

**TMRS Advisory Committee Meeting  
August 16, 2012**

**Legislative Update**

The Texas Legislature is going through significant changes. Of the 150 House members, 81 are likely to be freshmen or sophomores in 2013. There could be as many as 6 new senators, which is unprecedented. In addition to new members, key committee chairmanships will change, including the Senate State Affairs committee. There will definitely be a new chair of the Pensions, Investment and Financial Services Committee in the House of Representatives.

**Opening Remarks**

Before going through the six proposals that were contained in the earlier survey and a proposed “Statement of Philosophy”, the floor was opened to anyone wanting to make general comments.

Note that the six proposals included in the survey were:

- Variable Repeating COLA without the Catchup Feature
- One Time Extra Payments
- Flat Rate Repeating COLA
- Flat Rate Ad Hoc COLA
- Increase Retirement Eligibility
- Age / Years Delayed COLA

**Advisory Committee Member Comments**

Some members were concerned about the relative lack of experience and knowledge in the Legislature at this point and were reluctant to have any legislation introduced that would affect TMRS. They worried that any bill filed might be subject to amendment in a way that could negatively affect the system. Without a broad consensus for changes in TMRS, some would prefer to avoid any legislation this session.

Others agreed with this and felt like that this was the time to “play defense” rather than moving forward with legislation.

Some mentioned that several of the six proposals were good ideas and they would like to see more benefit design flexibility but that this was not the time to pursue additional benefit options.

Some felt that the recent legislative changes made to the TMRS Act in the past two sessions should be given time to play out before any other changes were pursued.

Several members emphasized that the TMRS role in the upcoming Legislative Session should be to educate legislators about TMRS.

Several members mentioned that government pensions are on the defense everywhere right now, not just in Texas.

If TMRS does not pursue legislation and a city or other entity does, then some believe TMRS should be prepared to respond to it.

**Advisory Committee Members' View**

Each person was asked to give his view on the current political environment and what their message would be to the TMRS Board with regard to the six proposals. Below is a brief summary of their views:

Mike Perez – We have to go in and state what our position is and why we have been successful. We need to be able to explain to people why they shouldn't tinker with us and explain what has made us successful for many years. The statement of philosophy needs to reflect that.

Michael Dane – The question is whether we have an active approach to defense or a passive approach and not if we are going to play defense. Playing defense is a given. An active approach is the way to go, with a clear voice about why we have been successful. We have been active legislatively and that has led to our success. He is in favor of proposals that allow local control.

Robert Hammond – Agrees with what has been said about the political environment and concurs that it will be a tough year legislatively. He understands that playing defense in this legislative session is necessary and agrees with local control options.

Randle Meadows – Talking points need to be developed along with a set program to push our message out professionally. We need to have facts to back it up. Whatever our pitch is, we all need to be on the same page. We have to educate the House Pension's Committee members when they are appointed. We need to be proactive about who we would like to see on the committee. We need to get out there and do the education and provide the information. There needs to be a strategy. This is never going away.

Don Byrne – We are a target in the current public and political environment. He came in with the idea of pushing one of the options for a COLA without a catch up which would be Proposal 1 or 3, but now believes we have to be proactive in educating legislators. We need to look at the future and try to provide some way for the city to get a COLA and increase what they have. He would say to the Board that we need to be proactive in our education of the new legislators.

Monty Wynn – There will be pension issues that will pop up that we will have to battle. As far as the System is concerned, we need to play defense.

David Crow – We should be able to articulate what's great about TMRS during this session. Let's go back to the Legislature and talk about the positive things done in the last two sessions and how we are going to continue to benefit because of those legislative changes. He liked the direction we are going in these discussions and we should move forward with defensive activism.

Bob Scott – He agrees with proactive defense and building a positive story.

Victor Hernandez – Proactive defense. We need to defend what we built and do it in a smart way where it is most effective. What we have is a model to follow. This is a selling point to our Legislature and it's a model that other states should follow and we need to give them reasons why.

Charles Windwehen – He agrees with proactive defense. Sometime in the future it would be good to add the retroactive COLA feature and proposals 5 or 6 and also proposals 1 or 3.

Dean Frigo – He agrees that with today's political environment we need to be on proactive defense. We still need to add a contingency plan in case a piece of legislation comes out. What are we prepared to change that could give our critics what they want? What will our reaction be when harmful legislation comes out?

Neil Resnik – We need to be defensive and he supports the strategy of the education piece. He came here to push Proposals 1 and 3 and he would like to get rid of the retroactive feature. His city is currently doing an annual ad hoc COLA and would like to get back into the repeating COLA without the catch up.

Scott Kerr –Agrees with the defensive strategy. The bar needs to be higher rather than lower to change that level of benefit.

Jerry Gonzalez – We can't sit on the fence and be neutral like we have done the last couple of times. When the legislators are new to the arena, the only thing they are trying to do is keep their heads above water. We need to talk to them with the same message so they don't get mixed messages. The fact sheet is important for everyone to have.

Mike Staff – The groups he represents are very defensive when it comes to COLAs. They don't want to lose the ability to retain COLAs. TMRS should communicate who we are and why we are the best. We need to keep promises made to our employee groups and educate all branches of government about why we are different and what separates us from the herd. We should educate our voter base. He likes local control with limited oversight.

Ron Cox – Any good effort can go south. The Board should have some discussion about taking a position at this point in order to be more proactive. He appreciates having guiding principles to create the talking points or bullet points. He is concerned about being cast as a role model because if we aren't careful the model can become the target. We have to say what we are proud and why we are better because of our guiding principles. We don't want to be a front runner or on the bleeding edge.

Kevin Lawrence – We should educate the elected officials and all stakeholders about why TMRS is successful.

Allen Bogard (via phone) – No comments provided

### **Further Questions that were Considered**

Is this a session where if you play defense will you lose the ability to control TMRS legislation filed by third parties? Should you be proactive with recommending legislation now or wait for another session? Do you think there will be changes on the horizon for TMRS?

Advisory Committee Members' responses were:

- The session will be a challenge under no uncertain terms.
- The whole landscape has shifted due to the recession. 2013 may just be the start of something that will continue to be harder.
- The legislative process today does not allow for good bills to be passed easily. It is very different from the way it used to be.
- Because it's hard to get good bills passed then it should be even harder to get bad bills passed, which should work in our favor.
- A fear is that if one of the statewide retirement systems in Texas is forced to change its benefit design, the change could spread to other statewide systems.

The release of the ERS and TRS studies is expected at the end of August. This will provide more information about what it will cost to change the design of these two DB plans. There are ways to get you where you need to go with COLAs with our current options. For example, a city could adopt a 30% repeating COLA and gradually increase their contributions (not benefits) over a self determined period of years until the 50% repeating COLA contribution level is attained, at which time, the 50% repeating COLA benefits would be adopted. During the "self phase-in" period, the actual contribution levels would exceed the minimum required 30% repeating COLA level.

The Committee Chair, Frank Simpson, noted that there is a disconnect of what is being said about wanting local control but being afraid of local councils. The thing that makes TMRS unique is that one size doesn't fit all and we always have had plenty of options. Lack of communication on this fact has been an issue.

### **Statement of Philosophy**

The Advisory Committee members were asked to express a philosophy that could be offered to the TMRS Board as it develops its legislative approach for this session. Below is their input.

- Some thought the Board should oppose any legislative changes this session.
- Others disagreed and said that to oppose any change would be in a direct conflict to what was said in the survey. We like some of the options but we feel the threat that exists is the greater priority.
- There is still the question that if taking action has built our strength in the past then why would we choose inaction?
- Others thought the philosophy to guide the Board should be that if legislation helps the System and allows local control then TMRS should support it. If it hurts the System or takes away from local control then TMRS should fight it.

- At this point, we can't come to a consensus or make a commitment that we will or will not support a certain bill without seeing it.
- If individual bills are filed, we will discuss those, but TMRS should not pursue legislation now because the potential downside far outweighs the potential upside.
- If TMRS is seen as stepping out in front to propose additional benefits for members in this environment, it would not be good.
- The Board should oppose any legislation that would change TMRS to a DC plan.
- The philosophy could be as simple as supporting flexibility that is given system-wide but oppose all bracketed bills.
- The straw poll showed that many Advisory Committee members like some of the proposals but think that threats during this legislative session are too great for anything to be pursued.

Conclusion: The Committee's overall feelings were that due to the uncertainties in the political and legislative climate, it is not an appropriate time to recommend benefit changes to the TMRS Board and thus no recommendation was made.

PARTICIPANTS	
<b><u>TMRS Board Members</u></b>	<b><u>Advisory Committee Members</u></b>
Frank Simpson	Allen Bogard (via Conference Call)
	Don Byrne
<b><u>TMRS Staff</u></b>	Ron Cox
David Gavia	David Crow
Eric Davis	Michael Dane
Leslee Hardy	Dean Frigo
Christine Sweeney	Jerry Gonzalez
Dan Wattles	Robert Hammond
	Victor Hernandez
<b><u>TMRS Consultants</u></b>	Scott Kerr
Nancy Williams, Hewitt EnnisKnupp	Kevin Lawrence
Joe Newton, Gabriel Roeder Smith & Company	Randle Meadows
	Mike Perez
	Neil Resnik
	Bob Scott
	Mike Staff
	Charles Windwehen
	Monty Wynn

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