

**MINUTES OF THE
ADVISORY COMMITTEE ON RETIREMENT MATTERS
OF THE BOARD OF TRUSTEES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM**

On December 1, 2011, the Advisory Committee on Retirement Matters (the "Committee") of the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas, with the following members present:

Advisory Committee Members

Frank Simpson, TMRS Trustee and Advisory Committee Chair
Julie Oakley, TMRS Trustee and Advisory Committee Vice Chair
Don Byrne, Texas Municipal Human Resources Association
Ron Cox, TMRS Retiree
David Crow, Arlington Professional Firefighters
Michael Dane, City of San Angelo
Dean Frigo, City of Amarillo
Jerry Gonzalez, Service Employees International Union (SEIU), San Antonio
Scott Kerr, Texas State Association of Firefighters
Kevin Lawrence, Texas Municipal Police Association
Michelle Leftwich, City of Mercedes
Randle Meadows, President, Arlington Police Association
Mike Perez, Texas City Management Association (TCMA)
Bob Scott, Government Finance Officers Association of Texas (GFOAT), City of Carrollton
Garry Watts, City of Shenandoah
Charles Windwehen, TMRS Retiree
Monty Wynn, Texas Municipal League (TML)

Joining the meeting via telephone conference call was Committee Member Allen Bogard, City of Sugarland.

The following staff, consultants and guests were also present:

David Gavia, TMRS Executive Director
Ian Allen, TMRS Internal Auditor
Rhonda Covarrubias, TMRS Director of Finance
Eric Davis, TMRS Deputy Executive Director
Bernie Eldridge, TMRS Director of Human Resources
Nancy Goerdel, TMRS Chief Investment Officer
Leslee Hardy, TMRS Staff Actuary
Glenn Johnson, Garland Firefighters Association
George Kauffman, Representing the City of Garland
Michelle Mellon-Werch, TMRS Associate General Counsel
Rick Manchaca, BOSCO, Inc.
Jim Moore, Mesquite Fire Dept.

Cindy Morse, TMRS Executive Assistant
Candace Nolte, TMRS Controller
Mark Randall, Gabriel, Roeder, Smith and Company (GRS)
David Rodriguez, TMRS Regional Manager
Christine Sweeney, TMRS General Counsel
Melanie Thomas, TMRS Editor
Stephanie Toman, Hewitt EnnisKnupp
Bill Wallace, TMRS Director of Communications
Dan Wattles, TMRS Director of Government Relations
Nancy Williams, Hewitt EnnisKnupp
Merita Zoga, House Committee on Pensions, Investments & Financial Services

Frank Simpson called the meeting to order at 9:00 a.m. He introduced himself, welcomed the committee members of Advisory Committee on Retirement Matters of the Board of Trustees for TMRS (the "Committee Members") and guests. He thanked the Committee Members for their hard work leading up to and during the past two successful legislative sessions. He then introduced Julie Oakley, Vice Chair of the Committee, who said a few words of welcome and expressed her appreciation for the work of the Committee. Mr. Simpson next introduced several guests including some who were assisting with the meeting, including Nancy Williams and Stephanie Toman from Hewitt EnnisKnupp and Mark Randall from GRS. He then asked the Committee Members to introduce themselves.

Following the introductions, Ms. Williams reviewed the agenda and explained the goal of the meeting, which is to find out what issues the Committee would like to explore in preparation for the next legislative session. She explained her role in facilitating the meeting and that her assistant, Stephanie, would be taking notes during the discussion. EnnisKnupp will provide a summary of the top issues and the discussion points to all the Committee Members following the meeting. Ms. Williams then introduced Mark Randall to present an overview of the national landscape for pension plans.

National Landscape

Mr. Randall stated that 40 states have made significant changes to their pension systems in the past few years. He discussed the most common benefit changes. He highlighted recent studies, statistics, and public perception/media coverage. Fewer states are paying the minimum actuarially required contribution to maintain an actuarially sound retirement fund. He said states were generally more aggressive than municipal systems in making larger, systemic changes, such as switching to a DC plan, while municipal systems were generally more likely to increase employee contributions or make minor benefit adjustments. Almost all public retirement plans are being heavily scrutinized. Mr. Randall stated that the new GASB standards are likely to cause additional confusion and scrutiny.

Ms. Williams then reviewed some ground rules for the consideration of the Committee; all ideas are welcome, but the goal is to touch on the topics and capture as many ideas as possible. Then the group will determine which topics generate the most interest to discuss further in the coming year. Everyone agreed to these rules.

Issues for Discussion

The first topic for discussion was additional COLA options. Mr. Gavia explained TMRS' current COLAs; how they are implemented by cities, the choices available to cities, the catch-up feature, and the impact on annuitants when adopted. Mr. Perez stated that past discussions have generally focused on removing the catch-up feature. Mr. Scott noted that the high cost of increasing or adopting a COLA currently, because of the catch-up feature, is a deterrent to many cities. There was discussion regarding the trends in the past years of decreasing or dropping COLAs, increased interest in flexibility to grant a less expensive COLA, and past discussions regarding limited-time windows to allow those cities without COLAs to adopt COLAs without the retroactive feature. Some members expressed an interest in the creation of a flat-rate (non-CPI-based) COLA. Mr. Randall explained the difference between an ad-hoc COLA and repeating COLA, and walked the Committee through the actuarial effect of not treating a COLA as repeating, while granting one every few years. A few Committee Members raised concerns regarding the options available to those cities that opted out of Social Security, promising continuing COLAs through TMRS as a replacement retirement plan. Mr. Randall explained why COLAs are considered necessary, citing the loss of purchasing power by retirees over time. Other ideas regarding COLAs included having employees fund COLAs or building a COLA into the retirement benefit options available. Some members would like to see a guarantee for COLAs so they cannot be removed by a City Council. Ms. Williams ended this discussion, noting that COLAs will be a topic for future discussion.

Ms. Williams then moved the discussion to gain sharing options. Mr. Gavia discussed the history of additional interest credited to member accounts and the extra check (Distributive Benefit) payments to retirees. The topic of gain sharing began during the discussions leading up to investment diversification under HB360. Mr. Perez stated that past discussions had included the concept that gain sharing be tied to funding levels. Mr. Randall remarked that there is a cost to gain sharing. He considers this issue to be part of a discussion on risk sharing. Ms. Williams concluded this discussion and stated that this topic would likely be on the agenda for future discussion as well.

After a short break, Mr. Gavia introduced the topic of higher employee contributions. He explained the current options available in TMRS and noted that increasing the employee contributions could lead to increased city liabilities due to the cash-balance nature of TMRS. There was discussion of whether this could be a city by city option, administrative challenges, and whether this would be an employer or employee option. Ms. Williams stated that there appears to be sufficient interest to place this on a future agenda for discussion.

Next, Mr. Gavia introduced a discussion of two-tier plans with a brief overview of how they are introduced, what they mean, and the legal difficulties other states have encountered in changing benefits. Two tier plans only affect new hires, therefore any cost savings are not immediate. Changing benefit options is more difficult for many other systems that lack the menu features of TMRS, where there are several plan options available to cities to realize cost-savings. There was discussion regarding the recruitment and retention issues that can arise in a tiered system. One member stated that one of the benefits of creating a new tier is to maintain a commitment to

existing employees. Mrs. Williams noted that there appeared not to be much enthusiasm for additional discussion of this issue.

Mr. Gavia next discussed increasing the hourly threshold for employee participation in TMRS. Last legislative session a bill was introduced proposing to change the definition of "employee," for TMRS purposes, from a position that normally requires 1000 hours of annual service to 1500 hours of annual service. The bill sponsor argued that savings would come from the number of employees that would no longer be eligible to participate in TMRS because they are not in a position that requires 1500 hours of annual service. TMRS took an informal survey of cities and found very few employees fit into this category. A few cities mentioned that they would increase hours to part-time employees if they would not have to include them in TMRS. There was some discussion of the connection between this threshold and the new healthcare mandate for any employee over 30 hours a week. Committee Members noted that some part-time employees would like to participate in TMRS and some would not. They also noted that the threshold is a limitation on those retirees wishing to return to work. If they work less than the threshold, their annuity is not suspended. Ms. Williams noted that this topic appeared to be a low priority with little interest.

Mr. Bogard stated that he needed to leave early, however he requested that the Committee plan to discuss the political environment regarding public pensions, the anti-public employee pension benefit initiatives, and how to protect benefits against these initiatives. Mr. Bogard then left the meeting.

The next topic was changing vesting and/or retirement eligibility for new hires. Mr. Gavia stated that most cities in TMRS have a 5-year vesting requirement, with retirement eligibility at 5 or 10 years at age 60 or 20 years at any age. Mr. Randall stated that from a cost basis, increasing vesting does not generate significant savings, but increasing retirement eligibility can produce a cost-savings. There was some discussion around what increasing retirement eligibility would look like. There appeared to Ms. Williams to be an interest in continuing to discuss increasing retirement eligibility.

Return to work was the next topic for discussion. Mr. Gavia reviewed the current TMRS statutory requirements for return to work compared to other Texas systems. He stated that historically, there have been various attempts to change this statute but there are issues regarding the public's perception of "double-dipping." Mr. Randall stated that this is not a cost issue, but more of a perception issue. Mr. Wattles reviewed the recent changes by the Legislature to the TMRS return to work statute and Mr. Gavia discussed the constraints imposed by the IRS on in-service distributions and bone-fide termination requirements. There was some discussion regarding the issue of public perception, and the differences between geographically isolated areas versus metropolitan centers. Because any attempts to allow greater freedoms to return to work would be perceived as an increase in benefits, most Committee Members felt this issue would be difficult to address in the coming legislative session.

Ms. Williams then asked what other issues Committee Members would like to raise for discussion in this year. Mr. Cox stated that the System will be playing defense against the Texans for Public Pension Reform initiatives. He mentioned that there is a group that has been

meeting called The Texans for Secure Retirement that includes representatives from various teacher, police, and fire associations. Mr. Perez requested a presentation on how TMRS differs in comparison to other plans regarding the issues being discussed by these groups. There was some discussion regarding utilizing the materials created by Chairwoman Vicki Truitt in the last legislative session. Ms. Williams stated that TMRS would try to get a copy of these materials and forward them to Committee Members. Mr. Wattles stated that so far approximately 26 incumbents have announced that they are retiring from the Texas Legislature. This means new legislators and opportunities for education. Mr. Simpson asked for feedback on expanding the size of the TMRS Board to include other representatives. After some discussion, there appeared to be minimal interest.

Ms. Williams then began the discussion on the next steps. She stated that the TMRS Board will look over the issues that are of interest to the Committee as well as the amount of research necessary to adequately discuss the topic and schedule topics as appropriate. The idea is to get information out in advance of the meetings. Mr. Gavia suggested that after the February Board meeting, TMRS would get a schedule out so Committee Members can block out the dates for the year. Mr. Crow suggested that meetings not be limited to a half-day, so that discussion is not limited by time constraints. Other Committee Members agreed and several stated that the day before a Board meeting works well for Committee meetings because most of the Committee Members will stay for the Board meetings.

There was no further discussion and the meeting was adjourned at 11:55p.m.



David Gavia
Executive Director



Frank Simpson
Chair of the Advisory Committee and Board Trustee