

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

### **December 1-2, 2016**

The Board of Trustees of the Teacher Retirement System of Texas met on December 1-2, 2016, 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:

David Kelly, Chair  
Karen Charleston  
David Corpus  
John Elliott  
Greg Gibson  
Christopher Moss  
Anita Palmer

#### **Others present:**

Brian Guthrie, TRS	Philip Mullins, TRTA
Ken Welch, TRS	Nancy Byler, TRTA
Don Green, TRS	Marcy Cann, TRTA
Carolina de Onís, TRS	Patricia Macias, TRTA
Katrina Daniel, TRS	Tom Rogers, TRTA, ARTA
Britt Harris, TRS	Leory DeHaven, TRTA
Jerry Albright, TRS	Bill Barnes, TRTA
Amy Barrett, TRS	Andrew Clark, Speaker's Office
Toma Miller, TRS	Rob May, State Pension Review Board
Ashley Inman, TRS	Ann Fickel, TCTA
Katherine Farrell, TRS	Joni Lozano, Caremark
Meaghan Fludar, TRS	Rick Edwards, Caremark
Heather Traeger, TRS	Justin Emerson, Caremark
Steve Huff, Reinhart Boerner Van Deuren	Kenneth Herbold, PRB
Steve Voss, Aon Hewitt	Ted Melina Raab, Texas AFT
Mike Comstock, Aon Hewitt	Surrenda Jones, Humana
Dr. Keith Brown, Investment Advisor	Sabina Rahman-Garcia, Humana
Joe Newton, Gabriel, Roeder, Smith & Company	John Pull, State Street
Danny White, Gabriel, Roeder, Smith & Company	Will Goldthwaite, State Street

Mr. Kelly called the meeting to order at 9:10 a.m.

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

Ms. Farrell called the roll. A quorum was present. Mr. Colonna and Ms. Ramirez were absent.

#### **2. Consider the following administrative items – David Kelly:**

**A. Approval of the proposed October 27, 2016 Board meeting minutes.**

On a motion by Ms. Palmer, seconded by Mr. Corpus, the Board unanimously voted to approve the proposed minutes of the October 27, 2016 Board meeting.

**B. Excusing Board member absences from the October 27, 2016 Board meeting.**

On a motion by Dr. Gibson, seconded by Mr. Elliott, the Board unanimously voted to excuse the absences of Mr. Colonna and Mr. Chris Moss from October 27, 2016 Board meeting.

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

No changes to the future Board meetings schedule were addressed.

**3. Provide opportunity for public comment – David Kelly.**

No public comment was provided.

**4. Review of the TRS Pension Trust Fund Actuarial Valuation as of August 31, 2016 – Joseph Newton and Danny White, Gabriel, Roeder, Smith & Company.**

Mr. Newton presented the pension trust fund actuarial valuation as of August 31, 2016. Mr. Newton noted a liability loss this year, it is the first liability loss since 2007. Mr. Newton reported the past running liability gains has typically been from salaries. There is an assumption that salaries will grow at a certain rate, naturally driving liability growth because members' benefits are a function of the salary at retirement. Mr. Newton stated salaries grew a little bit faster than expected. The unfunded liability grew from about \$33 billion to \$35.5 billion. Mr. Newton reported the funded ratio is below eight percent. Mr. Newton noted the funding period is now 35 year period.

Mr. Newton stated it is the population growth from the last ten years that has helped to sustain this plan. He then compared TRS to all 50 plans that have teachers across the country.

Mr. White provided a historical review of the following: investment returns; actuarial values of assets and liabilities; and funded ratio on smooth and market bases over the past decade. Mr. Newton also compared TRS' funded ratio with that of other large public pension funds. He stated that TRS was at the two-thirds percentile. Mr. Newton noted the return assumption of eight percent was on the higher end compared to the peers with assumptions of seven and half percent or seven and three quarter percent.

Mr. Newton then discussed risk and discussed how it could be incorporated in analysis other than just investment risk. Mr. Newton also provided projections expected for the unfunded liability. He stated there needs to be better than anticipated investment experience, better than anticipated demographics experience, increased contributions, or just time to return back to the funding period of 30 years. Mr. Newton stated projections expect the unfunded to increase in nominal dollars over the next 15 to 25 years before they begin to decrease.

**3. Provide opportunity for public comment – David Kelly.**

Mr. Kelly recognized Nancy Byler, Marcy Cann, Patricia Macias, LeRoy DeHaven, Tom Rogers and Bill Barnes as TRTA guests. Mr. Kelly expressed appreciation for their commitment year after year through their organization.

**5. Review the TRS-Care Actuarial Valuation and Other Post Employment Benefit (OPEB) reports as of August 31, 2016 and receive an overview and update on TRS-Care and TRS-ActiveCare – Joseph Newton, Amy Cohen, and Eric St. Pierre; Gabriel,**

Ms. Amy Cohen reviewed the current medical plans offered by TRS-Care. Ms. Cohen reported that in FY 16 there was on average 250,000 member, a 3.2 percent increase over the FY 15 enrollment. She noted 11 percent of the membership is enrolled in Care 1, Care 2 had 26 percent of the membership, and three-fourths of that membership in Care 2 were in the traditional plan and the balance of the enrollment was in Care 3, 63 percent of the membership, and over half of those members were enrolled in Medicare Advantage plans. Ms. Cohen reported starting FY 2017 off with about 267,000 members, about a 2.8 percent increase over last year. Ms. Cohen noted the difference between Medicare and non-Medicare members. For a Medicare A&B person, CMS is paying the majority of the claims and TRS is paying on average about 16 percent.

Ms. Cohen reviewed TRS-Care funding sources for FY 16, \$1.3 billion. The funding sources were: 55 percent from the state, active employees and districts percent of payroll contributions, 30 percent from retiree contributions and the balance came from federal programs and investment income.

Ms. Cohen reviewed the expenses for FY 16. The majority of the \$1.63 billion expenses was for medical and pharmacy claims, 92.4 percent and the remainder was for administrative fees.

Ms. Cohen discussed the projected years. She noted FY 17 is the first year that the pharmacy claims is expected to be greater than the medical claims and projected this trend to continue out to 2021. This projection is based off of a 7 percent medical trend and a 12 percent pharmacy trend. Ms. Cohen stated if the trends play out there is a projected surplus of \$230 million for FY 17 but after that there are projected shortfalls. For FY 18 there is a projected \$335 million and by the end of the next biennium over a \$1 billion shortfall.

Ms. Cohen reviewed ActiveCare and the different plans. She reported about 90 percent of the eligible districts, 1,095 district, participate in ActiveCare. She noted that the minimum state and district contribution have not increased, over time the employees are picking up the increased cost over years. She said for FY 17 if the district is contributing the minimum, the employees are picking up 65 percent of the cost of ActiveCare 2 employee only coverage. Ms. Cohen stated the cost drivers for ActiveCare are similar to those of Care.

**6. Receive an update on the TEAM Program and revised schedule – Brian Guthrie.**

Mr. Guthrie reported the transparency report for the month ending October was issued, trending up from the September report. Mr. Guthrie noted the major milestone achieved last month was the unveiling of the new website. Mr. Guthrie then reviewed the factors going into the overall grade of B for October such as budget, schedule and quality. Mr. Guthrie reported on the

contract negotiations with HPE regarding the implementation of the new phase, Phase 1C. Mr. Guthrie stated that now that those negotiations are completed the focus is on the schedule moving forward. He was pleased to announce that about 90 percent of the reporting entities, as of the middle of the month, have started the certification process, a little less than half have completed it and 217 outliers have not started. Mr. Guthrie reported the overlap between Phase 1 and Phase 2 was beginning. He said it is a critical time due to the finite amount of resources.

Mr. Guthrie discussed OCM, organization change management. Mr. Guthrie stated he sees it as a critical tool for the successful outcome of this program. He reported OCM is there to educate, communicate and allay fears so that everyone is moving along with change at the same time.

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

Mr. Michael Johnson reported their team has been working collaboratively with the project management group and with the executive team on the TEAM transparency report. Mr. Johnson stated two critical success factors are the finalization of the HPE contract negotiations and incorporating lessons learned in the next phases of the project. Mr. Johnson then reported on the budget, there is approximately a \$250,000 budget, \$70,000 of that was covered for previous overages, and this reporting period through October 31 and have about another \$13,000 in billing, also covered by the \$250,000. In response to Mr. Kelly's inquiry, Mr. Johnson stated he absolutely endorses the TEAM transparency report.

**8. Receive an update on the Joint Select Committee on TRS Health Benefit Plans – Brian Guthrie, Katrina Daniel**

Mr. Guthrie reported the Texas Legislature issued its report a few weeks ago and emphasized the report as a starting point for discussions and work that will be done during the legislative session in discussing the potential solutions and options for these programs. Mr. Guthrie then provided a high level overview of what the committee did and what they reported on. Mr. Guthrie stated the committee was tasked with coming up with recommendations that could come forth without additional funding being made available.

Mr. Guthrie reported the committee came up with two options to address solvency within these constraints regarding TRS-Care. The first is they assume current funding levels. The second is moving forward retirees would pay something. Additionally, it would be a requirement to participate in a Medicare Advantage plan and a Medicare Part D plan if post 65 years of age. As to the pre-65 year old retirees, the committee recommended one option as a health reimbursement account approach, a defined contribution plan for non-Medicare retirees to be implemented January 1, 2018. Another option is to offer a high deductible plan, a premium based catastrophic coverage, eliminating TRS-Care 2 and TRS-Care3. Mr. Guthrie noted that there is also a similar recommendation for ActiveCare to be one level of coverage which is catastrophic coverage. He noted the committee does consistently recommend that offering different tiers of coverage is a luxury that can no longer afford under the models laid out.

Mr. Guthrie reviewed the recommendations regarding ActiveCare. The first recommendation is to eliminate tiered level of coverages for ActiveCare, to offer catastrophic coverage. The other recommendation is to turn ActiveCare into what it was initially intended for – it was designed for small districts and medium size districts that could not get coverage on their own. The recommendation is for districts that have 1,000 or less employees to have the option for a one time opt out and eliminating the option that some for larger districts to participate.

**9. Discuss the Executive Director’s report on the following:**

- A. Administrative operational matters, including updates on the following: Executive Director’s goals, financial awareness project, audit, legal, staff services, investments, board administration, special projects, actuarial matters and strategic planning.**
- B. Board operation 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 some general updates. He announced TRS once again was named a Top Workplace for 2016. Mr. Guthrie discussed the beginning of the legislative session and how the new members of the Board will go through Senate confirmation. Mr. Guthrie announced the retirement of Jennifer Downey and Tom Guerin who have worked directly with the Board at times during their years of service. Mr. Guthrie discussed the upcoming February meeting and possible agenda items.

**10. Discuss and consider investment matters, including: Performance Review: Third Quarter 2016 – Steve Voss and Mike Comstock, Aon Hewitt.**

Mr. Mike Comstock presented the trust performance review on a year-to-date basis through September 30<sup>th</sup>, which included market returns, market value change, asset allocation, and total fund performance. Mr. Comstock that the third quarter was great. The trust earned 3.9 percent, 25 basis points in the quarter, outperforming the benchmark by 3.7 percent. Mr. Comstock then provided more detail on major indices to help provide a truer picture of performance. He noted emerging markets turned the corner back in February, with a performance of 16 percent year-to-date. In response to Mr. Kelly’s inquiry a discussion was had regarding hedge funds, there performance and place in the portfolio.

Mr. Comstock reviewed the actual allocations and stated the assets are within their ranges. He noted the treasuries were underweight by 2.2 percent, 9.7 relative to the 11.9 interim target. Mr. Comstock noted the underweight of treasuries was an additive during the quarter. Mr. Comstock provided an update as to the fourth quarter.

At 1:03 p.m., Mr. Kelly announced the Board would recess for the rest of the day in order to take up the noticed committee meetings.

The Board of Trustees of the Teacher Retirement System of Texas reconvened on December 2, 2016, 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  
Karen Charleston  
David Corpus  
John Elliott  
Christopher Moss  
Anita Palmer

**Others present:**

Brian Guthrie, TRS	Leory DeHaven, TRTA
Ken Welch, TRS	Tom Rogers, ARTA
Don Green, TRS	Ted Melina Raab, Texas AFT
Carolina de Onís, TRS	Ann Fickel, TCTA
Katrina Daniel, TRS	Trevor Simmons, LBB
Amy Barrett, TRS	Sabina Rahman-Garcia, Humana
Toma Miller, TRS	Surrenda Jones, Humana
Jamie Pierce, TRS	Tiffany Calderon, Humana
Ann Zigmond, TRS	Pat Del Rio, Aetna
Cindy Haley, TRS	Ajay Dalal, ESI
Scott Leith, TRS	Carol Hamilton, Truven
Michelle Schwietzer, TRS	Keith Gail, Truven
Gloria Nichols, TRS	John Mekla, Truven
Jacki Herbovitz, TRS	Amy Quertermous, Truven
Aidet Cooper, TRS	
Katherine Farrell, TRS	
Chase Dierschke, TRS	
Heather Traeger, TRS	

Mr. Kelly called the meeting to order at 10:00 a.m.

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

Ms. Farrell called the roll. A quorum was present. Ms. Ramirez and Mr. Colonna were absent.

**11. Provide Opportunity for public comments – David Kelly.**

No public comment was provided.

**12. Review the Comprehensive Annual Financial Report for fiscal year 2016 – Jamie Pierce, Ann Zigmond, Cindy Haley and Scot Leith.**

Ms. Jamie Pierce presented the Comprehensive Annual Financial Report (CAFR) for fiscal year 2016. Ms. Pierce announced that TRS did receive an unqualified opinion, or a clean audit on our

financial report. She also announced this was TRS' 26<sup>th</sup> consecutive year to receive a certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.

Ms. Cindy Haley provided financial highlights from the CAFR. She stated the pension trust fund had an ending net position or equity of \$134 billion at August 31, 2016, a 4.2 percent increase over 2015. Ms. Haley noted the investment costs were about \$159 per member and the benefit administration expenses were \$29 per member. She reported the current membership grew by 28,521 and the retiree membership increased by over 16,000.

Ms. Ann Zigmond reviewed the health care funds. She reported the net assets for TRS-Care ended the fiscal year 2016 at \$641.5 million which is a \$331.4 million decrease from FY 15. She stated the retirees grew 34 percent, increasing by 261,528 members. She reported the net assets for TRS-ActiveCare were \$53.6 million in FY 16 which is a decrease of \$34.3 million from FY 15. She noted participation in TRS-ActiveCare increased to 484,316, a 1.3 percent increase, with 1,101 participating entities.

Mr. Scott Leith reported on two investment related changes in this year's CAFR. The first was the implementation of a new GASB standard, GASB 72, fair value measurement and application. Mr. Leith stated they have always provided a valuing on the investment for years but the GASB 72 required more detailed information on investments and the valuations underlying those investments.

Mr. Leith reported the second change was the modification to the CAFR fee disclosure to make it more complete and readable. He said there was a break-down of the fees by those paid directly by the trust and fees taken out of the net asset value.

### **13. 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 reported on the first two months of the fiscal year – September and October. He stated with 17 percent of the year completed, the expenditures to date are about 10.8 percent on a straight line basis. He noted this did not include encumbrances. Mr. Green noted the full time employee (FTE) cap trend, the legislative cap is 503.3 and TRS is coming closer and closer to it. He reported the growth is mostly in the benefits area in trying to improve hold times.

Mr. Green announced for the first time TRS received the GFOA distinguished budget presentation award.

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

Mr. Ken Welch reported in Benefit Services ended October with an average speed of answering of two minutes and three seconds, three seconds over the target. He stated in November, the hold time was up around five minutes. He noted the reasons for that were the increase in calls and the number of vacancies on staff. He reported 11 new counselors were hired since the beginning of November and are in training. Mr. Welch noted part of the call volume relates to the changes in

health care. Mr. Welch reported email communications is now available to the counselors for the first time ever, which is an adjunct of the TEAM initiative. Mr. Welch also reported remote counseling is fully operational and is continuing to progress and work well.

Mr. Welch reviewed activities occurring around the agency such as the successful State Employees Charitable Contribution campaign and service awards. Mr. Welch recognized the golden apple recipients: Elizabeth Feldman, Brian Ergel, Linda Davis, Rachel Hill, Lulu Llano and Jan Engler. Mr. Welch also recognized Billy Lowe who was named by the Texas CIO Academy, IT Manager of the Year.

**15. Receive the report of the Investment Management Committee on tis December 1, 2016, meeting – David Kelly.**

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

The Investment Management Committee met on December 1, 2016. The first presentation was a review of the risk management strategy given by Jase Auby and James Nield. Following, there was a presentation given by Mohan Balachandran with the review of asset allocation.

**16. Receive the report of the Policy Committee on its December 1, 20156, meeting and consider the following related matters – David Corpus:**

**A. Adoption of the proposed amendments of the following TRS rules in Title 34, Part 3 of the Texas Administrative Code:**

- i. § 23.7, relating to the Code of Ethics for Contractors.**
- ii. § 23.8, relating to Expenditure Reporting by Certain Contractors.**
- iii. § 25.24, relating to Performance Pay.**
- iv. § 25.31, relating to Percentage Limits on Compensation Increases.**
- v. § 25.303, relating to Calculations of Actuarial Cost for Purchase of Compensation Credit**
- vi. § 29.83, relating to Calculation of Amount of Retirement Benefit.**

**B. Consider proposed amendments to the Soft Dollar Policy.**

**C. Consider proposed amendments to the Securities Lending Policy.**

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

The Policy Committee met on December 1, 2016. The committee approved the proposed minutes of the September 22, 2016 meeting. The committee recommended to the Board adoption of proposed amendments to the Securities Lending Policy. The committee recommended to the Board adoption of proposed amendments to the Soft Dollar Policy. The committee recommended to the Board adoption of the proposed amendments to TRS rules in Title 34, Part 3 of the Texas Administrative Code.

Ms. Palmer moved, and the Board approved the adoption of the three proposed resolutions adopting amendments to TRS rules in Title 34, Part 3 of the Texas Administrative Code, as listed in the agenda item and recommended by the Policy Committee.

Resolution Adopting Amendments to  
TRS' Code of Ethics Rules 34 Tex. Admin Code § 23.7 and § 23.8

**Whereas**, Section 825.212(a) of the Texas Government Code requires the Teacher Retirement System of Texas Board of Trustees (Board) to adopt a Code of Ethics (Code), including standards of ethical conduct and disclosure requirements, applicable to certain Teacher Retirement System of Texas (TRS) contractors, and Section 825.212(c) also requires TRS by rule or policy to adopt procedures for disclosing and curing violations of the common law of conflict of interests and any such rule or policy may specify time periods in which disclosures and cures must be completed;

**Whereas**, In compliance with § 825.212, the Board has adopted the Code;

**Whereas**, Section 2263.004 of the Texas Government Code requires the Board by rule to require certain TRS contractors, financial advisors and service providers to the retirement system to meet specified standards of conduct, and under this section, the Code requires that such TRS contractors file with the system a report detailing any expenditure of more than \$50 made on behalf of a trustee or employee of the system;

**Whereas**, The Board adopts the form used by contractors to report such expenditures, and the executive director provides an explanatory memorandum addressed to contractors to accompany the reporting form; moreover, in February 2016, the executive director approved a revised reporting memorandum, and, in June 2016, the Board adopted a revised reporting form;

**Whereas**, The proposed amendments to § 23.7 and § 23.8 reflect the current version of the Code as adopted by the Board and adopt by reference the latest versions of the executive director's reporting memorandum and the reporting form under the Code;

**Whereas**, As authorized by the Policy Committee of the Board, TRS published proposed amendments to TRS' Code of Ethics Rules, § 23.7 and § 23.8 for public comment in the October 28, 2016 issue of the *Texas Register* (41 TexReg 8515);

**Whereas**, The public has had at least 30 days' notice of TRS' intention to adopt the proposed amendments, and TRS received no comments; and

**Whereas**, The Policy Committee has recommended that the Board adopt the proposed amendments to TRS' Code of Ethics Rules, § 23.7 and § 23.8, and 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 § 23.7 and § 23.8, as published in the October 28, 2016 issue of the *Texas Register* (41 TexReg 8515);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable 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 reflecting the action of the Board.

Resolution Adopting Amendments to  
Membership Credit in 34 Tex. Admin. Code §§ 25.24, 25.31, and 25.303

**Whereas**, Section 825.102 of the Texas Government Code authorizes the Teacher Retirement System of Texas (TRS) Board of Trustees (Board) to adopt rules for eligibility for membership, the administration of the funds of the system, and the transaction of business of the board and § 825.110 of the Texas Government Code requires the Board to adopt rules that include a percentage limit on increases in annual compensation during a member's final years of employment;

**Whereas**, TRS rules 34 Tex. Admin. Code § 25.24 (Performance Pay), § 25.31 (Percentage Limits on Compensation Increases), and § 25.303 (Calculation of Actuarial Cost for Purchase of Compensation Credit) respectively address the crediting of performance pay, the determination of limits on compensation increases, and the calculation of the cost to purchase compensation credit;

**Whereas**, To clarify how TRS credits performance pay that was paid in the 2011-2012 school year; to more fairly address the intent of the Legislature to protect the trust fund from spikes in a member's salary in the final years before retirement by requiring that the base salary used to determine if spiking has occurred be a year in which service credit is awarded; and to clarify how TRS calculates the cost of purchasing compensation credit, TRS proposed amendments to 34 Tex. Admin. Code §§ 25.24, 25.31, and 25.303 and had the rule proposals published for public comment in the October 28, 2016 issue of the *Texas Register* (41 TexReg 8516);

**Whereas**, The public has had at least 30 days' notice of TRS' intention to adopt the proposed amendments, and TRS received no comments; and

**Whereas**, The Policy Committee of the Board (Committee) has recommended that the Board adopt the proposed amendments to 34 Tex. Admin. Code §§ 25.24, 25.31, and 25.303, and the Board desires to adopt the proposed amendments without changes to the published texts of the proposed rules; now, therefore, be it

**Resolved**, That the Board hereby:

- 1) Adopts amended TRS rules 34 Tex. Admin. Code §§ 25.24, 25.31, and 25.303, as published in the October 28, 2016 issue of the *Texas Register* (41 TexReg 8516);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable 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 reflecting the action of the Board.

Resolution Adopting New  
34 Tex. Admin. Code § 29.83, relating to Calculation of Amount of Retirement Benefit

**Whereas**, Section 803.401(a) of the Texas Government Code authorizes the Board of Trustees (Board) of the Teacher Retirement System of Texas (TRS) to adopt rules it finds necessary to implement the Proportionate Retirement Program provided by Chapter 803 of the Texas Government Code, and § 825.102 of the Texas Government Code authorizes the Board to adopt rules for the administration of the funds of the retirement system and for the transaction of the business of the board;

**Whereas**, Proposed new TRS rule 34 Tex. Admin. Code § 29.83 addresses the calculation of the amount of a retirement benefit under the Proportionate Retirement Program;

**Whereas**, To address how service credit maintained in another system participating in the Proportionate Retirement Program will be used in determining the early-age reduction factor applied to a member's service retirement benefit, TRS proposed new 34 Tex. Admin. Code § 29.83 and had the rule proposal published for public comment in the October 28, 2016 issue of the *Texas Register* (41 TexReg 8519);

**Whereas**, The public has had at least 30 days' notice of TRS' intention to adopt the proposed amendments and TRS received no comments; and

**Whereas**, The Policy Committee of the Board (committee) has recommended that the Board adopt new 34 Tex. Admin. Code § 29.83, relating to Calculation of Amount of Retirement Benefit, and the Board desires to adopt the proposed new rule without changes to the published text of the proposed rule; now, therefore, be it

**Resolved**, That the Board hereby:

- 1) Adopts new TRS rule 34 Tex. Admin. Code § 29.83, as published in the October 28, 2016 issue of the *Texas Register* (41 TexReg 8519);
- 2) Incorporates by reference into this Resolution, as though fully set out in it, the applicable 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 reflecting the action of the Board.

Mr. Moss moved, and the Board approved the adoption of the proposed amendments to the Securities Lending Policy as recommended by the Policy Committee.

Dr. Gibson moved, and the Board approved the adoption of the proposed amendments to the Soft Dollar Policy, as Recommended by the Policy Committee.

**17. Receive the report of the Risk Management Committee on its December 1, 2016, meeting. – Karen Charleston.**

Ms. Charleston, the Committee Chair, provided the following report of the Risk Management Committee:

The Risk Management Committee met on December 1, 2016. Risk Management and Strategic Planning staff provided a report on the enterprise risk management function, which included an update on the spotlight report and related enterprise risk management activities. In addition, Information Technology staff provided an overview of cybersecurity.

At 9:30 a.m., Mr. Kelly announced the Board would recess in order to take up the noticed audit committee meeting.

At 11:15 a.m., Mr. Kelly reconvened the Board meeting

**18. Receive the report of the Audit Committee on its December 2, 2016, meeting – Chris Moss.**

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

The Audit Committee met at 9:30 on Friday, December 2, 2016, in the 5<sup>th</sup> Floor Boardroom. The State Auditor's staff presented the results of the audit of TRS's Comprehensive Annual Financial Report for fiscal year 2016. Health Insurance Benefits staff and representatives from Truven Health Analytics presented the results of four audits of TRS health plans and drug administration for TRS-Care and TRS-ActiveCare. Compliance staff presented routine compliance reports. Internal Audit staff presented the results of projects, including the quarterly investment compliance testing, 403 (b) program audit, records management follow-up audit, prior audit and consulting recommendations status, and the Internal Audit annual report.

TRS staff presented the status of the automation projects and an overview of the new application for calculating incentive pay. CAE presented audit administrative reports, including chief audit executive performance goals for fiscal year 2017 and staff accomplishments.

**19. 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.**

This agenda item was not taken up.

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

This agenda item was not taken up.

**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.**

This agenda item was not taken up.

At 11:15 a.m., Mr. Moss moved, Mr. Corpus seconded, and the Board unanimously voted to adjourn.

APPROVED BY THE BOARD OF TRUSTEES OF THE TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 22nd DAY OF FEBRUARY 2017.

ATTESTED BY:

*Katherine H Farrell*

Katherine H. Farrell

Secretary to the TRS Board of Trustees

2/27/2017  
Date