

## **Minutes of the Board of Trustees**

**December 14 - 15, 2017**

The Board of Trustees of the Teacher Retirement System of Texas met on December 14 - 15, 2017, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River, Austin, Texas. The following Board members were present:

Jarvis Hollingsworth, Chair  
Joe Colonna  
David Corpus  
John Elliott  
Greg Gibson  
Christopher Moss  
James D. Nance  
Dolores Ramirez  
Nanette Sissney

### **Others present:**

Brian Guthrie, TRS	Cliff Asness, AQR Capital Management
Ken Welch, TRS	Tim Lee, TRTA
Don Green, TRS	Diane Wuthrich
Carolina de Onís, TRS	Kathy Huver
Katrina Daniel, TRS	Ann Fickel, TRTA
Jerry Albright, TRS	Franklin Hopkins, Germer Beaman & Brown PLLC
Jase Auby, TRS	Philip Mullins, TSEU
Amy Barrett, TRS	Ted Melina Raab, Texas AFT
Heather Traeger, TRS	Eileen O'Grady, Unite Here
Chet Henry, TRS	Joni Tocani, CVSH
Dan Junell, TRS	Sean Donovan, CVSH
Katherine Farrell, TRS	Nancy Byler, TRTA
Steve Huff, Reinhart Boerner Van Deuren	Ben Barnes, TRTA
Steve Voss, Aon Hewitt	Brock Gregg, TRTA
Dr. Keith Brown, Investment Advisor	Taylor Jones, TSEU
Michael Johnson, Bridgepoint Consulting	Judy Holloway, TSEU
	David Gonzales, Humana
	Barbara Fetonte, TSEU

Mr. Hollingsworth called the meeting to order at 9:00 a.m.

### **1. Call roll of Board members.**

Ms. Farrell called the roll. A quorum was present.

**2. Consider the following administrative items – Chair:**

**A. Approval of the proposed October 27, 2017 Board meeting minutes.**

On a motion by Mr. Moss, seconded by Dr. Gibson, the Board voted to approve the proposed minutes of the October 27, 2017 Board meeting with Mr. Hollingsworth, Mr. Nance and Ms. Sissney abstaining.

**B. Excusing Board member absences from the October 27, 2017 Board meeting.**

On a motion by Dr. Gibson, seconded by Mr. Elliott, the Board voted to excuse the absence of Ms. Charleston from the October 27, 2017 Board meeting with Mr. Hollingsworth, Mr. Nance and Ms. Sissney abstaining.

**C. Consider the election of the Board Vice-Chair.**

Dr. Gibson nominated Ms. Ramirez to be the vice chair of the Board. Mr. Hollingsworth, hearing no other nominations, called for a vote. Ms. Ramirez was voted as vice chair by acclamation of the full Board.

**D. Consider consenting to the Board Chair's appointment of committee members, and receive the Board Chair's public announcement of committee chairs.**

On a motion by Mr. Moss, seconded by Mr. Corpus, the Board unanimously approved the proposed committee membership and chairmanship.

**E. Setting, rescheduling, or canceling future Board meetings.**

On a motion by Mr. Nance, seconded by Mr. Corpus, the Board unanimously approved the dates as proposed for 2018.

**3. Provide opportunity for public comment – Chair.**

Ms. Diane Wuthrich, representing herself and retired teachers, expressed concerns regarding TRS investments, COLAs and healthcare issues facing retirees.

Ms. Kathy Huver, a retired teacher, expressed concerns regarding insurance. She questioned the role of the Board in determining insurance benefits, and why if a member opts out of insurance they cannot decide to opt back in unless there is a major life-changing event.

Mr. Tim Lee, Executive Director of Texas Retired Teachers Association (TRTA), expressed concerns regarding four areas: the Board's consideration of changing the discount rate and its assumed rate of return for the pension fund; the changes in health care and confusion about the premium structure at the beginning of the year, especially for those that are leaving; the policy rules that affect folks that are returning to work; and the program known as optional retirement rules.

**4. Receive a presentation on Making the Most When Market are Giving You the Least – Cliff Asness, Ph. D., AQR Capital Management.**

Dr. Cliff Asness noted that the current market is a passive market and will be lower going forward. He said it is not a bubble, but prices are high. He stated there is a difference between high prices and a bubble that simply cannot last.

Dr. Asness stated if one accepts the low return argument there are four possible things to do. He noted one is to be a passive investor, saying these will be expensive times. The second is add alpha, but most organizations are adding as much alpha as they can proportional to their belief in alpha. The third is to add risk and lever the whole portfolio to some degree. The fourth option is since everything is worse right now, do more of it. Dr. Asness stated the key is not just how much risk you take, but taking a different kind of risk. Dr. Asness further discussed risk, leverage and diversification.

**5. Receive an update on the TEAM Program – Brian Guthrie and Chet Henry.**

Mr. Brian Guthrie reported that in October, Phase 1 went live. He noted issues with going live, many of which deal with the delivery of benefits in terms of service and speed, particularly regarding the processing of refund claims. He reviewed the history of TEAM and the different projects that encompass the entire TEAM program. He said now they are turning to a maintenance and enhancement effort with the new system, along with implementing Phase 2 of TRUST, scheduled to go live by August of 2019.

Mr. Guthrie reviewed the TEAM transparency report as of the end of October.

Mr. Guthrie then discussed the issues that have been identified in post go-live that were unanticipated. He said, for example, the amount of data received from the reporting entity partners is full payroll information, regardless of whether their employees are eligible for TRS membership or not. He said this being the first time employers have had to submit this information, there was a lot of difficulty in getting all the information correct. When an error occurs the whole report is sent back to the entity to fix, resulting in delays in getting reports completed. This has resulted in the late processing of some refunds. Mr. Guthrie reported these delays have increased the call volume at a time when the call center is working with a new system, causing call length to be even longer. This coupled with the change in health care going into effect January 1, and the call center is now experiencing unacceptable hold times. In response to Ms. Sissney's inquiry, Mr. Guthrie reported that Benefits and HIB teams are working together to cross-train, so that if someone in the pension center receives a health care call, they can handle it to some extent and vice versa. Ms. Barbie Pearson, addressing Mr. Hollingsworth's inquiry, stated there were identified times of year when the call volume peaked. She said peaks occur when a mass mailing is sent out such as annual statements in October and November.

Mr. Guthrie discussed the call volume, comparing October 2016 to October 2017, showing over 10,000 more calls received this past October. Mr. Welch discussed the areas affecting

member experiences when coupled together have affected call volume and handle times. Mr. Welch stated the refund issue and the reporting issue are joined. He said they have called in prior coaches to assist reporting entities in processing reports in addition to increasing the overall number of coaches that work with reporting entities. Mr. Welch reported working with an advisory group to identify and prioritize fixes that will provide the biggest bang for the buck and address those first. Mr. Welch also stated that a class of 20 new employees had been recently hired for the call center. He described the job fair that was held over a weekend in the cafeteria to interview, perform background checks and offer jobs in a much compressed time frame. Mr. Welch then reviewed issues centered around TRS-Care.

**6. Receive a presentation from the TEAM Program Independent Program Assessment (IPA) Vendor – Michael Johnson, Bridgepoint Consulting.**

Mr. Michael Johnson stated their focus is on the key risks associated with the program: schedule, quality, and cost. He said their score was different from the TEAM transparency report due to the scheduling outlook for Phase 2. He said the resources being consumed to address ongoing issues with current Phase 1 deployment are starting to consume resources that may be dedicated to Phase 2. As for quality, he said those resources being devoted to Phase 1 are not able to focus on Phase 2 quality. As for cost, he said they were within budget as it was originally laid out, but it is difficult to determine due to legislative and health care changes that can drive costs to increase.

In response to Mr. Moss' inquiry, Mr. David Cook reported the relationship with the partners, Provaliant, Bridgepoint and DXC, were good.

**7. Discuss the Executive Director's report on the following:**

- A. Administrative operational matters, including updates on financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, security, and strategic planning.**
- B. Board Operational matters, including a review of draft agendas for upcoming meetings.**
- C. Event notices or reminders; holiday and other schedules of interest; board member, employee or other individual recognitions; and expressions of thanks, congratulations, or condolences.**

Mr. Guthrie provided general updates regarding various meetings and conferences. He announced Ms. Dolores Ramirez was named the chair of the Resolutions Committee for NCTR, Dr. Greg Gibson was named a member of the Trustee Education Committee and Ms. Nanette Sissney was named a member of the Resolutions Committee for NCTR, as well. He also reported on being named the secretary-treasurer of NCTR, as well as being on the Executive Committee and serving as the liaison to the Legislative Committee of NCTR.

Mr. Guthrie announced TRS was named a Top Workplace in Austin for the sixth year in a row. He reported the Executive Committee had completed the 360 review process.

Mr. Guthrie reported TRS rejoining the Council of Institutional Investors.

Mr. Guthrie provided a legislative update. He stated they were monitoring and assessing the impact of the proposed federal tax legislation regarding the Unrelated Business Income Tax (UBIT).

Mr. Guthrie reviewed recommendations resulting from the board operations Internal Audit consulting project which included recommendations on the timeliness of getting materials to Trustees, number of Board meetings, and Board committee structure.

He reviewed his goals for the fiscal year and the timeline in which to deliver on each of the goals.

Mr. Guthrie concluded by noting an item to be discussed at the end of the day in executive session.

Mr. Hollingsworth then asked to take Agenda Item 12 out of order. Mr. Welch reported the information he was to discuss was conveyed during the TEAM presentation. However, he did have recognitions he would like to take up on the next day.

**8. Consider the administrative appeal of Alice M. Jones-Smith – Carolina de Onís and Dan Junell.**

Mr. Hollingsworth provided a brief background and laid out the issues before the Trustees in the administrative appeal. The first issue being whether TRS properly determined that Ms. Jones was revoked as the designated beneficiary of Mr. Phillips' death benefits when TRS received a certified copy of the divorce decree. The second issue being whether TRS breached its fiduciary duty owed to Ms. Jones when it requested a certified copy of the divorce decree from Ms. Jones.

Mr. Franklin Hopkins, representing Ms. Jones-Smith, provided arguments as to why she was wrongly denied the benefits of her ex-husband.

Ms. Carolina de Onis, representing TRS, argued that the Administrative Law Judge's decision, adopted by TRS' Executive Director, revoking the former spouse as the beneficiary was proper.

At 12:55 p.m., Mr. Hollingsworth announced without objection that the Board meeting would recess to go into executive session on agenda item number 8 under Sections 551.071 and 551.089 of the Government Code to consult with legal counsel. Mr. Hollingsworth and Mr. Junell clarified that the executive session would be held under just Section 551.071.

At 1:27 p.m., Mr. Hollingsworth reconvened the Board meeting in open session.

On a motion by Dr. Gibson, seconded by Mr. Corpus, the Board voted unanimously to affirm the executive director's decision denying the appeal and thereby denying payment of the death benefits to Ms. Jones.

On a motion by Dr. Gibson, seconded by Ms. Ramirez, the Board voted unanimously to authorize the Chair to sign an order on behalf of the Board.

**9. Discuss the Third Quarter 2017 Performance Review – Steve Voss, Aon Hewitt.**

Mr. Voss noted for this investment period TRS aggregate assets ended at an all-time high of \$146.3 billion. He said investment earnings were \$5.5 billion for the time period, a 3.9 percent net rate of return. Mr. Voss reported for the one year return, 12.9 percent relative to the benchmark return of 11.2 percent, roughly 170 basis points of value added.

Mr. Voss stated for the asset allocation benchmarks TRS was not perfectly on target with each of the policy benchmarks. He said some were intentional and others were taking longer to phase into investments, giving private assets as an example. He said the underweight for the past year for treasuries has been a negative 2.3 percent, which has had a half a percent additive impact in total for the past year. He also noted real assets had done exceptionally well.

Regarding risk-adjusted performance, Mr. Voss reported TRS was outperforming many of its peers. He noted volatility was at an all-time low, roughly at 5 percent.

At 1:40 p.m., Mr. Hollingsworth announced the Board meeting would recess for the day to reconvene on Friday, December 15, 2017 at 9:00 a.m.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on December 15, 2017 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:

Jarvis Hollingsworth, Chair  
Joe Colonna  
David Corpus  
John Elliott  
Greg Gibson  
Christopher Moss  
James D. Nance  
Dolores Ramirez  
Nanette Sissney

**Others present:**

Brian Guthrie, TRS  
Ken Welch, TRS  
Don Green, TRS  
Carolina de Onís, TRS  
Katrina Daniel, TRS  
Amy Barrett, TRS  
Rebecca Merrill, TRS

David R. Kelly  
T. Karen Charleston  
Joe Newton, GRS  
Bill Hickman, GRS  
Amy Cohen, GRS  
Anne Lewis, TSEU  
Philip Mullins, TSEU

Barbie Pearson, TRS  
Richard Scheer, TRS  
Jamie Pierce, TRS  
Cindy Haley, TRS  
Heather Traeger, TRS  
Katherine Farrell, TRS  
Steve Huff, Reinhart Boerner Van Deuren

Ann Fickel, TRTA  
Henry Aerbold, PRB  
Ted Melina Raab, Texas AFT

Mr. Hollingsworth called the meeting to order at 9:33 a.m.

**1. Call role of Board members.**

Ms. Farrell called the roll.

**10. Provide opportunity for public comment – Chair.**

Ms. Anne Lewis, representing Texas State Employees Union, expressed concerns regarding the Experience study, the timing of the study and the impact on the pension.

**11. Recognize the service of R. David Kelly and T. Karen Charleston – Chair.**

Mr. Hollingsworth stated it was a real pleasure to recognize and honor those that have volunteered their time for the members at the highest levels, trustees who have served. He stated today they will recognize two former trustees: Ms. Karen Charleston and Mr. David Kelly.

Mr. Hollingsworth read the following proposed resolution to the Board for adoption:

**Whereas**, T. Karen Charleston has served as a member of the Teacher Retirement System of the Texas Board of Trustees from September 2011 through November 2017, 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 1.5 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 Associations; and

**Whereas**, she served TRS in numerous ways, including as chair of the Risk Committee and as member of Audit, Benefits and Budget committees, and as a member of the Resolutions Committee of the National Council on Teacher Retirement; 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 served on the Board during the time of TRS's 75th anniversary and joined other trustees in commemorating that special event; and

**Whereas**, she helped guide the agency through prudent oversight of Trust assets when the TRS Pension Fund grew from approximately \$107 billion in September 2011 to more than \$147 billion today; and

**Whereas**, she served as trustee and provided leadership and support to the TRS Enterprise Application Modernization, otherwise known as TEAM, which is on October 2 launched Phase 1, modernizing business processes and aging technologies to better serve a growing membership with changing expectations; and

**Whereas**, she always had the best interest of our members and retirees at heart, serving the educators of Texas, current, past and future, with a sense of responsibility, compassion and concern for all; and

**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 T. Karen Charleston on her valued contributions and express appreciation on behalf of TRS members, both present and future; and be it further resolved that a copy of this resolution is to be presented to T. Karen Charleston and entered into the record of the Board for December 15, 2017.

On a motion by Mr. Colonna, seconded by Mr. Corpus, the Board unanimously approved the resolution in honor of Ms. Charleston's service.

Mr. Hollingsworth presented Ms. Charleston with the resolution and a flag flown over the Capitol in her honor. Ms. Charleston expressed appreciation to the trustees she served with and urged the new Trustees to listen and ask questions during their upcoming tenure.

Mr. Hollingsworth recognized R. David Kelly with the following resolution:

**Whereas**, R. David Kelly has devoted a decade of his life as a member of the Teacher Retirement System of Texas (TRS) Board of Trustees from November 2007 through November 2017, 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 provided leadership to the system during a time when the retirement system grew from approximately 1.2 million to more than 1.5 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 as chairman of the board from October 2009 to present; chairman of the Ethics and Compensation Committees; and as a member of the Audit, Benefits, Investment Management, Policy, Private Markets, Risk, and Executive Search Committees; 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, when the TRS Pension Fund rebounded from \$67 billion in March 2009 to approximately \$147 billion at the end of his term; and

**Whereas**, he oversaw agency leadership in establishing several milestones, including the MyTRS member portal, the agency's 75th Anniversary, opening of TRS' first international office in London, a social media program, a newly redesigned website, and the agency's first statewide student artwork contest; and

**Whereas**, with his investment experience and guidance, the agency restructured and expanded TRS' Investment Management Division, implemented leading-edge portfolio management strategies, guided development of a new asset allocation policy and entered into a series of innovative strategic partnerships, earning TRS numerous honors and a reputation as an investment industry leader; and

**Whereas**, he provided the vision, leadership and support to the TRS Enterprise Application Modernization (TEAM) Program, which on October 2 launched Phase I to modernize business processes and aging technologies, to more efficiently administer benefits through technology and better serve a growing membership with changing expectations; and

**Whereas**, his obvious preparation for each meeting was highly commendable and kept TRS staff on their toes; his sense of humor could also keep trustees and TRS staff guessing as to how many colors or configurations he might want for TEAM progress charts or whether he was really serious about holding a board meeting in San Antonio so he could visit Shamu; his charm, warmth and wit will be greatly missed; and

**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 R. David Kelly during his highly regarded tenure as a TRS trustee 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 R. David Kelly and entered into the record of the board for December 15, 2017.

The resolution was adopted by acclamation, demonstrated by applause. Mr. Hollingsworth then presented Mr. Kelly with the resolution, a flag flown over the Capitol in his honor and a gavel presented from the Speaker of the House of the 85<sup>th</sup> Legislature, Joe Strauss, to David Kelly in recognition of his service as chairman of the Board.

Mr. Kelly stated he stood relieved from service because together the Trustees had built a culture of excellence, caring and family that has allowed them to serve their bosses, the citizens and

teachers of the state. He said it was a unique privilege of his career and life to work with and be part of the family.

**12. Receive the Deputy Director's report, including matters related to administrative, financial and staff services operations – Ken Welch.**

Mr. Welch stated the majority of his report was covered the previous day. Mr. Welch described the Golden Apple Award as the most prestigious award within the agency that TRS employees can get. Mr. Welch introduced the recipients of the Golden Apple Award: La'Miracle Brown in the health insurance area, Stephanie Scott-Rivera, in organizational change management, Stacy Sakoulas, also in organizational change management, Cherie Steward, legal. Mr. Welch stated two other recipients who could not be there were Amy Brennan Luna, JAVA application programmer, and Arlene Caballero in the payroll department.

Mr. Welch then recognized Kyle Weigum, director of Enterprise Infrastructure Services, as being selected by the Chief Information Officer Academy as one of the outstanding IT managers in the state this year.

Mr. Welch recognized Mr. Edward Esquivel, deputy director of customer service in the healthcare area, who is leaving to join one of our sister health care plans.

Mr. Welch reviewed agency activities such as the agency blood drive, SECC campaign, and the employee appreciation day and recognition.

**13. Review the TRS Pension Trust Fund Actuarial Valuation as of August 31, 2017 – Joe Newton, Gabriel, Roeder Smith & Company.**

Mr. Joe Newton provided background for the annual valuation. Mr. Newton discussed the key changes from last year. He stated the past year was a double digit return, 12.9%, that not only offset the deferred \$4.7 billion loss from the previous year, but resulted in a billion dollar deferred gain. He reported the liability gained due to salary increases being slower than expected. He said there was a small liability adjustment from the TRS-Care changes. Mr. Newton stated the population growth, averaging 2 percent a year for the past 20 years, is an advantage other peer systems do not have.

Mr. Newton stated the unfunded accrued liability as \$35.47 billion, almost unchanged from last year. He discussed the various projections for the unfunded liability. He said if all assumptions are met and we earn 8 percent going forward the unfunded liability will get bigger before it turns over and starts coming down. Mr. Newton then discussed if everything remained constant, but over time the fund earns 7.5 percent, just a half percent off, the unfunded liability in twenty years grows from \$30 billion to \$70 billion unfunded.

Mr. Newton stated the experience study is when the assumptions are reviewed. He said the Board made the decision to do it every four years during an off legislative cycle so if any changes come out of the study, there are no new results coming forth in the middle of a

legislative session. Mr. Newton then reviewed the general process of the experience study and the results. He said the assumption is chosen and set by the Board and he only certifies if the assumption is reasonable. In response to Mr. Hollingsworth's inquiry, Mr. Newton stated he did not see changes to most of the current assumptions dealing with inflation, salary increases, or turnover. He said the biggest decision will be the investment return assumption. He said the return assumption must be reasonable and then discussed the definition and various elements of reasonable.

**14. Receive the Fiduciary Review of Actuarial Assumptions – Steve Huff, Reinhart Boerner Van Deuren.**

Mr. Steve Huff provided a presentation on the fiduciary process involved in reviewing actuarial assumptions. He said the process the Board follows is important because it will demonstrate that the Board has followed a process that demonstrates its care, loyalty and prudence.

**15. Review the TRS-Care Actuarial Valuation and Other Post Employment Benefit (OPEB) reports as of August 31, 2017, and receive an overview and update on TRS-Care and TRS-ActiveCare, including recognizing William Hickman's retirement – Joseph Newton; Amy Cohen and William Hickman, Gabriel, Roeder, Smith & Company**

Ms. Amy Cohen provided an overview of TRS-Care. Aetna is currently the plan administrator for the self-funded medical plans. Humana took over on January 1, 2017 administering the fully insured Medicare Advantage plans and Express Scripts was the pharmacy benefit administrator (PBM) for both the traditional and the Medicare Part D pharmacy plans in fiscal year 2017.

Ms. Cohen provided a historical look on the various programs' funding and costs. She noted for FY17 there was \$1.35 billion in revenue coming into the plan. She reported \$1.6 billion of expenses last year. Looking forward to FY18, she said salary has increased from 2.2 percent to 2.65 percent, the state is going from 1 percent to 1.25 percent, active employees are staying at .65 percent of their salaries and districts are increasing their contributions from .55 percent to .65 percent. She noted beginning January 1, 2018 that the retirees contributions will be changing. She stated there will be no plans offered at no cost to retirees. Ms. Cohen then reviewed the changes to the prescription drug plan.

Ms. Cohen discussed the fund balance noting the balance as being projected as negative beginning FY 2020.

Ms. Cohen then reviewed TRS-ActiveCare. The current benefit administrators are Aetna and CVS/Caremark. She reported revenues in FY 17 as \$1.9 billion and another \$230 million was received in HMO premiums which are passed through to the HMO carriers. She said the expenses were \$1.73 billion in self-funded claims.

Mr. Joe Newton reviewed the other post-employment benefits (OPEB). Mr. Newton reported for the CAFR they need to assess a long-term liability on this program, TRS-Care. He said that with the new accounting rules the liability, similar to the pension plan, now goes on the balance

sheet of the school districts and the state based on their proportionate share of contribution efforts and projected contribution effort. Mr. Newton stated \$43 billion will be allocated out to the different entities based on their proportionate share of the total.

Mr. Hollingsworth noted Mr. Bill Hickman will be retiring. He presented Mr. Hickman with a certificate from the House of Representatives and a flag that was flown over the Capitol. Mr. Hollingsworth then read the following resolution into the record:

**Whereas**, William J. "Bill" Hickman deserves and receives the sincere thanks of all Texans for providing 32 years of calm, sincere and technically precise advice to the Teacher Retirement System of Texas;

**Whereas**, by assisting the agency and the legislature to conceive, enact, manage and maintain TRS-Care and TRS-ActiveCare, he has helped encourage people to work in public education, and those public education employees have taught, developed and supported millions of students who have made Texas what it is today and what it will be tomorrow;

**Whereas**, Bill guided TRS to become one of the first entities in the nation to develop its own provider network to help members obtain efficient and quality health care, while helping TRS make wise use of taxpayer resources and helping with the health care providers build practices dedicated to serving the families of Texas public education employees;

**Whereas**, 30 years ago he pioneered the extensive use of health care claims and eligibility data to help TRS make sound decisions relating to quality coverage at affordable cost when such predictive analytics were extremely innovative;

**Whereas**, Bill assisted the 69th and 77th Texas Legislature to conceive and enact the TRS-Care and the TRS-ActiveCare programs; and

**Whereas**, he led the first of three certification studies performed prior to the acceptance of TRS-ActiveCare. Beginning with 1998-99 school year, he and his team reviewed health care benefit plans for 1,016 school districts representing 2,336 plans covering 407,840 employees in order to determine comparability to the health care coverage provided by state employees; and

**Whereas**, Bill assisted TRS in the implementation of a long-term care program in 2000; and

**Whereas**, during his assistance to TRS Bill helped select health care coverage vendors more than 30 times, and in 2012 he assisted TRS with the procurement of a Medicare Advantage insurer as well as Medicare Part D plan vendor which is estimated to have saved the TRS-Care program over \$100 million in expenditures in fiscal year 2013; and

**Whereas**, Bill and his team assisted TRS in studying the financial solvency of TRS-Care in three sustainability studies, with the first conducted in 2012 as a result of the 82nd Legislature, explored options including changes to state district active employees and three retiree contributions, changes in plan design and a review of a defined contribution approach, as well as conducting similar studies in 2014 and 2016 that led to significant program changes for the 2018 program year; and

**Whereas**, TRS-Care was originally intended to remain in place for only ten years but has instead been a positive addition to Texas public education for 32 years; and

**Whereas**, since inception, TRS-Care and TRS-ActiveCare have provided health care coverage for approximately 2 million Texans; and

**Whereas**, we estimate that Bill has contributed to more than 300 TRS Board meetings, as well as represented TRS-Care in 17 legislative sessions; and

**Whereas**, the people of Texas thank Bill, and the TRS Board of Trustees presents him with its permanent gratitude for having provided thoughtful analysis, innovation, and support to TRS in its mission to provide quality health care coverage so that the lives of our members and dependents will be better; and

**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 William J. Hickman 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 William J. Hickman, and entered into the record of the Board for December 15, 2017.

On a motion by Mr. Moss, seconded by Mr. Corpus, the Board unanimously voted to adopt the resolution honoring Mr. Hickman's service. Mr. Hickman thanked the Board and noted it was a rewarding challenge and a real honor to do the work.

**11. Recognize the service of R. David Kelly and T. Karen Charleston – Chair.**

Mr. Guthrie noted that the Board had not voted on Mr. Kelly's resolution. Mr. Hollingsworth sought a motion to approve the resolution for former Trustee David Kelly.

On a motion by Mr. Corpus, seconded by Ms. Ramirez, the Board unanimously voted to adopt the resolution honoring Mr. Kelly's service.

**16. Receive an update on TRS Care communications outreach – Katrina Daniel.**

Ms. Katrina Daniel recognized the efforts of her staff in particular, Ms. Meaghan Bludau, the head of health care communications and informatics section. Ms. Daniel noted the TRS-Care plan underwent some tremendous changes this year and reviewed the communication efforts to inform the 270,000 retirees and their families who participate in the plan. Ms. Daniel reported on average 15 touch points per participant through direct mail, face-to-face meetings across the state, electronic communications, webinars, etc. Ms. Daniel reviewed the use of the outside vendor for the expected higher call volume.

**17. Review the Comprehensive Annual Financial Report for fiscal year 2017 – Richard Scheel and Cindy Haley.**

Mr. Richard Scheel presented the Comprehensive Annual Financial Report (CAFR) for FY 2017. He noted the CAFR is dedicated in memory of Ms. Anita Smith Palmer and her artwork is featured throughout this year's CAFR. Ms. Cindy Haley reviewed the healthcare portion and

GASB 74 of the CAFR. She said the biggest change will be next year when the employers present their liabilities on the balance sheet for the first time for the OPEB cost.

**18. Review the reports of the Chief Financial Officer regarding expenditures, current financial review, and other financial matters involving TRS programs – Don Green.**

Mr. Don Green provided the current budget status. He reported the fiscal year to date, two months, is in good shape. He noted that TRS was currently under the FTE cap of 524 at 500. In response to Mr. Hollingsworth's inquiry, Mr. Guthrie stated the open positions were related to high turnover in the call center and the hiring freeze.

**19. Receive the report of the Investment Management Committee on its December 14, 2017, meeting – Committee Chair.**

Mr. Colonna, the Committee Chair, provided the following report of the Investment Management Committee:

The Investment Management Committee met on December 14, 2017, whereby they approved the proposed minutes of the September 21, 2017 meeting. There were two presentations, the first of which was a review by the multi-assets strategies group, presented by Mohan Balachandran, Ashley Baum, Kyle Schmidt, and Matt Talbert. The final presentation was a review of the annual risk group update, given by James Nield and Mark Telschow.

**20. Receive the report of the Risk Management Committee on its December 1, 2016, meeting. – Committee Chair.**

Mr. Elliott, the Committee Chair, provided the following report of the Risk Management Committee:

The Risk Management Committee met on December 14, 2017. During that meeting the committee approved the proposed minutes from the September 21, 2017 meeting. At that time, the risk management and strategic planning staff provided a report on the enterprise risk management function, and that included an update on the stoplight report, the heat map, and in addition, the 16 risk assessments that had been completed during this period. That report was presented by Michelle Pagan and Heather Traeger.

**21. Receive the report of the Policy Committee on its December 14, 2017, meeting and consider; proposed amendments to the General Authority Resolution, TRS Key Employee Determinations, or Mission Statement; and consider adopting the following new or amended TRS rules in Title 34, Part 3 of the Texas Administrative Code: – Committee Chair.:**

- i. § 29.90, relating to Forfeiture of Certain Benefits Due to Criminal Offense.
- ii. § 29.91, relating to Restoring Forfeited Benefits After Convictions is Overturned;

- iii. **§ 41.1, relating to Initial Enrollment Periods for the Health Benefit Program under the Texas Public School Retired Employees Group Benefits Act (TRS-Care);**
- iv. **§ 41.5, relating to Payment of Contributions;**
- v. **§ 41.7, relating to Effective Date of Coverage;**
- vi. **§ 41.12, relating to Eligibility for the Alternative Plan for Medicare-Eligible Participants.**

Mr. Corpus, the Committee Chair, provided the following report of the Policy Committee:

The Policy Committee met on December 14, 2017. The committee approved the proposed minutes of the September 21, 2017 meeting. The committee conducted the required comprehensive review of the TRS mission statement. The committee recommended wording changes to the mission statement.

The committee did not take up adoption of the notice of completed rule review of 403(b); instead, that item will be taken up by the full Board at the February meeting.

The committee conducted a comprehensive review of the TRS key employee determinations and recommended that the Board adopt staff proposed amendment to the determinations. The updates are needed to reflect staffing changes. The committee recommended that the Board adopt proposed amendments to the general authority resolutions which are also needed to reflect staffing changes. The committee also discussed the required comprehensive reviews of the trustee ethics policy and position description, the employee ethics policy, the conflict of interest disclosure statement, and the disciplinary action disclosure statement. The committee deferred discussing any proposed amendments to the policy until February when the matter will be taken up by the full Board.

Finally, the committee approved recommending to the Board adoption of the proposed new and amended TRS rules within Chapters 29 and 41 and Title 34, Part 3 of the Administrative Code. Concurrent with the recommendation, the committee provided direction that TRS was to suggest to the legislature clarification of the language underlying the rules in Chapter 29 as soon as practicable.

Mr. Corpus moved, and the Board unanimously voted to adopt, amendments to the TRS mission, as recommended by the Policy Committee, so that the mission statement reads as follows: "Improving the retirement security of our members by prudently investing and managing the Trust assets and delivering benefits that make a positive difference in their lives."

Mr. Corpus moved, and the Board unanimously voted to adopt, the proposed amendments to the key employee determinations, as recommended by the Policy Committee.

Mr. Corpus moved, and the Board unanimously voted to adopt, the proposed amendments to the general authority resolutions, as recommended by the Policy Committee.

Mr. Corpus moved, and the Board unanimously voted to adopt, the proposed new and amended TRS rules within Chapter 29 and 41 of Title 34, Part 3 of the Texas Administrative Code, as recommended by the Policy Committee.

**22. Receive the report of the Audit Committee on its December 2, 2016, meeting – Committee Chair.**

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

The Audit Committee met at 8:00 a.m. on Friday, December 15, in the 5th Floor Boardroom. The State Auditor's Office staff presented the results for the audit of the TRS comprehensive annual financial report for fiscal year 2017. TRS received an unqualified opinion, the best available. They also presented the results of the incentive compensation plans for 2016 and the classification audit of information technology positions. Grant Thornton representatives presented the results of the TRS Investment Company financial statements for fiscal year 2017. TRICOT received an unqualified opinion.

Truven representatives presented the results of five audits of TRS-Care and TRS-ActiveCare health plan and pharmacy benefit administration claims. The chief compliance officer presented routine compliance reports. Internal Audit staff presented results of projects, including reports on TRS compliance, testing, follow up on outstanding audit and consulting recommendations, the internal audit annual report, and various administrative reports.

**23. Review the report of the Chief Benefit Officer, and consider the following related matters – Barbie Pearson:**

- a. Consider approving the list of members qualified for retirement for September through November 2017.**
- b. Consider approving the minutes of the July and September 2017 Medical Board meetings.**

Ms. Barbie Pearson stated she had two items for Board approval. The first item is the list of members qualified for retirement for September through November of 2017.

Mr. Moss made a motion, seconded by Dr. Gibson, and the Board unanimously approved the list of members qualified for retirement for September through November of 2017.

Ms. Pearson presented the second item for Board approval, the minutes of the TRS Medical Board for July and September of 2017. Mr. Hollingsworth questioned if the Board was being asked to approve or accept the minutes. Mr. Guthrie stated that past procedure was for the Board to approve the minutes, but staff will review applicable statutes and the bylaws and report back.



Dr. Gibson made a motion, seconded by Ms. Ramirez, and the Board unanimously approved the minutes of TRS Medical Board for July and September of 2017.

**24. Review the report of the General Counsel on pending and contemplated litigation, including updates on litigation involving benefit-program contributions, retirement benefits, health-benefit programs and open records – Carolina de Onis.**

Ms. Carolina de Onis announced the successful conclusion of an important case. She said back in 2012 TRS sued the Office of the Attorney General of Texas on an open records matter involving the personal financial information of the then Chief Investment Officer of TRS and the former head of private markets. She reported a settlement with the AG was reached to retroactively apply subsequent legislation that made personal financial records submitted by TRS employees or other disclosures made for ethics purposes confidential.

**7. Discuss the Executive Director's report on the following:**

**A. Administrative operational matters, including updates on financial, audit, legal, staff services, board administration activities, special projects, long-term space planning, security, and strategic planning.**

At 1:10 p.m., Mr. Hollingsworth announced, without objection, that the Board would adjourn to an executive session on agenda item number 7A under Section 551.071 and 551.089 of the Texas Government Code.

At 1:21 p.m., Mr. Hollingsworth reconvened the Board meeting in open session.

**25. Consider personnel matters in Executive Session, including the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee – Chair.**

This agenda item was not taken up.

**26. 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) – Chair.**

This agenda item was not taken up.

At 1:22 p.m., Mr. Hollingsworth adjourned the meeting.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT  
SYSTEM OF TEXAS ON THE 14th DAY OF FEBRUARY 2018.

ATTESTED BY:

Katherine H Farrell

Katherine H. Farrell

Secretary to the TRS Board of Trustees

2/19/2018  
Date