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

May 9, 2013, 3:30 p.m.
May 10, 2013, 8:30 a.m.

On May 10, 2013, the Board of Trustees of the Texas Municipal Retirement System (TMRS) reconvened for a meeting at 8:30 a.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

**Board of Trustees**
Julie Oakley, Chair
Roel ("Roy") Rodriguez, Vice-Chair
April Nixon
Jim Parrish
Bill Philibert

Present also were:
David Gavia, Executive Director
Ian Allan, Director of Internal Audit
Rhonda Covarrubias, Director of Finance
Eric Davis, Deputy Executive Director
Bernie Eldridge, Director of Human Resources
Nancy Goerdel, Chief Investment Officer
Leslee Hardy, Staff Actuary
Christine Sweeney, General Counsel
Holly Macki, Director of Real Estate
Bonnie Mitra, Director of Fixed Income
Debbie Munoz, Director of Member Services
Kristin Qualls, Director of Equities
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Scott Willrich, Director of Information Resources
Robert Klausner, Klausner Kaufman Jensen & Levinson
Marcia Beard, R. V. Kuhns & Associates
Ron Lewis, Ron Lewis & Associates
Joe Newton, Gabriel Roeder Smith & Company
Mark Randall, Gabriel Roeder Smith & Company
Also in attendance:

David Crow, Arlington Fire Fighters
Debbie Farahmandi, Investment Operations Specialist
Chris Jones, Combined Law Enforcement Associations of Texas (CLEAT)
George Kauffman, City of Garland
Scott Kerr, Texas Association of Fire Fighters
Michelle Mellon-Werch, Associate General Counsel
Cindy Morse, Investment Support Analyst
Candace Nolte, Controller
Nick O’Keefe, Senior Staff Attorney
Kate Reed, Investment Risk Analyst
David Rodriguez, Regional Manager -- City Services
Bob Scott, GFOA/City of Carrollton
Mel Thomas, Editor

Ms. Oakley called the meeting to order at 8:36 a.m. and Roy Rodriguez gave the invocation.

At 8:38 a.m., the Board entered into Executive Session, pursuant to Texas Government Code §§551.071 and 551.074 to consult with Legal Counsel to receive legal advice, and to discuss personnel matters. No action was taken during the Executive Session and the meeting was opened to the public again at 8:47 a.m. All members of the Board who had been present when the Board went into Executive Session were again present.

1. Consider and Act on Memorial Resolution for TMRS Board of Trustee, H. Frank Simpson
   Mr. Gavia provided a memorial resolution for Frank Simpson, discussing the transition from colleague to friend to family and that the disbelief and shock has turned to sadness. Mr. Gavia stated that Frank was extremely bright and passionate about his ideas and truly wanted to leave TMRS a better place than when he found it. He spoke freely about his ideas, his hopes and his family. The Board then each gave their remembrances. Mr. Gavia then read the memorial resolution. Mr. Parrish moved that the Board adopt the Resolution in Memory of H. Frank Simpson. Ms. Nixon seconded the motion, which passed unanimously by the members of the Board present, 5-0.

2. Consider and Act on Adoption of Minutes from the March 21-22, 2013 Meeting of the Board of Trustees
   Mr. Rodriguez made a motion that the Board adopt the minutes from the March 21-22, 2013 Meeting of the Board of Trustees. Jim Parrish seconded the motion; which passed unanimously by the members of the Board present, 5-0.

3. Legislative Update and Overview of 83rd Legislative Session, Including Discussion on Legislation
   Mr. Lewis added his remembrance of Frank Simpson. He began his presentation with an overview beginning with the procedural deadline that passed in the House at midnight on May 9th. He stated that it seems that friction between the House and Senate on the budget
and other bills makes it almost certain there will be a special session. Mr. Wattles noted the procedural deadlines that remain before the end of the Session. Mr. Wattles reported that HB 626, relating to an optional definition of "employee" is still a viable bill for TMRS at this point. It has passed the Senate with two amendments. The first modified the exclusion of police officers and fire fighters to police departments and fire departments. The second amendment addresses a perceived "double dipping" issue.

Mr. Wattles indicated that the other two bills affecting TMRS’ plan design, HB 526 and HB 718, died in Committee.

Mr. Crow asked what steps TMRS will take to notify the Senate members of the Board’s resolution not supporting any changes to TMRS and regarding the impact of HB 626 to TMRS. Mr. Wattles commented that it is normal protocol to ensure that TMRS provides the appropriate Senators and their staff with information about the bill and to respond to any questions that are asked. Mr. Rodriguez stated that as the bill exists, it is contrary to the Board resolution and this should be conveyed along with basic bill information.

Mr. Wattles noted that of the other 18 bills affecting TMRS and other retirement systems only 4 remain viable. HB 13, the Comptroller’s transparency bill, has passed both the House and Senate. Mr. Wattles indicated that this bill would not significantly affect TMRS. Another bill is SB 366, the Roth bill, which codifies the ability of local jurisdictions to offer Roth deferred compensation plans. SB 200, the Pension Review Board (PRB) Sunset bill, has passed both chambers, and includes an amendment that added the Iran divestiture language that was part of HB 819 (Taylor). This bill is now in Conference Committee, and the amendment could get removed. The fourth bill is SB 220 which is the Firefighters Pension Commissioner sunset bill.

Mr. Wattles mentioned that the ERS and TRS Omnibus bills, which will move both systems toward actuarial soundness, are still viable.

At the Federal level, the PEPTA legislation has been reintroduced.

Chris Jones, CLEAT, spoke on their involvement on HB 626. CLEAT was opposed to HB 626, especially after reading Gabriel Roeder Smith, TMRS’ Consulting Actuary, Impact Statement. The sponsor came up with the language excluding police and fire on her own. CLEAT worked with the sponsor so as to have the least impact on police and fire.

4. Annual Economic Outlook Presentation (taken out of order)
Mr. Gavia introduced Dr. Gary Shilling and reviewed Dr. Shilling’s consulting role with TMRS and highlighted his credentials. Dr. Shilling began his presentation by noting that the U.S. will neither be in slow growth forever, nor returning to fast growth quickly and looks for 2% GDP growth for an extended period of time. Investors are currently accepting more risk in an effort to earn improved returns which is driving up prices of higher risk markets like stocks. Dr. Shilling commented that the fundamentals will either catch up with the markets (unlikely) or there will be some kind of shock that will drive investors back to being more risk averse (more likely). He cited a few examples of such a shock, including a North
Korea blow-up, acceleration of the Syria issue, oil price hikes, and the US Debt Limit issue in Washington DC.

He highlighted six fundamental realities that will impact the economic scene: (1) private sector deleveraging and government policy responses, (2) rising protectionism, (3) the disconnect between faith in central banks and sluggish economies, (4) zeal for yield spawned by low interest rates, (5) the end of export-driven growth in developing countries, and (6) vulnerable equities. Dr. Shilling went on to discuss each of these points in greater detail.

Based on this scenario, he believes that “post shock”, a “risk-off” investment strategy will be appropriate which includes the following attractive sectors: treasury bonds; high quality bonds; small luxuries; the dollar vs. the Yen, Euro, and commodity currencies; and Medical office buildings. Unattractive sectors include, but are not limited to, equities of both developed and developing markets; selected commodities; and high yield bonds. Dr. Shilling reiterated that focus will continue on slow growth as long as the deleveraging continues.

Mr. Rodriguez left the meeting at 11:45 a.m. and Mr. Parrish left the meeting at 12:00 p.m. After Jim Parrish left the meeting, a quorum was lost and the meeting ended.

5. **Presentation on National Public Pensions Trends** *(This agenda item was not taken up during the meeting)*

6. **Consider and Act on Results of 2012 Actuarial Valuation and Approval of 2014 Retirement Contribution Rates and Supplemental Death Benefit Contribution Rates** *(taken out of order)*

   Mr. Gavia introduced Mark Randall and Joe Newton from Gabriel, Roeder, Smith & Company (GRS) and stated that GRS’ presentation will cover the valuation results and proposed 2014 contribution rates for municipalities. He stated that the funded ratio for the System continues to improve.

   Mr. Newton began the presentation of the valuation results noting that the results are positive and long-term prospects continue to be good. He reported that this is the sixth year of utilizing the Projected Unit Credit (PUC) actuarial cost method. Mr. Randall briefly described the Normal Cost, Prior Service and Supplemental Death Benefit cost factors. Contribution rates have remained very stable. He also discussed that under PUC, the normal cost portion will continue to increase, even under favorable actuarial experience. Even though rates are stable, the Normal Cost portion of the rate is increasing. There was discussion regarding that in order for Normal Cost rates to remain stable, the Board may want to consider changing to the Entry Age Normal cost method.

   Mr. Newton stated that the Unfunded Actuarial Accrued Liability (UAAL) has decreased by approximately 10%, which is almost entirely driven by salary increases being lower than assumed. The funded ratio increased to 87.2%, the improving trend is noteworthy since it is outpacing expectations. Mr. Newton also reported that contribution rates, in general, remained stable.
Mr. Newton discussed historical investment returns. Since returns have outpaced the assumption, the direct impact is a reduction of the UAAL. He discussed and compared Market and Actuarial Values of Assets. He reported that, for TMRS’ entire existence, it has had positive cash flow. However, a negative outflow is usually expected for a mature pension trust even though it has not yet occurred for TMRS. Mr. Newton indicated that TMRS is nearing this crossover point, likely in 2013, which is a positive result because it means the System is accumulating sufficient assets for investment returns to pay a larger and larger portion of the benefits.

Mr. Newton reviewed the growth in the active and retired members and noted that the ratio of retirees to actives should level out. The funded ratio continues to improve, and may be the highest it has ever been. He next reviewed the Actuarial Value of Assets (smoothed) versus Actuarial Accrued Liability. Mr. Newton noted that utilizing actuarial smoothing is working and is doing what it was supposed to do: smooth out contribution rate volatility to ensure that contribution rates rise and fall gradually, thereby leveling out rate spikes. He reviewed the distribution of Funded Ratio Percentages, which indicate improvements across all cities. He projected out the funded ratio and stated that TMRS should reach 90% in 2017, if all assumptions are met.

Mr. Newton next reviewed historical dollar weighted contribution rates, including distribution of full retirement rates and projected aggregate contribution rates. He showed the distribution of changes in full retirement rates, which were clustered predominantly in the plus or minus 0.5% range.

Mr. Newton next reviewed the cities segregated by matching ratio both with and without repeating COLAs, showing aggregate reconciliations. He reviewed the Phase-In Minimums, and discussed the number of cities that were still paying the phase-in rate.

He next discussed the aggregate Benefit Accumulation Fund (BAF) Valuation, pointing out TMRS still has some amount of negative amortization, and had a positive change in benefits. Projected for the December 31, 2013 Valuation, the expectation is that the UAAL will remain level with improvement to continue in the funded ratio.

Mr. Newton next reviewed the demographic experience discussing salary increases, the change in actual CPI being less than expected, a continued accelerated aging process, and expected turnover almost reflecting actual experience.

Mr. Randall reviewed the Summary of Benefit changes, focusing on the 53 cities that made changes that impacted the total retirement rate since the last valuation. He also discussed USC and COLA changes.

In summary, the System-wide funded ratio continues to increase, most cities are paying the full rate, and the expectation is for an increasing funded ratio over the next few valuations with continued stability in the contribution rates.
Mr. Rodriguez pointed out that while reducing a COLA may have a beneficial impact on contribution rates, it does have a real and disparate impact on the retirement benefits received by retirees.

Mr. Parrish made a motion that the Board accept the valuation and certify contribution rates. Mr. Rodriguez seconded the motion; which passed unanimously by the members of the Board present, 5-0.

7. **Investment Performance Update (This agenda item was not taken up during the meeting)**

8. **Consider and Act on Resolution Honoring TMRS Board Trustee, Ben Gorzell (taken out of order)**
   Mr. Gavia presented this agenda item and provided a brief history of Mr. Gorzell’s tenure as a TMRS Board member. He was the first trustee from San Antonio in quite some time, and TMRS appreciates the expertise and insight he brought to the Board. Mr. Gavia read the resolution into the minutes.

   Mr. Rodriguez made a motion that the Board approve the resolution for Ben Gorzell. Ms. Nixon seconded the motion; which passed unanimously by the members of the Board present, 5-0.

9. **Consider and Act on Election of Officers (taken out of order)**
   Julie Oakley introduced this item and stated that she had recently taken a position with the City of Horseshoe Bay. Since Horseshoe Bay is not a TMRS city, she will be replaced on the Board and will immediately step down as Chair. Ms. Nixon made a motion that Roy Rodriguez be named as Chair and Jim Parrish as Vice-Chair effective June 1, 2013. Bill Philibert seconded the motion; which carried by the members of the Board present, 5-0.

10. **Call for Future Agenda items (This agenda item was not taken up during the meeting)**