

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

May 19, 2017 - 9:00 a.m.

On May 19, 2017, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at the Lakeway Resort, located at 101 Lakeway Drive in Austin, Texas, with the following members present:

Board of Trustees

Jim Parrish, Chair
Bill Philibert, Vice Chair
Jim Jeffers
David Landis

Absent: Roel "Roy" Rodriguez
Julie Oakley

Advisory Committee Members

Cody Hill, Arlington Professional Fire Fighters Association
David Riggs, Texas State Association of Fire Fighters
Greg Shipley, Combined Law Enforcement Associations of Texas
Bonita Hall, Texas Municipal Human Resources Association
Greg Vick, Texas City Management Association
Kevin Lawrence, Texas Municipal Police Association
Wanda Heard, City of San Antonio
Michael Dane, City of San Angelo
Heidi Manti, Service Employees International Union

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
Christine Sweeney, General Counsel
TJ Carlson, Chief Investment Officer
Rhonda Covarrubias, Director of Finance
Leslee Hardy, Director of Actuarial Services
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Sandra Vice, Director of Internal Audit
Leslie Ritter, Director of Human Resources
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Amy McDuffee, Mosaic Governance Advisors

Also in attendance:

David Rodriguez, Regional Manager – City Services
Andi Focht-Williams, Senior Auditor
Keith Brainard, National Association of State Retirement Administrators
Gary Shilling, A. Gary Shilling and Company
George Kaufman, City of Garland

Mr. Parrish called the meeting to order at 9:00 a.m. Mr. Parrish requested that members of the Advisory Committee on Benefit Design introduce themselves and indicate which group they represent.

1. Pension Trends Presentation

Mr. Gavia introduced Mr. Keith Brainard, Research Director for the National Association of State Retirement Administrators. Mr. Brainard began with an overview of the statistics associated with public pension plans in the U.S. including assets, members, retirees and funding levels. He stated that TMRS is well funded. He noted funding levels for the country as a whole are improving and the national trend of reforms made across the country has stabilized many pension plans. Mr. Brainard discussed the stigma being attached to pension plans that are not making required contributions.

Public sector salary growth is improving, but still modest. Mr. Brainard reviewed revenues received by state and local governments and noted year-over-year the ratio of active members to retirees has been decreasing. The combination of low revenue, payroll and salary growth as well as declining active members can foretell funding issues for plans that are not currently well funded. Spending on public pension plans has been improving, but still is not to the level that is required to keep plans actuarially sound. Investment return assumptions were reviewed.

Mr. Brainard highlighted public pension plans in Texas. Employees in Texas are responsible for more of the financial cost of pension plan funding compared to the national average.

During this Legislative Session in Texas, two primary themes have been noted: the funding of retiree health care benefits for the Teachers Retirement System and addressing the pension plan funding problems in Dallas and Houston. Mr. Brainard reviewed current legislation for the Dallas and Houston Bill. He highlighted the Houston proposal for the pension plan funding and discussed it from the Pension Review Board's perspective.

2. Annual Economic Outlook Presentation

Dr. A. Gary Shilling was introduced by Mr. Gavia and was asked to provide an overview of the current economic conditions. Dr. Shilling began by discussing the expectations of the "Trump Bounce" and how investors are now reassessing the policies. He discussed how this assessment of the state of affairs translated into the pricing of commodities, the strength of the dollar and emerging markets, stock and bonds indices. Dr. Shilling feels that there is going to be some substantive improvement coming out of the election and he also feels that

we are going to see a period of rapid economic growth. There may be substantial deficits coming out it. The growth range should be 3% to 3.5%, but it will take some time. This is the first major theme.

The second major theme is globalization. Chinese growth has definitely slowed and in the United States, more jobs were lost than created. Dr. Shilling indicated that globalization has nearly ended.

The third theme is the aging of population. Dr. Shilling reviewed fertility rates and life expectancies in various countries and he also discussed the working population in comparison to total population. As populations age, there is a need for people to take care of the retirees. The United States is an exception since the population continues to grow, primarily due to immigration. The U.S. Labor Force participation rates were reviewed.

The Asia phenomenon is the fourth theme and this is principally driven by exports. The Asian economy is not consumer driven.

The last theme is inflation. Inflation and deflation were reviewed especially during periods of war and peace. Prices of goods are declining due to globalization, but service prices are increasing. The odds are for low inflation in the future and this low inflation will translate to lower interest rates.

3. **Overview of the 85th Legislative Session, Presentation of Legislative Committee Report and Discussion of Filed and Proposed Legislation, Including Solicitation of Board Direction to the Legislative Committee and Staff on Selected Matters, if desired (formerly #4 on the Friday, May 19, 2017 agenda)**

Mr. Wattles thanked the Advisory Committee for their service and input prior to the Session. There are only ten days left in the 85th Regular Legislative Session. Of the 7,000 bills that have been filed, TMRS is tracking 384 bills, which is a 25% increase from the previous Session. Of the 385 bills, 55 are pension-related bills which is a 30% increase over the previous legislative session.

The Budget has been the primary focus and there has been concern expressed about the Senate and House being able to come to agreement.

Mr. Wattles reviewed the pension bills and discussed the status of the Dallas Police and Fire pension bill as well as the bill affecting the three City of Houston pension systems.

Regarding the bills that directly affect TMRS, House Bill 3056 (Meyer) would allow the City of University Park to adopt an ordinance allowing the City to enroll "first hired" fire fighters into TMRS and effectively close their TLFRA plan. For this to occur, University Park must complete the applicable process outlined in the bill before October 1, 2018. The bill has been passed out of the Senate State Affairs Committee and is headed to the Senate floor.

The other bills that directly affect TMRS are not procedurally viable. With regards to the ethics bills discussed at the March Board meeting, of the eight bills that proposed to suspend

the annuity of members or retirees who have committed certain felonies while in office, only one bill has passed both chambers which is SB 500 (Taylor). Mr. Wattles also discussed two other bills authored by Senator Huffman, SB 509 which is the investment reporting bill and SB 936 (Huffman) which proposes to create a joint interim committee composed of three senators appointed by the Lt. Governor and three house members appointed by the Speaker of the House to study various retirement plan alternatives to defined benefit plans.

Mr. Wattles reviewed the HB 4016 commonly referred to as the “dead peasants” bill and noted that this bill is procedurally no longer viable. However, the bill will be tracked until the session is over.

4. **Executive Director Update (formerly #5 on the Friday, May 19, 2017 agenda)**

Mr. Gavia introduced Mr. Wallace to discuss the recognition for Transparency in Reporting that TMRS received from the Center for State and Local Government Excellence. TMRS was one of five pension plans in the country that were recognized for “promoting best practices in health and retirement benefits, workforce planning and strategies to attract, retain, and develop talent.” Mr. Wallace stated the recognition was the result of a team effort across all TMRS departments, including Finance, Actuarial Services, Legal, Governmental Relations, Communications, Investments, Information Systems and the Executive Staff.

The report was prepared by Joshua Franzel and Elizabeth Kellar of the Center for State and Local Government as well as Paula Sanford of the University of Georgia. Keith Brainard and Alex Brown of the National Association of State Retirement Administrators also provided input. Mr. Wallace described the process of the study and the meetings that took place between TMRS Staff and Mr. Franzel.

The study addressed compliance with the Government Finance Officers Association and other standards where applicable. Eighty-three systems were sampled across the United States and Mr. Wallace highlighted the number of systems that offer various actuarial reports, funding policies, investment information, basic benefit information, and financial/actuarial information to their members.

Five systems were recognized as “exemplary” and TMRS was included. Mr. Wallace described the characteristics of an exemplary system as well as the four notable strengths of TMRS.

Past recognition of TMRS included being named Public Plan Sponsor of the Year for 2009 by Plan Sponsor Magazine. In the Texas State Comptroller Report for 2012, TMRS was one of only three plans that received “all green,” or passing marks, on their scorecard for meeting benchmarks for funded ratio, amortization, and contribution practices.

The Board thanked Staff and the Advisory Committee for their hard work.

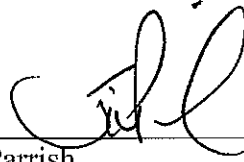
5. **Call for Future Agenda Items (formerly #6 on the Friday, May 19, 2017 agenda)**

No items were discussed.

Mr. Philibert made a motion the meeting be adjourned. Mr. Landis seconded the motion, which passed 4-0. The meeting was adjourned at 10:55 a.m.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees