

The Texas Municipal Retirement System (TMRS)

Understanding Benefits, Funding, and Economic Impact

TMRS® provides valuable benefits that help cities attract and retain quality employees. It is important to understand how the TMRS program provides benefits through a combination of employee deposits, city contributions, and investment income.

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TMRS Plan Design

■ **TMRS' Hybrid Plan Design**

Unlike most public retirement systems, TMRS is a hybrid retirement plan. Instead of a “defined benefit” based on a percentage of salary, the basic TMRS retirement benefit is “cash balance” in nature, meaning it is based on the contributions made by an employee, the matching amount agreed to by the city, and interest income credited to the employee’s account over the employee’s career.

■ **Flexibility**

Each TMRS city designs its own plan from a menu of available options. Each city chooses its employee deposit rate and city match, as well as other provisions like COLAs and Updated Service Credit.

■ **Sources of Funding**

TMRS benefits are funded by employee contributions, city contributions, and investment earnings generated from TMRS’ portfolio. Employees covered by TMRS contribute a percentage of their pay (5%, 6%, or 7%). Employee deposits are combined with city contributions and invested by the System. Investment earnings are the largest source of funding for the employee’s retirement benefit.

■ **Interest to Member Accounts Guaranteed**

By law, TMRS member accounts are credited with 5% interest each year (and retiree accounts are similarly credited when the retirement annuity is calculated). The primary source for this 5% credit is investment income. City accounts receive interest based on the System’s annual investment return. The actuarial assumed rate of return is 7%.

■ **Low Administrative Costs**

TMRS assesses no administrative fee to employees or cities. TMRS’ administration is funded from a small portion of the System’s annual investment earnings. For 2010, the total annual administrative budget for TMRS, including investment costs, was approximately 0.13% of the retirement fund’s assets. By comparison, according to a Deloitte study, the median “all in” participant and employer fee for 401(k) plans in 2009 was 0.72% of the amount under management.

Municipal Employee Salaries and Benefits

■ **Public Employee Compensation**

When examining the pension benefits of Texas municipal employees, it is important to remember that retirement is only part of the total compensation package. Compared with other Texas workers, local government employees, on average, earn less during their working years. A 2010 study for the Center for State and Local Government Excellence and the National Institute on Retirement Security found that Texas' local public sector workers earned 17.6% less than the state's private employees with comparable experience and education, for the period 2000 – 2008.

■ **Benefit Payment Amounts**

A city employee under TMRS only receives the city match at retirement – usually after 20 or 25 years of service. In 2010, the average benefit payment to a new TMRS retiree with 20 to 25 years of service was approximately \$1,414 a month.

■ **COLAs**

In those TMRS cities that choose to provide a Cost of Living Adjustment (COLA) to retirees, COLAs are tied directly to annual changes in the Consumer Price Index (CPI). The highest COLA a retiree can receive is limited to 70% of the change in the CPI.

TMRS Funding

■ **Benefits are Funded over Time**

TMRS benefits generally are funded over a 30-year period for most cities. The ratio of a pension plan's assets to its total liability is called a "funded ratio." Individual cities participating in TMRS have their own funded ratio. The funded ratio for the System as whole as of 12/31/10 was 82.9%.

■ **Amortizing Unfunded Actuarial Accrued Liability (UAAL) Is Similar to a Mortgage**

A plan has an unfunded actuarial accrued liability (UAAL) when its accumulated liabilities exceed accumulated assets. A retirement plan should not be considered financially or actuarially unsound by the mere existence of a UAAL or the level of its funded ratio at any one point in time. Financial condition should be measured by the direction in the trends of these indicators from year to year and over several years. For example, a plan with a 90% funded ratio that has steadily declined over the last five years is of more concern than a plan with a 70% funded ratio that has steadily increased each year.

■ **The Actuarial Cost Method Ensures Future Funding**

In 2008, TMRS changed its actuarial cost method (the funding arrangement that determines the annual cost of benefits) from the Unit Credit Method to the Projected Unit Credit Method to ensure that all benefits, including COLAs, are prudently advance funded.

■ **Account Restructuring Improved TMRS Funding**

In the 2011 legislative session, SB 350 by Williams (House sponsor Truitt), enacted fund restructuring for TMRS. A more efficient internal accounting structure resulted in the System's funded ratio rising from 75.8% to 82.9%. Unfunded actuarial accrued liability was reduced from \$5.2 billion to \$3.5 billion. Restructuring produced similar reductions and lowered required contributions for many cities and will result in less volatility in city contribution rates for future years.

■ **TMRS Cities are Making Funding Progress**

Even before restructuring, TMRS cities that paid their full contribution rate showed steady annual improvement in their funded ratios. Funded ratios may decline if a city grants new benefits or experiences actuarial experience losses, such as lower than expected turnover rates, payroll shrinkage, or salary increases higher than the actuary's assumed rates.

Economic Impact of TMRS

■ **National Economic Impact**

TMRS invests billions of dollars in the stocks and bonds of private sector companies and government agencies, providing valuable capital to the economy.

■ **Annuities and Local Economies**

TMRS paid \$743.5 million in benefits in 2010. TMRS benefits paid to retirees flow back into local municipal economies. Most TMRS retirees live in Texas and spend their retirement dollars in the same communities where they served as active employees. An economic study performed by the Perryman Group in 2006 (when TMRS paid \$554.8 million to retirees) showed that TMRS benefits resulted in \$1.32 billion flowing into the economy from annual spending by retirees and through the multiplier effect as dollars pass through the economy. These effects are more pronounced in small communities and rural areas.

For More Information

Phone Center

800.924.8677 • Toll free

512.476.7577 • Local

512.476.5576 • Fax

E-mail

phonecenter@tmrs.com

Website

www.tmrs.com

Mailing Address

P.O. Box 149153

Austin, Texas 78714-9153

Headquarters Building

1200 North Interstate 35

Austin, Texas 78701

