

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

On August 16, 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
Don Byrne, Texas Municipal Human Resources Association
Ron Cox, TMRS Retiree
David Crow, Arlington Professional Fire Fighters Association
Michael Dane, City of San Angelo
Dean Frigo, City of Amarillo
Jerry Gonzales, Service Employees International Union (SEIU), San Antonio
Robert Hammond, City of San Antonio
Victor Hernandez, City of Lubbock
Scott Kerr, Texas State Association of Firefighters
Kevin Lawrence, Texas Municipal Police Association (TMPA)
Randle Meadows, President, Arlington Police Association
Mike Perez, Texas City Management Association (TCMA)
Neil Resnik, City of Addison
Bob Scott, Government Finance Officers Association of Texas (GFOAT)
Mike Staff, Combined Law Enforcement Association of Texas (CLEAT)
Charles Windwehen, TMRS Retiree
Monty Wynn, Texas Municipal League

Joining the meeting via telephone conference call at approximately 9:50 a.m. was Allen Bogard, City of Sugarland.

The following staff, consultants and guests were also present:

David Gavia, TMRS Executive Director
Eric Davis, TMRS Deputy Executive Director
Brian Dickerson, City of Mesquite
Juan Garcia, Governor's Office
Leslee Hardy, TMRS Director Decision Support Actuary
Victor Hernandez, City of Lubbock
Mike Higgins, Texas State Association of Fire Fighters (TSAFF)
Keith Hopkins, City of Mesquite
Glenn Johnson, Garland Firefighters Association
Chris Jones, CLEAT

George Kauffman, City of Garland
Michelle Mellon-Werch, TMRS Associate General Counsel
Nick O'Keefe, TMRS Senior Staff Attorney
George Mones, City of Mesquite
Debbie Munoz, TMRS Director of Member Services
Joe Newton, Gabriel, Roeder, Smith and Company
David Rodriguez, TMRS Regional Manager – City Services
Christine Sweeney, TMRS General Counsel
Nancy Williams, Hewitt EnnisKnupp
Stephanie Toman, Hewitt EnnisKnupp
Bill Wallace, TMRS Director of Communications
Dan Wattles, TMRS Director of Government Relations
Scott Willrich, TMRS Director of Information Resources

Frank Simpson called the meeting to order at 9:03 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.

Approval of Minutes for the Advisory Committee Meetings on June 21, 2012.

Mr. Simpson asked if there were any comments or revisions to the minutes. No comments were provided. Mr. Frigo moved to adopt the minutes and Mr. Kerr seconded. The minutes were approved unanimously.

Legislative Update

Mr. Wattles gave an overview of the current make-up of the Texas House and Senate in light of recent elections. He detailed the structure of the Legislature and discussed the powers of the leaders of each House and its Committee structure as well as the make-up of each body. The House looks to be more conservative, with a shake-up in Committee chairs. The Senate will see five new Senators, which is unprecedented, and there could even be one additional new Senator. The big question is who will become chair of the Senate Finance Committee. This will likely affect the Senate State Affairs Committee where pension legislation is heard.

Overview of Straw Poll and Procedures for Discussing/Approving Benefit Proposals

Ms. Williams gave her introductory remarks and thanked the Committee for their responses to the straw poll. There was 100% participation and the purpose was not to force consensus, but rather to help bring sharper focus to the issues previously discussed and get input from everyone. She reviewed the process for going through the six proposals and explained that a report would be presented to the Board tomorrow at the Board Meeting. Committee Members would get the opportunity to review any legislative proposals.

Ms. Williams opened the discussion up for general comments regarding the general process. Mr. Crow commented that he had concerns regarding the upcoming legislative session and the current political environment. Given the complexity of the issues, the lack of consensus and the

lack of time to discuss these issues any further, he felt we should not move forward on any of the proposals. Mr. Wynn agreed with Mr. Crow, given the amount of anti-pension rhetoric; he believes it makes more sense to take a defensive posture. Mr. Wynn believed there would be other proposals, but the System should not involve itself with them at this point. Mr. Windwehen agreed with Mr. Crow and Mr. Wynn. He stated that the risks are too great and the timing is wrong. Mr. Wynn stated that he feels the message could get lost, since the System has taken steps to reduce costs to cities and is in good shape. Mr. Crow added that the six proposals do not provide cost savings; they require spending by the cities. Mr. Gavia clarified that proposals 1 – 4 could add cost, but that proposals 5 and 6 would be categorized as cost containment proposals. Mr. Simpson and Mr. Crow reviewed a previous discussion on these items and their origin regarding keeping versus cutting benefits. Mr. Perez, Mr. Lawrence and various other Committee Members voiced concerns regarding the ability to get legislation passed in the current environment and the need to be more defensive. Any bill could be hijacked and used to harm the System. Mr. Meadows was concerned about not knowing who will be on the oversight Committees and educating them about TMRS. Mr. Scott stated his agreement with the group regarding the current political environment. He feels it would send a mixed message to say we are different and have contained cost, but that we also want to increase benefits. Mr. Cox agreed with Mr. Meadows, but thought that having a legislative philosophy is as important as, if not more important than, specific legislation. Since cities will bring their own bills, his thought is that TMRS should have a position ready on issues rather than “no position.” Mr. Resnik stated that from his city’s perspective, he would like more predictability in the Cost of Living Adjustment (COLA), but agrees using caution is best for this session. Mr. Hernandez agreed with the cautious approach to this legislative session, but felt that the Committee and Board should take a more proactive approach, not just a no bills approach, but rather a “no changes” policy. Mr. Cox asked if Mr. Hernandez was suggesting that the Board should oppose any changes to the System. Mr. Hernandez said yes. Several other Committee Members expressed agreement with this philosophy.

Ms. Williams asked if the position is to defend the status quo, how should TMRS respond if there is a “cost savings” bill introduced. Mr. Scott stated that most likely, a cost savings bill would affect everyone, not just those who may need it. He also feels that we need to be proactive, and tell the good story of TMRS. Mr. Dane stated that for TMRS the status quo is a high standard and we need to advocate for those higher standards. Mr. Perez added that we should outline the standards that make TMRS the model.

Mr. Wattles wanted to mention a few positive items. Employees Retirement System and Teacher Retirement System have interim studies for the Legislature and most of the proposed changes are very costly. The Pension Review Board is going through Sunset Review and initial comments have been good. Mr. Newton commented that any “cost savings” bill would require cutting benefits. Actuarially, TMRS is in a much better position than all other systems, not by costs, but in stability of costs if cities can afford current levels of benefits. Mr. Gavia mentioned that TMRS already has flexibility available to cities to change benefits and to control costs by changing/cutting benefits. Several Committee Members discussed the costs of restoring benefits that have been reduced.

Mr. Staff asked if there was a way to allow cities that have dropped some benefits to phase them back in to control costs without making legislative changes. Mr. Newton stated that it is a possibility to do it actuarially and he explained a process of increasing COLAs. Mr. Gavia mentioned that the proposals did not have a phase-in feature and the bulk of the costs are in the repeating feature. Mr. Davis commented that phase-in rates were a result of actuarial changes that were not in cities' control. If cities want the ability to phase-in rates when increasing a plan benefit, it could garner negative attention. In light of GASB changes, a phase-in would be delaying payment of current benefits. Ms. Hardy stated that she can help cities develop their own phase-in approach by adopting ad hoc benefits and funding at progressively higher levels to advance fund the repeating benefits.

Political Environment and the Direction TMRS Should Take

Ms. Williams then asked each member to share their view of the political environment and anything they would like to share with the Board.

Mr. Perez – Need to take defensive position and explain why TMRS is successful. We have principles that guide the System that make it successful.

Mr. Dane – Believes in an active defense. He agrees with Mr. Perez and is in favor of proposals that enhance local control.

Mr. Hammond – Concerned with the political environment. San Antonio wants flexibility and local control since each city is different. He is in favor of options that provide flexibility.

Mr. Meadows – He is against any proposals. Thinks that we need a set message with facts that back up the success of the System. We need a strategy that supports our position and be proactive in our defense. He would like the Board of Trustees to think ahead to the future in 2015, 2017, etc.

Mr. Byrne – Supports a COLA without a catch-up because it is a recruitment and retention issue for them. Proposal 1 and 3 was the desire from TMHRA board. Mr. Byrne agrees that we need to be proactive: educate legislators and staff, and create a message about the strength of TMRS.

Mr. Wynn - Agrees with defensive position. There will be pension issues that come up and that individual groups will have to take positions.

Mr. Crow – Play defense. He still would like more tools to articulate the positive points of TMRS and the changes from the last two sessions to allow them to take firmer hold.

Mr. Scott – Proactive defense and tell the positive story.

Mr. Hernandez – Defend what we have built. TMRS is the model to follow and TMRS will remain strong in the future; tell that story for why it should stay status quo.

Mr. Windwehen – Agrees with proactive defense. He would like to remove the retroactive feature of COLA and supports Proposals 5 and 6. He thinks the Board of Trustees has done a great job.

Mr. Frigo – Also agrees with proactive defense. He would like to have a contingency plan as an alternative to any other proposals that may be filed. He supports greater flexibility at local level. Mr. Frigo responded to questions from Ms. Williams to explain what he means by contingency plan. Mr. Frigo explained that a contingency plan would be what are we prepared to change to answer critics.

Mr. Resnick – Also agrees with proactive defense and came today to advocate for Proposals 1 and 3. He wants TMRS to address the cities' COLA issues.

Mr. Kerr – COLAs are a big deal for firefighters. Wants a higher bar for cities to be able to change benefits. He does not like the fact that one council can turn off a COLA that has been in place for many years.

Mr. Gonzalez – New legislators are trying to keep their head above water with their time divided between too many new issues such as health care, water, transportation, etc. Pensions will be low on the list and we do not need to stay neutral. We all have to have the same message because local legislators may call on the Advisory Committee members individually. A TMRS fact sheet would be helpful.

Mr. Staff – Agrees with the defensive approach. CLEAT is very protective of COLAs. TMRS should be the benchmark. We need to indicate what makes our plan better than all the other plans and why we are different from the other systems and their problems. We need to keep our promises made to employee groups. He is in favor of limited local control with oversight and he is not in favor of any other proposals.

Mr. Cox – Appreciates the dialogue, thinks this has been a very useful discussion and agrees with a positive defensive approach. He feels that TMRS does need to take positions and be more proactive. Mr. Cox agrees that we need to clarify TMRS' guiding principles and protect them. He was concerned about being cast in the role of "the model" because the model can become the target.

Mr. Lawrence – Agrees with Mr. Cox. We need to educate not just the legislature but the stakeholders. We need to highlight the strengths and principles of TMRS.

Mr. Gavia – Fundamental question between playing defense and being proactive: If we do not lead the discussion, are we ceding control of the discussion? It sounds like everyone agrees that it is best to be proactively defensive. Do you think there will be fundamental changes to TMRS and do we want to eventually lead the changes?

Mr. Wattles appreciated everyone's input, work and perspective. The session will be a challenge and the landscape has shifted. It was difficult to get bills passed last session with full consensus.

Mr. Newton stated that Mr. Wattle's point is valid. He is concerned with bills that make statewide system changes. He thinks we should highlight the differences in funding policies between TMRS and other plans.

Ms. Hardy is willing to work with cities to look at current TMRS plan options to try to reach their goals.

Mr. Simpson stated there is a disconnect between saying local control and then being afraid of local councils. The "model plan" discussion can be dangerous because the comparison will be to the private sector, not other public plans.

Proposed Statement of Philosophy

Ms. Williams asked if there was any value to trying to work on a philosophy. From themes presented in past meetings, a proposed Statement of Philosophy was drafted and presented.

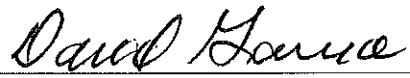
General discussion centered on difference between allowing additional options for municipalities and what would harm the System. Mr. Cox stated that fundamental change would be changing the funding system or requiring everyone to have the same plan and removing local control. Mr. Perez stated that if it strengthens local control, TMRS should support it and if it harms the System or limits local control, fight it. Mr. Hernandez stated that TMRS may need to determine some parameters for when to support or oppose a bill. He also recommended promoting what we have.

The group discussed if the Advisory Committee needs to send a resolution to the Board of Trustees stating a position. Mr. Lawrence stated that he believes there is a consensus that proposing changes poses more risk for negative outcomes than any potential benefit. Mr. Randall suggested language for a potential motion including some of Mr. Lawrence's statement.

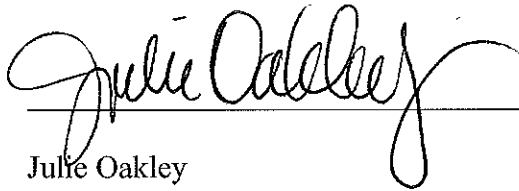
"The Advisory Committee recommends no changes to the System based on the current environment. While we as a group can recognize there is value in some of the proposed changes, we recognize that now is not the time to move forward. The Advisory Committee respects the autonomy of each individual member, but the Committee as a whole recommends no change."

Mr. Cox would like to add to the resolution that the Board take a proactive approach to educate legislators and stakeholders inform about TMRS, its principles and facts. Ms. Williams heard the consensus for passing a resolution to the Board of Trustees. Mr. Simpson stated that the message was clear to the Board that now is not the time to seek legislative changes.

The meeting adjourned at 12:20 p.m.



David Gavia
Executive Director



Julie Oakley
Chair