

# insight

The Newsletter for TMRS® Members



## TMRS — Changing with the Times

You may have heard from your City Correspondent that TMRS is thinking about modifying the way cities pay for their TMRS plans. You may also have heard that we may expand the types of assets the System holds in trust. We want to share some of those plans with you. Here are a couple of important things to remember:

- Each city chooses the TMRS benefit plan it provides to its employees.
- None of the changes under consideration now will affect the menu of options that TMRS offers to cities, and **the benefits current members have earned under TMRS will not be reduced or altered.**

The changes the Board is examining fall into two main categories – actuarial changes and investment changes. The actuarial changes will affect the liability side of the pension equation (how cities pay for their benefits), while changes in the TMRS investment policy could potentially affect the asset side of the equation – the investment returns that provide interest credits to member and city accounts.

### Why Is TMRS Considering Changes?

Public pension funds across the nation are facing issues resulting from the coming retirement of the Baby Boom generation, changes in employment patterns, and the continuing evolution of the investment markets. Some TMRS cities have also expressed concern over rising liabilities in their pension plans and the shrinking of their workforces. While TMRS has realized large investment gains from falling long-term interest rates, this trend is unlikely to continue. In other words, it is likely that the present investment policy will not produce similar income levels as in prior years.

To help cities continue to offer a competitive retirement benefit, the Board is examining potential changes so the System remains a top-notch plan for municipal employees. Both the advance funding of benefits and the potential for larger returns on investments will help cities manage the cost of their plans.

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## 2007 Interest Rate Set

**T**he interest rate for member and city accounts has been set at the statutory rate of 5% for 2007. Interest will be credited to your account on December 31, 2007, based on your account balance as of January 1, 2007. You will be able to see this interest credit on MyTMRS® in early January, and it will also be reflected on the Annual Statement you receive next spring.

The rate of 5% reflects investment performance of the TMRS trust fund in a low-interest environment over the past year. With interest credited at 5%, there will be no Extra Payment to retirees in 2007. The Extra Payment is not a guaranteed benefit.

It is important also to note that the 5% rate is not a guaranteed rate and, if interest rates continue to fall, the rate may even go lower in future years. Likewise, the 5% rate that is used to calculate monthly payments (the “annuity purchase rate”) when a member retires is not guaranteed, but if the Board decides to lower that rate, legislative action would be required. The story about changes TMRS is considering (left) discusses some of the measures that may be taken to help ensure that future interest credits remain at or above 5%. ♦

## From the Executive Director



Dear TMRS Members,

I have been with TMRS since June, and I have been learning about the retirement system by traveling across the state and speaking to city officials about their plans. Needless to say, the months have passed quickly.

TMRS has a 59-year tradition of providing competitive retirement programs for Texas municipal employees. The System is soundly funded, as it always has been.

Now we are examining the System and considering some changes that will ensure that benefits continue to be secure as well as affordable for the cities that participate in TMRS. Some of the changes under consideration are discussed in this issue of *Insight*.

As you probably know, this year interest was credited to member accounts at the statutory rate of 5%. The decline in interest credits over the last few years is one indicator that TMRS needs to consider some changes in the way we invest money. Any change in our policies will be made with an eye on the appropriate level of risk for the investments of a public retirement system.

The next year or two are likely to be transitional years for TMRS, and we encourage you to contact us if you have questions or concerns. Watch our publications and our Website and talk to your City Correspondent. We want you, our members, fully informed about everything we are considering.

Our pledge to you is that TMRS will continue to provide reasonable benefits for employees at a cost cities can afford, and any changes we make will help ensure that the future will be as successful as the past has been.

If you have any questions about your account or your city's plan, we are just a phone call or an e-mail away.

Sincerely,

Eric Henry



## TMRS — Changing With the Times

*Continued from page 1*

### Actuarial Adjustments

Following the advice of its actuary, TMRS is considering changing the System's actuarial cost method to one that will provide better "pre-funding" of retirement benefits. This will allow cities to see more progress in the manner they pay for their retirement benefits. In the long run, we believe the change will make the System better funded and give cities more control over their pension costs. However, in the short run, cities may see higher contribution requirements.

### Investment Adjustments

According to *Wilshire Consulting 2006*: "State pension plans have, on average, a 68.7% allocation to equities (stocks) and a 31.3% allocation to fixed income." In contrast, TMRS has invested solely in fixed income instruments with the intent of preserving principal and generating a 5% interest credit for member accounts. Our fixed-income investment strategy has served us well for many years. In the current low-interest environment, however, TMRS is considering making some changes to improve the return on our assets, including the possible diversification of our investments. Any steps we undertake will be gradual and carefully considered, designed to increase the System's investment earnings while maintaining an appropriate level of risk.

In September, the Board approved the selection of R.V. Kuhns & Associates as the first investment consultant to TMRS. The firm will assist the Board in its examination of TMRS' current investment policies and practices, beginning with an asset/liability study later this year. Watch TMRS publications and the Website for information on this process.

### What Do These Changes Mean to You?

We believe that the changes under consideration will make TMRS a stronger retirement system and will help cities pay for their benefits in a more measured, predictable manner. Rest assured, the benefits you have earned under TMRS will not be affected — your retirement is secure. ♦

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## How to Contact TMRS

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## Mid-Career Retirement Planning

# Retirement Estimates

Did you know that you can request retirement estimates at any time? Employees in mid-career, and even in early-career, sometimes want an idea of the amount of their benefits so they can plan for their future. We encourage you to contact us to get an estimate — whenever the mood strikes you! Here's how:



### From the Website

Click on "Get an Estimate" on the main page at [www.tmr.com](http://www.tmr.com). This will take you to a secure page where you can fill out all fields to the best of your knowledge and submit the information through our server. After TMRS receives your request, a TMRS retirement analyst will mail your estimate within one to three business days.



### By Phone

Call 800-924-8677 and ask to speak to a retirement analyst. The analyst will take your Social Security number or TMRS ID number (preferred), look up your account, and verify your current mailing address. For phone requests, to verify it is the member calling, analysts ask several "account identifier," or security, questions before proceeding. After they get the pertinent info, they can either mail or fax the estimate.



### By Fax, E-Mail, or Regular Mail

If you send a written request through either of these means, include at least two account identifiers. This could be your date of birth, the last four digits of your social security number (**for the sake of privacy and security, never send or e-mail your full social security number**), or your member ID number. We will mail or fax your estimate, whichever you prefer, within one to three days to the address we have on record. ♦

## For Public Safety Officers

Approximately one-fourth of TMRS members are public safety officers, firefighters, law enforcement officers, or emergency medical personnel. We recognize the value of these professions to their communities and are renewing our dedication to working with you to make sure you get the best use of your retirement program.

The recent sweeping pension funding reform law (the Pension Protection Act, passed in 2006) will make some new benefit choices possible for public safety employees:

### No Penalty for Distributions after Reaching Age 50

After passage of the PPA, effective on the date of enactment, federal law was changed to permit those public safety employees who separate from service after reaching age 50 to waive the 10% penalty on lump sum distributions. Under previous law they could separate at age 55 or older and waive the penalty. What this means for TMRS members who are public safety officers is that at the time you retire or withdraw your deposits, if you choose to receive a Partial Lump Sum Distribution or a refund of your deposits and you are 50 or older, you will not have to pay the 10% IRS penalty.

### HELPS Provision Benefits Retired Officers

In January 2008, TMRS will begin participation in a program made possible by the Healthcare Enhancement for Local Public Safety (HELPS) provision of federal law. This provision allows retired or permanently disabled public safety employees to elect an amount to be deducted from their TMRS benefit payment to pay for health or long-term care insurance premiums. The tax benefit may not exceed \$3,000 in one year. If a retired (or retiring) officer wishes to make this election, the amount is directly transferred by TMRS to an insurer.

Call 800-924-8677 for more information or to see if you qualify. You may wish to consult with your tax advisor or the IRS if you decide to use either of these two provisions for public safety officers.

### Working Together for You

TMRS staff has been working closely with fire and police associations around the state on matters of mutual interest. If you attend an association conference, look for one of our representatives to help you with questions and estimates on your TMRS pension. If you know of a conference or gathering that TMRS does not attend, please tell us about it! ♦

## Calendar of Events

**NOVEMBER 12**  
HOLIDAY (VETERANS DAY)

**NOVEMBER 22-23**  
HOLIDAY (THANKSGIVING)

**DECEMBER 7-8**  
TMRS BOARD OF TRUSTEES MEETING  
AUSTIN

**DECEMBER 24-25**  
HOLIDAY (CHRISTMAS)

**JANUARY 1**  
HOLIDAY (NEW YEAR'S DAY)

**MARCH 28-29**  
TMRS BOARD OF TRUSTEES MEETING  
AUSTIN

**APRIL 25**  
TMRS BOARD AND ADVISORY  
COMMITTEE MEETING, AUSTIN



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## TMRS TERMS

# Mortality Table

The amount of your monthly pension benefit will be based, in part, on how long you are expected to live after retirement. The data that is used to calculate your life expectancy at retirement is called a **mortality table**.

On average, Americans are living longer than ever before, and it is possible that, sometime in the future, TMRS will adopt newer mortality tables to calculate the amount of monthly annuities. Although TMRS will likely change the mortality tables it uses for other purposes (calculating overall liabilities), the actuary is not recommending a change in the table used to calculate individual retirement benefits at this time.

In the past, there has been some concern among TMRS members that a change in the annuity mortality tables might mean lower benefits for persons who retire after the date of the change. As with all other changes, if TMRS modifies the mortality tables used to calculate annuities, that change would be phased in gradually, over time, so that members would see minimal differences in annuity amounts between any two consecutive years. ♦

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If you have questions, suggestions, or ideas for stories, send a fax or an e-mail to the editor at 512.225.3781 or [communications@tmrs.com](mailto:communications@tmrs.com).

# TMRS Bill Summary

The 80th Session of the Texas Legislature brought changes to the law governing TMRS:

- Allows cities to make additional contributions to TMRS above the calculated contribution rate, on a voluntary basis, to give cities more flexibility in paying for their benefits; and provides that these additional contributions are not subject to the maximum contribution rate limits.
- Permits the Board to adopt rules that set amortization periods, to provide funding flexibility.
- Amends the Act to permit the Board to make decisions regarding distributions to qualified health insurance providers for retired public safety officers under the federal Pension Protection Act (see "For Public Safety Officers," page 3).
- Amends the Act to clarify the calculation of Updated Service Credit (USC) and grants the Board rulemaking authority to ensure USC is calculated in accordance with the statute.

The final bill did not contain the provision that would allow a TMRS retiree to return to work for the same city from which he or she retired without suspension of benefits. ♦