MINUTES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM
Joint Meeting of the Board of Trustees and the
Advisory Committee on Retirement Matters

August 22, 2013 – 2:30 p.m.

On August 22, 2013, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a joint meeting of the Board and the Advisory Committee on Retirement Matters at 2:30 p.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

Advisory Committee on Retirement Matters
Allen Bogard, City of Sugarland
Randle Meadows, Arlington Police Association
David Crow, Arlington Fire Fighters
Michael Dane, City of San Angelo
Scott Kerr, Texas State Assoc. of Firefighters (TSAFF)
Jerry Gonzales, Service Employees Int'l Union – San Antonio (SEIU)
Keith Dagen, Government Finance Officers of Texas
Kevin Lawrence, Texas Municipal Police Association
Charles Windwehen, TMRS Retiree
Joe Angelo, City of San Antonio
Greg Shipley, Combined Law Enforcement Association of Texas (CLEAT)
Mike Perez, City of McAllen

Absent:
Dean Frigo, City of Amarillo
Victor Hernandez, City of Lubbock
Monty Wynn, Texas Municipal League
Debbie Maynor, Travis County
Neil Resnik, City of Addison

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
Christine Sweeney, General Counsel
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Scott Willrich, Director of Information Resources
Debbie Munoz, Director Member Services
Holly Macki, Director of Real Estate
Bonnie Mitra, Director of Fixed Income
Kristin Qualls, Director of Equities
Dimitry Shishkoff, Director of Risk Management
Karen Jackson, Executive Assistant
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Mark Randall, Gabriel, Roeder, Smith & Company
Joe Newton, Gabriel, Roeder, Smith & Company
Marcia Beard, R. V. Kuhns & Associates
Jonathan Kowolick, R. V. Kuhns & Associates

Also in attendance:

Sherry Chapman, Investment Accountant
Juan Garcia, Governor's Office
George Kauffman, City of Garland
Barbara Whitehorn, City of Arlington
Carol Leung, Investment Analyst
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
Debbie Farahmandi, Investment Operations Specialist
David Rodriquez, Regional Manager – City Services
Jesse Pittman, Project Manager
Mel Thomas, Editor

Mr. Rodriguez called the meeting to order at 2:30 p.m. and Mr. Parrish gave the invocation.

1. **<u>Discuss Retiree Mortality Tables and Other Possible Actuarial Changes</u>**
   Mr. Gavia introduced Mark Randall and Joe Newton from Gabriel, Roeder, Smith & Company (GRS) for a second presentation on the retiree mortality study and the Entry Age Normal (EAN) actuarial funding method. Mr. Randall pointed out that the mortality study could be used for both valuation purposes and annuity purchase rate purposes. The trend has been that both males and females live longer which makes the current mortality assumption used in the annuity purchase rates very outdated. The current tables did have margins built in for improvement, but this margin has steadily declined.

Mr. Newton reiterated the two uses for the mortality assumptions. The first is the valuation mortality assumption which is very much dictated by actuarial standards of practice. The second is the Annuity Purchase Rate (APRs) assumption. The two do not have to be the same. The valuation assumptions have been modified in recent years, but not the APRs. Mr. Newton discussed the future recommendation for the valuation mortality assumption and the "static" approach to setting assumptions. The recommended approach will be to move to a full generational mortality so that the assumptions don't have to be continually updated. The generational approach removes the upward bias in contribution rates resulting from changing the assumptions with every Experience Study. This would be the recommendation that will be made with the 2015 Experience Study and, with no other adjustments to the APR's, would result in a 10% increase in contribution rates.

Mr. Newton then discussed the annuity purchase rates mortality assumption. When the current APRs were adopted in 1981, future retirees were about 90% male and 10% female. Today, future retirees are 70% male and 30% female. TMRS APRs are currently underpriced by 10% to 11%, therefore underestimating life expectancy with current employers subsidizing the benefits. GRS's recommendation would be to use a generational approach to APRs, but to phase these changes in over a long period of time so that member's would have no incentive to accelerate their date of retirement. GRS has reviewed the phase-in to determine how long this should be. Currently benefits are growing about 10% per year with each additional year worked. Using a thirteen year phase-in, benefits will continue to grow at about 9% per year and most city rates can stay flat. If the decision is made to change the APRs as a hedge against future expected rate increases, the recommendation is to adopt the same generational approach as in the valuation assumption with a 13 year phase-in. The vast majority of cities would have not contribution rate changes, while a few would see rate decreases and very few would see a very slight increase.

Mr. Rodriguez inquired about the possibility of longer phase-in periods, perhaps 15 and 18 years, to have even less of an impact on employees. Mr. Newton said they would get this information quickly, but what you will see is more cities with rate increases.

Mr. Newton shifted the discussion to the cost method. As part of the 2012 Strategic Plan, the Board is reviewing a potential change in funding method from Projected Unit Credit (PUC) to Entry Age Normal (EAN). PUC has a bias toward increasing normal cost, whereas EAN has a fairly flat normal cost. EAN provides further stability and is the industry standard for public pension plans. Mr. Newton graphically showed variances in the normal cost under both PUC and EAN and how the actuarial accrued liability accrues over the entire career of an employee. The Governmental Accounting Standards Board (GASB) is going to force accounting to be reported using EAN. By moving to EAN now, this would allow for a simplified transition to the new GASB standards in December 2015. Mr. Newton showed the impact of both mortality changes and funding method changes on the System funded ratio as a whole. He showed a distribution of city rate increases and decreases considering both changes.

Board options include: 1) No change to APR; 2) change the APRs, but remain on PUC. With this change, GRS would recommend additional rate stabilization techniques; or 3) change the APRs effective January 1, 2015 and EAN effective with the December 31, 2013 valuation.

The next steps were discussed as well as the advantages for the new APRs to be approved before December 31, 2013. To meet the timeframe, the Board would have to take action permitting posting of the proposed new trustee rules no later than the October Board meeting. The Board would have to adopt proposed new trustee rules at the December Board meeting. An action item will be brought to the September meeting that can be deferred to October.

2. **2013 Legislative Wrap-Up**

Dan Wattles began the discussion by indicating that prior to the last session, everyone was bracing for major changes to all pension systems. Fortunately, that did not occur. He then discussed bills that passed during the regular session of the 83rd Legislature.

The Pension Review Board (PRB) came through sunset review and was reauthorized for twelve more years. Senate Bill 200, which was the sunset reauthorization bill, included language for the PRB to conduct live training seminars available through its website, maintain information on previous seminars, and use technology to educate trustees and system administrators. The bill also requires TMRS, The Teacher Retirement System, the Employees Retirement System, the Texas County District Retirement System, and the Texas Emergency Services Retirement System to divest holdings of securities in companies doing business with the Nation of Iran. The first deadline in this process is January 1, 2014, at which time the PRB is required to provide a list of companies doing business in Iran to the five retirement systems.

House Bill 13 also affected all of the statewide systems and became effective May 24, 2013. This bill also included increased training for trustees and system administrators, sets minimum training criteria, and requires the PRB to report the level of compliance bi-annually to the Texas Legislature. It also requires all retirement systems to post specific gross and net investment return information for certain time periods.

Senate Bill 220 was the sunset reauthorization bill for the Firefighters Pension Commissioners (FFPC). It did not pass, effectively requiring the FFPC to cease operations by September 1, 2013.

Three special sessions were called after the conclusion of the regular session. The following issues were addressed and adopted: court-approved redistricting maps, juvenile sentencing guidelines, transportation funding and abortion procedures. A few pension bills were filed during the three special sessions, but since pensions was not a topic included in the special session "call", no action was taken. There is speculation that there will likely be another special session in early 2014 to discuss school finance funding.

Mr. Wattles then discussed announcements regarding candidates running for certain open elected positions throughout the state government. This included Governor Rick Perry's announcement that he will not run for governor and the cascading effect that will have on other offices.

3. **<u>Executive Session</u>**
At 4:33 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 5:55 p.m. All members of the Board who had been present when the Board went into Executive Session were again present.

Mr. Parrish made a motion to adjourn. April Nixon seconded the motion; the motion carried 4-0 by all members present. The meeting adjourned at 5:55 p.m.

David Gavia
Executive Director

Roel "Roy" Rodriguez
Chair, Board of Trustees