texas State Association of Fire Fighters; Suzanne Levan, representing the City of San Antonio; Mike Staff, representing the Combined Law Enforcement Associations of Texas (CLEAT); and Monty Wynn, representing the Texas Municipal League.

- Heard presentations from investment consultant R.V. Kuhns on a variety of topics.
 - *Investment performance.* TMRS' performance for 2008 (income return of 5.89% and total return of -1.3%) is among the best in the universe of retirement funds: 7th percentile for 1-year returns and 1st percentile for 10-year returns.
 - *Securities lending arrangements.* R.V. Kuhns reviewed TMRS' securities lending arrangements with custodians State Street and equity fund managers Northern Trust and concluded that, although current arrangements need only minor adjustments, in the current market, increased monitoring of any securities lending arrangement is warranted.
 - *Diversification.* As part of its ongoing education in diversification, the Board heard educational presentations on investments in high yield debt and real estate as portfolio components.
- Heard a presentation, as required by the System's external auditor (KPMG), to discuss roles and responsibilities, planning, fieldwork, and reporting as it relates to the financial audit for fiscal year 2008.
- Heard a presentation from Ian Allan, TMRS' Internal Auditor, summarizing a review of the fixed income duration project and discussed the completion of the TMRS Finance Department risk assessment. No significant risks were identified in either report.
- Renewed the contract of governance and strategic plan consultant Ennis Knupp.

The Board will meet next on March 26 and 27.

Legislative Update

—by *Eddie Solis, Government Relations Director, TMRS*

Committees in the House and Senate have both begun to hear legislation. The Budget committees continue to work with agencies that receive state appropriations on the next biennial budget (TMRS does not receive state money, so is not part of the Appropriations process).

The Senate version of the TMRS legislation has been filed by Senator Tommy Williams. [Senate Bill 908](#) is an identical “companion” to [House Bill 360](#) filed by Representative Edmund Kuempel.

The [House Committee on Pensions, Investments, and Financial Services](#) conducted its first meeting on February 25, 2009. Speaker Straus merged the House Pensions and Investments

Committee and the House Committee on Financial Services, and the new committee is Chaired by Representative Truitt. At this meeting, members heard from pension systems and retirement groups. TMRS testified before the committee and updated the new committee members on the transitions TMRS has been facing over the past couple of years and the current legislative effort with House Bill 360 and Senate Bill 908 this session. Eric Henry informed the committee of what the TMRS legislation intends to do: set a floor of 5% for member interest credits and annuity purchase rates, establish a “variable” interest rate environment for employers/cities, and allow TMRS to credit unrealized gains and losses. Mr. Henry also informed the committee what happens if the legislation does not pass, which would cause TMRS to cease diversification of its investment portfolio, resulting in the current 7% assumed rate of return reverting to a 5% assumed rate of return; would likely reduce member interest rates below 5% within a few years; and would cause a sharp increase in city contribution rates, perhaps as much as 50%.

Recently, House Bill 1344 was filed that would add the TMRS Advisory Committee to the Texas Government Code, making the advisory committee a statutory body. In addition, Senate Bill 1358 was filed by Senator Seliger of Amarillo. This bill affects the calculation of COLAs for retirees.

As any bill affecting TMRS is filed, we will keep you informed about that legislation as well. TMRS is responsible for providing technical assistance and testimony as requested by legislators and legislative committees on all legislation that affects TMRS. Please note, however, that the provisions in HB360/SB908, as recommended by the TMRS Legislative Stakeholder Group, are the only provisions the TMRS Board has adopted a resolution to support.

If you have any questions, please email me at esolis@tmrs.com or feel free to call me at 512-225-3713.

First Three Regional Pre-Retirement Conferences Well Attended

Employees close to retirement learned all about TMRS, plus received additional financial planning and Social Security information at our first three Regional Pre-Retirement Conferences of 2009, held in January and February. The Travel Team met with TMRS members in Mercedes on January 21, Brownsville on January 22, and Longview on February 12.

The City of Mercedes had an excellent turnout — about 80 members and 8 surrounding cities joined us. At the City of Brownsville, about 200 members/spouses joined us for a fun-filled afternoon with a very interactive crowd. The attendees appreciated that we were holding a conference in their home town. At the Longview conference, we had another great turnout: 26 East Texas cities were represented, and approximately 220 attendees were served.

Our next Regional Conference will be in San Antonio on March 25 and 26. Other planned Regionals will convene in Plainview on April 23, Arlington on May 12-13, Pasadena on June 16-17, and Abilene on July 8.

Funding Seminar in Austin a Success

TMRS staff and pension experts met with finance staff, city managers, and other officials representing over 100 cities on March 1 – 3 at the Hyatt Regency Austin. The first TMRS Seminar on Funding, Investments, and Legislation, called “Building a Foundation for the Future,” gave attendees a full overview of TMRS investments in the current economy, actuarial issues, and the importance of TMRS legislation in the current session of the Texas Legislature. One of the frequent themes among both speakers and attendees was the importance of the passage of HB360 / SB908.

Richard McElreath, Chair of the Pension Review Board, was the keynote speaker on Monday morning. Representative Vicki Truitt, Chair of the House Committee on Pensions, Investments, and Financial Services, gave an overview of the work of the Texas Legislature and the importance of keeping our state pension funds strong.

PDFs of the PowerPoint presentations given at the seminar are available [here](#).

New Policy for Direct Deposit of Lump Sum Payments

If a new retiree elects to receive a Partial Lump Sum Distribution (PLSD) payable directly to themselves (not rolled over to an IRA or an employer plan), please make a note of the important information below:

Effective March 31, 2009, any portion of the PLSD paid directly to the retiree will be electronically direct deposited according to the bank account information provided on the retiree’s Direct Deposit Authorization Form and will be deposited at the same time as the first monthly payment.

If all or part of the PLSD is rolled over to an IRA or another qualified employer plan, the payment will be made in the form of a check.

TMRS’ Legal Founder Dies at 98

Gaynor Kendall, the man who wrote the law that helped establish TMRS and who served as its legal counsel from 1947 through the mid-1980s, passed away at his home in Flower Mound on January 22, 2009, at the age of 98. Among his first acts as legal counsel was to rewrite the original TMRS statute in order to make it a workable governing law.

He was a driving force behind shaping TMRS’ legal and legislative history, and the author of the vast majority of our legal opinions and legislative changes. Mr. Kendall, along with Jack Rudd, TMRS’ original actuary, set in motion both TMRS and TCDRS. Both men were true visionaries of pension system design.

Gaynor Kendall’s son, Terrence, also an instrumental figure who served as TMRS’ legal counsel for many years, died last year on July 12, 2008, after a lengthy battle with cancer.

NOTE - Previously issued e-bulletins and correspondence are posted in the “E-Bulletin Archive” section under the Publications page on the TMRS Website.