

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

July 22, 2011

On July 22, 2011, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a joint meeting with the Advisory Committee on Retirement Matters at 9:00 a.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
Roel ("Roy") Rodriguez
Julie Oakley
Jim Parrish

Absent: Ben Gorzell, Jr.

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
Christine Sweeney, General Counsel
Holly Macki, Director of Real Estate
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
Marcia Beard, R. V. Kuhns & Associates
Brad Stewart, Gabriel Roeder Smith & Company
Robert Klausner, Klausner & Kaufman, P. A.
Susan Warren, KPMG
Tino Robleto, KPMG

Advisory Committee on Retirement Matters

Don Byrne, Texas Municipal Human Resources
Michael Dane, City of San Angelo
Jerry Gonzales, Service Employees International Union
Victor Hernandez, City of Lubbock
Scott Kerr, Texas State Association of Fire Fighters
Kevin Lawrence, Texas Municipal Police Association
Mike Perez, Texas City Managers Association
Bob Scott, Government Finance Officers of Texas
Charles Windwehen, City of Gonzales
Monty Wynn, Texas Municipal League

Also in attendance:

Gary W. Anderson, Retired Member
Glenn Johnson, City of Garland Fire Fighters
Chris Jones, Combined Law Enforcement Associations of Texas
George Kauffman, City of Garland
Anthony Mills, Regional Representative – City Services
Jim Moore, City of Mesquite Fire Fighters
Lorraine Moreno, Regional Representative – City Services
Candace Nolte, Controller
David Rodriquez, Regional Representative – City Services
Mel Thomas, Editor
Sean Thompson, Regional Representative – City Services
Greg Vick, City of Elgin

The meeting was called to order at 9:08 a.m. and April Nixon gave the invocation.

Ms. Nixon welcomed the members of the Advisory Committee on Retirement Matters (Advisory Committee). Mr. Gavia introduced the new members of the Advisory Committee, which included Charles Windwehen, City of Gonzales; Victor Hernandez, City of Lubbock; and Michael Dane, City of San Angelo. Mr. Gavia asked the existing members of the Advisory Committee to briefly introduce themselves to the new members.

1. Consider and Act on Adoption of Minutes from the June 16-17, 2011 Regular Meeting of the Board of Trustees

Mr. Gavia briefly introduced this item. Ms. Nixon asked the Board if there were any questions or any revisions to the Minutes. As there were none, Mr. Simpson moved that the Minutes be adopted as presented. Mr. Parrish seconded the motion, which passed unanimously.

2. Consider and Act on 2010 External Audit Results (SAS 114) and Auditor Report to the Board of Trustees

Mr. Gavia introduced Susan Warren, partner with KPMG. Ms. Warren introduced Tino Robleto, the audit manager. Ms. Warren reviewed management's responsibilities with regard to the audit and the auditor. She reviewed KPMG's responsibilities with regard to forming

an opinion, planning and conducting the audit, and communicating all required information to management and the Board. The opinion was unqualified or “clean.” There were no material weaknesses or significant deficiencies during the 2010 audit, and there were no significant corrected or uncorrected adjustments identified during the audit. There were also no significant changes to TMRS’ accounting policies during 2010. Management included a subsequent event disclosure (SB 350). The Required Supplementary Information denotes the impact to the 2010 actuarial valuation. Management estimates in the financial statements include the actuarial information presented for the Pension Trust Fund, the Supplemental Death Benefit Fund, and the TMRS as employer fund. KPMG evaluated these estimates and determined they were reasonable in relation to the financial statements taken as a whole. She concluded that there were no other items to report.

Mr. Simpson moved that the Board of Trustees accept the audit results for the year ended December 31, 2010 and adopt the *Report to the Board of Trustees*. Ms. Oakley seconded the motion, which passed unanimously.

3. Consider and Act on 2010 Comprehensive Annual Financial Report

Mr. Gavia introduced Ms. Rhonda Covarrubias to review the December 31, 2010 Comprehensive Annual Financial Report (CAFR). Mr. Gavia mentioned that the changes resulting from the passage of SB 350 were complex and required a lot of pre-planning in order to incorporate the changes into the CAFR. The CAFR is dedicated to Representative Edmund Kuempel, who recently passed away, as he was a significant contributor to TMRS over the years.

Ms. Covarrubias pointed out that the five main sections of the CAFR remain unchanged. She discussed information covered in the Introductory Section, including the transmittal letter, statutory changes, investment overview, funding and actuarial overview, and other pertinent information. She reviewed the information included in the Financial Section and highlighted key points of interest. She specifically highlighted footnote 2, as it presents information relating to SB 350 and showed how information both before and after restructuring is introduced. She then moved to the Investment Section and mentioned R. V. Kuhns’ Report on Investment Activity, highlighting System returns over time, the methodical transition to a diversified portfolio, asset allocation targets and income allocation.

Next, Ms. Covarrubias discussed the Actuarial Section and reviewed the pension trust and SDB trust. She mentioned the actuarial assumptions used in the Valuation. She highlighted key changes in contribution rates to cities and the valuation results for each city. Finally, she discussed the Statistical Section, explaining that this section provides 10 years worth of history for several items, thereby providing useful trend information.

She concluded her presentation by discussing the fact that the CAFR would be distributed electronically, and that announcements to this fact will be made in e-bulletins and newsletters. The report will be submitted to the GFOA Certification Program. She also mentioned that the Popular Annual Financial Report (PAFR) will be transmitted to all TMRS members.

Mr. Parrish moved that the Board approve the 2010 Comprehensive Annual Financial Report. Ms. Oakley seconded the motion, which passed unanimously.

4. Legislative Update

Mr. Gavia introduced Dan Wattles and mentioned that the legislative session was very successful from TMRS' perspective. Mr. Wattles thanked everyone for their support during the session.

Mr. Wattles began his update by stating that all pension bills were addressed during the Regular Session. About 24% of the bills that were filed actually passed. There were 28 bills affecting TMRS, both specifically and generally, and only four of those bills passed.

He briefly discussed the redistricting activities of the Legislature, and where that action currently stands. He then gave a brief overview of the four bills that affected TMRS. Mr. Simpson asked if there was any significance to the "eight-year" provision included in the return-to-work bills. Mr. Wattles responded and Mr. Gavia provided a brief overview of TMRS' return-to-work requirements.

Mr. Wattles then discussed the bills that did not pass. Four bills would have imposed a fee on TMRS to fund the Pension Review board. He briefly discussed the other bills that directly and only generally affected TMRS.

He then turned to Federal Legislation and mentioned the Public Pension Employee Transparency Act, stating that there has been no real action on these bills to date. Mr. Gavia mentioned that this legislation would conflict with proposed GASB reporting regulations.

5. Overview of 2010 Valuation

Mr. Gavia began by thanking the Advisory Committee for their work and support over the past three years. He mentioned that the next report by GRS is a recap of the full report given to the Board at its June meeting. He then introduced Brad Stewart.

Mr. Stewart began his summary of the December 31, 2010 valuation. He gave a summary of the System-wide results, noting that we had a good year even before SB 350, and highlighting the improvement in the funded ratio. He discussed the actuarial results in aggregate. He presented a graph of funded ratios, which show the improvements since the change to Projected Unit Credit. The projected trend is that funded ratio should continue to improve for years to come. He showed the historical dollar-weighted contribution rates, noting that rate stabilization is the goal. He showed the trend in active members and retirees, noting that we saw a decrease in active members. Also noted was the decrease in the number of active members to retirees as the group ages. Mr. Stewart reported that on an estimated yield basis, TMRS looks better than most systems. On contributions versus benefits, TMRS is currently bringing in more contributions than are going out, but this is expected to change in the future as investment income takes up more of the cost.

With regard to demographic experience, Mr. Stewart indicated that once again, as the group ages, costs go up. He mentioned that this year, TMRS saw about three times the normal

aging as would normally be expected, but said that the current assumption changes should help mitigate this to a certain extent. The lower-than-expected turnover caused an experience loss, however, this was more than offset by lower salary increases. He then discussed the Summary of Benefit Changes across the System.

Mr. Stewart then reviewed the aggregate reconciliations by group, differentiating between three groups without repeating COLAs, and 3 groups with repeating COLAs. He mentioned that fund restructuring changed the discount rate as the recurring features were valued from 7.5% to 7%. He also pointed out that the aging of the population is driving up the normal cost. He reviewed the phase-in minimums in order to show the effect of SB 350; the amount left to be phased-in decreased, and in many cases was completely eliminated. Originally, there were 450 cities with phase-in amounts. That number is now down to 240 cities with a phase-in amount due to a combination of benefit reductions and SB 350.

Mr. Stewart then showed graphs of the distributions of city rate changes, first by total change, then by changes due to assumption changes and fund restructuring. He concluded his presentation with a summary of expected changes going forward, with the expectation being more stable rates, as more cities pay the full rate, resulting in positive amortization of the liabilities.

6. Investment Report: June Update

Ms. Goerdel reported that the total portfolio market value was \$18.6 billion. The total fund returns (ending in June) for one month was -.8%, while year-to-date was +3.7%, and one year was +11.6%. She said that preliminary year-to-date performance for July has offset the June performance and was dominated by equity performance. Mr. Gavia commented that the markets were down at this point last year, too, but rebounded by the end of the year.

Ms. Goerdel then presented an update on the progress of the diversification efforts. She also indicated that staff is on track to bring real estate managers before the Board in September in order to make a selection.

Mr. Scott asked why the “Real Return” return was a mirror image of the benchmark rather than parallel with it. Ms. Beard answered that at present, that asset class benchmark, CPI + 4%, is not market driven. Ms. Goerdel added that it is an asset allocation benchmark and that currently that asset class is implemented through a global inflation-linked bond strategy; the manager’s benchmark for that portfolio is the global inflation-linked bond index. It was suggested that this be footnoted in future reports.

7. Possible Advisory Committee Topics for Legislative Interim

Mr. Gavia introduced this item and explained that it is meant to be a forum for the Advisory Committee to discuss items they are interested in reviewing during the interim. Mr. Gavia reviewed the items listed that had been discussed the by Advisory Committee in the past.

Mr. Bob Scott mentioned that two topics that need to be discussed are (a) gain-sharing and how this can accomplished, and (b) an alternate Cost of Living Adjustment (COLA) method. Mr. Kerr mentioned that keeping a balance between labor and management on the Advisory

Committee is important. Mr. Perez mentioned that the negative attention public pensions are receiving, along with the issue of pension envy needs to be addressed. He also suggested that there be some limit on salary used in calculating Updated Service Credit (USC). Mr. Rodriguez asked if gain-sharing requires legislative action. He also commented that the information disseminated by TMRS needs to get to the elected officials. Mr. Windwehen suggested that tiered options should be reviewed. Mr. Dane concurred with the suggestion of a campaign to fight the negative public attention that pension funds are receiving. He also added that keeping the plan's complexity to a minimum would be beneficial.

Mr. Gavia concluded by stating that the Advisory Committee should continue to think about items they are interested in reviewing during the interim and to contact him with their ideas.

8. Consider and Act on Appointment to the Advisory Committee on Retirement Matters

Mr. Gavia reported that this item will be postponed until a later meeting. No action was taken on this item.

9. Call For Future Agenda Items

As there was no further business, the Board adjourned at 11:48 a.m.



David Gavia
Executive Director



April Nixon
Chair, Board of Trustees