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

On May 3, 2012, 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. The following members were present:

Advisory Committee Members

Frank Simpson, TMRS Trustee and Advisory Committee Chair
Julie Oakley, TMRS Trustee and Advisory Committee Vice Chair
Allen Bogard, City of Sugarland
Don Byrne, Texas Municipal Human Resources Association
David Crow, Arlington Professional Fire Fighters Association
Michael Dane, City of San Angelo
Dean Frigo, City of Amarillo
Flor Garcia, City of San Antonio
Jerry Gonzales, Service Employees International Union (SEIU), San Antonio
Scott Kerr, Texas State Association of Firefighters
Kevin Lawrence, Texas Municipal Police Association
Randle Meadows, President, Arlington Police Association
Mike Perez, Texas City Management Association (TCMA)
Wayne Riddle, City of Deer Park
Bob Scott, Government Finance Officers Association of Texas (GFOAT)
Charles Windwehen, TMRS Retiree

The following staff, consultants and guests were also present:

David Gavia, TMRS Executive Director
Rhonda Covarrubias, TMRS Director of Finance
Jeanna Cullins, Hewitt EnnisKnupp
Eric Davis, TMRS Deputy Executive Director
Brian Dickerson, City of Mesquite
Juan Garcia, Governor's Office
Leslee Hardy, TMRS Staff Actuary
Glenn Johnson, Garland Firefighters Association
Keith Hopkins, City of Mesquite
Chris Jones, Combined Law Enforcement Associations of Texas (CLEAT)
George Kauffman, City of Garland
Rick Menchaca, BOSC, Inc.
Michelle Mellon-Werch, TMRS Associate General Counsel
George Mones, City of Mesquite
Jim Moore, Mesquite Fire Department

Joe Newton, Gabriel, Roeder, Smith and Company (GRS)
Mark Randall, Gabriel, Roeder, Smith and Company (GRS)
Roel ("Roy") Rodriguez, TMRS Trustee
Christine Sweeney, TMRS General Counsel
Melanie Thomas, TMRS Editor
Stephanie Toman, Hewitt EnnisKnupp
Greg Vick, Texas City Managers Association (TCMA)
Dan Wattles, TMRS Director of Government Relations

Frank Simpson called the meeting to order at 9:00 a.m. He welcomed the committee members of Advisory Committee on Retirement Matters of the Board of Trustees for TMRS (the "Committee Members") and guests and asked them to introduce themselves. Jeanna Cullins, from Hewitt EnnisKnupp, reviewed the discussion from the March Advisory Committee Meeting and reviewed the agenda for this meeting. She asked the Committee Members to begin thinking about whether there is one type of cost of living adjustment ("COLA") that rises to the top of options they would like to consider above the others. Mr. Simpson explained that the draft minutes for the March 29, 2012 Advisory Committee Meeting provided to the Committee Members are for review at this time and will be placed on the agenda for approval at the next committee meeting.

Mark Randall, from Gabriel Roeder Smith and Company, began with a review of state legislative changes nationwide in 2010 and 2011. He noted that all of the changes were designed to reduce pension fund obligations.

Flat Rate COLAs

Mr. Randall moved on to discuss the first COLA alternative, a flat rate COLA, but first he reviewed TMRS's current COLA structure, reminding the committee that it is an option based on a percentage of the change in the consumer price index for all urban consumers ("CPI-U"), either 30%, 50% or 70%. He went into detail regarding the TMRS COLAs retroactive feature. Joe Newton, from Gabriel Roeder Smith and Company, gave an example of the cost of granting ad-hoc TMRS COLAs versus a flat 3% ad-hoc COLA without the retroactive feature for a city that had already stopped granting COLAs. Mr. Newton reviewed the pros and cons of a flat rate COLA option. Next, Leslee Hardy reviewed the COLA options that are available at Texas County and District Retirement System ("TCDRS"). There are two COLA options, one is CPI-U based and the other is a flat or fixed rate COLA. Ms. Hardy also mentioned that the number of employers granting COLAs at TCDRS has decreased over the past five years. Mr. Crow asked for a historical chart, over the last five years, as to what percentage COLA the 30%, 50% and 70% options provided on a year-to-year basis to retirees.

Windows for Employer Choices

Mr. Randall moved to the topic of allowing a window of opportunity for employers to grant a one-time or add a repeating COLA without the retroactive feature. He felt that this option would be complex to administer and more costly as a one-time option. Mr. Newton reviewed an example of the costs of this option to a city as compared to the current TMRS COLA, for a city that is not currently granting a COLA. Mr. Gavia mentioned that Senator Seliger had filed a bill that added a flat rate COLA option to TMRS. Mr. Frigo stated that Amarillo had asked Senator Seliger to sponsor the bill and the city would still be interested in this option on an ad-hoc basis. There was some discussion by the Committee Members regarding the flat rate option and the window of opportunity concept. Some Committee Members felt that a flat rate option would be a way for cities to turn off their current repeating COLAs, while others felt that the retroactive feature was an impediment to cities that could not afford to grant that large a benefit. Mr. Frigo asked how the new GASB standards would affect pension plans. Mr. Scott stated that he felt they will provide another avenue for people to attack pensions because the reporting requirements will make it look like cities are overextended. Mr. Bogard mentioned that none of the COLAs are guaranteed, even the repeating COLAs, so we should be careful with the language we use. Mr. Scott countered that while it is not guaranteed, if you do a repeating COLA, it is prefunded. Mr. Crow mentioned that in past discussions with Representative Truitt, she mentioned that their best arguments are for local control . He also said from his discussions with other legislators, that they have larger issues to handle in the upcoming session and TMRS and its stakeholders should probably not bring anything to the Legislature unless there is a consensus.

Ms. Cullins summarized her understanding that predictability is important, as is the repeating feature. She also heard that equality between treatment of employees and retirees is important.

After a quick break, Ms. Cullins asked that the general discussion be wrapped up so we can complete the presentation by GRS and she distributed a summary of the COLA options being reviewed. She explained that she hoped that there could be a consensus of the group by the June meeting. Roy Rodriguez joined the meeting at approximately 11:20 a.m.

The general discussion continued and touched on COLAs at other state-wide systems in Texas, the option of turning off the catch up on COLAs in some manner, and having different options for cities without Social Security. Mr. Frigo stated that he felt there might be some consensus for a CPI-U-based repeating COLA (of at least 30%), although cities could select annually whether to choose 30, 50 or 70%, one time option for non-COLA granting cities only for a set window of time. There was some discussion regarding the costs for this proposal and why the repeating feature is important. Ms Cullins felt this proposal may have sufficient interest for further discussion.

Additional Employee Contributions to Fund a COLA

Mr. Newton next discussed additional employee contributions to fund a COLA. He stated that this option would have challenges in a cash-balance type plan like TMRS. The reason for this is that there is a refund liability for the employee contributions. Additional employee contributions do not translate equally into decreased employer liability. This could be mitigated if the additional contribution is not matched, in which case a 1% employee contribution increase would decrease the employer rate by approximately 0.85%. Mr. Newton gave an example of the cost changes under this type of plan, discussed to avoid potential legal hurdles and the possible savings on employer rates. The committee discussed ways this option could be implemented.

COLAs Triggered by Funding Status

Mr. Randall next discussed COLAs triggered by funding status. This is usually a situation where a legislature takes the decision to grant a COLA out of the hands of the Trustees and sets the parameter before the COLA can be granted. He discussed how these have been implemented in Wyoming, Rhode Island, Arizona, Oklahoma and New Jersey. A very high hurdle is typically set; some of the plans require over 100% funding prior to allowing a COLA to be granted. The thinking behind this is that it divides the risk between the employers and retirees. It also can dampen the growth of liabilities when the funded status is low. The negatives for retirees are that COLAs are not guaranteed and they may be suspended for long periods. Mr. Perez noted that it appears that the states implementing this requirement are the ones with the worst funding issues and questioned what states in similar situations as TMRS are doing. Mr. Newton commented that most plans are not in the same position as TMRS.

After lunch, Ms. Cullins introduced the COLA summary and stated that she felt this would be a good opportunity to whittle down the options. Mr. Wattles and Mr. Randall reviewed the seven COLA feature options presented to the Committee over the past two meetings, which includes the current TMRS structure. Ms. Cullins commented that there didn't appear to be much interest in the investment earnings benchmark and reserve account options. Mr. Randall described the self-funded annuity option and the Committee spent some time reviewing some of the issues with this option. Ms. Cullins concluded that this option could be considered at a later date, but there did not seem to be a lot of interest. Mr. Randall reviewed the fixed rate COLA, and the proposal for a window combined with a flexible repeating COLA for cities without a COLA. Next Mr. Randall reviewed the additional employee contribution option. He stated that this is best for cities where they do not participate in Social Security, but it can be very complicated. After a quick review of COLAs limited by funding status, Mr. Randall noted that the Committee didn't appear to have much interest in this option. Ms. Cullins noted that there appears to be consensus on which options the Committee would like to explore further.

Plan Design Features

Ms. Cullins next introduced the other plan design feature options to be discussed.

Later Retirement Eligibility/COLA Eligiblity

Mr. Newton reviewed the concept of extending retirement eligibility requirement. He stated that this option generates a substantial savings to most plans; however, because of the nature of the cash balance plan, the savings to TMRS would not be as great. He reviewed two examples of cost savings generated by different extensions to retirement eligibility. Mr. Simpson asked if an age limit could be put on COLAs. Mr. Newton responded that several systems do put limits on COLAs, whether based on age or years of retirement. The Committee discussed creating a combination limitation (i.e., 5 years retired or age 62) to be eligible for a COLA. The Committee added this to the potential list of COLA options for future discussion.

Supplemental Plan Discussion

Mr. Randall discussed supplemental plans. The two examples cited were the City of Plano and City of Irving supplemental plans. Neither city participates in Social Security. These plans have both a retirement and a disability benefit component, the latter being the larger component. Mr. Randall reviewed the benefit eligibility, monthly benefit, payment forms for the normal retirement, early retirement, disability benefit and COLA. He also reviewed the pros and cons of these plans. Mr. Gavia raised a potential constitutional issue that might not allow other cities to develop supplemental plans.

The Alternate Plan

Mr. Randall finally discussed a defined contribution alternative to Social Security. Three Texas counties currently participate in this option. The employers and employees each contribute 6.2%, like with Social Security. The Committee discussed this option briefly.

Ms. Cullins closed with the issues that will be discussed at the next meeting in June:

1. 30% of CPI-U minimum flat rate repeating COLA with flexibility;
2. Window for opting in if no current COLAs;
3. Age and service limits to be eligible for a COLA;
4. Flat-rate ad-hoc COLA; and
5. Gain sharing.

Rick Menchaca arrived at approximately 2:00 p.m. The Committee discussed contribution rate concerns, the number of cities granting ad-hoc COLAs, the reasons cities have decreased or dropped COLAs. Mr. Perez asked TMRS to survey those cities that have turned off repeating COLAs and find out why they made these changes.

Mr. Gavia stated that the next meeting will be June 21, 2012, with a Board of Trustee Meeting on the following day. Mr. Simpson adjourned the meeting at 2:35 p.m.

David A. Gavia

David Gavia
Executive Director

Frank Simpson
Chair of the Advisory Committee and Board Trustee