

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

On May 15, 2014, 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 8:30 a.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas. The following members were present:

Advisory Committee Members

Julie Oakley, TMRS Trustee and Advisory Committee Chair
David Landis, TMRS Trustee
Joe Angelo, City of San Antonio
Allen Bogard, City of Sugarland
Ron Crabtree, Retiree
David Crow, Arlington Professional Fire Fighters Association
Michael Dane, City of San Angelo
Dean Frigo, Retiree
Jerry Gonzalez, Service Employees International Union
Victor Hernandez, City Councilmember, City of Lubbock
Scott Kerr, Texas State Association of Fire Fighters
Mitch Landry, Texas Municipal Police Association, Alternate
Bryan Langley, City of Denton
Tadd Phillips, Texas Municipal Human Resources Association
Bob Scott, Government Finance Officers Association of Texas
Gregg Shipley, Combined Law Enforcement Associations of Texas
Greg Vick, Alternate, Texas City Managers Association
Charles Windwehen, Retiree
Monty Wynn, Texas Municipal League

The following staff, consultants and guests were also present:

David Gavia, TMRS Executive Director
Eric Davis, TMRS Deputy Executive Director
T.J. Carlson, TMRS Chief Investment Officer
Christine Sweeney, TMRS General Counsel
Dan Wattles, TMRS Director Government Relations
Leslee Hardy, TMRS Director of Actuarial Services
Michelle Mellon-Werch, TMRS Associate General Counsel
Karen Jackson, TMRS Executive Assistant
David Rodriguez, TMRS Regional Manager – City Services
Debbie Munoz, TMRS Director of Member Services
Bill Wallace, TMRS Director of Communications
Ian Allen, TMRS Director of Internal Audit
Nancy Williams, Hewitt EnnisKnupp

Amy McDuffee, Hewitt EnnisKnupp
Mark Randall, Gabriel, Roeder, Smith and Company (GRS)
Roy Rodriguez, TMRS Trustee - Board Chair
Bill Philibert, TMRS Trustee
Jim Jeffers, TMRS Trustee
Chris Jones, Combined Law Enforcement Associations of Texas
George Kauffman, City of Garland
Keith Hopkins, Mesquite Fire Department
Lon Craft, Texas Municipal Police Association

Julie Oakley called the meeting to order at 8:34 a.m.

1. **Welcome and Introduction**

Ms. Oakley welcomed the Advisory Committee members to their second meeting of the interim. She welcomed Nancy Williams and Amy McDuffee with Hewitt EnnisKnupp and TMRS Board of Trustee members Jim Jeffers and Bill Philibert. Ms. Oakley thanked everyone and welcomed the newest Advisory Committee member, Ron Crabtree, and announced Neil Resnik would no longer be on the Committee. She mentioned the Board of Trustees' meeting would begin at 2:00 p.m. with the GRS' presentation of the Annual Valuation. Ms. McDuffee began the self-introductions of the members of the Advisory Committee.

2. **Review of the Agenda**

Ms. McDuffee reviewed the agenda and the plans for the meeting.

3. **Approval of Minutes for the Advisory Committee Meeting on April 4, 2014**

Ms. Oakley asked if there were any comments or revisions to the minutes. No comments were made. Mr. Kerr moved to adopt the minutes and Mr. Dane seconded. The minutes were approved unanimously.

4. **Review of April 4, 2014 Meeting**

Ms. McDuffee reviewed the four topics that are part of the Committee's charge. No additional topics were mentioned at the last meeting. She stated that Mr. Randall with GRS and Ms. Hardy, TMRS Director of Actuarial Services, discussed the National Landscape, COLA background information and mechanics, COLA options and some requests for additional information which Staff has provided to the Committee. Ms. McDuffee asked if the Committee members had any feedback from their respective stakeholder groups on the last meeting's topics.

Mr. Scott stated that his city is interested in moving from 50% COLA to 70% COLA, under current circumstances. However, it is likely to be cost prohibitive and he does not think the council will accept the costs. Mr. Gavia asked for clarification on what costs would they be willing to accept. Mr. Scott stated that his council is generally willing to pay some of the costs, but asks employees to pay some too. It would depend on the amount of possible savings.

Mr. Windwehen would like to see long-term thinking from cities not turning COLAs on and off. He stated that changing the "catch-up" would be of interest if it could be done safely. Mr. Landry stated that it is not wise for cities to be opting in and out of COLAs and that getting cities to opt into COLAs is their primary interest. Mr. Hernandez explained that elected officials want local control and options to take into account local circumstances. He is not against any of the recommendations, as long as it is good for the System, and gives options. Mr. Langley stated that the City of Denton is happy where it is, but flexibility regarding the catch-up would be nice to have. He can see supporting a non-retroactive COLA option. Mr. Crow pointed out that in a bargaining environment, to get something you have to give up something else. There are always options up for trade. His view is that employees gave up some benefits for a while during harder economic times. He feels that it is unfair for employers to try to renegotiate for cheaper COLA options. He challenged elected officials to go to labor and ask what they would bargain for this benefit and not go to the System and ask to change it.

Mr. Phillips explained that the City of Georgetown moved from 70% to 30% COLA and there is discussion amongst council to increase the COLA percentage. There would have to be some education and discussion on the financial burden. During the TMHRA board meeting last week, there was discussion on TMRS. The primary focus was on COLA options. TMHRA would like to maintain local control and flexibility. One option discussed was to limit how often a council could change a COLA to encourage long-term thinking. The membership threshold is not an issue TMHRA is interested in pursuing this session. Mr. Wynn stated that TML is in the beginning stages of gathering policy issues, but COLAs remain a relevant topic that he believes will be part of the discussion. Mr. Frigo said that a one-time, no catch-up option would be beneficial for cities that changed or never adopted a COLA and it would help many retirees.

Mr. Crabtree affirmed that the catch-up COLA feature has always been an issue for cities trying to grant COLAs. He would be in favor of the ability for a city to go back and do a different COLA, but not in favor of ad hoc. Retirees cannot rely on ad hoc COLAs and dependability is important for them. Mr. Dane would like to review options for his city to move back to 70% COLA level without a significant financial impact. He is not hearing a crisis in any one area and would like the Committee to carefully consider whether we put forward an issue and the legislative risks of stepping out with legislation. Mr. Gonzales has not had any discussions with the city on COLAs recently. They are always negotiating with the City, but right now his members are more concerned with the mortality tables. Mr. Kerr believes that stability is the biggest issue for firefighters. He is also concerned with local control because councils have short-term views and switch off COLAs too easily. Employees want to be able to retire based on expectations. If there is a tradeoff regarding the catch-up, he would like to address the stability of COLAs for employees and retirees. Mr. Vick is concerned about affecting benefits of individuals (retirees) that no longer have a voice in the decision process. There are already 20 ways for cities to control TMRS costs with options. The reason this is an issue is because cities want to grant COLAs but the costs seem high. Perhaps they need to focus on other ways cities can adjust benefits, such as on the contribution side, without affecting those who have already retired and rely on the benefits.

Mr. Shipley feels the current System is not broken and constraints are well known. He prefers to work within the current system and leave it as is. Mr. Bogard confirmed that his city has been

able to maintain benefits due to other tradeoffs. He is concerned about the current environment and he does not want to see changes in TMRS. The primary objective should be to maintain healthy pension system and he thinks it should be hard to turn off COLAs. People rely on specific benefits when they retire. He would be supportive of a one-time, no catch-up option for those without a COLA, but only if it could be done safely. Mr. Angelo is interested in the ad hoc approach and the catch-up provision is an impediment to adopting ad hoc COLAS.

5. **April Meeting Follow-up Items**

Mr. Wattles indicated that the Committee received a packet of materials based on requests from the last Committee meeting. "TMRS Plan Options – How Cities Can Control Costs" and "A Table from Facts for City Officials" were provided to the Committee. He reviewed the table of plan changes that can affect city contribution rates. Mr. Wattles went through the additional listings provided in the materials with a brief discussion on each exhibit. A question arose regarding Updated Service Credit (USC) and if it is retroactive. Ms. Oakley clarified that the USC and COLAs options are retroactive and they are the only retroactive options in TMRS. Discussion focused on the options available to cities, and the cost of various features. Mr. Wattles explained the table that shows main cost drivers of contribution rates.

Ms. Hardy provided the Committee with a historical background of COLAs and presented a table with sixteen cities that have contribution rates over 20%, explaining that all of these cities plans are 7%; 2:1, repeating COLA and USC. Committee members discussed the fact that there seems to be a political line at the 20% contribution rate. One table provided to the Committee showed that 310 cities have never granted a COLA, but only two of these cities have over 50 retirees. Another table showed historical changes to COLAs by participating cities.

TMRS provided the Committee with summaries of bills filed in the past few legislative sessions regarding COLAS. The cost to TMRS to make changes to the current COLA structure has been estimated to be in a range from \$85,000 to \$310,000. Ms. Hardy discussed the cost to a city of implementing a 70% COLA for a city that has never had a COLA separating the additional cost of the retroactive feature. One Committee Member stated that given the cost of retroactive portion and the risk of going to the legislature, he is not sure why the Committee is spending so much time on this issue.

Ms. Hardy and GRS addressed questions regarding cities that have turned off retroactive COLAs, but may be granting regular ad hoc COLAs. Costs are lower initially, but the city is not pre-funding the benefit and costs will increase above what repeating would have been. An ad hoc COLA only reflects the cost of one COLA for current retirees, not the cost of future COLAs for current retirees or active employees. Ms. Hardy explained that when a city grants an ad hoc COLA, it is not pre-funding the costs and current actives are paying for a past generation of employees, now retirees. Under GASB's new accounting standards, cities who consistently adopt ad hoc COLAs will have to report liabilities as if the COLAs are repeating. Ms. Hardy discussed the contribution rate impact of a repeating COLA with and without the catch-up provision. She highlighted the impact of pre-funding COLAs. The example Ms. Hardy presented to the Committee calculated the impact of a city's first time adoption of a repeating COLA. Mr. Randall explained that actual COLAs have been lower than expected because increases in CPI or inflation has been low for the past few years. He also discussed the impact of a tier benefit

regarding COLAs. The Committee discussed the effect of tiers on the current workforce and contribution rates.

6. **Overview of Topics for Discussion**

The Committee skipped the overview; discussion moved directly to Agenda Item No. 7.

7. **Discussion on:**

a. **Eligibility Threshold Modification**

Mr. Wattles began with outlining the definition of "Employee" in the TMRS Act. He explained common areas of confusion and reviewed legislative changes since TMRS' inception. Questions frequently arise when an employee works more than 1,000 hours, but the position does not normally require at least 1,000 hours. The definition of employee has not changed since its inception. Discussion centered on clarification on the types of positions (seasonal, temporary, etc.) that meet the definition of Employee.

TMRS performed an audit of certain city classifications of employees approximately 18 months ago and found that smaller cities were not as good at classification as larger cities with more resources. TMRS has increased its education efforts to assist these cities. Mr. Vick stated that most cities track 1,040 hours for part time. The employer makes the determination; cities should reconsider if over time their determination has not been realized on a regular basis.

Mr. Wattles discussed bills regarding the participation eligibility threshold that were filed since 2011, highlights from the bills filed and activity related to those bills. Mr. Wattles reviewed the pros and cons of a participation threshold change. He discussed issues relating to the original bills as proposed, that ultimately lead to a committee substitute. Mr. Wattles also reviewed the cost to TMRS if an alternative definition was adopted and other Texas retirement systems eligibility requirements.

Mr. Randall discussed the issue from an actuarial perspective. There is minimal impact actuarially at the System level, but it could be material on an individual city basis. There are operational and legal issues that have to be considered to minimize impact and remain qualified under the Internal Revenue Code. Mr. Gavia commented that some cities must cover employees in a replacement social security plan if the city is not in social security. Ms. Oakley discussed how the bill was a new concept from the Board's perspective. She felt that during the last legislative session the Board did not have a full analysis from staff, or input from the Committee on this issue. She would like to hear the Committee Members thoughts.

Mr. Langley believed that from a budgeting perspective, it seems small and unimportant. He wants to include as many people into TMRS and it is not necessary to change the threshold since the cost savings are immaterial. Mr. Crow concurred that his group saw this as creating more problems than benefits. Even after they pulled police and fire out of the bill, he still did not feel that it is beneficial to the System. Mr. Crow felt now that systemic issues have been

addressed in past legislative sessions, individual stakeholder interests will be put forth during session. Mr. Vick stated that during last legislative session, he was neutral because he wanted to hear from TMRS staff on how it could affect the system. Mr. Frigo asked how it would affect return to work. Mr. Gavia stated that it would mean that retirees (with a bona fide separation of service) who worked less than 1,500 hours annually would not have their annuity suspended. Mr. Angelo would like to ensure integrity of TMRS system and he does not want to compromise long-term goal of security of benefits. Mr. Landis is concerned with placing TMRS into legislative process while the national trend is so negative.

Mr. Kerr believes that education is important. He felt that during the last legislative session, issues moved quickly and some cities may have signed on to HB626 without knowing the full effects. Mr. Phillips stated that most cities feel like TMRS works well and there is no consensus on changes. He reiterated that this topic is not a priority of TMHRA at this time. Mr. Langley felt like TMRS needs to be careful what it brings forward. There would need to be a critical bill with a large consensus to risk putting legislation out into the process.

b. Two-Tiered Plans

Mr. Wattles introduced the “tiered benefits” study from 2010 by TMRS staff for the Committee. He described the concept of tiers as one level of benefits for one group of employees and a different level of benefits for another group of employees by department or hire dates. The current TMRS Act does not permit different tiers of benefits. The current benefit structure allows significant changes to control costs that other plans that have tiers do not have. Mr. Wattles explained that when TMRS did allow for different benefits for departments within a city, only nine cities utilized it and it caused administrative headaches for TMRS. He then reviewed the pros and cons of a tiered plan.

Mr. Randall discussed his concerns with tiered plans and issues GRS has seen at other systems. Many systems have turned to tiers if they feel they cannot earn their way out of funding issues, but they do not see savings for a long time. He has seen it cause issues with current employees and higher turnover. Mr. Crow mentioned that tiers pit employees against each other as eventually the new hires will be the majority and they will force changes that will affect the past higher-level employees who are no longer the majority.

Mr. Randall reviewed tiers from a national perspective and states that have adopted plan changes. There are litigation risks if changes are made to benefits for vested employees. Mr. Randall reviewed the new tiers of benefits adopted by both TRS and ERS of Texas. They included higher retirement rates for TRS and higher retirement age (62) for non-vested. Mr. Randall explained that tiers are usually created due to concerns over the cost of benefits, however many times tiers result in the same or even increasing costs to the members even though benefits are reduced.

Mr. Crow mentioned that the only savings are for the city. Employees still contribute the same amount, but their contributions get them less benefits. Mr. Hernandez stated that there is more political pressure on elected officials to take a hard look at benefits and decrease what are perceived as generous benefits. Mr. Gavia pointed out that strictly from a cost perspective, tiers are not needed at TMRS. However, he has also heard that the “more tools

you have in the box, the better.” It may be a means to maintain benefits promised to current employers while controlling/reducing cost over time.

Ms. Oakley expressed her opinion that there may be a need to educate elected officials on the benefits and cost savings of TMRS for employee retirement benefits that they could use when responding to constituent concerns. The Committee discussed the information available to cities from TMRS and how a city ends participation for new employees in TMRS.

Ms. McDuffee asked if anyone on the Committee wanted additional information on any of these topics. None was requested.

8. **Discussion of the Agenda for the June 2014 Advisory Committee Meeting**

Ms. Oakley asked if there were any other issues for discussion. The purpose of the next meeting was to follow up on any issues that the Committee wanted for follow up. The Committee discussed taking the information presented, discussing it with their respective stakeholder groups and returning for a final decision of the Committee in June. Hewitt, EnnisKnupp will prepare a summary of what has been presented to the Committee. Members may also contact TMRS with questions or if they want additional information. Ms. Williams suggested that TMRS could do a survey of Committee members.

The Committee discussed asking the Board of Trustees to be against any bill that is filed that has not been vetted by the Committee. Ms. Oakley reviewed the resolution passed by the Board last year. Mr. Dane asked for a copy for the resolution.

Mr. Dane moved to adjourn the meeting and Mr. Kerr seconded, with unanimous approval. The meeting adjourned at 12:21 p.m. June 19, 2014 is the next Advisory Committee Meeting.



David Gavia
Executive Director



Julie Oakley
Chair