

**MINUTES OF THE
ADVISORY COMMITTEE ON RETIREMENT MATTERS
OF THE BOARD OF TRUSTEES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM**

On March 24, 2010, the Advisory Committee on Retirement Matters of the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 10:30 a.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas, with the following members present:

Advisory Committee Members

April Nixon, TMRS Board of Trustee and Advisory Committee Chair
Allen Bogard, City of Sugarland
Keith Brainard, City Councilmember, Georgetown
Ron Cox, TMRS Retiree
David Crow, Arlington Professional Firefighters
Dean Frigo, City of Amarillo
Jerry Gonzalez, Service Employees International Union (SEIU), San Antonio (arrived at
approximately 11:00 am)
Chris Heaton, Texas Municipal Police Association
Scott Kerr, Texas State Association of Firefighters
Suzanne Levan, City of San Antonio
John Lewis, City Councilmember, North Richland Hills
Randle Meadows, President, Arlington Police Association
Jim Moore, Mesquite Fire Dept.
Jim Parrish, Texas Municipal Human Resources Association (TMHRA)
Mike Perez, Texas City Management Association (TCMA)
Bob Scott, Government Finance Officers Association of Texas (GFOAT)
Steven Segal, City Councilmember, City of West University Place
Mike Staff, Combined Law Enforcement Association of Texas (CLEAT)
Monty Wynn, Texas Municipal League (TML)

Attending via conference phone:

Roel "Roy" Rodriguez, TMRS Advisory Committee Vice Chair
Michele R. Leftwich, City of Mercedes

And the following staff, consultants and guests:

David Gavia, TMRS Executive Director
Ian Allen, TMRS Internal Auditor
Rick Almanza, TMRS Computer Support
Anumeha, Texas Pension Review Board
Rhonda Covarrubias, Director of Finance
Eric Davis, TMRS Deputy Executive Director
Meredith Fowler, Speaker Straus' Office
Brittney Grigg, Representative Kuempel's Office
Nancy Goerdel, TMRS Acting CIO and Director of Public Investments and Asset Allocation

Christopher Hanson, Texas Pension Review Board
Leslee Hardy, TMRS Staff Actuary
Scott Hofstrom, APFF
Chris Jones, CLEAT
Michelle Mellon-Werch, TMRS Associate General Counsel
George Mones, Director of Human Resources, Mesquite
Daniel Moore, Texas Pension Review Board
Lorraine Moreno, TMRS Regional Manager, City Services
Debbie Munoz, TMRS Director of Member Services
Mark Randall, Gabriel, Roeder, Smith and Company
David Rodriguez, TMRS Regional Manager, City Services
Eddie Solis, TMRS Director of Government Relations
Sean Thompson, TMRS Regional Representative
Greg Vick, TCMA
Bill Wallace, TMRS Director of Communications
Scott Willrich, TMRS Director of Information Resources

April Nixon called the meeting to order at 10:30 a.m. and gave the invocation. Ms. Nixon presented highlights of Board actions since the last meeting of the Advisory Committee. She stated that the Board has set reserve guidelines and actuarial smoothing policies. It has continued to discuss fund restructuring and has directed staff to evaluate the effects of restructuring. The Board has hired David Gavia as the new Executive Director of TMRS. Mr. Gavia then welcomed the attendees and pledged to continue the policies of transparency and communication.

Approval of Minutes from the November 20, 2009 TMRS Advisory Committee Meeting

Ms. Nixon then presented the minutes from the November Advisory Committee meeting. Mr. Parrish noted two changes. Mr. Brainard moved to adopt the minutes of the November 20, 2009 TMRS Advisory Committee meeting with the changes suggested by Mr. Parish. Mr. Parrish seconded the motion. The motion passed unanimously.

Presentation and Discussion on Fund Restructuring

Mr. Gavia introduced Mark Randall from Gabriel, Roeder, Smith and Company (GRS) to begin the discussion on fund restructuring. Mr. Randall began by stating that one of the charges given to GRS was contribution rate stabilization. Restructuring the funds at TMRS works with all of the other changes TMRS has made to stabilize contribution rates for employers. Mr. Randall began by reviewing the accounts within the current retirement trust fund structure at TMRS; the Employees Saving Fund (ESF), Municipality Accumulation Fund (MAF) and Current Service Annuity Reserve Fund (CSARF) and how they interact throughout the lifecycle of an employee. Mr. Segal asked questions regarding the funding status of the CSARF and received an explanation of how it is funded. Mr. Randall compared these to a typical public pension plan. He also discussed the difference in liabilities based on a 7% discount rate versus a 5% discount rate. He reviewed the TMRS cashflows based on guaranteed 5% returns to the ESF and CSARF and variable returns to the MAF, which introduces leverage and increased volatility, compared to a typical pension plan

fund. Committee members asked questions regarding the effect of the different discount rates on the actuarial calculations, the interactions between the various funds at TMRS and whether the ESF and CSARF could be folded into the MAF. Mr. Solis reminded the committee that this discussion is largely theoretical and based on the assumption that the fund is fully diversified, which will still take several years to achieve. Mr. Randall reviewed what he believes to be the main reasons for fund restructuring: 1) eliminating the leverage, protecting the MAF from downside risks, 2) redistributing the CSARF reduces the most leverage, inclusion of ESF eliminates leverage completely, and 3) reducing the volatility of the fund to the level of a typical pension fund, which improves rate stabilization. Mr. Randall then introduced a chart comparing ESF, CSARF and MAF crediting rates versus total fund return. This chart depicted the leveraging effect on the MAF of the guaranteed 5% rate for the CSARF and ESF, both positively and negatively. He then reviewed a chart showing the potential effect on MAF if the CSARF is merged into the MAF account. The result is a greatly reduced leveraging effect. If the ESF is also moved into the MAF, the leveraging effect is removed entirely. The CSARF is the most concerning, due to the size and expected proportional growth over time compared to the other funds. Several committee members requested a review of the actuarial earnings assumptions, recent fund experience and how these issues affect the different funds. Mr. Gavia reviewed the current actuarial assumptions, the history of the change from realized gains to total return and the amounts credited to the various funds.

Jerry Gonzalez arrived during Mr. Randall's presentation.

Next, Mr. Randall discussed reserve levels necessary to reach contribution rate stability. With the current fund structure, the current reserve target is 20% of the total fund. The current reserve fund level is 4%. If the retirement trust fund was restructured, GRS would revise the recommended reserve target for TMRS while maintaining the smoothing policy. Committee members discussed concerns with the CSARF liability ownership and pooling. Mr. Randall explained that the benefit of increased settlement calculation for a combined fund will generally more than offset any increased liability to a participating municipality. GRS does sensitivity testing on MAF for each municipality for TMRS, to identify potential problems.

Mr. Randall reviewed the issues surrounding settlement at retirement. Employers will bear the risk of their own retirees, which can impact cities both positively and negatively. He gave an example of the effect of fund restructuring on a typical Group 6 City (7%, 2:1 matching ratio with repeating benefits). The example compared current assets and expected liabilities under the current plan structure (the "baseline") to a restructured fund. He walked through the changes to the assets and liabilities of the employer for both active employees and retirees. A restructured fund, according to Mr. Randall, could result in a contribution rate decrease of approximately 14%, on average. The advantages of restructuring the fund are more normal volatility in the MAF, eliminate the transfer to CSARF at retirement, fund to liability payment timeframe, decrease contribution requirements without lowering benefits, and lower reserve requirements for TMRS. Mr. Randall then discussed the next steps that will be taken. The plan is to complete the December 31, 2009 actuarial valuation, which will provide 2011 rates by the May board meeting. In June, they hope to provide additional projections for the fund restructuring based on the new rates and information.

The meeting broke for lunch. Mr. Brainard left during the break.

Discussion on Various TMRS Benefit Cost Drivers

Mr. Gavia introduced Ms. Munoz, TMRS's Director of Member Services, to give a presentation on Updated Service Credits (USC). Ms. Munoz began by defining USC and how the benefit is calculated. She explained that it requires at least 4 calendar years of service until a member is eligible for USC. She explained how the average USC salary is calculated. She then explained how the USC is calculated. She explained that not every employee would receive a USC; most will not. Factors that affect USC include pay increases, years of service, transfers and buy-backs. Mr. Staff asked what will happen if a city removes USC as a benefit. Ms. Munoz explained that once a member has earned USC, it remains as part of his or her account and will continue to accrue interest annually. What will be removed is the potential to earn more USC. Members only receive USC if they retire with TMRS, not if they refund. Ms. Munoz next gave several examples of how USC is calculated and affected by salary increases and plan improvements, as well as transfer USC, the affect of USC of and buy-back.

Next Mr. Davis gave a presentation regarding TMRS cost of living adjustment (COLA) provisions. He first reviewed the options available to a participating municipality. They can opt to have no COLA, ad hoc COLAs or annually repeating COLAs at 30%, 50% or 70%. Ninety eight percent of all COLAs are annually repeating at 70%. Mr. Davis explained how the COLA is calculated using CPI-U. He described how a decrease in COLA would not decrease an annuity, only increase it if the calculation is greater than the current annuity. If a COLA percentage is decreased, it may take several years for a retiree who has been receiving increases previously to begin seeing increases again. COLAs are a cost driver. When a repeating COLA is adopted, the unfunded actuarial liability is calculated based on current and future retirees. Mr. Davis then presented the impact of reducing, eliminating or changing to ad hoc adoption of a COLA on a typical Group 6 municipality ((7%, 2:1 matching ratio with repeating benefits). He then showed how COLAs and USC affect the unfunded actuarial liability of a typical Group 6 municipality.

The Committee discussed the time frame for recognition of the effect of fund restructuring, if it was adopted by the Legislature. Mr. Crow asked what arguments fund restructuring could face in the Legislature. Discussion here centered mostly on perceptions. One concern was the removal of pooled risks. Ms. Nixon stated that staff does communicate with municipalities that are at risk and monitors their issues so no one is caught unaware.

Discussions, Comments, and Ideas for Advisory Committee Members Related to Legislative Proposals

Ms. Nixon then brought up Agenda Item 7. Mr. Parrish introduced the letter from the Texas Municipal Human Resources Association (TMHRA) to the TMRS Executive Director, on items TMHRA would support regarding changes to TMRS (copy attached). This letter will be presented to the TML committee on TMRS. Mr. Heaton asked if collective bargaining or meet and confer rules allow for different classes of employees to get separate benefits. Mr. Heaton also requested past versions of the TMRS statute that allowed varying plan options within a city by department. Mr. Crow cautioned having too many options that will allow cities to play with benefits to balance budgets. Retirement plans should be long-term benefits that are not used to manage annual budgets.

Mr. Parrish then presented a letter to Mr. Gavia on behalf of Mr. Brainard; (a) fund restructuring should be the first priority; (b) there should be a distinction in retirement eligibility between public safety and civilian employees; and (c) contributions on overtime should be allowed to go into a 457 plan instead of TMRS.

Mr. Wynn updated the Committee on the TML Committee's activities. The TML Committee met in December on 14 items. They are meeting Friday, March 26th as well. They expect to send three to four proposals to the Legislative Committee.

Mr. Perez added that from the Texas City Managers Association (TCMA), the concern from managers is that rates are too high. He also stated that there is a desire for elected officials to serve on the board. Mr. Gavia stated that the statute allows for three executive slots. There were elected officials on the Board in the 1980s.

Mr. Scott stated that Government Finance Officers Association of Texas (GFOAT) has no formal legislative group, but they are open to come and speak to any of the committees discussing issues as a resource. Mr. Vick stated that TCMA is concerned about cities not in Social Security cutting COLAs. He also asked if anything could be done immediately to help reduce or delay cost increases.

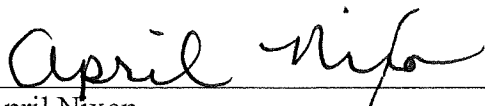
Recap on 2009 Investments, Fund Crediting and City Plan Provisions

Mr. Gavia reviewed the table of plan reductions adopted by cities, provided to the Committee. TMRS receives many requests from cities asking for estimates. From 2007 to 2009, the number of cities that reduced benefits increased from four to fifteen. Mr. Davis pointed out that the table only showed those cities that reduced benefits; there were other changes to plans made during these years. Mr. Crow asked if it is possible to get the materials electronically.

The Committee discussed the potential of a meeting on May 6, 2010, prior to the Board Meeting on the 7th. Ms. Nixon adjourned the meeting at approximately 2:55 p.m.



David Gavia
Executive Director



April Nixon
Chair of the Advisory Committee and Board Trustee