

**MINUTES OF THE
ADVISORY COMMITTEE ON BENEFIT DESIGN
OF THE BOARD OF TRUSTEES OF THE
TEXAS MUNICIPAL RETIREMENT**

On November 15, 2018, the Advisory Committee on Benefit Design (Advisory Committee) of the Board of Trustees (Board) of the Texas Municipal Retirement System ("TMRS" or "System") convened for a meeting at 8:30 a.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas. The following members were present:

Advisory Committee Members

David Landis, TMRS Trustee and Advisory Committee Chair
Jesús Garza, TMRS Trustee and Advisory Committee Vice-Chair
Tadd Phillips, Texas Municipal Human Resources Association (TMHRA, Alternate)
Julie Masters, Mayor, City of Dickinson, Elected member
David Riggs, Texas State Association of Fire Fighters (TSAFF)
J.J. Rocha, Texas Municipal League (TML)
Greg Shipley, Combined Law Enforcement Association of Texas (CLEAT)
Casey Srader, Government Finance Officers Association of Texas (GFOAT)

Other Attendees

Mitch Landry, Texas Municipal Police Association (TMPA, Not official representative or alternate)

The following staff, consultants and guests were also present:

David Gavia, TMRS Executive Director
Eric Davis, TMRS Deputy Executive Director
T.J. Carlson, TMRS Chief Investment Officer
Christine Sweeney, TMRS General Counsel
Dan Wattles, TMRS Director of Governmental Relations
Amy McDuffee, Mosaic Governance Advisors
Leslee Hardy, TMRS Director of Actuarial Services
Joe Newton, Gabriel, Roeder, Smith & Company
David Gaines, Assistant Finance Director, City of Denton
Madison Jechow, TMRS Assistant General Counsel
Michelle Mellon-Werch, TMRS Assistant General Counsel
Eric Obermier, TMRS Deputy Director of Information Resources
Kenneth Oliver, TMRS Actuarial Analyst
Scott Leeton, Corpus Christi Police Officers Association
Ron Lewis, Ron Lewis and Associates
Bill Wallace, TMRS Director of Communications
Stacy White, TMRS Executive Assistant
David Crow, Arlington Texas Professional Firefighters

Mr. Landis called the meeting to order at 8:30 a.m. and Mr. Garza gave the invocation. All rose for the Pledge of Allegiance.

1. **Welcome and Introductions** – Mr. Landis welcomed the attendees and introduced Trustee Garza. Mr. Gavia also welcomed attendees and introduced Ms. McDuffee. All attendees introduced themselves and who they represented.
2. **Purpose of Meeting** - Ms. McDuffee began by reviewing the agenda and purpose of the meeting. She reviewed the steps previously taken by the Advisory Committee including the April organizational meeting, the Joint Meeting with the Board in May, leading to this meeting's discussion of potential legislative items.

Landis: "meeting called at direction of TMRS Board to update since last board meeting." McDuffee reviews agenda. TMRS Board made decision in October regarding benefits design proposals and administrative and operational proposals for the TMRS Act. McDuffee reviews schematic of sequence of events since April 2018 organizational meeting. McDuffee reviews facilitation ground rules.

3. **Interim Overview**

Mr. Wattles thanked the members of the Advisory Committee for their efforts and recognized the value of the Advisory Committee process to the Board. Mr. Wattles reviewed the TMRS Act Review Project. Staff identified 170 potential statutory or administrative rule changes during this review. This list was narrowed to 19 priority items. Staff prepared draft bill language for 12 of these items that were presented to the Board in October, and the Board directed staff to get input from this Advisory Committee on the three benefit design and nine administrative/operational items.

Mr. Phillips asked when was the last time TMRS had a bill. Mr. Wattles stated that TMRS last had a bill in 2011 and 2009. Mr. Wattles clarified that TMRS studied potential changes before each of the last three legislative sessions and dealt with bills that were not initiated by TMRS during each session.

4. **Benefit Design Proposals**

Mr. Newton began the discussion of the three benefit design items with a review of the Cost of Living Adjustment structure and provisions. He began by reviewing statistics regarding city adoptions of COLAs and the percentage of retirees receiving COLAs. He explained that the piece of the COLA in question is the retroactive portion of the calculation. This retroactive feature is unique to TMRS, but can lead to "wear-away" issues if a city chooses to reduce their COLA. The fact that a city first adopting a COLA must "catch-up" for past inflation was also an issue discussed.

Mr. Newton provided a comparative analysis of retro vs. non-retro COLAs, noting differences in the reasons for funding increases.

Mr. Riggs asked for an explanation on why, for a city reducing the COLA percentage, a non-retro COLA could cost more than a retro COLA. This was explained.

Mr. Wattles reviewed the staff recommendation to the Board. If the Board wanted to pursue a change, Staff's recommendation was: 1) to keep the COLA CPI-based; 2) make the proposed plan change permanent; 3) allow cities to choose between a retro and non-retro COLA; and 4) not propose a flat or fixed rate COLA.

The Board and Legislative Committee views on proposing any change to the COLA were i) that there are going to be unknown fiscal pressures on cities, and ii) there is limited interest from cities for a change. The Board decided not to propose COLA legislation, but they would revisit the decision if a COLA bill is filed in the 86th Session.

Mr. Srader asked if TMRS expects a bill to be filed on COLAs. The answer was, it is unknown, but pension issues continue to be at the forefront of the critical issues being looked at by the Legislature.

Mr. Riggs expressed his appreciation regarding the Board's decision not to move forward given the political climate. He appreciated TMRS being prepared in case the issue does come up during the session. He agreed with not seeking benefit changes this session, but feels that a 100% COLA option should be added in the future.

Mr. Phillips discussed the issue going on in the City of Georgetown regarding their reduction of the COLA percentage, and retirees who have not seen a COLA for many years. There should be a way to fix this.

Ms. McDuffee asked if a COLA was in the top three items regarding city employee recruitment and retention. The collective response was that it was not.

Ms. McDuffee asked Mr. Newton what are the common types of COLAs used by other systems. He responded that about one-third are CPI-based, one-third are flat rate, and the remaining third are all over the board. He also noted that for non-social security employers, COLAs are the norm, and for social security employers they are less common. Caps on COLAs are becoming more prevalent as are contingencies on when COLAs can be granted.

The Return to Work (RTW) proposal was next discussed. Mr. Newton provided an overview of the current RTW provisions. He reviewed the RTW statistics as of December 31, 2017. The number of RTW retirees has been trending upward. The early retirement eligibility, which is 20-year any age, may be leading to more RTW issues.

Mr. Newton indicated that a system should not incentivize retirees to return to work, which also helps avoid the political issue over “double-dipping”. The costs to a System can vary depending on the circumstances.

Mr. Wattles introduced staff’s RTW proposal to the Board, which was to require a bona fide termination and a minimum one-year break in service, after which retirees could return to work without an annuity suspension. The existing eight year gap retirees would be grandfathered.

The TMRS Board liked the suggestion, but as with the COLA proposal, thought that the timing was not right due to the political climate.

Mr. Riggs noted that his concern has always been the perception of double-dipping.

Past RTW bills were discussed and the different provisions that were introduced. Mr. Shipley noted that this was one provision he hoped would make it in the package to help alleviate staffing issues.

The third benefit design proposal discussed was an increase in the Supplemental Death Benefit to beneficiaries of retirees. Ms. Hardy began her discussion on the increase in the Supplemental Death Benefit (SDB). SDB is an OPEB benefit that operates similar to a group term life insurance plan. The retiree SDB is a one-year term cost, cost-sharing plan. The retiree SDB benefit started at \$2,500 and increased to \$5,000 and is now \$7,500. However, while the benefit increased over time, no change has ever been made to the funding side; benefits are still being funded on the \$2,500 dollar basis, to help draw down the assets in the separate SDB fund. After changing the mortality assumptions, the size of the fund did start to come down. The SDB fund is still over funded, but in the next actuarial experience study, the plan is to review appropriate fund levels and plan for moving to funding on the \$7,500 basis, especially for GASB 75 purposes. Staff suggested that the Board review these funding issues prior to increasing the benefits.

There were no comments from the Committee.

A short break was taken at 10:03 a.m.

Mr. Landis reconvened the meeting at 10:15 a.m.

5. Board Governance & Legal Proposals

Mr. Landis stated that the first five administrative proposals generally relate to board governance and legal issues. Mr. Wattles provided an overview of these five issues.

1. One proposal relates to Board meetings. It removes the mandate that the Board meet in specific months and simply would require at least four meetings a year. It would allow for participation via video or conference call. It would allow the Board to discuss private investment items in Executive Session, and would allow other Executive Session items, which would make TMRS similar to the other statewide retirement systems.
2. The Immunity and Liability Protection proposal would put in statute liability and immunity protections that exist in common law, and that already exist in the other statewide systems' statutes.
3. The Legal Advisor proposal would remove the requirement that the Board-appointed attorney represent the System in all litigation. It would allow the System to hire additional legal counsel to represent the System in litigation and provide advice on fiduciary and legal matters.
4. The Confidential Information proposal would supplement TMRS's current confidentiality provisions with concepts in the Public Information Act and will make TMRS consistent with the other statewide systems. This would also protect the confidentiality of audit working papers. The final audit report, unless otherwise protected, would be an open record. This is a protection various state agencies currently have.
5. The definition of "security" would be updated to better reflect the diversification of TMRS' investments. The proposed language is similar to the other statewide systems. TMRS is still governed by a constitutional requirement that it invest in securities, this would just better define a "security".

Ms. McDuffee asked for the Committee's insight on these items, asking if there were any troubling issues with any of the above administrative/operational items.

Ms. Rocha noted that one bill already filed would require on-line broadcasting of certain state agencies. This would not affect TMRS as written, but could become an issue.

Mr. Riggs stated that the liability protection could raise a question.

Mr. Shipley noted that the perception of limiting the number of meetings or holding meetings via video conference could raise an issue. This did show areas where staff will need to emphasize the message that TMRS is not trying to decrease transparency.

Mayor Masters noted that executive session items always raise issues.

Mr. Phillips asked how these items would be filed: a single bill or multiple bills. Mr. Wattles responded that that really is a Board decision. Mr. Garza asked Mr. Phillips for his preference. Mr. Phillips responded that he didn't know if one item in the package is distracting.

Mitch Landry joined the meeting.

- 6. City-Related and Administrative Proposals** -Mr. Landis stated that the next four proposals relate to administrative/operational issues. Ms. Sweeney provided an overview of these four proposals.

The first proposal would clarify that the maximum amortization period would be 30 years, and also clarify the Board's authority to set amortization periods and city rights regarding their plan's amortization periods. The 30 years is consistent with TCDRS' stated 30-year maximum and effectively TRS' and ERS' maximums.

The second proposal relates to providing information electronically. The proposal would provide TMRS with explicit authority to distribute member and retiree annual statements and other information electronically to members and retirees in addition to the current paper and mail formats.

The third proposal relates to prior service credit granted when a city joins TMRS, and the constitutional provision that a person cannot receive benefits from more than one system for the same service. This would require that a city that joins TMRS that has an existing plan could only grant 0% prior service credit, called excluded prior service credit. It also eliminates excluded prior service credit from the calculation of Updated Service Credit (USC). The proposal also allows for the recalculation, in certain circumstances, of USC when a person does a "buy back" transaction and retires in the same year.

Mr. Riggs asked about "departmental" participation in TMRS. This was clarified.

The scope of this item was further discussed as to how it relates to various city situations.

The last item is Occupation Disability. The proposal would update and modernize this provision. It would give TMRS the ability to request a subsequent medical determination to verify a retiree's continuing occupational disability, and also remove the earnings test. Also, it would clarify that members can no longer retire under the "regular disability" retirement program. The discretionary authority regarding post-disability retirement evaluations is similar to what other statewide systems have.

Mr. Newton stated that after he had the chance to review the proposal's provisions about suspension of a disability benefit upon return to work at a TMRS city, he would suggest once the disability retirement benefit is approved, then leave it alone (i.e., don't suspend) or they could have the account reinstated once they stopped working at a TMRS city.

Mr. Riggs, who had questions prior to the meeting, stated his questions had been addressed, and he concurred with Mr. Newton's comments.

Ms. McDuffee asked if there were any roadblocks seen regarding these four items.

Mr. Riggs stated that removing the earnings test on Occupational Disability could raise a red flag, depending upon who is on the Legislature's Committee.

Mr. Landis asked the audience if there were any comments. There were none.

Ms. McDuffee asked if anyone in the room could not support these issues. The concept of "provisionally" approving an Occupational Disability benefit was briefly discussed.

Mr. Landis called for a lunch break at 12:01 pm and then resumed a working lunch at 12:14 pm.

7. Legislative Session Update

Mr. Landis introduced Ron Lewis and Mr. Wattles to provide an update on the legislative climate. Mr. Wattles reviewed the federal landscape after the mid-term elections. He stated that the Democrats now hold the majority in the U.S. House while the U.S. Senate retained a Republican majority. The voter turnout in Texas was the largest since 1970. Straight party ticket voting has not been the norm and in fact will be gone after this year.

The state landscape was next reviewed. In the pension world, Senator Huffman and Representative Flynn both won reelection. Mr. Lewis' guess is that no Chairman in the House will remain the same. As of now, Legislative Council has stated that it will take 6-8 weeks to get a bill out; the earliest date we would be able to get a bill filed would be in early February. However, the plus that TMRS brings to the table is that we bring all parties together and get consensus ahead of time. Senator Huffman is likely to carry a TMRS bill in the Senate, and we have a number of options in the House.

8. Discussion of Possible Future Meetings

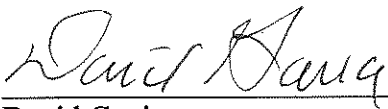
Mr. Landis indicated that the next scheduled meeting is May 2019. There could be a request during the Session for a meeting, but that need as yet is unknown.

9. Public Comments

Mr. Landis asked if there was other public comment. There was none. Both Mr. Landis and Mr. Wattles asked if there were any questions in the future, please contact TMRS staff.

Adjourn

The meeting adjourned at 12:43 p.m.



David Gavia
Executive Director



David Landis
Chair of Advisory Committee