

Policy Committee Meeting

April 7, 2016

Tab 1

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES
AND
POLICY COMMITTEE**

(Committee Chair and Members are Subject to Change at the April Board Meeting — Mr. Colonna, Chair; Mr. Barth; Mr. Corpus; Mr. Kelly; & Ms. Ramirez, Committee Members)

AGENDA

**April 7, 2016 – 1:15 p.m.
TRS East Building, 5th Floor, Boardroom**

*All or part of the April 7, 2016 meeting of the TRS Board of Trustees and Policy Committee may be held by telephone conference call as authorized under Section 551.130 of Texas Government Code. The committee and board intend to have a quorum physically present at the following location: **1000 Red River Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

1. Consider the approval of the proposed minutes of the November 19, 2015 committee meeting – Committee Chair.
2. Consider recommending to the Board the adoption of amendments proposed by the Executive Director to TRS Rule § 31.1, relating to Definitions (concerning Substitute Service) in Title 34, Part 3 of the Texas Administrative Code – Rebecca Smith.
3. Conduct the required comprehensive review of the Authority to Approve and Sign Vouchers resolution under the Policy Review Schedule and consider recommending to the Board adoption of any amendments – Don Green.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Policy Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Policy Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.



Minutes of the Policy Committee

November 19, 2015

The Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas met on November 19, 2015 in the boardroom located on the fifth floor of the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas 78701. The following committee members were present:

Joe Colonna, Chair
Todd Barth
David Corpus
David Kelly
Dolores Ramirez

Others present:

Karen Charleston, TRS Trustee	Mohan Balachandran, TRS
Christopher Moss, TRS Trustee	Ronnie Bounds, TRS
Anita Palmer, TRS Trustee	Lynn Lau, TRS
Nanette Sissney, TRS Trustee	James Nield, TRS
Brian Guthrie, TRS	Beckie Smith, TRS
Ken Welch, TRS	Heather Traeger, TRS
Carolina de Onís, TRS	Steven Huff, Fiduciary Counsel, Reinhart Boerner Van Deuren s.c.
Britt Harris, TRS	Dr. Keith Brown, Investment Consultant
Jerry Albright, TRS	Ann Fickel, Texas Classroom Teachers Association
Amy Barrett, TRS	Philip Mullins, Texas Retired Teachers Association
Jase Auby, TRS	Ted Melina Raab, Texas American Federation of Teachers

Mr. Colonna called the meeting to order at 2:10 p.m. A quorum was present.

1. Consider the approval of the proposed minutes of the September 24, 2015 committee meeting – Committee Chair.

On a motion by Mr. Barth, seconded by Ms. Ramirez, the committee approved the proposed minutes of the September 24, 2015 meeting, as presented.

2. Conduct the required comprehensive review of the TRS Mission Statement under the Policy Review Schedule and consider recommending to the Board any amendments – Brian Guthrie.

The committee reviewed the TRS Mission Statement under the Policy Review Schedule. Mr. Guthrie stated that the Executive Council reviewed the statement during a recent retreat to ensure that it was on target with current operations and projects. Mr. Guthrie reiterated the goals set to achieve the Mission Statement and the core values developed to reach the goals. Staff did not recommend any changes to the current Mission Statement, he said.

Mr. Colonna invited all board members to provide suggestions and comments about the Mission Statement. There being no further discussion or a motion to consider, the committee finished its review of the TRS Mission Statement.

3. Conduct the required comprehensive review of the TRS Key Employee Determinations under the Policy Review Schedule and consider recommending to the Board any amendments – Heather Traeger.

The committee reviewed the TRS Key Employee Determinations. Ms. Traeger stated that no substantive recommendations had been made. She stated that proposed changes would memorialize authorized practices with respect to key employee determinations and clarify the interaction between the General Authority Resolution and the Key Employee resolution. Responding to a question from Mr. Colonna about why the chief compliance officer (CCO) was not on the key employee list, Ms. de Onís clarified that the CCO reports to the General Counsel, who is on the key employee list, and Ms. Traeger added that the Executive Director had designated the CCO a Key Employee under the special designation provision.

There being no further discussion, on a motion by Mr. Barth, seconded by Mr. Corpus, the committee unanimously voted to recommend to the board adoption of the amendments to the TRS Key Employee Determinations, as proposed by staff.

4. Consider recommending to the Board the adoption of proposed amendments to the following TRS rules in Title 34, Part 3 of the Texas Administrative Code – Rebecca Smith:

- A. Rule § 25.1, relating to Full-time Service;**
- B. Rule § 25.4, relating to Substitutes;**
- C. Rule § 25.6, relating to Part-time or Temporary Employment;**
- D. Rule § 25.26, relating to Annual Compensation Creditable for Benefit Calculation;**
- E. Rule § 25.46, relating to Determination of Compensation Subject to Deposit and Credit;**
- F. Rule § 25.74, relating to Cost;**
- G. Rule § 25.85, relating to Amount of Out-of-State Service Which Can Be Purchased;**
- H. Rule § 25.121, relating to Employer Verification;**
- I. Rule § 25.131, relating to Required Service;**
- J. Rule § 25.133, relating to School Year;**
- K. Rule § 25.181, relating to Minimum Monthly Payment;**
- L. Rule § 25.182, relating to Yearly Increments of Credit;**
- M. Rule § 27.6, relating to Reinstatement of an Account;**
- N. Rule § 29.13, relating to Changing Beneficiary for Survivor Benefits;**
- O. Rule § 29.33, relating to Absence from Service;**



- P. Rule § 31.14, relating to One-half Time Employment;**
- Q. Rule § 31.32, relating to Half-time Employment Up to 90 Days;**
- R. Rule § 31.34, relating to Disability Retiree Report of Excess Compensation;**
- S. Rule § 43.16, relating to Notice of Hearing and Other Action;**
- T. Rule § 43.46, relating to Rehearings;**
- U. Rule § 47.6, relating to Determination That An Order Is Not Qualified Is Final; and**
- V. Rule § 49.3, relating to Referrals of Delinquent Obligations to Attorney General for Collections.**

Ms. Smith discussed proposed amended rules recommended by staff for adoption. She stated that the proposed rules were published in the October 16, 2015 issue of the *Texas Register*. TRS received no written public comments about the proposed rules. She noted that Mr. Ted Melina Raab representing Texas AFT had expressed general support for the proposed rule changes to address issues regarding the standard school year and how that impacts compensation received during a member's final year of employment before retirement. She described the proposed amendments to Rule 25.26, explaining that they would allow a member to receive credit for a month of salary that might otherwise be lost in the member's year of retirement.

There being no further discussion, on a motion by Mr. Kelly, seconded by Mr. Barth, the committee voted unanimously to recommend that the board adopt the proposed amended rules in Chapters 25 through 49 as published in the *Texas Register*.

5. Consider recommending to the Board the adoption of proposed amendments to TRS Board of Trustees Ethics Policy — Carolina de Onís and Heather Traeger; Steve Huff, Reinhart Boerner Van Deuren, s.c.

Ms. de Onis described a proposed minor change to the Trustees Ethics Policy that would allow a trustee to hold a security in a TRS contractor in a blind trust or a managed account subject to certain requirements (“managed account”). She stated that, under the current policy, a trustee could own a security in a TRS contractor under two circumstances: (1) if the individual owned the security prior to serving on the board, the trustee could retain the security but not add to the position; or (2) if the trustee owned a security in an entity that later became a TRS contractor. She stated that, to give trustees additional flexibility in their personal holdings, staff proposed allowing trustees to hold securities of TRS contractors in a blind trust or managed account. She explained that blind trusts or managed accounts, for purposes of the proposed change, are those in which trustees do not have any control or influence directly or indirectly over investment decisions. She stated that the SEC had recently issued guidance regarding managed accounts, which, if followed, provided assurance that the owner of the account did not have any control or influence over those accounts. She said that staff believed that the federal guidance provided good support for adopting this proposed change to the policy. She noted that the proposed change would greatly reduce, but not eliminate, the potential for a conflict of interest. For instance, she stated, trustees must disclose personal interests in bids or proposals that come before the board and recuse themselves from



participating in decisions on such matters. She encouraged trustees to contact her, Mr. Huff, or Ms. Traeger regarding potential conflicts of interest. She expressed her appreciation to Ms. Traeger for her expertise and work and to Mr. Huff for his assistance on issues identified in the current policy.

Mr. Kelly, Mr. Corpus, and Mr. Colonna expressed their support for the proposed amendments. On a motion by Mr. Barth, seconded by Mr. Corpus, the committee voted to recommend to the board adoption of the proposed changes to the Trustees Ethics Policy, as presented by staff.

The committee adjourned at 2:30 p.m.

Approved by the Policy Committee of the Board of Trustees of the Teacher Retirement System of Texas on the 7th day of April 2015.

ATTESTED BY:

Dan Junell
Secretary to the TRS Board of Trustees

Date



Tab 2



Legal Services

Memorandum

DATE: March 21, 2016

TO: Policy Committee and Board of Trustees

FROM: Rebecca M. Smith, Assistant General Counsel

COPY: Brian Guthrie, Executive Director
Ken Welch, Deputy Director
Carolina de Onís, General Counsel

RE: Proposed Amendments to Chapter 31, relating to Employment After Retirement

REQUESTED ACTION

Proposed amendments to §31.1, relating to Definitions, were recommended by staff and submitted for publication for public comment by the Executive Director as provided in Section 5.7 of the Bylaws of the Board of Trustees of the Teacher Retirement System of Texas. The proposed amendments will have been published for public comment in the *Texas Register* for at least 30 days before the committee and board consider their adoption. Specifically, staff proposed amendments to §31.1(b), relating to Definitions, which were published in the *Texas Register* at 41 TexReg 1662.

To date TRS has not received any written comments regarding the proposed amendments. Any written comments that TRS receives after the date of this memorandum will be addressed in a separate document that will be available for your review at the April meeting.

Staff requests that the Policy Committee consider recommending adoption of the proposed amendments to the Board of Trustees.

BACKGROUND OF THE REQUESTED ACTION

The proposed changes to §31.1 regard the definitions of certain terms applicable to the rules in Chapter 31 regarding employment after retirement, including school year, substitute, and third-party entity. Staff proposes amending to §31.1(b) regarding the definition of a substitute. The current definition requires that in order to be considered a substitute the retiree must be serving in the place of a current employee. The proposed changes include work in a vacant position in the definition of substitute, provided the retiree does not serve more than 20 days in a vacant position or positions.

TRS staff members have observed that retirees often exceed the limits on employment after retirement because they inadvertently combine substitute work in a vacant position with other substitute work. Under the current definition, work in a vacant position is not substitute work. When combining work as a

substitute and other work in the same calendar month, a retiree who retired after January 1, 2011 is limited to working no more than one-half the number of work days in that calendar month. A retiree forfeits the annuity payable for the calendar month in which work exceeds the allowable amount.

The unintentional combination of work usually occurs when a retiree "substitutes" in a position that (1) the retiree does not know is vacant, or (2) the position becomes vacant due to the death of the current employee or a decision by the current employee not to return to work after the retiree begins serving in the position. The retiree serving in the now-vacant position may have already substituted for more than one-half the days in that month before learning that the position is vacant. Surcharges are also owed by the employer when the work exceeds one-half time.

In order to provide relief in these and similar circumstances, staff proposes to provide a 20-day cap on working in a position that is vacant. The 20-day limit will allow ample time for a retiree to discover that the position is vacant and/or for the employer to make other arrangements for the assignment without jeopardizing the retiree's annuity. Limiting the number of days the retiree may serve in a vacant position is also in keeping with the concept of a substitute being a person who serves on a "temporary basis."

To reduce the opportunity for "bending the rules" to benefit a particular retiree, the proposed amendments clarify that a retiree will not be considered a substitute while serving in a vacant position that was last held by that retiree.

RECOMMENDATION

Staff recommends adoption of the proposed rule amendments and requests the Policy Committee to recommend to the Board of Trustees that the proposed rule amendments be adopted as published in the *Texas Register*.

Rules §31.1 Definitions

(a) School year--For purposes of employment after retirement, a twelve-month period beginning on September 1 and ending on August 31 of the calendar year.

(b) Substitute--For purposes of employment after retirement, a person who serves on a temporary basis in the place of a current employee(s). A substitute may be paid no more than the daily rate of pay set by the employer. Effective September 1, 2016, a substitute includes a retiree who serves in a vacant position for no more than 20 days. A retiree may serve as a substitute in more than one vacant position each school year provided the retiree serves no more than 20 days in each vacant position. In no event may a retiree be considered a substitute while serving in a vacant position that was last held by that retiree. Service as a substitute that does not meet this definition is not eligible substitute service for purposes of an exception to forfeiture of annuity payments under §31.13 of this ~~title chapter~~ (relating to Substitute Service).

(c) Third party entity--For purposes of employment after retirement, an entity retained by a Texas public educational institution to provide personnel to the institution who perform duties or provide services that employees of that institution would otherwise perform or provide.

Tab 3



FINANCIAL DIVISION

Memorandum

DATE: March 23, 2016

TO: TRS Policy Committee and Board of Trustees

FROM: Don Green, Chief Financial Officer, and Carolina de Onís, General Counsel

COPY: Brian Guthrie, Executive Director and Ken Welch, Deputy Director

RE: Proposed Updates to Voucher Authority Resolution

ACTION REQUESTED

Staff asks the Policy Committee to:

- Conduct the comprehensive review of the Resolution Designating Persons Authorized To Sign TRS Vouchers (Voucher Authority Resolution or Resolution), which is slated for review under the Policy Review Schedule at the Committee's April 2016 meeting; and
- Recommend that the Board adopt proposed changes to the Voucher Authority Resolution to update the name of the incumbent serving in one of the authorized positions.

BACKGROUND AND DISCUSSION

The Voucher Authority Resolution is filed with State Comptroller of Public Comptroller and designates TRS employees authorized to sign vouchers for payment from TRS funds. The Resolution is required by statute (Tex. Gov't Code § 825.104).

Staff finds that the form of the Voucher Authority Resolution continues to comply with the statute and to serve the purpose for which it was adopted. Staff proposes limited changes to the Resolution to reflect the employment of Lauren Burroughs as the new Team Leader of Investment Accounting, one of the authorized positions. Accordingly, the Committee is asked to recommend that the Board adopt the changes to the Resolution proposed by staff.

**RESOLUTION
DESIGNATING PERSONS AUTHORIZED TO SIGN TRS VOUCHERS**

April 7, 2016~~May 1, 2015~~

WHEREAS, In accordance with section 825.104 of the Texas Government Code, the Board of Trustees (the "Board") of the Teacher Retirement System of Texas ("TRS") has previously granted authority to certain persons to approve and sign vouchers for payment from accounts of TRS; and

WHEREAS, The Board desires to re-designate those persons to whom this authority has been granted and to update the name of the incumbent serving as Team Leader of Investment Accounting~~ertain position titles~~; now, therefore, be it

RESOLVED, That the Board designates the following persons to approve and sign vouchers for payment from accounts of TRS from and after April 7, 2016~~May 1, 2015~~, and until the designated person separates from employment with TRS, is no longer employed in any capacity for which authority is granted under this resolution, or is not re-designated by the Board, whichever occurs first:

Brian K. Guthrie	Executive Director
Ken Welch	Deputy Director
Don Green	Chief Financial Officer
Jamie Pierce	Director of General Accounting & Budget
Scot Leith	Director of Investment Accounting
Janie Duarte	Assistant Director of General Accounting & Budget
Cindy Haley	Manager of Financial Reporting
Arlene Caballero	Manager of Employee Payroll & Benefits
<u>Lauren Burroughs</u> Vieki Garcia	Team Leader of Investment Accounting

ATTESTED:

Signed: _____

Date: April 7, 2016~~May 1, 2015~~

R. David Kelly, Board Chair

Signed: _____

Date: April 7, 2016~~May 1, 2015~~

Brian K. Guthrie, Executive Director