

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

April 24, 2009

On April 24, 2009, the Board of Trustees of the Texas Municipal Retirement System (TMRS) and the TMRS Advisory Committee on Retirement Matters convened for a joint meeting 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

Carolyn Linér, Chair
Ben Gorzell, Jr., Vice Chair
Pat Hernandez
April Nixon
H. Frank Simpson

Absent: Roel (“Roy”) Rodriguez

Advisory Committee on Retirement Matters

Allen Bogard, City Manager, City of Sugarland
Keith Brainard, Councilman, City of Georgetown
Ron Cox, Retired Member
David Crow, President, Arlington Professional Fire Fighters
Bonita Hall, Texas Municipal Human Resources Association (sub)
Susan Helt, Public Information Officer, City of Plano
Scott Kerr, Texas State Association of Fire Fighters
Darlene Lanham, Texas Municipal Police Association (sub)
John Lewis, Councilman, City of North Richland Hills
Richard Martinez, Service Employees International Union
Randle Meadows, City of Arlington Police Department
Jim Moore, Assistant Fire Chief, City of Mesquite
Mike Perez, City Manager, City of McAllen
Bob Scott, Director of Finance, City of Carrollton
Mike Staff, Combined Law Enforcement Associations of Texas
Monty Wynn, Asst. Director of Legislative Services, Texas Municipal League

Present also were:

Eric Henry, Executive Director and CIO
Ian Allan, Director of Internal Audit
Rhonda Covarrubias, Director of Finance
Eric Davis, Deputy Executive Director
Bernie Eldridge, Director of Human Resources
David Gavia, General Counsel
Nancy Goerdel, Director of Public Investments and Asset Allocation

Leslee Hardy, Staff Actuary
Russ Kuhns, R. V. Kuhns & Associates, Inc.
Ron Lewis, Ron Lewis & Associates
Holly Macki, Director of Fixed Income
Pete Madsen, R. V. Kuhns & Associates, Inc.
Michelle Mellon-Werch, Associate General Counsel
Cindy Morse, Executive Assistant
Debbie Munoz, Director of Member Services
Joe Newton, Gabriel Roeder Smith and Company
Mark Randall, Gabriel, Roeder, Smith and Company
Eddie Solis, Director of Government Relations
Bill Wallace, Director of Communications
Scott Willrich, Director of Information Resources

Guests:

Natalie Forrester, Governor's Office
Maggie Gonzales, City of San Antonio
Christopher Hanson, Pension Review Board
Pete Krnavek, Manager, Information Systems
Martin McCaulay, Pension Review Board
Anthony Mills, Regional Manager, City Services
Lorraine Moreno, Regional Manager, City Services
Candace Nolte, Controller
Kristin Qualls, Assistant Investment Officer
Sean Thompson, Membership Analyst

The meeting was called to order by Ms. Linér at 9:05 a.m., and Mr. Simpson gave the invocation. Since this was the first meeting of the Board and the newly expanded Advisory Committee on Retirement Matters, Ms. Linér requested that the Board members and the Advisory Committee members introduce themselves to the rest of the group and the audience.

1. Executive Session

At 9:08 a.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 9:50 a.m. All members of the Board who had been present when the Board went into Executive Session were again present.

2. Consider and Act on Adoption of Minutes from the March 27, 2009 Regular Meeting of the Board of Trustees

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

3. Legislative Update and Overview of 81st Legislative Session, Including Discussion on Status of TMRS Legislation (HB 360 and SB 908), SB 1358, HB 1344 and Other Filed and Proposed Legislation

Mr. Solis began by reporting that HB 360 passed the House as filed, had been engrossed, and was referred in the Senate. Mr. Solis stated that HB 360 is so far along due to the work that was done during the interim. Mr. Lewis also thanked the Advisory Committee for its work during the interim, but reiterated that the bill has not passed yet.

Ms. Linér invited comment from the Advisory Committee. Mr. Crow discussed the fact that other bills affecting TMRS have been introduced, principally HB 1344 and SB 1358. He felt that testimony on HB 1344 was misleading, making it sound like the Advisory Committee was in favor of it. He then mentioned that Mr. Scott's and Mr. Gorzell's testimony on SB 1358 added to the difficulty in maintaining the belief that TMRS was neutral on all bills except HB 360. Mr. Simpson suggested that although Board and Advisory Committee members wear multiple hats, we need to be mindful of these roles and appearances in testimony.

Mr. Lewis and Mr. Solis both reiterated that they have not spoken to any legislator on bills other than HB 360, except when asked to provide technical assistance, and they have made it clear that the Board does not support anything beyond HB 360.

Mr. Henry stated that Mr. Crow's comments were constructive, and that staff will bring policies to the Board for approval regarding procedures for testimony in the Legislature.

Mr. Scott stated his support for the group, but restated his understanding that TMRS would not support anything other than HB 360, but that if anyone was going to propose other legislation, they would have to carry the legislation without the help of the TMRS Board. He described the process he went through in his decision to work with the coalition of cities working on the alternate COLA bill, and the groups that were reached out to in the process.

Mr. Gorzell stated that he was trying to be clear that he was solely representing the City of San Antonio on a position his City Council had taken.

Mr. Henry stated that these comments will be taken into account in working with the Governance consultant in developing a communication policy regarding trustee legislative testimony.

4. Education Session on Updated Service Credit Provisions and Issues

Ms. Munoz began by explaining Updated Service Credit (USC). She described how USC is calculated. She explained that a USC credit improves benefits but only if a member retires. She explained how the average USC compensation is calculated. Ms. Munoz stated that not every member will receive a USC; each individual member has a separate USC calculation.

Mr. Simpson asked if the 3% interest factor used in the USC calculation was statutory and Ms. Munoz answered affirmatively. Mr. Gorzell asked if plan changes make USC more likely and Ms. Munoz said yes.

Ms. Munoz then gave examples of a basic USC calculation, and USC calculations with a plan change, a transfer and a buy back. Discussion ensued on the triggers for whether or not an individual would get a USC, and the mechanics of these calculations. Ms. Munoz reviewed factors that may impact USC calculations, as well as steps taken to mitigate risks associated with USC calculations.

Mr. Brainard pointed out that USC changes the nature of the TMRS benefit from a hybrid defined contribution plan to more of a defined benefit plan. He stated that this benefit improvement, due to the retroactive nature of USC, can have a tremendous impact on cities' liabilities.

5. Consider and Act on Results of 2008 Actuarial Valuation and Approval of 2010 City Contribution Rates and Supplemental Death Benefit Contribution Rates

Mr. Randall began his presentation of the December 31, 2008 actuarial valuation. He stated that for the most part, rates are where GRS thought they would be. The impact of the known interest crediting loss reacted as GRS expected as well. Mr. Randall thanked the TMRS staff for their assistance in the valuation.

Mr. Newton then presented the valuation results. He noted that they have expanded the data gathered from TMRS to improve the calculations and projections going forward. They also did an internal review of their own calculations.

Mr. Newton reported that both the Actuarial Accrued Liability and Book Value of assets increased slightly, increasing the Unfunded Actuarial Accrued Liability (UAAL) of the System as a whole. But the Funded Ratio for the System as a whole improved. Mr. Newton then went through a summary of the benefit changes adopted by municipalities. Mr. Newton noted that this is the first year the System has had 100,000 contributing members. The number of retirees is growing faster than the number of new members, which increases the liability for repeating COLAs, but he mentioned that the amount of contributions still exceeds benefit payments. He then reviewed system yields based on book value versus market value. Mr. Randall pointed out that the 2008 total return was -1.3% whereas the average fund was -30%. This shows the benefit of TMRS owning fixed income assets last year. The graph of assets versus liability growth shows why the move to Projected Unit Credit (PUC) was a prudent step to help these two factors converge. Mr. Newton pointed out the funded ratio of the separate funds. Mr. Simpson asked about the funded ratio of the Current Service Annuity Retirement Fund (CSARF). Mr. Newton explained the UAAL reconciliation, the impact on the UAAL of the 7.5% assumed interest rate, the actual 5% crediting rate, and the liability losses. He explained the differences in the liability assumptions under the PUC method compared to Unit Credit (UC) method.

Mr. Randall then discussed the aggregate reconciliations from 12/31/2007 to 12/31/2008. He discussed how the groups were stratified, along with the different factors of this reconciliation. He discussed how these different factors impacted rates, on average, for these different groups. They then showed how this impacted the phase-in rates.

Mr. Simpson moved that the Board accept the December 31, 2008 actuarial valuation and certify retirement contribution rates and Supplemental Death Benefit Rates for municipalities for 2010. Ms. Hernandez seconded the motion, which passed unanimously.

6. Investment Performance Report as of March 31, 2009

Mr. Madsen presented the investment performance report. He highlighted the difference in volatility due to the benchmarks, not the assets. Mr. Simpson asked about the impact on excluding equity from the total fund income return. Mr. Kuhns added that the System has an outstanding game plan for the investment policy going forward for the next 10-20 years.

7. Discussion on Proposed Revisions to Investment Policy Concerning Asset Allocation


Ms. Goerdel walked through the proposed amended investment policy at a high level. She pointed out that the body of the main policy includes the general requirements, with the specifics in the appendices. The asset allocation targets are in the main document with a target percentage, as well as minimums and maximums.

Mr. Simpson asked if we would move into a specific asset class and then other asset classes. Ms. Goerdel responded that there will be overlap, but probably not more than one or two classes per year. It was also stated that it will likely take 3 to 5 years to fully fill out the reallocation. There will be yearly action plans going forward.

Mr. Goerdel pointed out the various indexes that may be used for benchmarking. Mr. Simpson stated that, when the time comes, he would like to receive more information on the index for the fixed income.

8. Call for Future Agenda Items

As there were not any items brought forward for future Board meetings, Ms. Linér asked for a motion to adjourn. Mr. Gorzell moved that the meeting be adjourned. Ms. Nixon seconded the motion, which carried unanimously, and the meeting was adjourned.



Eric Henry
Executive Director and CIO



Carolyn Linér, Chair
TMRS Board of Trustees