

**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING
BOARD OF TRUSTEES**

AGENDA

July 26, 2013 – 8:00 a.m.

TRS East Building, 5th Floor, Boardroom

NOTE: The Board may take up any item posted on the agenda anytime during its meeting on Friday, July 26, 2013.

The open portions of the July 26, 2013 Board meeting are being broadcast over the Internet. Access to the Internet broadcast of the Board meeting is provided on TRS' Web site at www.trs.state.tx.us.

1. Call roll of Board members.
2. Consider approval of the June 13-14, 2013 Board meeting minutes – David Kelly.
3. Recognize the service of outgoing Trustees – David Kelly.
4. Provide opportunity for public comments – David Kelly.
5. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:
 - A. An update on new trustee orientation.
 - B. Discuss upcoming TRTA presentations.
 - C. Board operational matters, including a review of draft agendas for upcoming meetings.
 - D. Enterprise Risk Management program.
 - E. Retirement plan benefits and operations.
 - F. Investment activity and operations.
 - G. Health-benefit programs and operations.
 - H. Administrative operations, including financial, audit, legal, staff services, board administration activities, and special projects.
6. Review the report of the Deputy Director, including a report on legislative implementation and a TEAM update – Ken Welch.

7. Discuss and consider a resolution directing staff to prepare for the payment of a cost of living adjustment consistent with the provisions of Senate Bill 1458 as passed by the 83rd Texas Legislature – Ken Welch.
8. Discuss and consider the following TRS-Care matters – Brian Guthrie; Betsey Jones; and William Hickman, Gabriel, Roeder, Smith and Company:
 - A. Receive the report on the June 4, 2013 Retirees Advisory Committee meeting.
 - B. Discuss the role of the Retirees Advisory Committee.
 - C. Adopt premiums and plan design for TRS-Care, the retiree health benefits program, including (i) adopting premiums and plan design for the three standard plans and the fully-insured Medicare Advantage Plans and (ii) adopting plan design for the Medicare Part D Plans.
 - D. Discuss and consider automatic enrollment and dis-enrollment provisions for the Aetna Medicare Advantage and Express Scripts Medicare Part D plans for TRS-Care participants turning 65 years of age – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company
9. Provide an update on TRS-ActiveCare, the active employee health benefits program, and discuss and consider eliminating TRS-ActiveCare 3 and moving TRS-ActiveCare 3 participants to TRS-ActiveCare 2 – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company.
10. Discuss the performance evaluation of Gabriel, Roeder, Smith and Company (GRS) as the provider of health benefits consulting services and consider a two-year extension to the existing health benefits consulting contract between TRS and GRS – Betsey Jones.
11. Discuss and consider selecting a pension fund actuarial services firm, including receiving staff's recommendation on the selection of a firm; and considering a resolution selecting the pension fund actuarial services firm – Rebecca Merrill.
12. Consider authorizing the Executive Director to purchase directors' and officers' and fiduciary liability insurance for fiscal year 2014 through the State Office of Risk Management – Ken Welch.
13. Consider adopting proposed amendments to Rule 34 Tex. Admin. Code § 25.1, relating to Full-Time Service – Rebecca Smith.
14. Consider a resolution certifying to the State Comptroller of Public Accounts the estimated amount of state contributions to be received by the retired school employees group health benefit fund for the fiscal year ending August 31, 2014 – Don Green.
15. Review the reports of the Chief Financial Officer – Don Green:

- A. Report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board.
 - B. Financial reports on TRS programs.
16. Review the report of the Chief Benefit Officer, and consider the following related matters – Marianne Woods Wiley:
- A. Approve members qualified for retirement.
 - B. Approve minutes of Medical Board meetings.
17. Discuss and consider selecting Board fiduciary counsel, including considering a finding that deliberating or conferring on the selection of fiduciary counsel in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person; receiving an overview on the responsibilities of fiduciary counsel and the process used to select the finalist firms; interviewing finalist firms for the position; and considering a resolution selecting fiduciary counsel – David Kelly.
18. Receive a presentation from Focus Consulting on the evaluation of the Chief Audit Executive, Chief Investment Officer, and Executive Director – Keith Robinson, Focus Consulting.

***NOTE:** The Board meeting likely will recess after the last item above to conduct the Audit Committee meeting and resume upon adjournment of the committee meeting to take up the items listed below.*

19. Discuss and consider personnel and compensation matters, including the following items:
- A. Review the report of the Audit Committee on its July 26, 2013 meeting, and discuss and consider the evaluation and compensation of the Chief Audit Executive – Chris Moss.
 - B. Discuss and consider the evaluation, compensation, and duties of the Chief Investment Officer and provide input to the Executive Director – David Kelly.
 - C. Discuss and consider the evaluation, compensation, and duties of the Executive Director – David Kelly and Keith Robinson, Focus Consulting.
20. Discuss and consider the adoption of a resolution regarding salary limits for the following particular employees: Chief Investment Officer, Deputy Director Investment Officer, Deputy Administrative Officer, and the Investment Fund Directors listed as exempt positions in the 2014 - 2015 General Appropriations Act – David Kelly.
21. Consult with the Board's attorney(s) in Executive Session on any item listed above on this meeting agenda as authorized by Section 551.071 of the Texas Open Meetings Act (Chapter 551 of the Texas Government Code) – David Kelly.



Teacher Retirement System of Texas

Minutes of the Board of Trustees

July 26, 2013

The Board of Trustees of the Teacher Retirement System of Texas met on July 26, 2013, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following board members were present:

David Kelly, Chair
Todd Barth
Karen Charleston
Charlotte Clifton
Joe Colonna
Eric McDonald
Chris Moss
Anita Palmer
Nanette Sissney

Others present:

Brian Guthrie, TRS	Rebecca Smith, TRS
Ken Welch, TRS	Susan Wade, TRS
Amy Barrett, TRS	Tim Wei, TRS
Carolina de Onís, TRS	Angela Vogeli, TRS
Howard Goldman, TRS	Yimei Zhao, TRS
Don Green, TRS	Steve Voss, Hewitt EnnisKnupp
T. Britton Harris IV, TRS	Brady O'Connell, Hewitt EnnisKnupp
Betsey Jones, TRS	Philip Mullins, Austin Retired Teachers Association
Amy Morgan, TRS	Ronnie Jung, Texas Retired Teachers Association
Marianne Woods Wiley, TRS	Tim Lee, Texas Retired Teachers Association
Jase Auby, TRS	Victor Ferreira, HP Enterprise Services
Michelle Bertram, TRS	Ernie Sanders, HP Enterprise Services
Ronnie Bounds, TRS	Andy Tonkovich, HP Enterprise Services
David Cook, TRS	Pat Del Rio, Aetna
Janie Duarte, TRS	Shannon Meroney, Aetna
Edward Esquivel, TRS	Ann Fickel, Texas Classroom Teachers Association
Dennis Gold, TRS	Ted Melina Raab, Texas American Federation of Teachers
Janis Hydak, TRS	Steve Huff, Reinhart Boerner Van Deuren
Dan Herron, TRS	Pati McCandless, BCBSTX
Bob Jordan, TRS	Carol Riley, BCBSTX
Dan Junell, TRS	David Runyan, Express Scripts
Lynn Lau, TRS	Craig Kessler, ESI
Scot Leith, TRS	Jeff Lambert, State Street
Rebecca Merrill, TRS	Craig teDuits, State Street
Jamie Michels, TRS	Joe Newton, Gabriel Roeder Smith & Company
Melinda Nink, TRS	Bill Hickman, Gabriel Roeder Smith & Company
Noel Sherman, TRS	Amy Cohen, Gabriel Roeder Smith & Company

Mr. Kelly called the meeting to order at 8:09 a.m.

1. Call roll of Board members.

Ms. Lau called the roll. All trustees were present.

2. Consider approval of the June 13-14, 2013 Board meeting minutes – David Kelly.

On a motion by Ms. Palmer, seconded by Ms. Charleston, the board unanimously approved the minutes for the June 13-14, 2013 meeting.

3. Recognize the service of outgoing Trustees – David Kelly.

Ms. Clifton expressed her appreciation to current and former trustees and staff. She also recognized the Texas Classroom Teachers Association and Texas Retired Teachers Association for their support of TRS. She closed by highlighting significant events during her term.

Mr. McDonald expressed his appreciation to the board and staff and highlighted significant events during his term.

Ms. Sissney, Mr. Moss, Mr. Barth, Mr. Harris, Mr. Guthrie, and Mr. Palmer expressed their appreciation to Ms. Clifton and Mr. McDonald for their services. On behalf of the board, Mr. Kelly read the following resolutions into the record to recognize Ms. Clifton and Mr. McDonald for their services:

Whereas, Charlotte Clifton has served as a member of the Board of Trustees of the Teacher Retirement System of Texas (TRS) from February 2008 through August 2013, mindful of her duty as caretaker of a trust to those who teach or otherwise serve our state's children and thereby shape its future; and

Whereas, She has provided leadership to the system during a time when the retirement system grew to more than 1.3 million members and annuitants; management controls were strengthened, new investment allocations and procedures were adopted and implemented, the State Auditor's Office reports provided unqualified opinions with no material findings, and TRS annually received the "Certificate of Achievement for Excellence in Financial Reporting" from the Government Finance Officers Association; and

Whereas, She served TRS in numerous ways, including as vice chair of the board since 2011; chair of the Benefits Committee and Ethics Committee; and a member of the Audit, Benefits, Budget, Policy, and Compensation Committees; and

Whereas, She represented TRS on the National Council on Teacher Retirement (NCTR) Resolutions Committee in 2012; and

Whereas, She served on the board at a time when TRS conducted an important legislative study on pension fund sustainability, which enabled the legislature to make modifications that made the pension fund actuarially sound, allowing for the first permanent cost-of-living increase for a majority of retirees in more than a decade; and

Whereas, She played an active role in selecting a new executive director for TRS in February 2011; and

Whereas, She served on the board during the time of TRS' 75th anniversary and joined other trustees in commemorating that special event; and

Whereas, She helped guide the agency through prudent oversight of trust assets during a challenging period of extreme capital market volatility, including one of the nation's most serious recessions, after which the TRS Pension Fund rebounded from \$67 billion in March 2009 to approximately \$116 billion as of June 30, 2013; now, therefore, be it

Resolved, That the Board of Trustees and staff of the Teacher Retirement System of Texas recognize the accomplishments and contributions of Charlotte Clifton and express appreciation on behalf of TRS members both present and future; and be it further

Resolved, That a copy of this resolution be presented to Charlotte Clifton and entered into the record of the board for July 26, 2013.

Whereas, Eric McDonald has served as a member of the Board of Trustees of the Teacher Retirement System of Texas (TRS) from March 2009 through August 2013, mindful of his duty as caretaker of a trust to those who teach or otherwise serve our state's children and thereby shape its future; and

Whereas, He has provided leadership to the system during a time when the retirement system grew to more than 1.3 million members and annuitants; management controls were strengthened, new investment allocations and procedures were adopted and implemented, the State Auditor's Office reports provided unqualified opinions with no material findings, and TRS annually received the "Certificate of Achievement for Excellence in Financial Reporting" from the Government Finance Officers Association; and

Whereas, He served TRS in numerous ways, including as chair of the Risk Committee as well as a member of the Audit, Policy, Investment Management, and Risk Committees; and

Whereas, He served on the board at a time when TRS conducted an important legislative study on pension fund sustainability, which enabled the legislature to make modifications that made the pension fund actuarially sound, allowing for the first permanent cost-of-living increase for a majority of retirees in more than a decade; and

Whereas, He played an active role in selecting a new executive director for TRS in February 2011; and

Whereas, He served on the board during the time of TRS' 75th anniversary and joined other trustees in commemorating that special event; and

Whereas, He helped guide the agency through prudent oversight of trust assets during a challenging period of extreme capital market volatility, including one of the nation's most serious recessions, after which the TRS Pension Fund rebounded from \$67 billion in March 2009 to approximately \$116 billion as of June 30, 2013; now, therefore, be it

Resolved, That the Board of Trustees and staff of the Teacher Retirement System of Texas recognize the accomplishments and contributions of Eric McDonald and express appreciation on behalf of TRS members both present and future; and be it further

Resolved, That a copy of this resolution be presented to Eric McDonald and entered into the record of the board for July 26, 2013.

Whereupon the meeting recessed at 8:42 a.m., and board members gathered in the hall just outside the boardroom for the ceremonial event of having a group picture taken with their outgoing colleagues.

The board members returned to their seats at 8:46 a.m.

4. Provide opportunity for public comments – David Kelly.

Mr. Philip Mullins of Austin Retired Teachers Association addressed the board on agenda item 17. He stated his concern about the board's going into executive session to deliberate the selection of fiduciary counsel during executive session. He acknowledged that HB 3357 passed by the 83rd legislature authorized TRS to conduct an executive session for board procurements such as fiduciary counsel, but he said that the board did not have to exercise that authority. He urged the board not to conduct the selection during executive session. He noted that the premiums for the directors' and officers' liability insurance in the board materials for agenda item 12 had been redacted. He stressed the importance of upholding the state open government practices.

Mr. Kelly noted that respondents had expressed concern about discussing proprietary information with the board in open session. Mr. Guthrie noted that TRS was concerned about disclosing its negotiating position to competing vendors.

Mr. Tim Lee of TRTA expressed his appreciation to Ms. Clifton and Mr. McDonald for their services to the system. He stated that he hoped that TRS would continue to inform and involve the members' organizations in future discussions relating to both the pension and health benefit plans. He also complimented Mr. Guthrie's service in leading the agency.

5. Review and discuss the Executive Director's report on the following matters – Brian Guthrie:

- A. An update on new trustee orientation.**
- B. Discuss upcoming TRTA presentations.**
- C. Board operational matters, including a review of draft agendas for upcoming meetings.**
- D. Enterprise Risk Management program.**
- E. Retirement plan benefits and operations.**
- F. Investment activity and operations.**
- G. Health-benefit programs and operations.**

H. Administrative operations, including financial, audit, legal, staff services, board administration activities, and special projects.

Mr. Guthrie discussed the new trustee orientation. He noted that each trustee would be given the opportunity to comment on training needs.

Mr. Guthrie presented a list of upcoming TRTA presentations.

Mr. Guthrie reported that the State Street contract was in the negotiation stage. He presented a list of proposed new services to be provided by State Street in the proposed new contract. He stated that State Street would provide an overview of their services at the October board meeting.

Mr. Harris summarized the Strategic Partnership Network (SPN) summit held in New York. He stated that staff would review the summit in more detail at the September board meeting.

Mr. Guthrie outlined the proposed agendas for the September and October board meetings. Mr. Kelly asked trustees to provide the topics they would like to include on the board-education agenda for the February 2014 board meeting.

6. Review the report of the Deputy Director, including a report on legislative implementation and a TEAM update – Ken Welch.

Mr. Welch highlighted recent, major legislation affecting TRS. He described the on-going process of implementing the legislation.

Mr. Welch provided an update on the TEAM program. He updated the board on the vendor selection process for Line of Business (LOB) and Financial System Replacement (FSR) procurements.

After recessing at 9:50 a.m., the meeting reconvened at 10:08 a.m.

7. Discuss and consider a resolution directing staff to prepare for the payment of a cost of living adjustment consistent with the provisions of Senate Bill 1458 as passed by the 83rd Texas Legislature – Ken Welch.

Mr. Welch reviewed the cost-of-living adjustment (COLA) provision in Senate Bill 1458 passed by the 83rd Legislature.

On a motion by Ms. Clifton, seconded by Mr. McDonald, the board voted to adopt the following resolution directing staff to pay the authorized COLA:

Whereas, The Texas Legislature has enacted legislation providing for the Teacher Retirement System of Texas (TRS) to make a one-time cost-of-living adjustment (adjustment or COLA) payable to eligible annuitants receiving a monthly death or retirement annuity, as provided by section 2 of Senate Bill 1458 (to be codified as new section 824.702 of the Texas Government Code to be effective September 1, 2013); and

Whereas, New section 824.702 requires the adjustment to be made beginning with an annuity payable for the month of September 2013 and the TRS Board of Trustees

(board) to determine the eligibility for and the amount of any adjustment in monthly annuities under section 824.702; now, therefore, be it

Resolved, That the board directs the Executive Director and his designees to determine the annuitants eligible for a COLA and the amount to pay to them and to take all necessary action to timely pay the COLA in accordance with section 824.702.

8. Discuss and consider the following TRS-Care matters – Brian Guthrie; Betsey Jones; and William Hickman, Gabriel, Roeder, Smith and Company:

A. Receive the report on the June 4, 2013 Retiree Advisory Committee meeting.

Ms. Jones provided a report on the June 4, 2013 Retiree Advisory Committee meeting.

B. Discuss the role of the Retirees Advisory Committee.

Ms. Jones profiled the Retiree Advisory Committee (RAC), including its structure, appointment process, and responsibilities. Mr. Guthrie said that some current RAC members wanted the board to give them guidance on what role the RAC should play. He stated that those members would like to be more involved in discussing issues relating to retirees' pension and health benefit plans. Mr. Kelly requested that a discussion on the role of the RAC be put on the agenda of an upcoming meeting. He asked staff to invite the RAC members to address the board with their concerns. After a brief discussion, the board decided to have the item taken up at the September meeting.

C. Adopt premiums and plan design for TRS-Care, the retiree health benefits program, including (i) adopting premiums and plan design for the three standard plans and the fully-insured Medicare Advantage Plans and (ii) adopting plan design for the Medicare Part D Plans.

Ms. Jones profiled the TRS-Care plans and described their current enrollment status. Responding to a question from Mr. Moss and Mr. McDonald regarding enrollment in the Medicare Advantage (MA) plans, Ms. Jones stated that current enrollment was 70%, which was higher than the 60% target originally set by staff. She stated that each enrollment in a MA plan would result in savings for TRS-Care. She confirmed for Mr. Kelly that, at the current enrollment rates, the TRS-Care fund was projected to be solvent through the 2014-2015 biennium. She said that the next opportunity to enroll in a MA plan would be between October 15, 2013 and November 15, 2013. She did not expect a massive movement into the MA plans because many of those who were not currently enrolled had opted out the year before, and this year they would not be auto-enrolled in a MA plan but would have to take action to opt in.

Ms. Jones explained the impact of the recent legislation passed by the 83rd Legislature on TRS-Care plans. Presenting the FY 2014 cost distribution pie chart, Ms. Jones clarified for Mr. Kelly that the "Other Contributions" category referred to federal funds and interest. She also clarified for Ms. Palmer that the "Investment Income" category listed in the TRS-Care Funding Projection table referred to the short-term interest from the state treasury. She explained for Ms. Palmer the assumptions underlying the projected eventual increase in premiums for the MA plans in the out-years. Ms. Jones described the impact of the premium increases.

In conclusion, Ms. Jones said staff recommended that no changes be made to the benefits or premiums for the TRS-Care standard plans effective September 1, 2013, or to the MA plans and Medicare Part D plans effective January 1, 2014. She referred the board to the letter supporting staff's recommendations from TRS' health benefits consultant, Gabriel, Roeder, Smith & Company.

On a motion by Ms. Sissney, seconded by Mr. Barth, the board unanimously adopted the following resolution concerning the premiums and plan design for the three TRS-Care standard plans and the MA plans, and the plan design for the Medicare Part D plans:

Whereas, Chapter 1575, Insurance Code, authorized the Teacher Retirement System of Texas ("TRS"), as trustee, to implement and administer the uniform group health benefits program under the Texas Public School Retired Employees Group Benefits Act ("TRS-Care"), as described in the statute;

Whereas, TRS-Care offers coverage in three standard plans ("TRS-Care Standard plans"), historically known as TRS-Care 1, TRS-Care 2, and TRS-Care 3; in two qualified fully-insured Medicare Advantage plans ("TRS-Care Medicare Advantage plans"), available to eligible TRS-Care 2 and TRS-Care 3 participants who have Medicare Parts A and B; and in two Medicare Prescription plans ("TRS-Care Medicare Prescription plans"), available to eligible TRS-Care 2 and TRS-Care 3 participants who have either Medicare Part A or Medicare Part B or both;

Whereas, Due to the funding available to TRS-Care, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company ("GRS") have recommended that for the 2014 plan year, beginning September 1, 2013, premium rates at all levels of coverage in the TRS-Care Standard plans remain unchanged from the current premium rates for the 2013 plan year;

Whereas, TRS staff and GRS have further recommended that for the plan year commencing on January 1, 2014, premium rates in the TRS-Care Medicare Advantage plans remain unchanged from the current premium rates for the plan year that commenced on January 1, 2013;

Whereas, TRS staff and GRS have further recommended that for the 2014 plan year, beginning September 1, 2013, benefit plan designs for TRS-Care Standard plans remain unchanged from the current benefit plan designs for the 2013 plan year;

Whereas, TRS staff and GRS, have further recommended that for the plan year commencing on January 1, 2014, benefit plan designs for the TRS-Care Medicare Advantage Plans and the TRS-Care Medicare Prescription plans remain unchanged from the current benefit plan designs for the plan year that commenced on January 1, 2013; and

Whereas, The TRS Board of Trustees ("Board") desires to adopt the recommendations of TRS staff and GRS; now, therefore, be it

Resolved, That for the 2014 plan year, beginning September 1, 2013, and for all plan years thereafter until further action by the Board, the Board hereby adopts and authorizes the premium rates at all levels of coverage in the TRS-Care Standard plans that are currently in place for the 2013 plan year;

Resolved, That for the plan year commencing on January 1, 2014, and for all plan years thereafter until further action by the Board, the Board hereby adopts and authorizes the premium rates in the TRS-Care Medicare Advantage plans that are currently in place for the plan year that commenced on January 1, 2013;

Resolved, That for the 2014 plan year, beginning September 1, 2013, and for all plan years thereafter until further action by the Board, the Board hereby adopts and authorizes the benefit plan designs at all levels of coverage in the TRS-Care Standard plans that are currently in place for the 2013 plan year;

Resolved, That for the plan year commencing on January 1, 2014, and for all plan years thereafter until further action by the Board, the Board hereby adopts and authorizes the benefit plan designs for the TRS-Care Medicare Advantage plans and the TRS-Care Medicare Prescription plans that are currently in place for the plan year that commenced on January 1, 2013;

Resolved, That the Board finds that, considering the actions taken in the resolutions above, TRS-Care is projected to remain financially solvent during the currently funded biennium; and

Resolved, That for the plan year commencing on September 1, 2013 for the TRS-Care Standard plans, and for the plan year commencing on January 1, 2014 for the TRS-Care Medicare Advantage plans and the TRS-Care Medicare Prescription plans, and for all plan years thereafter until further action by the Board, the Board authorizes the Executive Director or his designees to take any actions that he or his designee in his or their discretion deem to be necessary or advisable to implement this resolution, and to otherwise implement and continue the TRS-Care Standard plans, the TRS-Care Medicare Advantage plans, and the TRS-Care Medicare Prescription plans until further action by the Board.

D. Discuss and consider automatic enrollment and dis-enrollment provisions for the Aetna Medicare Advantage and Express Scripts Medicare Part D plans for TRS-Care participants turning 65 years of age – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company

Ms. Jones stated that staff recommended that automatic enrollment be established for TRS-Care 2 and TRS-Care 3 enrollees into the Medicare Advantage (MA) plans and Medicare Part D drug plans in the TRS-Care program with the opt-out option. Mr. Moss suggested communicating the automatic enrollment to members to avoid confusion.

On a motion by Mr. McDonald, seconded by Mr. Barth, the board unanimously adopted the following resolution to establish the automatic enrollment for the MA plans and Medicare Part D drug plans:

Whereas, Chapter 1575, Insurance Code, authorized the Teacher Retirement System of Texas ("TRS"), as trustee, to implement and administer the uniform group health benefits program under the Texas Public School Retired Employees Group Benefits Act ("TRS-Care"), as described in the statute;

Whereas, during its July 2012 meeting, the TRS Board of Trustees ("Board") adopted a resolution entitled "Resolution Establishing Enrollment Opportunities and Opt Out Provisions for the Medicare Advantage plans and Medicare Prescription Plans in the TRS-

Care Program" (the "July 2012 Medicare Plans Enrollment Resolution"), and authorized thereby for plan years commencing on or after January 1, 2013, among other things, (i) initial enrollment opportunities for the Medicare plans under TRS-Care, as set out in Exhibit A attached to that resolution, (ii) annual enrollment opportunities for the Medicare plans under TRS-Care, as set out in Exhibit B attached to that resolution, and (iii) opt out provisions for the Medicare plans under TRS-Care, as set out in Exhibit C attached to that resolution;

Whereas, TRS staff has recommended that the Board adopt a set of automatic enrollment provisions, which are contained in Exhibit A, attached to this resolution and incorporated herein by reference, to be effective as soon as administratively feasible as determined by the Executive Director or his designees in his or their discretion and to remain effective thereafter until further action by the Board, for individuals who are enrolled in either TRS-Care 2 or TRS-Care 3 and who then enroll in Medicare Parts A and/or B because they turn age 65; and

Whereas, The Board desires to adopt the recommendations of TRS staff; now, therefore, be it

Resolved, That the Board hereby adopts and authorizes the set of automatic enrollment provisions set out in Exhibit A, attached hereto and incorporated herein by reference, to be effective as soon as administratively feasible as determined by the Executive Director or his designees in his or their discretion, and to remain effective thereafter until further action by the Board, for individuals who are enrolled in either TRS-Care 2 or TRS-Care 3 and who then enroll in Medicare Parts A and/or B because they turn age 65;

Resolved, That the part of Exhibit A to the July 2012 Medicare Plans Enrollment Resolution Board that addresses individuals who are enrolled in either TRS-Care 2 or TRS-Care 3 and who then enroll in Medicare Parts A and/or B because they turn age 65 shall terminate when the automatic enrollment provisions set out in Exhibit A, attached hereto, become effective;

Resolved, That all remaining portions of Exhibit A to the July 2012 Medicare Plans Enrollment Resolution not altered by the automatic enrollment provisions noted above, along with Exhibits B and C to the July 2012 Medicare Plans Enrollment Resolution, shall remain in place until further action by the Board; and

Resolved, That the Board authorizes the Executive Director or his designees to take any actions that he or his designee in his or their discretion deem to be necessary or advisable, in accordance with applicable law, to implement this resolution, to adjust the timing of disenrollment from the Medicare Advantage plans and the Medicare Prescription plans in unusual circumstances, and to otherwise create, implement, and continue the Medicare Advantage plans and the Medicare Prescription plans until further action by the Board.

Exhibit A

Automatic Enrollment in the TRS-Care Medicare Advantage
Plans and the TRS-Care Medicare Prescription Plans for Individuals
who are Enrolled in Either TRS-Care 2 or TRS-Care 3 and who
Then Enroll in Medicare Parts A and/or B Because They Turn Age 65

As soon as administratively feasible, as determined by the Executive Director or his designees in his or their discretion, automatic enrollment will begin as detailed herein. An individual enrolled in either TRS-Care 2 or TRS-Care 3 who then becomes enrolled in Medicare Parts A and/or B because he turns age 65 shall be automatically enrolled in a TRS-Care Medicare Advantage plan and/or a TRS-Care Medicare Prescription plan according to the following automatic enrollment provisions:

- Subject to other applicable eligibility criteria and the timing of the completion of the Age 65 Additional Enrollment Opportunity, an individual who is enrolled in TRS-Care 2 or TRS-Care 3 and who then becomes enrolled in Medicare Parts A and B because he turns age 65 shall be automatically enrolled in a TRS-Care Medicare Advantage plan and a TRS-Care Medicare Prescription plan, in a manner and when deemed to be necessary or advisable by the Executive Director or his designees in his or their discretion.
- Subject to other applicable eligibility criteria and the timing of the completion of the Age 65 Additional Enrollment Opportunity, an individual who is enrolled in TRS-Care 2 or TRS-Care 3 and who then becomes enrolled, because he turns age 65, in Medicare Part A or Medicare Part B, but not both, shall remain enrolled in the TRS-Care medical plan and shall be automatically enrolled in a TRS-Care Medicare Prescription plan, in a manner and when deemed to be necessary or advisable by the Executive Director or his designees in his or their discretion.
- Notwithstanding anything to the contrary, a dependent may only choose available plans within the same TRS-Care level of coverage (*i.e.*, TRS-Care 1, TRS-Care 2, or TRS-Care 3) in which the retiree or surviving spouse is enrolled.

Mr. Kelly announced that the board would take up agenda item 4 again to hear additional public comment.

4. Provide opportunity for public comments – David Kelly.

Ms. Ann Fickel of Texas Classroom Teachers Association expressed her concern about eliminating the TRS-ActiveCare 3 Plan (Plan 3). She stated that there were members with serious medical issues and willing to pay a higher premium under Plan 3. She recommended that Plan 3 be offered to existing enrollees at least until the end of the 2014 school year to provide time for members to make necessary adjustments. She also suggested making adjustments elsewhere to help lower the premiums of Plan 3. She stated that if the board decided to eliminate Plan 3, she hoped that staff would inform and educate members about the change and the available options and resources.

9. Provide an update on TRS-ActiveCare, the active employee health benefits program, and discuss and consider eliminating TRS-ActiveCare 3 and moving TRS-ActiveCare 3 participants to TRS-ActiveCare 2 – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company.

Ms. Jones stated that the funding for TRS-ActiveCare had not changed since the inception of the program. She stated that the current premiums for TRS-ActiveCare 3 (Plan 3) were still not adequately priced. Even with the 25% premium increase, she said, it was subsidized by the TRS-ActiveCare 1 High Deductible (HD) Plan. She stated that eliminating Plan 3 would not justify lowering premiums for other TRS-ActiveCare plans. She stated that if the board voted to eliminate Plan 3, the current Plan 3 enrollees would be moved to TRS-ActiveCare 2, or they

could enroll in TRS-ActiveCare 1-HD or an HMO, if they were eligible. Responding to questions from trustees regarding the TRS-ActiveCare plans, Ms. Jones and Mr. Hickman detailed the total enrollments and deductibles of the plans.

The board members discussed the projected impact of the staff proposal and options besides eliminating Plan 3. Ms. Sissney suggested keeping Plan 3 for those who had enrolled in the plan for the 2014 school year until the end of the school year to allow them time to review their options. Mr. Howard confirmed for Mr. Guthrie that either keeping or eliminating the plan for people who had already enrolled for the 2014 school year would be administratively feasible. Ms. Clifton and Mr. McDonald concurred with Ms. Sissney's suggestion. Mr. Howard stated that new language could be added to the proposed resolution to incorporate Ms. Sissney's suggestion.

Ms. Moss suggested that staff work with the healthcare actuary to study possible design changes and options remaining after closing Plan 3 and present them for the board's consideration in February 2014.

Mr. Kelly stated that the board would take up this item again later when staff presented a proposed amended resolution that would eliminate Plan 3 for new enrollees beginning September 1, 2013, grandfather those who had enrolled in Plan 3 for the 2014 plan year, and permanently discontinue the plan effective August 31, 2014. On a motion by Mr. McDonald, seconded by Ms. Sissney, the board voted unanimously to postpone this item until the revised resolution was ready for consideration.

10. Discuss the performance evaluation of Gabriel, Roeder, Smith and Company (GRS) as the provider of health benefits consulting services and consider a two-year extension to the existing health benefits consulting contract between TRS and GRS – Betsey Jones.

Ms. Jones presented the summary of work performed by Gabriel, Roeder, Smith & Company (GRS). She complimented GRS' timely services, which she said, had met or exceeded staff's expectations. She stated that switching to another health benefits consultant would be difficult in light of the major issues facing the health benefit plans in the next legislative session. She said staff recommended that the contract with GRS be extended for two years. Mr. Kelly asked if the health benefit assumptions and projections needed to be reviewed by an independent consultant. Ms. Jones noted that the health benefit assumptions and projections were short-term and adjusted in real time. Mr. Welch suggested adding health benefit assumptions to the next audit. Mr. Guthrie stated that staff would look into Mr. Kelly's suggestion and report back to the board with available options.

On a motion by Mr. Moss, seconded by Mr. Barth, the board unanimously adopted the following resolution to extend the existing health benefits consulting contract with GRS:

Whereas, Chapter 1575, Insurance Code, authorizes the Teacher Retirement System of Texas ("TRS"), as trustee, to implement and administer the uniform group health benefits program under the Texas Public School Retired Employees Group Benefits Act ("TRS-Care"), as described in the statute;

Whereas, Chapter 1579, Insurance Code, authorizes the TRS, as trustee, to implement

and administer the uniform group health benefits program under the Texas School Employees Uniform Group Health Coverage Act ("TRS-ActiveCare"), as described in the statute;

Whereas, During its June 2008 meeting, the TRS Board of Trustees ("Board") authorized a contract with Gabriel, Roeder, Smith & Company ("GRS") to provide health care consulting and actuarial services to TRS and the Board;

Whereas, Effective September 1, 2008, TRS entered into a contract ("Current Contract") with GRS to provide health care consulting and actuarial services to TRS and the Board;

Whereas, The Current Contract is set to expire on August 31, 2014;

Whereas, TRS staff recommends that the Current Contract be extended for an additional two (2) year period, effective from September 1, 2014 through August 31, 2016;

Whereas, The Board desires to adopt the recommendation of TRS staff; now, therefore, be it

Resolved, That the Board, pursuant to Chapters 1575 and 1579 of the Insurance Code, hereby authorizes the Executive Director or his designees to negotiate, with the assistance and advice of legal counsel, a two (2) year extension, effective from September 1, 2014 through August 31, 2016, of the Current Contract with GRS to provide health care consulting and actuarial services to TRS and the Board; and, if negotiations are deemed by the Executive Director, in his discretion to be successful, then the Executive Director is hereby authorized to execute the two (2) year extension of the Current Contract with GRS on such terms and conditions as the Executive Director deems, in his discretion, to be in the best interest of TRS, and further to execute and deliver all such other documents that the Executive Director may deem necessary or appropriate to effect this resolution, as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve and pay any budgeted expenses or costs reasonably necessary or advisable with respect to such contract extension, it being understood that the Board's approval of a contract extension pursuant to this resolution shall not be construed as a binding agreement or obligation to extend the Current Contract, and there shall be no binding agreement among the parties until a full and final written contract extension is negotiated and signed by both parties.

11. Discuss and consider selecting a pension fund actuarial services firm, including receiving staff's recommendation on the selection of a firm; and considering a resolution selecting the pension fund actuarial services firm – Rebecca Merrill.

Ms. Merrill reviewed the selection process of the pension fund actuary. She reported that staff received two responses to the bid, with one of them being disqualified because of its untimely submission. She stated that staff recommended that GRS be selected as the provider of pension fund actuarial services. General discussion followed about the actuarial industry and the lack of responses to the procurement opportunity.

On a motion by Mr. Colonna, seconded by Mr. Barth, the board unanimously adopted the following resolution to select GRS as the actuarial valuation and pension consulting service provider for the TRS pension fund:

Whereas, Section 825.206(a) of the Government Code and TRS Bylaws subsection 1.8(o) provides that the Board of Trustees (Board) of the Teacher Retirement System of Texas (TRS) shall select, designate, and evaluate an actuary as its technical advisor;

Whereas, Section 825.206(c) of the Government Code provides that the Board shall redesignate its actuary every four years after advertising for and reviewing proposals from providers of actuarial services;

Whereas, Section 825.101 of the Texas Government Code states that the Board is responsible for the general administration and operation of the retirement system and its assets, and Section 825.103 of the Texas Government Code provides that the Board has exclusive authority over the purchase of goods and services when using trust funds, including the purchase of actuarial valuation and pension consulting services;

Whereas, TRS Bylaws subsections 5.6(b) and 5.6(e) delegate authority to the TRS executive director to contract for the purchase of services and the execution of vouchers for payments, in accordance with actions of the Board;

Whereas, TRS conducted a competitive procurement for actuarial valuation and pension consulting services;

Whereas, The Board wishes to authorize the executive director to enter into a contract for actuarial valuation and pension consulting services; now, therefore be it

Resolved, That the Board, pursuant to Section 825.206 of the Texas Government Code, hereby authorizes the executive director or the deputy director of TRS to negotiate, with the assistance and advice of legal counsel, a contract with Gabriel Roeder Smith and Company to provide actuarial valuation and pension consulting services for the TRS pension fund; and

Resolved, That, if negotiations are deemed in his or her discretion to be successful, then the executive director or the deputy director is hereby authorized to execute a contract on such terms and conditions as such officer may deem, in his or her discretion, to be in the best interest of TRS, and further to execute and deliver all such other documents, including all future extensions or amendments to the contract, that such officer may deem necessary or appropriate to effect this resolution, as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve and pay any budgeted expenses or costs reasonably necessary or advisable with respect to such contract or amendments.

12. Consider authorizing the Executive Director to purchase directors' and officers' and fiduciary liability insurance for fiscal year 2014 through the State Office of Risk Management – Ken Welch.

Mr. Welch described the directors' and officers' (D&O) and fiduciary liability insurance provided for the trustees and certain TRS key employees. He explained for Mr. Kelly the process of setting the policy limits.

On a motion by Mr. McDonald, seconded by Mr. Moss, the board unanimously voted to adopt the following resolution to authorize the Executive Director to purchase the D&O and fiduciary liability insurance for FY 2014:

Resolved, That, pursuant to Texas Government Code Section 825.112, the Executive Director or his designee is authorized to purchase directors and officers insurance coverage, including fiduciary liability and employment practices liability insurance with coverage limits of up to \$25 million under each policy for fiscal year 2014, at a cost to be determined by the Executive Director, and to negotiate and agree to such terms and conditions of coverage as the Executive Director or his designee may deem in his or her discretion to be in the best interest of TRS, and to execute and deliver any authorizations to bind coverage and such other documents, applications, contracts, amendments, extensions, agreements, certificates, or affidavits, or modifications as may be necessary or desirable in connection with acquiring and maintaining such insurance.

13. Consider adopting proposed amendments to Rule 34 Tex. Admin. Code § 25.1, relating to Full-Time Service – Rebecca Smith.

Ms. Smith stated that proposed amendments to TRS rule §25.1 had been published under the authority of the Executive Director without being considered by the Policy Committee because there was not sufficient time between the June and July board meetings to meet the required timelines for public-comment publication before adoption. She stated that the proposed amendments carved out a specific minimum eligibility requirement for adjunct faculty members, which would allow adjunct faculty to teach the equivalent of three 3-hour classes without establishing eligibility for membership in TRS. She stated that the proposed amendments would avoid a conflict for employers with the anticipated requirements under the Affordable Care Act and alleviate adjunct faculty members' concern about having to teach fewer courses. She stated that the proposed amendments also included a definition of adjunct faculty for TRS purposes. Prior to publication of the proposed amendments in the *Texas Register*, she said, representatives of Texas Community College Teachers Association (TCCTA) and Texas Association of Community Colleges (TACC) indicated they favored the proposed amendments.

On a motion by Ms. Clifton, seconded by Ms. Palmer, the board unanimously adopted the following resolution to adopt the proposed amendments to § 25.1 without changes to the published text of the proposed rule:

Whereas, Section 825.102 of the Texas Government Code authorizes the Board of Trustees (board) of the Teacher Retirement System of Texas (TRS) to adopt rules regarding eligibility for membership, the administration of the funds of the system, and the transaction of the business of the board;

Whereas, The standards for membership eligibility in TRS are established in TRS rule §25.1 and provide that employment for one-half or more of the standard full-time work load, for a period of four and one-half months or more, with pay at a rate comparable to the rate of compensation for other persons employed in similar positions is eligible for membership and consistent application of this standard is difficult when the work load is expressed in terms of the number of semester hours or course credits taught by faculty employed in institutions of higher education rather than in clock hours;

Whereas, The adopted related rule amendments in April 2013 establishing the same ratio for converting semester hours or course credits to clock hours for the purpose of determining eligibility for membership as that used for the purpose of determining the number of hours worked by a retiree under the one-half time exception to employment after retirement and the conversion ratio of two clock hours for every hour of instruction

in the classroom or lab reflects the instructional time as well as preparation, grading, and other time typically associated with one hour of instruction;

Whereas, Providing the same conversion ratio for membership eligibility and employment after retirement reduces confusion, eases communication, and improves consistent administration of the standard;

Whereas, The latest proposed amendments to TRS rule §25.1 would establish an eligibility requirement specifically for adjunct faculty, a group of employees to whom it has proven historically difficult to consistently apply the membership eligibility requirements;

Whereas, The proposed amendments to TRS rule §25.1 would effectively allow an adjunct faculty employee to teach one additional 3-hour class without becoming eligible for membership in TRS and would also establish a definition for an adjunct faculty position to aid in the consistent administration of the membership eligibility requirements for adjunct faculty;

Whereas, The latest proposed amendments to TRS rule §25.1 were published for public comment in the June 21, 2013 issue of the *Texas Register* under the executive director's authority in §5.7 of the board's bylaws, and the public had at least 30 days' notice of TRS' intention to adopt the proposed amendments before the board considered their adoption, and TRS received a positive written comment in support of the proposed amendments; and

Whereas, The board desires to adopt the proposed amendments without changes to the published texts of the proposed rule; now, therefore, be it

Resolved, That the board hereby:

- 1) Adopts amended TRS rule 34 TEX. ADMIN. CODE §25.1 without changes to the text of the proposed rule as published for public comment in the June 21, 2013 issue of the *Texas Register* (38 TexReg 3888);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable policy committee and board meeting materials, discussions and actions, including the approved rule text and reasoned justification for its adoption as presented in those meeting materials, discussions and actions;
- 3) Grants the TRS staff authority to prepare and to file all documents required by this Resolution, to work with the Office of the Secretary of State in preparing and filing such documents, and to make any technical changes required for publication of the adopted rule; and
- 4) Grants the board chairman the authority to sign an order showing the action of the board.

14. Consider a resolution certifying to the State Comptroller of Public Accounts the estimated amount of state contributions to be received by the retired school employees group health benefit fund for the fiscal year ending August 31, 2014 – Don Green.

After a short discussion about the requirement under §1575.209 of the Insurance Code concerning the estimate of state contributions for the next fiscal year, the board adopted the following resolution on a motion by Mr. Barth, seconded by Ms. Clifton:

At its meeting on July 26, 2013, the Board of Trustees of the Teacher Retirement System, on a motion by Todd Barth, seconded by Charlotte Clifton voted to certify \$277,711,984 as the estimated amount of state contributions to be received by the retired school employees group insurance fund (TRS-Care) for the 2014 fiscal year under the appropriations authorized by Chapter 1575 of the Insurance Code, the Texas Public School Employees Group Benefits Program. This amount includes \$247,531,484 authorized in the General Appropriations Act (Senate Bill 1, 83rd Legislature, Regular Session), less an amount of (\$19,819,500) due to fiscal year 2013 payroll costs less than estimates. These contributions are based on 1.0 percent of the salary of each active public school employee. The amount certified also includes an estimated amount of \$50,000,000 due to provisions in Rider 4, paragraph b, of TRS bill pattern (Senate Bill 1, 83rd Legislature, Regular Session) which allows for any general revenue available in excess of the amount required to provide for a state contribution rate of 6.8 percent in fiscal year 2014 to be appropriated for deposit to the Texas Public School Retired Employees Group Insurance Trust Fund.

This estimate of state contributions is required by Section 1575.209 of the Insurance Code.

15. Review the reports of the Chief Financial Officer – Don Green:

A. Report under § 825.314(b), Government Code, of expenditures that exceed the amount of operating expenses appropriated from the general revenue fund and are required to perform the fiduciary duties of the Board.

Pursuant to section 825.314(b) of the Government Code, Mr. Green reported on the expenditures paid during the month of May 2013 that were required to perform the fiduciary duties of the board.

B. Financial reports on TRS programs.

Mr. Green provided the quarterly financial reports on TRS programs as of May 31, 2013.

16. Review the report of the Chief Benefit Officer, and consider the following related matters – Marianne Woods Wiley:

A. Approve members qualified for retirement.

Ms. Woods Wiley presented the list of members and beneficiaries receiving initial benefit payments during the reporting period from March 1, 2013, through May 31, 2013. She referred the board to the detailed list of payments made available for their review.

On a motion by Mr. Colonna, seconded by Mr. McDonald, the board unanimously approved the list of members and beneficiaries who qualified for retirement, disability, DROP, PLSO, survivor, or death benefits initiated during the reporting period.

B. Approve minutes of Medical Board meetings.

Ms. Woods Wiley presented the minutes of the March 19, 2013, and May 14, 2013 Medical Board meetings. On a motion by Ms. Clifton, seconded by Ms. Sissney, the board approved the

minutes of the Medical Board meetings as presented, thereby ratifying the actions of the Medical Board reflected in those minutes.

After a recess at 12 p.m., the meeting reconvened at 12:23 p.m.

Mr. Kelly announced that the board would take up agenda item 9 again to consider the revised proposed resolution discussed earlier in the meeting.

9. Provide an update on TRS-ActiveCare, the active employee health benefits program, and discuss and consider eliminating TRS-ActiveCare 3 and moving TRS-ActiveCare 3 participants to TRS-ActiveCare 2 – Betsey Jones and William Hickman, Gabriel, Roeder, Smith & Company.

Mr. Kelly read into the record the revised proposed resolution relating to the changes made to the TRS-ActiveCare 3 plan. On a motion by Mr. Moss, seconded by Ms. Sissney, the board voted unanimously to adopt the following resolution presented by staff at the meeting:

Whereas, Chapter 1579, Insurance Code, authorizes the Teacher Retirement System of Texas (“TRS”), as trustee, to implement and administer the uniform group health benefits program under the Texas School Employees Uniform Group Health Coverage Act (“TRS-ActiveCare”), as described in the statute;

Whereas, TRS staff and the TRS health benefits consultant, Gabriel, Roeder, Smith & Company (“GRS”), have recommended that beginning with the 2013-2014 plan year, which commences on September 1, 2013, enrollment in TRS-ActiveCare 3 should be closed to individuals who are not enrolled in TRS-ActiveCare 3 for the 2012-2013 plan year;

Whereas, The TRS Board of Trustees (“Board”) desires to direct TRS staff to explore all options available in devising the benefit plan design and premium structure of TRS-ActiveCare 3 for the 2014-2015 plan year; and

Whereas, The Board desires to adopt the recommendations of TRS staff and GRS; now, therefore, be it

Resolved, That commencing with the 2013-2014 plan year, and for all plan years thereafter until further action by the Board, enrollment in TRS-ActiveCare 3 shall be closed to individuals who are not enrolled in TRS-ActiveCare 3 for the 2012-2013 plan year;

Resolved, That the Board hereby directs TRS staff to explore all options available in devising the benefit plan design and premium structure of TRS-ActiveCare 3 for the 2014-2015 plan year; and

Resolved, That the Board hereby directs the Executive Director or his designees to take any actions that he or his designee in his or their discretion deem to be necessary or advisable to implement this resolution.

17. **Discuss and consider selecting Board fiduciary counsel, including considering a finding that deliberating or conferring on the selection of fiduciary counsel in open meeting would have a detrimental effect on the position of the retirement system in negotiations with a third person; receiving an overview on the responsibilities of fiduciary counsel and the process used to select the finalist firms; interviewing finalist firms for the position; and considering a resolution selecting fiduciary counsel – David Kelly.**

The board interviewed representatives of four law firms, as shown below:

Cohen Milstein Sellers and Toll PLLC, represented by Suzanne Dugan, Luke Bierman, and Dan Sommers;

Crain Cabbage Healy Hedgpeth Johnson and Wilson, pllc, represented by Riva Johnson and Patti Hedgpeth;

Strasburger and Price, LLP, represented by Gary Lawson; and

Reinhart Boerner Van Deuren s.c., represented by Steve Huff and Keith Johnson.

On a motion by Mr. Barth, seconded by Mr. McDonald, the board voted unanimously to enter into closed session on agenda item 17 under §825.115(e) of the Government Code based on the board's finding and determination that deliberating or conferring in an open meeting about this fiduciary counsel procurement would have a detrimental effect on TRS' position and negotiation with a third person.

Whereupon, the open session recessed at 2 p.m.

After completing the closed session, Mr. Kelly announced that the open session reconvened at 2:40p.m.

After deliberations, on a motion by Ms. Sissney, seconded by Ms. Clifton, the board unanimously adopted the following resolution to select Reinhart Boerner Van Deuren s.c. as fiduciary counsel and authorize a two-year contract with the firm, and, if further authorized by the board, a subsequent two-year contract with the firm:

Resolved, That the Board of Trustees (the "board") of the Teacher Retirement System of Texas ("TRS") hereby selects the law firm of Reinhart Boerner Van Deuren s.c. to serve as fiduciary counsel; and

Resolved, That the board authorizes the Executive Director to negotiate an outside counsel contract with fiduciary counsel for a term of two fiscal years commencing on September 1, 2013 and, if authorized by the board, a second two year term commencing on September 1, 2015, and to obtain approval from the Office of the Attorney General for the engagement of such outside counsel; and, if negotiations are deemed by the Executive Director in his discretion to be successful, then the Executive Director is hereby authorized to execute such contract, including future amendments, with fiduciary counsel on such terms and conditions as the Executive Director may deem in his discretion to be in the best interest of TRS, and further to execute and deliver all such other documents

that the Executive Director may deem necessary or appropriate to effect this resolution as conclusively evidenced by the taking of the action or the execution and delivery of the documents, and to incur, approve, and pay any budgeted expenses or costs associated with such contract and deemed in the discretion of the Executive Director, or his designee, to be reasonably necessary or advisable with respect to such contract.

After a brief recess around 2:45 p.m., the board reconvened at 2:58 p.m.

18. Receive a presentation from Focus Consulting on the evaluation of the Chief Audit Executive, Chief Investment Officer, and Executive Director – Keith Robinson, Focus Consulting.

Mr. Robinson provided a summary of the evaluation of the Chief Audit Executive, Chief Investment Officer, and Executive Director. He explained the evaluation process and components.

The board meeting recessed at 3:07 p.m. to allow the Audit Committee to meet.

The board meeting reconvened at 3:54 p.m.

Mr. Kelly announced that the board would go into executive session on agenda items 19 and 20 under §551.074 of the Texas Open Meeting Act to deliberate the personnel matters described in those items. He asked all members of the public and staff not needed for the executive session to leave the meeting room and take their belongings with them.

Whereupon, the open session of the board meeting recessed at 3:55 p.m. to go into executive session.

The board meeting reconvened in open session at 7:19 p.m. Mr. Kelly announced that the board would take up agenda item 19A to hear the report of the Audit Committee.

19. Discuss and consider personnel and compensation matters, including the following items:

A. Review the report of the Audit Committee on its July 26, 2013 meeting, and discuss and consider the evaluation and compensation of the Chief Audit Executive – Chris Moss.

Mr. Moss, Committee Chair, provided the following report of the Audit Committee:

The Audit Committee met at 3:07 p.m., on Friday, July 26, 2013, in the fifth floor boardroom. The Audit Committee discussed and approved the recommendation to the Board of Trustees regarding the annual performance appraisal for the Chief Audit Executive. The Audit Committee deferred consideration of any salary increase to the Board of Trustees.

Upon a motion by Mr. Moss as the committee chair, the board unanimously approved the annual performance appraisal of the Chief Audit Executive for FY 2013.

Mr. Kelly announced that the board would also take up agenda item 20, in conjunction with the remaining business concerning the Chief Audit Executive's salary under item 19.

- 19. Discuss and consider personnel and compensation matters, including the following items:**
 - A. Review the report of the Audit Committee on its July 26, 2013 meeting, and discuss and consider the evaluation and compensation of the Chief Audit Executive – Chris Moss.**
 - B. Discuss and consider the evaluation, compensation, and duties of the Chief Investment Officer and provide input to the Executive Director – David Kelly.**
 - C. Discuss and consider the evaluation, compensation, and duties of the Executive Director – David Kelly and Keith Robinson, Focus Consulting.**
- 20. Discuss and consider the adoption of a resolution regarding salary limits for the following particular employees: Chief Investment Officer, Deputy Director Investment Officer, Deputy Administrative Officer, and the Investment Fund Directors listed as exempt positions in the 2014 - 2015 General Appropriations Act – David Kelly.**

On a motion by Mr. Barth, seconded by Ms. Clifton, with Ms. Charleston voting in opposition, the board authorized the Executive Director to grant a 4% salary increase to the Chief Audit Executive on top of the 1% that was given by the Legislature, thereby approving a 5% increase in the salary of the Chief Audit Executive.

On a motion by Mr. McDonald, seconded by Mr. Moss, with Ms. Charleston voting in opposition, the board adopted the following resolution to raise the salary limit for the listed exempt positions in the 2014-2015 General Appropriations Act and grant the Executive Director the authority for up to a 5% increase:

Whereas, Section 825.208 Government Code provides that, notwithstanding any other law, the Board of Trustees (the "Board") shall approve the rate of compensation of all persons it employs;

Whereas, TRS Bylaws delegate authority to the Executive Director and subsection 4.1.2(c) specifically provides that the Executive Director assumes responsibility for the compensation of all TRS personnel, with limited exceptions for the Executive Director and Chief Audit Executive whose salaries are set by the Board;

Whereas, The General Provisions in the TRS Budget for Fiscal Year (FY) 2014 adopted by the Board provide direction to the Executive Director regarding salaries and specifically authorize the Executive Director to set the annual base salary rate for all exempt positions, other than the Executive Director position, within the not-to-exceed amounts listed in the General Appropriations Act that becomes effective September 1, 2014 (the "GAA"), or any amended limits adopted by the Board from time to time;

Whereas, During the 83rd Session of the Texas Legislature, lawmakers increased the salary of most state employees by three percent; however, any salary increase for TRS exempt positions must be approved by the Board;

Whereas, The GAA, consistent with general law, provides that notwithstanding the compensation amounts set in the GAA, the Board may determine the salaries of the positions listed in the Schedule of Exempt Positions without limitation;

Whereas, The Board wishes to amend the limits by adopting a percentage increase in the not-to-exceed amounts provided in the GAA for the positions, other than the Executive Director position, listed in the Schedule of Exempt Positions for the purpose of allowing the Executive Director to exercise his discretion in setting salaries under Bylaw 4.1.2(c) and under the General Provisions of the TRS Budget for FY 2014; now, therefore be it

Resolved, That effective September 1, 2013, the Board hereby increases the not-to-exceed amounts shown in the GAA for TRS exempt positions as follows:

Chief Investment Officer (incumbent Thomas B. (Britt) Harris)	increase the monthly salary amount listed in the GAA by 5%
Deputy Director Investment Officer (incumbent Jerry G. Albright)	increase the monthly salary amount listed in the GAA by 5%
Deputy Administrative Officer (incumbent Ken Welch)	increase the monthly salary amount listed in the GAA by 5%
Investment Fund Director (incumbent Chi K. Chai)	increase the monthly salary amount listed in the GAA by 5%

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including any employee holding a position in the Schedule of Exempt Positions.

On a motion by Mr. McDonald, seconded by Mr. Moss, with Ms. Charleston voting in opposition, the board adopted the following resolution to grant a 10% salary increase to the Executive Director:

Whereas, Section 825.208 of the Texas Government Code provides that, notwithstanding any other law, the Board of Trustees (the "Board") shall approve the rate of compensation of all persons it employs;

Whereas, Subsection 1.8(d) of the Board's bylaws provides that the Board shall be responsible for the selection, job description, assignment of duties, performance evaluation, compensation, and discipline, including dismissal, of the Executive Director;

Whereas, During the 83rd Session of the Texas Legislature, lawmakers significantly increased the compensation of most top state agency executives; however, any salary increase for the Executive Director of TRS must be approved by the Board;

Whereas, The Board wishes to amend the salary of the Executive Director; now,

therefore be it

Resolved, That effective September 1, 2013, the Board hereby increases the monthly salary of the Executive Director as follows:

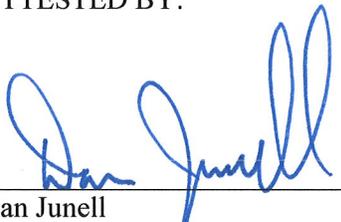
Executive Director's salary (the incumbent is Brian K. Guthrie): Increase the monthly base salary amount for FY 2014 by 10% of FY 2013 monthly base salary; and

Resolved, That nothing in the adoption of this resolution alters the at-will nature of employment that TRS has with any of its employees, creates a contract between TRS and any TRS employee, or confers on any TRS employee the right to continued employment with TRS, including the Executive Director or any other employee holding a position in the Schedule of Exempt Positions.

Whereupon, the meeting adjourned at 7:25 p.m.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 12TH DAY OF SEPTEMBER, 2013.

ATTESTED BY:



Dan Junell

Sept. 17, 2013

Date

Secretary to the TRS Board of Trustees