

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

September 19, 2013 – 1:00 p.m.

September 20, 2013 – 8:00 a.m.

On September 20, 2013, the Board of Trustees of the Texas Municipal Retirement System (TMRS) reconvened for a meeting at 8:00 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

Julie Oakley

Present also were:

David Gavia, Executive Director

Ian Allan, Director of Internal Audit

Rhonda Covarrubias, Director of Finance

Eric Davis, Deputy Executive Director

Kristi O'Hara, Director of Human Resources

Nancy Goerdel, Chief Investment Officer

Leslee Hardy, Director of Actuarial Services

Debbie Munoz, Director of Member Services

Christine Sweeney, General Counsel

Bill Wallace, Director of Communications

Dan Wattles, Director of Governmental Relations

Scott Willrich, Director of Information Resources

Holly Macki, Director of Real Estate

Bonnie Mitra, Director of Fixed Income

Debbie Munoz, Director of Member Services

Kristin Qualls, Director of Equities

Dimitry Shishkoff, Director of Risk Management

Jesse Pittman, Project Manager

Karen Jackson, Executive Assistant

Robert Klausner, Klausner Kaufman Jensen & Levinson

Mark Randall, Gabriel, Roeder, Smith & Company

Joe Newton, Gabriel, Roeder, Smith & Company

Also in attendance:

Sherry Chapman, Investment Accountant

Debbie Farahmandi, Investment Operations Specialist

Howell Hollis, Investment Analyst

Peter Jeske, Support Services Analyst

Chris Jones, Combined Law Enforcement Associations of Texas (CLEAT)

George Kauffman, City of Garland
Scott Kerr, Texas State Association of Firefighters (TSAFF)
Kevin Lawrence, Texas Municipal Police Association
Carol Leung, Investment Analyst
Randle Meadows, Arlington Police Association
Michelle Mellon-Werch, Associate General Counsel
Candace Nolte, Controller
Nick O'Keefe, Senior Staff Attorney
Cindy Morse, Investment Support Analyst
Kate Reed, Investment Risk Analyst
David Rodriguez, Regional Manager – City Services
Eddie Schultz, Real Estate Analyst
Mitch Landry, TMPA
Heath Wester, TMPA
Greg Shipley, Combined Law Enforcement Associations of Texas (CLEAT)
Mel Thomas, Editor
Lorraine Moreno, Membership Development Specialist

Mr. Rodriguez called the meeting to order at 8:00 a.m. and gave the invocation.

8. Consider and Act on Consent Agenda.

Mr. Gavia presented the items contained in the consent agenda. He asked if there were any questions or revisions to the Minutes and there were none.

Mr. Parrish moved that the Board adopt the Consent Agenda as presented. Ms. Oakley seconded the motion; which passed unanimously by all Board members who were present, 5-0.

9. Review of Retiree Mortality Assumptions, Possible Cost Method Changes and Other Actuarial Assumptions

Mr. Gavia introduced Mark Randall and Joe Newton from Gabriel, Roeder, Smith and Company (GRS) to present the third installment of this topic. Ms. Oakley stated that she was comfortable with the information previously presented and Mr. Newton began the discussion with the funding method portion of the presentation. Under Entry Age Normal (EAN), every city will see an increase in their Unfunded Actuarial Accrued Liability (UAAL) based on how the math works for assigning costs to each year. Under Projected Unit Credit (PUC), funding is based on the value of the benefit being accrued that year; which in effect “backloads” the cost as the participant nears retirement age. EAN spreads the total present value of future benefits evenly over a participant’s active career, similar to a mortgage. EAN is a funding strategy that produces more stable normal cost contribution rates which, in turn, gives cities a better chance at being able to maintain benefit levels. Discussion centered on the impact of getting more contribution funds early under EAN with investment earnings accumulating faster so that contribution rates don’t increase later. Under PUC, since the value of the benefit is greater later in a member’s career, you would expect the normal cost to increase into the future. If there is no change in funding method, a city can be 100% funded

under PUC, but still have UAAL under EAN that must be used for financial reporting. The valuation uses the sum of the normal costs and accrued liabilities of each member in the population. By design, the Actuarial Accrued Liability (AAL) under EAN is always larger than the AAL under PUC. Thus, EAN compared to PUC will have a larger UAAL and a lower funding ratio. That does not necessarily mean higher contribution rates since the normal cost may decrease depending on demographics. Even with all the changes going on, mortality changes and funding method, the goal is to keep city contribution rates stable. By making these changes simultaneously, the vast majority of city contribution rates will remain relatively flat.

The three main decision points are: 1) Do nothing, but this will lead to rate increases for all cities in the future; 2) Only change the Annuity Purchase Rates (APRs) and stay on PUC. GRS would suggest additional rate stabilization methods, or 3) Change both the APRs and funding method to EAN. The increases in the contribution rates are much less substantial and many cities will see no rate increase. Also, moving to EAN now would allow for a simplified transition to the new GASB standards.

There are options to phasing into the APRs. There is a cost to stretching out the phase-in by going beyond the suggested 13 year phase in. The longer the phase in, there will be some increases in employer contribution rates and a shorter phase in could create a decrease in contribution rates. The 13 year phase in was determined by balancing speed of increase in member annuities with keeping the employer contributions mostly unchanged. Using a 13 year phase in as well as adopting a move to EAN, the average payroll weighted rate change is about 12 basis points or 0.12%.

Mr. Gavia discussed the deadlines in regards to implementing these changes. The Board discussed options it has regarding these changes.

10. Consider and Act on Retiree Mortality Assumptions

Mr. Gavia presented the recommendations made regarding updating the mortality tables and factors used in determining service and disability retirement benefits. The Board should also select the phase in period which provides a good balance between both minimizing the impact on the average member's future retirement annuity and does not result in an increase in most cities contribution rate.

Ms. Nixon made a motion to update mortality tables and factors used in determining service and disability retirement benefits and the updated Annuity Purchase Rate factors be phased in over a 13 year period beginning January 1, 2015. The motion died for lack of a second.

11. Consider and Act on Filing Proposed Amendment to TMRS Rule 34 TAC §123.1 to Update the Actuarial Tables Used to Calculate Service and Disability Retirement Benefits with the Texas Register

This proposed amendment as well as the amendment in agenda item 12 would allow Staff to publish a proposed rule regarding changes necessary to adopt the new mortality tables. This does not obligate the Board to take final action on the rule.

Mr. Parrish made a motion to approve both agenda items 11 and 12. Item 11 is recommending that the Board authorize the Executive Director (i) to file the proposed amendments to TMRS Rule §123.1, in substantially the form attached hereto as Exhibit B, with the *Texas Register* with any permanent adoption of the amended rule to take place at a later Board meeting, and (ii) to make non-substantive changes to the attached proposed rule amendments as necessary or desirable to conform the rule amendments to *Texas Register* requirements.

Item 12 recommends that the Board authorize the Executive Director (i) to file the proposed amendments to TMRS Rule §129.12, in substantially the form attached hereto as Exhibit B, with the *Texas Register* with any permanent adoption of the amended rule to take place at a later Board meeting, and (ii) to make non-substantive changes to the attached proposed rule amendments as necessary or desirable to conform the rule amendments to *Texas Register* requirements.

Mr. Philibert seconded the motion; which passed unanimously by all Board members who were present, 5-0.

12. Consider and Act on Filing Proposed Amendment to TMRS Rule 34 TAC §129.12 to Conform TMRS Rule 34 TAC §129.12 with Proposed Amendments to TMRS Rule 34 TAC §123.1 Involving Actuarial Tables

This item was taken together with item 11.

13. Consider and Act on Meeting Dates and Locations for 2014 Board of Trustees Meeting

Mr. Gavia presented the recommended meeting dates for 2014. He pointed out that there is an alternative meeting date for February.

Mr. Parrish made a motion to approve the following dates as the 2014 meeting dates, noting that all meetings will be held in Austin: February 20 – 21, March 20 – 21, May 15 – 16 (joint) June 19 – 20, August 21 – 21 (joint), September 18 – 19, October 23 – 24, December 4 – 5. Ms. Oakley seconded the motion; which passed unanimously by the Board members present, 5 – 0.

14. 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

There was nothing to add to the reports presented.

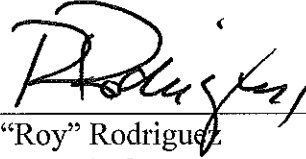
15. Call for Future Agenda Items

For the October 9, 2013 Board meeting, the Chair asked for an action item on both the mortality assumption changes and funding method changes.

The meeting was adjourned at 9:22 a.m.



David Gavia
Executive Director



Roel "Roy" Rodriguez
Chair, Board of Trustees