

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

**June 19, 2013 – 2:00 p.m.**

**June 20, 2013 – 8:30 a.m.**

On June 20, 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**

Roel "Roy" Rodriguez, Chair

Jim Parrish, Vice Chair

April Nixon

Bill Philibert

Absent: Julie Oakley

**Present also were:**

David Gavia, Executive Director

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

Bonnie Mitra, Director of Fixed Income

Debbie Munoz, Director of Member Services

Kristin Qualls, Director of Equities

Dimitry Shishkoff, Director of Risk Management

Bill Wallace, Director of Communications

Dan Wattles, Director of Governmental Relations

Scott Willrich, Director of Information Resources

Robert Klausner, Klausner Kaufman Jensen & Levinson

Ron Lewis, Ron Lewis & Associates

Joe Newton, Gabriel Roeder Smith & Company

Mark Randall, Gabriel Roeder Smith & Company

Susan Warren, KPMG

Rebecca Goldstein, KPMG

**Also in attendance:**

Sherry Chapman, Investment Accountant

David Crow, Arlington Fire Fighters

Debbie Farahmandi, Investment Operations Specialist

Meredyth Fowler, Office of the Speaker of the House  
Howell Hollis, Fixed Income Analyst  
Keith Hopkins, Mesquite Fire Fighters Association  
George Kauffman, City of Garland  
Pete Krnavek, Information Systems Manager  
Michelle Mellon-Werch, Associate General Counsel  
Anthony Mills, Regional Manager – City Services  
Lorraine Moreno, Regional Manager – City Services  
Cindy Morse, Investment Support Analyst  
Candace Nolte, Controller  
Nick O’Keefe, Senior Staff Attorney  
Greg Shipley, Combined Law Enforcement Association of Texas (CLEAT)  
Mel Thomas, Editor  
Barbara Whitehorn, City of Arlington

Mr. Rodriguez called the meeting to order at 8:33 a.m. and gave the invocation.

**7. Consider and Act on 2012 External Audit Results (SAS 114) and Auditor Report to the Board of Trustees (taken out of order)**

Mr. Gavia introduced Susan Warren (audit partner) and Rebecca Goldstein (audit manager) of KPMG to present the results of the audit. Ms. Warren presented Management’s responsibilities in the audit process, the Board of Trustees responsibilities and the auditor’s responsibilities. She stated that KPMG noted no material weaknesses or significant deficiencies and that there were no significant corrected or uncorrected adjustments identified. Additionally, it was noted that there were no significant changes to TMRS accounting policies during 2012. For 2012, TMRS implemented GASB Statement No. 63 which was a minor change in the financial statements terminology from plan “net assets” to “net position”. KPMG evaluated management’s estimates in the financial statements that include actuarial information and found it to be reasonable. There were no other matters noted and KPMG confirmed their independence with respect to this engagement. Mr. Parrish moved that the Board accept the Audit Report as presented. Ms. Nixon seconded the motion, which passed unanimously by all Board members who were present, 4-0.

**8. Consider and Act on 2012 Comprehensive Annual Financial Report (CAFR) (taken out of order)**

Ms. Covarrubias presented the Comprehensive Annual Financial Report for the year ended December 31, 2012, noting that this is TMRS’ 65<sup>th</sup> anniversary and that the CAFR is dedicated to Frank Simpson. She stated that the CAFR is broken into five sections. In the “Introductory section”, she highlighted system activities during 2012 as noted in the Transmittal Letter and also indicated that the letter contains brief overviews of investments and actuarial information. The “Financial Section” includes the Independent Auditor’s Report and Management’s Discussion and Analysis (MD&A). Ms. Covarrubias pointed out several financial highlights and noted the title change from plan “net assets” to “net position”, due to GASB Statement No. 63. She next noted the summary of significant accounting policies, discussing GASB pronouncements 67 and 68. Ms. Covarrubias also mentioned the plan description for the Pension Trust, Supplemental Death Benefits Fund

(SDB) and TMRS as an employer. In the notes, she highlighted the subsequent event of TMRS' change in securities lending from a custody agent model to a third-party lending agent. She discussed the Schedule of Funding Progress which will be changed with the implementation of GASB 67 and highlighted the "roll forward" of activity in the Benefit Accumulation Fund (BAF).

In the Investment Section, Ms. Covarrubias discussed the Report on Investment activity from RV Kuhns and highlighted other information included in this section. In the Actuarial Section, she noted the distinct sections for both the Pension Trust and SDB, including the assumptions used for each. The individual actuarial valuations for each municipality are included in the actuarial section. In the Statistical Section, she noted the economic condition reporting required by GASB Statement No. 44. She noted "Changes in Plan Net Position", both additions and deductions, as well as schedules of "Average Benefit Payments", "Retired Members by Type of Benefit" and other information.

Ms. Covarrubias discussed distribution of the CAFR as well as the Popular Annual Financial Report (PAFR). Both of these reports will be presented to GFOA for certificate programs. Ms. Nixon moved that the Board approve the CAFR and its distribution. Mr. Parrish seconded the motion, which passed unanimously by all Board members who were present, 4-0.

**9. Consider and Act on Consent Agenda (taken out of order)**

Mr. Gavia presented the items contained in the consent agenda which included the minutes from the May 9-10, 2013 Joint Meeting of the Board and the Advisory Committee on Retirement Matters, along with quarterly reports on service retirement, disability retirements, death benefits and financial statements. There was no discussion on this item and no revisions to the minutes. Mr. Philibert moved that the Board adopt the Consent Agenda as presented. Mr. Parrish seconded the motion, which passed unanimously by all Board members who were present, 4-0.

**10. Retiree Mortality Study**

Mr. Gavia introduced GRS to make this presentation, stating that this is an item on the Board's Strategic Plan. Mr. Randall began by reviewing the presentation agenda. Mr. Newton began by discussing the two different assumptions: one for valuation purposes and one for annuity purchase rates. These two do not have to be the same, but in most plans they are. If they are not equal, there needs to be transparency as to why they are different. Mr. Newton reviewed the history of these assumptions. He reviewed a historical perspective of life expectancy for the general U.S. population from age 65. He defined "static" and "projected" life expectancies. These definitions are based on how long people that are dying today have lived. He reviewed Actuarial Standard of Practice number 35 and the fact that it requires an actuary to "explicitly recognize future mortality improvement". He noted the Society of Actuaries encourages the use of a generational approach to mortality.

Mr. Newton discussed from a valuation approach, the actual to expected A/E ratio. Margin was built into this assumption to account for mortality improvement, but this margin has been eroding quicker than anticipated. Mr. Newton began to review TMRS specific data,

noting the shift in working population between percentages of males and females and for Texas in general. He discussed the future recommendation to the valuation mortality assumption and that these changes would cause contribution rates to increase by ten percent.

Mr. Newton next moved to discuss the annuity purchase factors. These were adopted in 1981, are not gender specific and currently produce an A/E ratio of 80%. This difference between current factors and experience is growing at about 3% per decade. If there is a desire to update these factors, GRS recommends a projected generational approach using the same mortality assumptions used in the valuation process. If changed, GRS would strongly recommend a gradual phase in so not to change a retiree's benefit suddenly. Mr. Newton gave an example of a thirteen year phase-in on benefit changes. He went through a mathematical example of this change. He showed that currently the benefit grows by about 10% per year. If implemented immediately, the benefit would drop by about 10%. A 13 year phase in would still allow the benefit to grow by 9% per year so the impact on the benefit would be minimal. He presented a table showing the increases under the current assumptions and a 13 year phase in of the new generational approach. He also showed the subsidy that is built into the current assumptions. Because this is happening, contribution rates are gradually increasing over time. These examples were based on the Retiree Life Only Option. He next showed an example based on a 100% Joint and Survivor Option which is impacted less than the Retiree Life Only Option.

GRS' recommendation would be that if annuity purchase factors are changed, they be as a reaction to anticipated future rate increases. If they are changed to reflect current expectations, it is recommended not to let contribution rates change. A 13-year phase-in can be used to maintain this balance between minimal benefit change and contribution rates remaining level. Mr. Newton discussed the next steps in this process including showing the estimated effect on city contribution rates and other options. He discussed a timeline for implementation, including making possible changes prior to GASB 67 implementation. He also mentioned communication efforts. GRS will bring additional information to the Board at the August meeting.

#### **11. Legislative Update**

Mr. Wattles and Mr. Lewis gave an update on the status of the 83<sup>rd</sup> Regular Legislative Session. Mr. Lewis stated that although TMRS had no legislation, this was a very difficult session. The House Pensions Committee completely turned over and had all new membership. He and TMRS staff spent a lot of time educating the members and their staff. The resolution adopted by this Board prior to the Session was a difficult position to maintain, but it was adhered to.

Mr. Wattles thanked the Advisory Committee for their work during the interim and their support during the Session. He also commented that this was a difficult session. Mr. Wattles indicated that the new Chair of the House Pensions Committee, Representative Bill Callegari focused more on transparency, the confidentiality of pension member information, and local pension issues.

The number of bills introduced was down from prior sessions, but the number of bills passed remained at about 20%. Mr. Wattles reviewed several of the bills that affected TMRS and other pension systems. He began by discussing the bills affecting the Pension Review Board (HB 13 and SB 200) both of which dealt with trustee and administrator training. He mentioned that SB 200 was amended to require TMRS and the other statewide systems to divest from companies doing business in Iran. He mentioned the passage of two other bills. SB 220 abolishes the Fire Fighters Pension Commission and SB 366 clarifies the ability of local governments to offer Roth 457 plans.

Mr. Wattles discussed the legislation passed to improve funding for both TRS and ERS. He also discussed briefly the four topics on the Special Session call. Mr. Lewis stated that he thought the redistricting and juvenile justice legislation would pass and that transportation funding would likely not pass. Mr. Wattles recognized Meredyth Fowler with the Speaker's Office who was in attendance, and thanked her and the Advisory Committee for their support and help during the session. Mr. Lewis discussed the assistance provided by the Advisory Committee and how it benefited TMRS.

**12. Executive Director and Staff Reports, Including Reports from Administration, Communications, Staff Actuary, Finance Governmental Relations, Human Resources, Information Resources, Internal Audit, Legal and Member Services**

Mr. Gavia presented the staff reports and Mr. Parrish thanked the staff for the good information. The Board had no questions or comments.

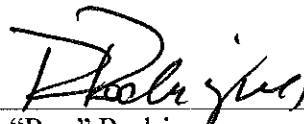
**13. Call for Future Agenda Items**

Mr. Rodriguez stated that he would like to discuss the future build out of the fourth floor. He also recognized Stacy White for her service to the Board and the System as well as welcoming Karen Jackson. Mr. Rodriguez also recognized Bernie Eldridge and thanked him for his years of service to TMRS.

The meeting was adjourned at 10:30 am



David Gavia  
Executive Director



Roel "Roy" Rodriguez  
Chair, Board of Trustees