

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

June 16, 2011

On June 16, 2011, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 3:00 p.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

April Nixon, Chair
Frank Simpson, Vice Chair
Julie Oakley
Jim Parrish
Roel ("Roy") Rodriguez

Absent: Ben Gorzell

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
Cindy Morse, Executive Assistant
Michelle Mellon-Werch, Associate General Counsel
Debbie Munoz, Director of Member Services
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Scott Willrich, Director of Information Resources
Mark Randall, Gabriel Roeder Smith & Company
Joe Newton, Gabriel Roeder Smith & Company
Robert Klausner, Klausner & Kaufman, P. A.

Present also were: Collin Davidson, Regional Representative – City Services
Debbie Farahmandi, Investment Operations Specialist
George Kauffman, City of Garland
Pete Krnavek, Manager of Information Systems
Jim Moore, City of Mesquite Fire Fighters
Candace Nolte, Controller
David Rodriguez, Regional Representative – City Services
Kristin Qualls, Assistant Investment Officer for Equities
Bob Scott, Government Finance Officers Association of Texas (GFOAT)

The meeting was called to order at 3:13 p.m. and April Nixon gave the invocation.

1. Consider and Act on Results of 2010 Actuarial Valuation and Approval of 2012 Retirement Contribution Rates and Supplemental Death Benefit Contribution Rates

Ms. Nixon asked Mr. Gavia to introduce the valuation report. Mr. Gavia stated that this valuation is the culmination of four years of work, beginning with the System's change in the actuarial funding method, which caused many cities' contribution rates to increase and funded ratios to decrease. The process continued with the adoption of HB 360 and ultimately SB 350, and will result in a system-wide funded ratio at the same level as when this journey began. Mr. Randall added that this valuation is also prepared on the new actuarial assumptions that were recently adopted by the Board.

Mr. Newton began his presentation on the valuation by reviewing the System-wide results, pointing out the positive impact of restructuring and the new assumptions. He next pointed out the improvement in funded ratio and Unfunded Actuarial Accrued Liability (UAAL) as a percent of payroll. He stated that while the 82.9% overall funded ratio is slightly higher than before all of these changes, it also is at a stronger, more positive position. He showed a projection of the funded ratio going forward which indicated future improvements and stated that this projection is opposite from our peers. Mr. Newton presented a history of the dollar-weighted contribution rates, which although coming down some this year, should be consistent going forward. He presented the Actuarial Value of Assets (AVA) versus actuarial liability and indicated that we should see these two begin to merge. He continued by showing historical trends in active members and retired members, indicating that this is the first time there has been a decrease in active member population. If this decrease continues, it can cause contribution rate increases due to the lowered payroll base, and as the number of retirees increase, volatility increases. Mr. Newton then showed estimated yields based on Market Value of Assets (MVA), showing a 7.58% actual return over the last 10 years. He also discussed the historical graph of MVA and AVA.

Next, Mr. Newton reviewed historical trends in contributions versus Benefit and Refunds, followed by projected Contributions versus Benefits and Refunds. He also discussed the impact of negative cash flow from the trust in future years.

Mr. Newton then worked through a reconciliation of the UAAL. He also projected what the 12/31/2011 valuation should look like. He then discussed the demographic experience. He noted the continuation of low turnover, which caused some cities to see smaller savings than they may have expected. This also means the group as a whole is aging, which adds to cost. He reviewed lower trends in turnover and termination and discussed the change in retirement trends. He also pointed out that salary increases have been flat, resulting in an actuarial gain due to benefits not increasing as expected.

Mr. Newton then reviewed a summary of benefit changes and discussed the distribution of funded ratio changes and the distribution of Minimum Contribution rates.

Mr. Newton then discussed reconciliations by plan groupings and reviewed the impact on phase-in minimums. He also reviewed several graphs showing distributions of rate changes due to various factors.

Mr. Randall concluded the presentation by reiterating that the system-wide funded ratio increased substantially due to: SB 350; new assumptions; overall asset gain; and overall liability gain. He pointed out that most cities will be paying their full rate, and phase-in amounts will be smaller. The expectation is for increasing funded ratios over the next few valuations and continued stability in the contribution rates.

Mr. Gavia asked Mr. Randall to discuss implementation of these rates, indicating that discussion in the past has been on implementing these rates, at each city's option, in October 2011. Mr. Randall stated that there are two sides to this issue -- actuarial and financial. If a city does elect to implement early, they would have a Net Pension Obligation (NPO), or an increased NPO if paying the phase-in currently. Mr. Scott explained how an auditor would see a city contributing these rates three months earlier, and discussed a city's Actuarially Required Contributions (ARC).

Ms. Oakley moved that the Board accept the results of the December 31, 2010 actuarial valuation prepared by its consulting actuary, certify retirement and Supplemental Death Benefit contribution rates for municipalities for 2012, and permit cities whose 2012 Full Retirement Rate is less than their 2011 Full or Phase-in Retirement Rate to use the 2012 Full Retirement Rate beginning with the October 2011 monthly reporting period, contingent upon final enactment of SB 350. Mr. Simpson seconded the motion, which passed unanimously.

2. Executive Session

At 4:24 p.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 5:23 p.m. All members of the Board who had been present when the Board went into Executive Session were again present.

3. Other Business

As there was no other business, the Board adjourned at 5:24 p.m.



David Gavia
Executive Director



April Nixon
Chair, Board of Trustees